Annual Report 2012 ESSANELLE HAIR GROUP AG

I'M A HAIRDRESSER

ESSANELLE HAIR GROUP

KEY FIGURES

Mio. € – IFRS, Group

Mio, €	2012	2011	2010	2009	2008
Consolidated sales	126.5	127.2	127.2	128.0	129.2
essanelle Ihr Friseur	54.7	56.6	58.4	63.3	69.0
Super Cut	22.9	21.6	21.2	20.5	20.6
HairExpress	41.5	38.6	35.7	32.1	27.7
Beauty Hair Shop	7.3	6.9	6.8	6.7	6.0
EBITDA	10.8	11.8	10.8	11.3	12.1
EBIT	6.3	6.7	5.4	5.9	7.0
EBT	6.0	6.4	5.1	5.5	6.4
Annual net income	3.9	3.8	3.4	3.2	3.6
Earnings per share	0.87 €	0.84 €	0.75 €	0.71 €	0.79 €
Equity ratio	64.6%	62.2%	58.8%	56.1%	53.7%
Cashflow (from operating activities)	9.5	8.0	6.2	9.1	11.5
Cashflow per share	2.06 €	1.74 €	1.35 €	1.99 €	2.50 €
Number of employees	4,083	4,016	4,246	4,185	4,306
Number of shares	**4.6 Mio,**	**4.6 Mio,**	**4.6 Mio,**	**4.6 Mio,**	**4.6 Mio,**
Free Float	**10.23%**	**10.23%**	**10.23%**	**10.23%**	**10.23%**

Financial Calendar 2013

Three Months Interim Report	May 2013
Annual General Meeting	21 Juni 2013 (Düsseldorf)
Half-Year Report	August 2013
Nine Months Interim Report	November 2013

ESSANELLE HAIR GROUP


SilverLine
I'M A HAIR-
DRESSER

CONTENTS

Title: **Evin Tükenmez,**
Hairdresser and Salon Manager

I'M A HAIR-DRESSER

Editorial

Much is written and said about the hairdresser profession these days. Mostly by people who do not know anything about it. In this annual report, we want to take a different approach.

Who are the people in our company? Why did they become hairdressers? How do they view their profession? But also: What does a company such as Essanelle Hair Group offer these employees beyond hairdressing?

Many questions – which result in extremely diverse answers from extremely diverse people – who all are unified by one thing: They know the profession. They perform it. Every day.

Please enjoy reading.

Alexandra Rigano,
Hairdresser and Academy Manager

When I began working at Essanelle, my daughter was three years old – today she is 18.

Nuran Bulut, Distribution Manager

I'M A HAIR-DRESSER

My friends, who worked in a hairdressing salon, sparked my interest in the hairdresser profession. They talked about it in a very formidable way – and I experienced a really great apprenticeship myself, including model evenings for example, and also with a lot of support from my manager and colleagues. At Essanelle, I always had lots of fun developing myself further. I completed my Master Craftsman's diploma and started managing a salon after that. Today, as distribution manager, I am responsible for 27 stores – and I enjoy training and supporting my employees so that we as a team can be successful.

I love complete makeovers where I am able to display my full creativity.

Senita Scheer, Hairdresser

I became hairdresser rather by accident. The apprenticeship was a challenge, but it was lots of fun. I like often not knowing in the morning what will happen during the day. I like complete makeovers the most. Beautiful interplay of colours with different highlighting techniques is a passion of mine. Watching and controlling the interplay of colours and then getting a striking result which "floors" the customer – that's just great.

I'M A HAIR-DRESSER

My father wanted me to become a bank clerk.

Andrea Grauer, Trainer and Salon Manager

But when it came to the final decision, I was sure very soon that I wanted to become a hairdresser. In the beginning, it looked like my parents were right. I abandoned my training several times – somehow it never worked out – until I ended up at Essanelle. Here I passed the apprenticeship certification exam as fifth in my class. After that, I completed a Specialised Trainer qualification and eventually even attended Master School. But the greatest experience was definitely when I was allowed to be on stage for the first time at a big event by Essanelle and L'Oréal and had the opportunity to display my skills. Today, it looks like I was right after all. I lose myself in this profession. Day after day.

I just like working with people and all these different types and characters I meet in doing this.

Elena Mellert, Hairdresser

I'M A HAIR-DRESSER

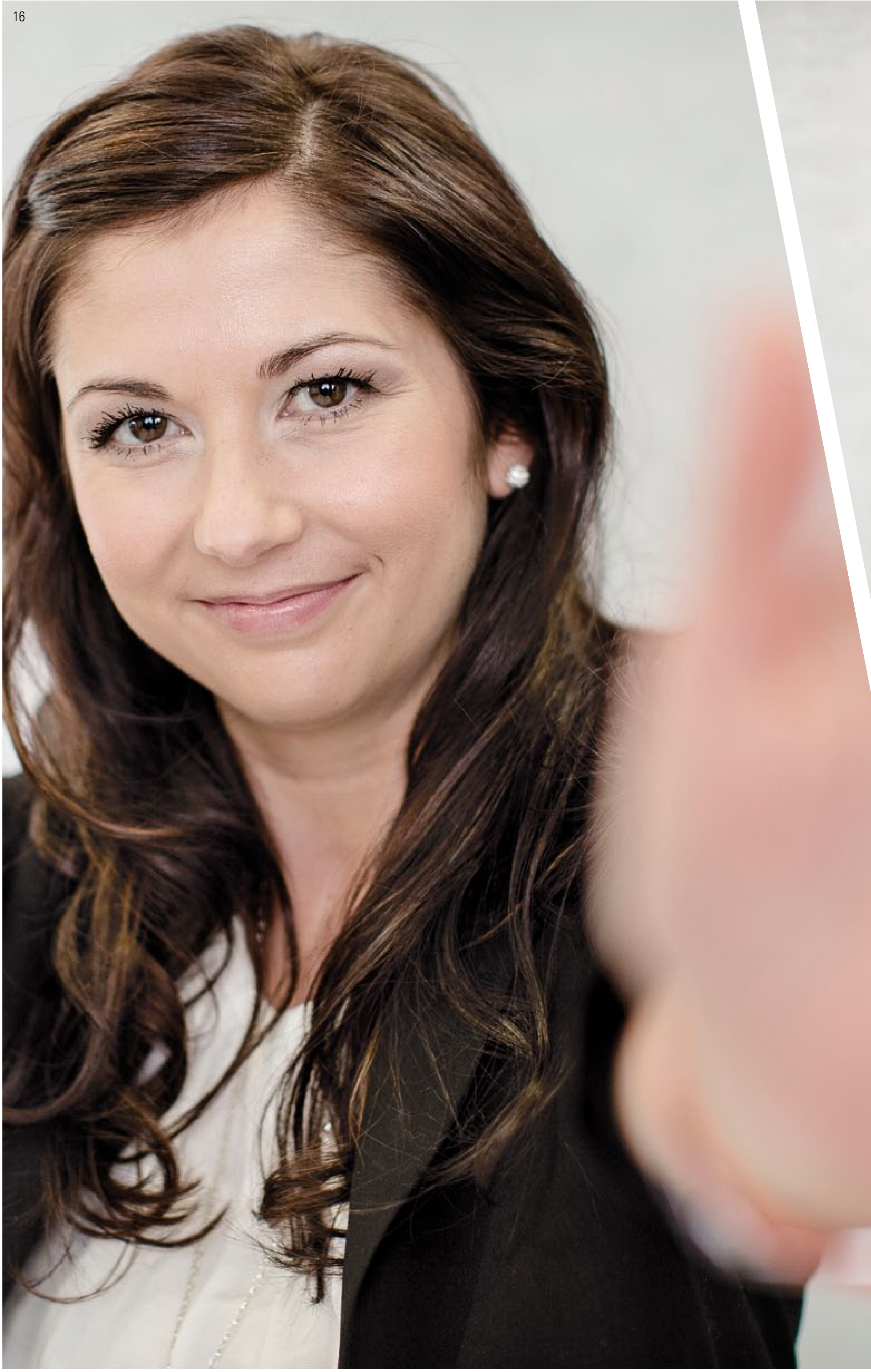
At first, I had no idea what to do after finishing school. Then I did several internships in different sectors to find the right thing. In the end, somehow I was attracted to hairdressing. And it has been the perfect decision. I just like working with people and all these different types and characters I meet in doing this. That keeps it exciting. Moreover, I am on the move the whole day – I am not the type of person who sits at a desk for eight hours every day. My personal highlight has been training for "Coloriste Diplomé" – and passing it with flying colours. I am certainly very proud of that.

It is great to see how excited our customers are about their new hairstyle.

Tanju Redmond, Apprentice

I'M A HAIR-DRESSER

I have always been fascinated by hair! Even as a child I always wanted to beautify the hair of other people. A school internship at a hairdresser has finally convinced me to become a hairdresser myself. I am very proud of the fact that I was able to fully assist in the salon when I was only in my second academic year. After the apprenticeship I want to gain more experience as an assistant and then start a Trainer qualification. Someday, I want to become Master Hairdresser and salon manager. When I manage to bring a smile to people's faces because they are that excited about their hairstyle, I feel happy and content.



I love to beautify people. With a suitable colour one can emphasise so many different sides.

Anja Schmidt, Hairdresser and Salon Manager

Even as a child, I preferred cutting the hair of neighbouring children to playing in the sand box. For me, customer satisfaction is the top priority. My creativity and my experience allow me to show the customer completely new sides of him/herself. A colour that suits the individual and personality type can change a person – sometimes just subtly, other times quite drastically. I therefore always have to know the newest products and colouring techniques, and I also continuously educate myself further. Seeing the gleam in the eyes of my customers after such transformation is the greatest compliment for me.

INTERVIEW WITH THE MANAGEMENT BOARD OF ESSANELLE HAIR GROUP

The Management Board of Essanelle Hair Group AG, f. l. t. r.: Dirk Wiethölter, Achim Mansen (Chairman), Dieter Bonk

Mr. Mansen, at the beginning of 2012 you projected a sales decrease of 1% – 2%. How satisfied are you with the actual results?

Achim Mansen Regarding our projections and expectations, the fiscal year fared quite well. Due to the good performance of our salons on a comparative basis we were able to compensate the disposal of our TOP TEN salons, which in 2011 still generated approximately EUR 3.6 million, better than expected. In this context, we can be rather satisfied with a sales decrease of just EUR 0.7 million. But of course, viewed in absolute terms, a sales decrease does not completely satisfy us.

In recent years, the recorded sales on a comparative basis have been somewhat decreasing.

Achim Mansen Yes, that is correct. In 2012, we performed outstandingly. On a comparative basis we overall recorded a plus of 0.8% in the books. If we were to ignore out department stores, which currently are no fun for any supplier, we even had a growth of more than 1.3% compared to the same period in the previous year. This is certainly very positive and shows that the reassessment of our salon portfolio in recent years is bearing fruit. We really have a large number of great salons.

How many openings and closings took place in 2012?

Achim Mansen We opened 23 new salons while also closing 25 salons in which we were not able to work profitably and where we also did not recognise any potential for improvement in the medium term. Regarding the absolute numbers, this leaves a net decrease of two salon in 2012. But the bottom line is that the quality of our salon portfolio, profitability and sales, and earnings revenue have improved. Sales on a comparative basis are indicators showing that not only openings but also targeted closings contribute to our success.

Is this increase true for all concepts?

Dieter Bonk Not on the same scale. The fact that department stores currently are not good surroundings does hit the brand essanelle Ihr Friseur especially hard as salons of this brand are primarily located there. Furthermore, salons such as Super Cut, which are still relatively new, are 10–12 years old at the most and all situated at very good locations. essanelle Ihr Friseur salons are significantly older. With respect to the quality of a location, the key question is: How visible is a salon, how fast can it be accessed by casual customers as well as regular customers? With regards to that, it is not easy for an essanelle Ihr Friseur salon located on the fourth floor of a poorly performing department store. In this respect, not all salons and all brands are showing the same performance – but, at the same time, they also cannot always be compared one-by-one.

You consider the decrease in sales dissatisfying. At the beginning of the year it was your intention to open 30 new salons – at the end of the year this number was just 23. Why have there been fewer new openings?

Achim Mansen Because we made the strategic decision not to open the maximum number of salons and not to achieve maximum sales growth but rather to look at our profitability. Our goal is profitable growth. And because of this, we only open salons in locations we are convinced are good, and we prefer to leave locations where we are uncertain of the profitability.

Dirk Wiethölter When it comes to sales, the number of salons is not the only relevant point. Independent from this, we would also have liked to have more employees at existing salons. In this way we could have generated more sales in 2012. We would have liked to hire more hairdressers.

There are not enough hairdressers on the market?

Dirk Wiethölter There are definitely not enough good and qualified hairdressers on the market. We would like to both recruit more experienced employees as well as to integrate more qualified graduates and trainees. Nonetheless we are already able to increase our training rate year-by-year.

Dieter Bonk Regarding qualified hairdressers, it is hard to assess in advance if he/she really fits into the team and how well he/she handles customers. When I recruit someone in the commercial sector, I am more easily able to evaluate if the employee fits a position based on training certificates and credentials. With a hairdresser, I will only know for sure if he/she really is good after I recruited him/her. However, with some applicants I am able to tell during the first conversation if he/she is definitely not going to fit. We really would like more good and skilled applicants.

These problems exist in many other sectors – what are the special circumstances in the hairdressing sector?

Dirk Wiethölter Currently, the image of the hairdresser profession is not exactly at its peak. Talk-shows like to report on hairdresser wages in discussions on the subject of minimum wage; for example, the hourly wage of a hairdresser in Eastern Germany is often used as an example. The facts that standard wages in Western Germany are higher, that each hairdresser gets tips, and that we at Essanelle Hair Group pay decent bonuses for certain sales levels are seldom mentioned.

Dieter Bonk Added to this are one or two reports in the media about bad working conditions for hairdressers. In individual cases, this might be true, but we offer a high job security, wages paid on time and, of course, fair dealings with employees. We are very aware of the fact that our local hairdressers are the deciding factors for the success of our company. That is why this aspect has top priority in a positive sense.

What are you doing to improve the image of the hairdresser profession?

Dirk Wiethölter With respect to our company, we have to communicate more strongly that we provide high quality training and education to employees. It is in our own interest to have the best people and to make good hairdressers even better. We have to show that there are many career opportunities in our company. When they are employed as hairdressers at independent salons, they won't be able to change much internally. We, on the other hand, are specifically looking for hairdressers who want to achieve more – for example as trainers, salon managers or distribution managers. And, of course, we also create opportunities for further education. That means that anyone who has an interest in this sector, and who has an interest in beauty – but also wants to make a career – will be in very good hands with us.

And how does such a career work?

Dirk Wiethölter Together with the Chamber of Crafts in Düsseldorf, we are currently in the process of drawing up further training for master craftsmen in chain stores. In addition to the usual content of a master craftsmen education, we also focus on management skills, personal development and similar subject areas that are relevant from an entrepreneurial perspective and which, at the same time, significantly advance hairdressers on a personal level. With this initiative, we are not only showing innovation in our own sector; this certainly has to be considered as very progressive in any trade profession, and, as such, it should be attractive for young people who want to make something for themselves. In our company, you are not stuck in the position behind the chair forever if you do not want to be.

Dieter Bonk Regardless of these career-orientated factors we also have to communicate the reasons why hairdressers choose to be in their profession more strongly. When I talk to our employees, they tell me that they like to be creative and that they love to make other people more beautiful. In which other job do you get approval ten times a day, or receive great feedback because someone is visibly happy with your service?

Being proud of being a hairdresser is also a current campaign of yours.

Dirk Wiethölter Yes, based on an initiative by L'Oréal and the Central Association of the German Hairdressing Trade, this is about showing what aspects hairdressers and other professionals in this environment love about their job and why they find it so exciting. And we are not just showing the hairdresser in the salon, but also our employees working in distribution. Overall, the whole sector is starting to move. The Central Association also takes action and so do other chain stores – we like to take a pioneering role and exemplary function here. Working at an independent hairdresser has very few similarities with the opportunities available at a company such as ours.

Dieter Bonk One example of this are our brand-specific cutting techniques used at Super Cut, HairExpress and essanelle Ihr Friseur. Here, hairdressers are able to further improve their skills by being creative. That is certainly not the first thing young people have in mind when they think about the hairdresser profession.

For Super Cut it has been one of the best years in a long time anyway.

Dieter Bonk We generated a plus of almost 6% in 2012 – and that with only two more salons than in the previous year. Our brand re-launch at the beginning of the year is also mirrored in the numbers.

How is the term re-launch to be understood?

Dieter Bonk We have improved the above mentioned cutting techniques even more. Furthermore, we have modernised the appearance of salons and launched various activities via social media. Super Cut is a real brand with a clear brand core: young and trendy. Industry studies show that a clear positioning is a real success factor regarding the choice of hairdresser. We apply this at Super Cut in an exemplary way.

How will you proceed here in the short- and medium term? Which developments do you plan with the brand concepts?

Achim Mansen HairExpress and Super Cut continue to be the focus when it comes to growth and opening of new salons. What we need for this are locations that are successful in the medium term in the form of high contribution margins. But we are dependent on the developments of potential location partners. Shopping malls are opened less and less and in consumer markets the quality does not always meet our expectations. So we cannot always do as we would like.

And how many new salons do you expect to open in 2013?

Dieter Bonk Currently we expect 20-30 new salons for 2013, but also approximately 20 closings.

That means the salon portfolio will not grow significantly. How do you want to generate further growth? Looking at your high operative cash flow and an equity rate beyond the 60% limit you are in great health and able to invest.

Achim Mansen On the one hand, we are always interested in smaller chain stores which would be a good match for us. But here the price has to be right and our own evaluation on the capital market is an essential benchmark for this. The same is valid when it comes to new openings: The goal is not just growth, but profitable growth. In this respect, the circle of targets has already become smaller. We monitor the market very closely.

And other than that?

Achim Mansen Beyond this, we have a few ideas on how we could invest in order to grow and increase the value of the company. But none of that is official yet. We consider it sensible to announce plans only when they are ironclad. In as much, for now we expect only moderate growth in the next two years.

How exactly do you project the sales performance in the current year?

Achim Mansen Currently we expect a small plus of 1%, maybe 1.5%. It is hard to project this precisely in the context of a slowing economic trend and the uncertain development in the retail sector. Because of this it is hard to assess development on a comparative basis. It is not possible to just update the results of 2012.

And regarding earnings? With EUR 6.0 million you range at the upper end of your projections, but below previous year's numbers.

Achim Mansen We knew that we would not be able to repeat the record year of 2011 with earnings before taxes of EUR 6.4 million. That is why we projected a bandwidth from EUR 5.5 million to EUR 6.0 million regarding earnings before taxes. We are happy with this for 2013, and we also expect to be able to achieve this.

So you expect tendentially decreased earnings for 2013 despite slightly increasing sales?

Achim Mansen In the current year, we have to expect an increase in personnel costs because of adjustments of rates. We also think it is very probable that a minimum wage will be introduced in the hairdressing sector this year. We welcome this. Solid craftsmen work should also be paid solidly. But then the whole sector must stop the dumping prices and dumping wages that are being paid elsewhere.

Regarding our earnings, we have to regionally assess what can be passed on in real terms via prices. A sales plus of 1% – or even a bit more in case prices increase – is quickly used up in any case. Energy prices are also increasing steadily. We expect both cost factors to continue to increase over the coming years. That is why we emphasise the necessary profitability of our growth so much – the cost side will hold down earnings.

What does this mean for shareholders and dividends?

Achim Mansen Together with the Supervisory Board we will once again recommend a dividend amounting to 50 cent per share this year. At a price of EUR 10 at the end of 2012 this means a yield of 5% for our shareholders – added to this will be a performance of above 7% by price increases from the year 2012. I think that is quite substantial.

And can this also be expected for the future?

Achim Mansen Of course I cannot make any projections regarding the share price. The performance of our share has indeed continuously trended upwards since 2009 – but that is also strongly dependent on the development of the overall market. Regarding the dividend, we want to maintain the continuity of the past years. Regarding dividend-relevant company results, we will have fewer liabilities from amortisations in 2013. If the operative business performs as planned, this will ensure that we will generate a higher company result in the current year. In 2014, the amortisations, amounting to EUR 2.0 million will cease completely. Thus, a dividend amount of at least 50 cent is our medium term goal.

REPORT OF THE SUPERVISORY BOARD

Ladies and gentlemen,

In the fiscal year 2012, Essanelle Hair Group was able to surpass the sales projection made at the beginning of the year and fully achieve the earnings projection – thereby recording a successful fiscal year. Particularly outstanding were the significant increase rates of the concepts HairExpress and Super Cut. Group earnings before tax (EBT) of EUR 6.0 million and an annual surplus of EUR 2.9 million as well as an accumulated profit by Essanelle Hair Group AG of EUR 4.2 million made it possible for the Management Board and the Supervisory Board of Directors to once again recommend a dividend of 50 cents per share for the fiscal year 2012 at the Annual General Meeting.

Within the scope of our activity, we carried out in full the duties assigned to us by law, ordinance, corporate governance principles and rules of procedure in the past year. In this regard, we advised, checked and monitored the Management Board regularly with respect to leadership of the company. The Supervisory Board was directly involved in all decisions of fundamental importance from an early stage.

In the exercise of our advisory and monitoring activity, we were regularly, fully and promptly informed in written and verbal reports regarding all relevant topics provided to us by the Management Board. These included, in particular, reports with respect to corporate planning and strategic development, business trends and the company's position, risk level as well as risk management and compliance. The Management Board consulted with us consistently with regard to the strategic orientation of the company. Deviations of business processes from the agreed plans and goals were explained in detail. Based upon the reports by the Management Board, we discussed all important business processes thoroughly.

The Supervisory Board of Directors came together for a total of four regular meetings in the fiscal year 2012; on March 27, June 20, September 25 and November 27. More than half of the members were present at each meeting. Where members were unable to attend, they participated in resolutions by submitting written votes. The meetings covered the topics of business development, assets, financial and earnings situations, proposed investments and the risk situation and risk management of Essanelle Hair Group. In addition, the following major topics were on the agenda and were thoroughly discussed and dealt with in collaboration with the Management Board:

- The economic course of fiscal year 2012
- Extent of the growth strategy for 2013
- Plans for fiscal years 2013 to 2017
- Contract extension with the chairman of the Management Board

In order to remain informed about current business developments and key business events, the chairman of the Supervisory Board was in regular contact with the Management Board outside of the regular board meetings.

At the meetings held on February 23 and March 13, the Audit Committee dealt primarily with issues involving financial reporting, risk management and compliance. In addition, outside of the meetings, the Audit Committee gave considerable attention to quarterly reports and the half-year report. In preparation for the Supervisory Board's balance sheet meeting, the Audit Committee also analysed the annual and consolidated financial statements in detail at both meetings. In conclusion, the Audit Committee made recommendations to the Supervisory Board of Directors regarding approval and adoption of the results.

The Appointments and Compensation Committee met on March 26 and April 16 in the past fiscal year. Major topics were bonuses for the Management Board for the fiscal year 2010 as well as the contract extension for the chairman of the Management Board, Achim Mansen, by five years up to the year 2017.

During the reporting year, the Management Board and the Supervisory Board carefully considered the recommendations and suggestions of the German Corporate Governance Code. On November 28, 2012, the two 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. There were no conflicts of interest in either the Management Board or the Supervisory Board of Directors during the reporting year.

At the Annual General Meeting on June 21, 2012, the auditing firm PricewaterhouseCoopers Corporation, Düsseldorf, was re-elected by the shareholders as the auditor for the annual and consolidated financial statements. After obtaining the auditor's statement of independence, the Supervisory Board chairman conveyed the audit engagement to the auditor, entered into the fee agreement and in collaboration determined the priorities for the audit of the annual and consolidated financial statements. Based on this, and with reference to the bookkeeping records, PricewaterhouseCoopers Corporation did an in-depth audit of 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, 2012, the corresponding management report for the company and the group for the fiscal year 2012 and also the risk management system. The audits did not yield any objections and therefore an unqualified audit statement could be issued. In addition, the Management Board report regarding the relationship with controlled companies ("dependency report") was audited and approved with the following unrestricted audit statement:

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

The financial statements, management report, audit reports and the Management Board's proposal as to how to use the profits were submitted to the Supervisory Board of Directors and the Audit Committee in good time before their respective meetings. In the balance sheet meeting on March 27, 2013, the chairman of the Audit Committee reported in-depth on the consultations and results of his preliminary examinations. In addition, the auditor reported on the major results of his audit and was available to answer questions.

Taking the results of the auditor and the Audit Committee into consideration, the Supervisory Board of Directors then subjected the annual and consolidated financial statements, the corresponding management report and the Management Board's proposal for the use of the retained earnings to its own detailed examination. There were no objections following the completion of this review. The Supervisory Board then concurred with the audit result of PricewaterhouseCoopers Corporation and approved the annual statement and the consolidated statement that had been prepared by the Management Board as of December 31, 2012. As such, the annual report of Essanelle Hair Group AG has thereby been adopted. In addition, after our own review, we also concurred with the Management Board's proposal that the retained earnings be used for another distribution of dividends amounting to 50 cents per share.

Looking back on the successful fiscal year 2012, we thank all of the employees as well as the Management Board for their great personal commitment. Only through their efforts could the current good results of Essanelle Hair Group be achieved.

Düsseldorf, 27 March, 2013

Fritz Kuhn
Chairman of the Supervisory Board

THE SHARE

In 2012, national and international stock exchanges performed distinctly positive overall. In the beginning of the year, both the DAX and the DOW JONES opened well, with increasing prices up into March, and following this, showed a phase of weakness up to the annual low in June. Both indexes recovered from this low point and achieved their respective annual highs at the end of December. In 2012, the DAX opened at approximately 6,100 points and closed at above 7,600 points. Thus, the performance in the past fiscal year amounted to approximately 25%. The TecDax performed almost parallel in 2012, opening at approximately 700 points and closing at approximately 830 points, with a performance of approximately 18.5%. The SDAX, on the other hand, achieved its annual low of just below 4,400 points immediately in the beginning of the year and closed at 5,250 points at the end of December.

Essanelle Hair Group's stock opened at EUR 9.30 on Xetra in the fiscal year 2012. The stock reached its annual high of EUR 11.00 on Xetra on November 9. The all-time low was on January 24 at EUR 8.95. The final closing price on December 28, 2012 was EUR 10.00. Thus, the stock of Essanelle Hair Group had an annual performance yield of 7.5%. Additionally, there was a dividend yield for shareholders of just about 5% for the fiscal year 2011. With 4,595,044 shares, the value of the enterprise at the end of the fiscal year 2012 was EUR 46.0 million.

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 for providing comprehensive direct information to shareholders, the Management Board introduced Essanelle Hair Group AG to investors, analysts and the financial press at the Equity Forum of the German Stock Exchange in November 2012. Furthermore, since the end of last year, the company stock is being monitored and analysed beyond previous studies by the research team at Close Brothers Seydler Bank AG.

It was decided at the Annual General Meeting to pay a dividend at previous year's level of EUR 0.50 per share for the fiscal year 2011 in 2012. Also, there were no changes to the shareholder structure. As at the end of the fiscal year 2011, Saxonia Holding GmbH remained the majority shareholder with approximately 89.77% of shares in the fiscal year 2012. The free float is thereby 10.23%.

SHARE DATA

SHAREHOLDER STRUCTURE (AS OF 28 FEBRUARY 2013)

Saxonia Holding GmbH	89.77%
Free float	10.23%

SHARE PERFORMANCE IN FISCAL YEAR 2012 (XETRA)

High on 9.11.2012	EUR 11.00
Low on 24.1.2012	EUR 8.95
Opening price 5.1.2012	EUR 9.30
Closing price 28.12.2012	EUR 10.00
Annual performance	7.5%
Enterprise value 28.12.2012	EUR 46.0 million

CONSOLIDATED FINANCIAL STATEMENTS

under IFRS for the fiscal year 2012

COMBINED MANAGEMENT REPORT

for fiscal year 2012

FOR THE FIRST TIME, THIS MANAGEMENT REPORT WILL BE PREPARED AS A COMBINED MANAGEMENT REPORT FOR THE GROUP AND THE AG (PLC). ANY OCCURRING DEVIATIONS BETWEEN THE GROUP AND THE AG WILL BE PRESENTED SEPARATELY.

COMBINED MANAGEMENT REPORT FOR THE GROUP UNDER IFRS AND FOR THE AG UNDER HGB FOR THE FISCAL YEAR 2012

MACROECONOMIC FRAMEWORK

The economic development in Germany continued to be shaped by growth in the fiscal year 2012 – however this growth was significantly slower than in both previous years. According to preliminary calculations by the Federal Statistical Office, Gross Domestic Product (GDP) still increased by 0.7% in real terms in the past year, following an increase of 3.0% in 2011. But it has to be taken into consideration that during both 2010 and 2011, catching-up processes were taking place following the crisis year 2009, and that the growth in Germany in 2012 has been achieved despite enormous real economic and fiscal crises in the European environment. Nevertheless, the second half of 2012 showed a significantly weaker performance than the first half of the year.

Consumer demand, external balance and domestic consumption were mainly responsible for a significant growth momentum in 2012. More specifically, Germany's exports increased by 3.7% in 2012, while imports grew by 1.8%, resulting in a positive external balance of 1.0%. Private domestic demand contributed 0.4% and national consumer spending contributed 0.3% to the growth of the Gross Domestic Product. On the other hand, company investments decreased significantly.

The continued good consumer demand over the full year resulted in part from a further increased employment rate, which amounted to approximately 41.6 million in 2012. Actual wages (price-adjusted gross monthly earnings) also continued to increase in Germany – in 2012 by an average of 0.6% compared to the previous year. This is the third increase in a row after +1.0 % in 2011 and +1.5 % in 2010. Overall, however, consumer demand did not increase as strongly as in the previous years. This is also evident in the retail sector. According to data from the Federal Statistical Office, sales revenues of retail businesses increased at a nominal rate of 1.9% in 2012. In real terms, sales revenues even ranged 0.3% below previous year's level. The non-food retail sector increased nominally by 1.0% and decreased in real terms by 0.4%. "Other retail sales of goods of various kinds", a category in which the Federal Statistical Office includes warehouses and department stores, experienced a significantly weaker development than overall retail sales – as it did in the previous year – and actually deteriorated again compared to the previous year. According to the survey, sales decreased nominally by 0.5%, actually declining by 2.3% in real terms. Internet and mail order businesses recorded the highest growth rates with a nominal growth of 3.1%.

The inflation rate in Germany continued to range at a relatively high level of 2.0% for 2012.

SECTOR DEVELOPMENT

In the estimation of the Management Board, the increase in the hairdressing chain store market share, as well as the growth in small and micro operations (revenues of less than EUR 17,500) that typically are operated by a single hairdresser, will continue in the German hairdressing market. This is confirmed by statistical data. In 2011, approximately 79,000 hairdressing businesses were licensed as craft enterprises. However, according to 2010 sales-tax statistics, less than 54,000 hairdressing enterprises generated annual sales of more than EUR 17,500. Therefore, approximately a third of all hairdressing businesses in the market fall in the category of these micro operations. According to this data, 70% of all hairdressing enterprises generate sales of less than EUR 100,000. As in other sectors of the retail market, there is a visible trend towards a declining number of medium-sized salons.

The current market volume in Germany is estimated at EUR 5.3 billion (estimation for 2010). According to preliminary results from the Federal Statistical Office, the market in Germany had declined in the first nine months of 2012, but is expected to approximate previous year's numbers for the full year.

According to estimates from a sector study by the Volksbank (VR Branchen special), market saturation, on the one hand, and the high number of new establishments, especially micro operations, on the other hand, will continue to intensify price competition. According to statements in the study, illegal employment also contributes to this, along with the micro operations that enjoy tax privileges, which results in "competitive distortions", especially for medium-sized enterprises in the sector. The authors continue to explain that the predatory competition and the increasing quality demands of customers require a clear positioning of distinct brand concepts and high quality standards up to a price value concept. The first two points, in particular, "require well trained and motivated employees". The study expects "traditionally working salons "to be the primary losers in current market trends.

A study by the GfK consumer research association with data from 2011 says that both the visiting frequency of customers and the expenses per visit are increasing. But the percentage of the population still visiting a stationary hair salon is decreasing further, and now ranges at 56.2% (previous year: 57.2%) according to data from L'Oreal. On average, women visited a hair salon 5.6 times (previous year: 5.5) and men did this 7.1 times (previous year: 6.9). Regarding expenses per hair salon visit, women spent EUR 41.18 on average per visit in 2011 (+3.1% compared to previous year) and men paid EUR 16.52 on average per visit (+3.6% compared to previous year).

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 through the brands essanelle Ihr Friseur, Super Cut and HairExpress. In addition, hair care products are sold in shops situated near the salons, under the brand Beauty Hair Shop. At the end of 2012, Essanelle Hair Group owned 684 salons and sales outlets (previous year: 686). In the fiscal year 2012, 23 new salons were opened, and 25 salons were closed (the latter statement includes three changes because of franchise salons previously recorded statistically). The company generated sales revenues of EUR 126.5 million after previous year's revenues of EUR 127.2 million.

EMPLOYEES

As of 31 December 2012, Essanelle Hair Group employed a total of 4,083 people, compared to 4,016 in the previous year. This reflects an increase of 1.7%. Of those employees, 3,980 work in salons and 103 employees work at headquarters and in distribution. The share of part-time employees is about 40.5%. In addition, there were 347 trainees. The share of employees in training was 8.5% and again was significantly higher than the previous year's rate of 7.4%.

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 growing earnings as long as this was not influenced by special effects. Because of the sale of the trademark rights for TOP TEN and the corresponding salons, no growth has been recorded in the last two years. Based on the three existing strong brand concepts, which in the opinion of the Management Board have the necessary critical mass for sustainable expansion, and the Beauty Hair Shops, the company will now continue to focus on its qualitative growth strategy. Non-profitable salons will continue to be closed as long as no improvement of the earnings situation is expected in the medium term.

Because of the continuing below average development of the department store locations, Essanelle Hair Group will continue the previous years' successively accelerated development of concepts outside the department store environment. In this regard, the first things to be mentioned are the HairExpress concept and the Super Cut concept, which are primarily located in consumer markets and which continuously grew in the past years, both with respect to the number of salons as well as sales revenue. In 2012, for the first time, these two concepts generated more than 50% of total sales. In 2006, it was barely above 30%.

The goal for 2013 is to moderately grow again. To achieve this, approximately 20-30 new salons are expected to open. The strategic success factors here are to have salon concepts that are specifically tailored to clearly defined target groups; strategic, financial and labour resources that are well above the market average; and promotion of the sale of exclusive hair care products. Within its growth strategy, Essanelle Hair Group focuses primarily on the "young consumers" and "price-sensitive customers" target groups. . 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, even with low price concepts the Group is in a position to make a profit and thereby also to reach the one-third of the population that has not visited a hairdresser in recent years. The Super Cut and HairExpress concepts serve the two trends mentioned and have reported the highest growth rates in the past. The simultaneous decrease in the share of sales revenues of the brand essanelle Ihr Friseur is attributable to the growth of other brands and the closing of salons – particularly in department stores. In the medium term, essanelle Ihr Friseur should once again be able to increase sales revenues in good department store locations and shopping centres.

In order to generate further growth, high-value quality locations are continually being sought for all concepts. For the opening of new salons, the Essanelle Hair Group prefers locations in shopping centres and consumer markets – depending upon the salon concept and the anticipated target group – that have especially high customer traffic. The percentage of salons in shopping centres increased from 25% to 37% between 2006 and 2012; the percentage in consumer markets increased from 18% to 27% in the same time period. But observations in recent years showed that the number of new shopping centres continues to decrease. In the context of what has been described above, the share of department store locations has decreased – from 44% in 2006 to 26% in 2012.

In the past free locations only proved successful in single cases. In 2012, after the sale of the TOP TEN salons in 2011, only about 11% of our salons were located in free locations. Despite the current unsatisfactory situation in department and warehouse stores, the Essanelle Hair Group currently expects that, in principle, it will maintain its presence in these locations, but will not, as a rule, open new salons there. In the medium 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 its growth strategy is the sale of exclusive salon products in salons and Beauty Hair Shops. Based on the amounts purchased, which are well above the industry average, Essanelle Hair Group can achieve significant price advantages when purchasing. Parallel to this, the Group focuses strongly on the training and motivation of employees to assist their customers with possible purchases in a targeted manner. Finally, by being connected to certain salons, the Beauty Hair Shops, which are specialised exclusively in the sale of salon products, offer an additional successful distributing channel.

BUSINESS PERFORMANCE OF ESSANELLE HAIR GROUP

OBJECTIVES OF THE PREVIOUS FISCAL YEAR

For the fiscal year 2012, Essanelle Hair Group projected the opening of about 30 new salons, a sales revenue decline of 1–2% and earnings before tax ranging between EUR 5.5 million and EUR 6.0 million. This projection was based on the discontinuation of TOP TEN salons with the corresponding effect on sales revenues as well as on outstanding earnings performance indicators in 2011. Because of the good business performance, the Management Board already advised earnings before tax at the top end of the estimated range after the third quarter.

BUSINESS PERFORMANCE IN 2012

With 23 new salons opened, Essanelle Hair Group has not been able to completely implement their growth plans. With 25 closings (including three statistical changes) this results in a portfolio of 684 salons and Beauty Hair Shops. With a net growth of six shops, the latter showed the largest increase in the number of salons.

Over the course of the year, the sales performance proved more stable than expected and ranged at -0.6% at the end of the fiscal year. Due to this, the discontinued sales of the TOP TEN brand amounting to EUR 3.6 million could almost be completely compensated for – and that even as the new salons in 2012 were only, naturally, able to tap part of their sales potential in the past year. In 2012, sales drivers were HairExpress with an increase of EUR 2.9 million (7.6%) and Super Cut with an increase of EUR 1.3 million (5.9%). As in the previous year, salons in shopping centres and consumer markets achieved a satisfying result while, as a rule, salons in department stores ranged below the previous year's figures. As in recent years, this continued to be a difficult environment. According to the Federal Statistics Office, these locations fell behind the good performance of overall retail sales.

Regarding the distribution of sales revenue, services contributed the most, as per usual. Sales revenue from services was at EUR 108.0 million in 2012 and thus was slightly above the previous year's level of EUR 107.9 million. The sales revenue share was 85.4% (previous year: 84.9%). Sales revenue from salon products alone decreased from EUR 19.3 million to EUR 18.5 million compared to the previous year, and achieved a sales revenue share of 14.6% (previous year: 15.1%).

Regarding earnings performance indicators, in the past fiscal year the Group achieved an EBITDA (Earnings before interest, taxes, depreciation and amortisation) of EUR 10.8 million after EUR 11.8 million in the previous year. The pre-tax earnings of the Group under IFRS amounted to EUR 6.0 million after EUR 6.4 million in the previous year. With this, the Essanelle Hair Group was able to reach the expectations for earnings before taxes at the top end of the estimated range of between EUR 5.5 million and EUR 6.0 million.

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 primarily located in department stores and shopping centres. In 2012, this salon concept generated sales of EUR 54.7 million after EUR 56.6 million the previous year. This is a decrease of 3.4%, which can be traced back to a weak department store environment and a decrease of 14 salons in the 2012 salon inventory. At the end of the year, this brand had 276 salons compared to 290 salons the previous year.

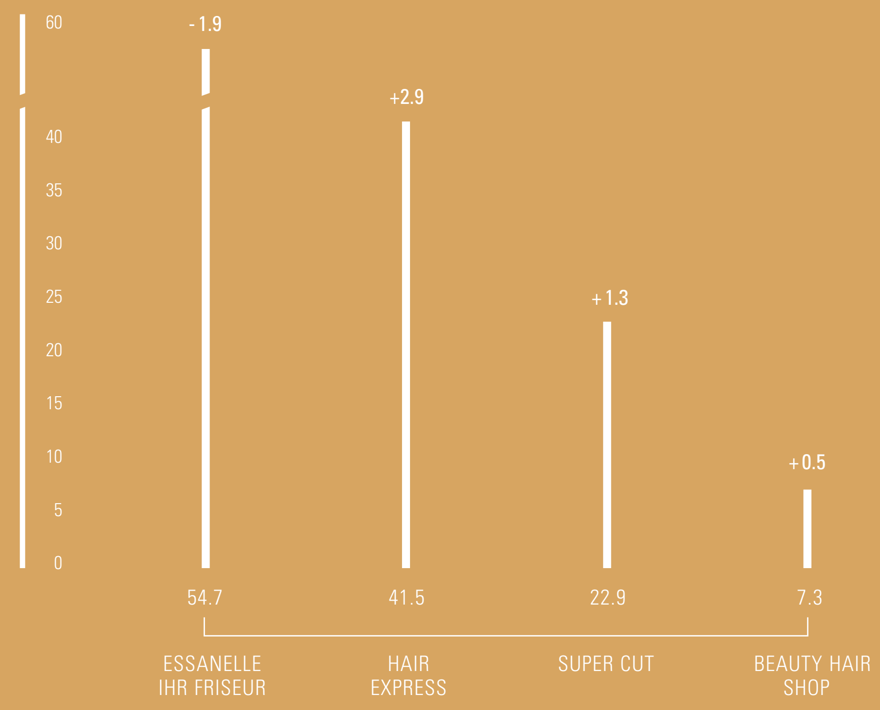
For years, HairExpress has been by far the fastest growing concept of Essanelle Hair Group, and it targets price-sensitive customers that demand a clean, but nevertheless professional, basic service. HairExpress was again able to increase both the number of salons and sales revenues in 2012. Overall, the number of salons increased by four salons to a total of 261 salons. The sales revenues in the last fiscal year increased by 7.6% to EUR 41.5 million (previous year: EUR 38.6 million).

The Super Cut concept concentrates on a young and trend-oriented target group and appeals to its customers with an uncomplicated approach and contemporary music. In 2012, the number of salons also increased by two salons, so the total number increased from 108 to 110. Due to a re-launch of the brand at the beginning of the year, sales revenues increased significantly by 5.9% to EUR 22.9 million (previous year: EUR 21.6 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, Essanelle Hair Group operates retail product sales outlets under the brand name Beauty Hair Shop in close proximity to its own salons. Here, primarily 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 than average share of sales revenue with those product sales in cross-sectoral comparison. In the fiscal year 2012, particularly significant investments were made in this sector and six Beauty Hair Shops were opened, which are expected to successively generate increasing sales revenues. In the past year, the 37 shops achieved sales revenues amounting to EUR 7.3 million (+6.9%) after EUR 6.9 million in the previous year.

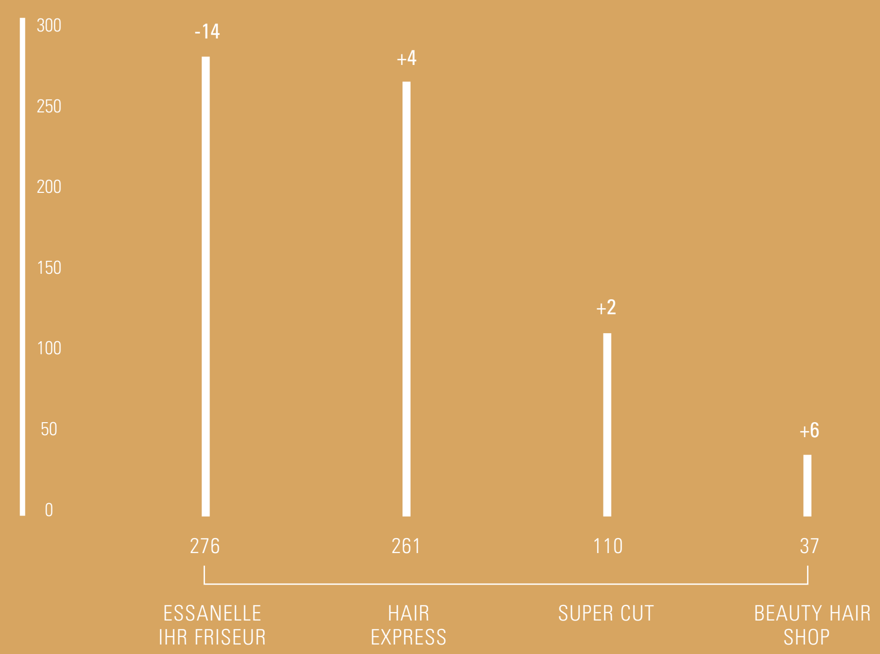
SALES OF SALON CONCEPTS

(Change on previous year in € mio.)



NUMBER OF SALONS BY CONCEPTS

(Change on previous year)



EXPENSES AND INCOME (GROUP, IFRS)

With EUR 126.5 million, the sales revenues of Essanelle Hair Group in the past fiscal year were only slightly below previous year's numbers of EUR 127.2 million. The new openings during 2011 and 2012 had a positive impact, while the sale of the remaining TOP TEN salons at the end of the third quarter of 2011, as well as a consistently weak department store environment had a negative impact on sales revenues. Other operating earnings increased from EUR 1.7 million to EUR 1.9 million. Cost of materials remained on previous year's level of EUR 10.0 million. With that, the materials cost ratio relative to sales was also the same as in the previous year at 7.9%. Personnel expenses also added up to previous year's level of a rounded EUR 71.1 million in the fiscal year 2012. The reduction from the discontinuation of the TOP TEN salons was set against the increase in personnel costs from new openings as well as rate increases. Overall, the personnel expense ratio related to sales revenues slightly increased from 55.9% to 56.2% in the past fiscal year. Expenses for rent and related costs decreased by 1.9% from EUR 25.5 million to EUR 25.0 million. Other operating expenses, which mainly consist of energy, marketing and distribution expenses, recorded an increase of 6.9%. They increased from EUR 10.6 million in the previous year to EUR 11.3 million.

Overall, these expenses increased slightly. . With simultaneously slightly decreasing sales revenues, this amounted to earnings before interest, taxes, depreciation and amortisation (EBITDA) under IFRS of EUR 10.8 million after EUR 11.8 million in the previous year (-7.9%). At EUR 4.6 million, the deductions of the Group in 2012 also ranged below the previous year's figure of EUR 5.0 million. The earnings before interest and taxes (EBIT) thus decreased by 7.1% from EUR 6.7 million to EUR 6.3 million in the fiscal year 2012. The financial results were at previous year's level of EUR -0.3 million. With this, Essanelle Hair Group generated a pre-tax result of EUR 6.0 million in the fiscal year 2012 after EUR 6.4 million in the previous year (-6.5%). The tax expense decreased from EUR 2.6 million in 2011 to EUR 2.1 million. Thus, the annual profit was at a rounded EUR 3.9 million and thus 3.6% above previous year's level of EUR 3.8 million. Earnings per share of Essanelle Hair Group AG with an unchanged number of shares finally increased with EUR 0.87 after EUR 0.84 in 2011.

NET ASSET AND FINANCIAL SITUATION (GROUP, IFRS)

Non-current assets on the asset side of the balance sheet decreased slightly from EUR 41.0 million to EUR 40.3 million as of 31 December 2012. This was due to, in particular, a reduction of property, plant and equipment from EUR 21.0 million to EUR 20.5 million. In current assets, inventories increased from EUR 6.2 million to EUR 6.4 million and cash and cash equivalents increased from EUR 7.1 million in the previous year to EUR 7.9 million on balance sheet closing date 2012. This resulted in an increase of current assets from EUR 14.0 million to EUR 15.1 million. As of 31 December 2012, the balance of the group had increased from EUR 54.9 million to EUR 55.5 million.

The liabilities side of the balance sheet as of 31 December 2012 showed a further increasing equity ratio of 64.6% after 62.2% at the end of the fiscal year 2011. Here, equity increased from EUR 34.2 million to EUR 35.9 million at balance sheet closing date. Reasons for this include higher retained earnings of EUR 15.6 million from the increased annual profit, after EUR 14.0 million in the previous year. In long-term debt, financial liabilities decreased significantly from EUR 3.4 million to EUR 1.9 million, while deferred tax liabilities increased from EUR 5.3 million to EUR 5.7 million. Overall, this resulted in a decrease of long term debt from EUR 11.1 million to EUR 10.2 million as of 31 December 2012. Current liabilities also decreased from EUR 9.7 million to EUR 9.4 million. This can primarily be traced back to the reduction of current financial liabilities from EUR 1.9 million to EUR 1.0 million as of 31 December 2012, as well as decreased other liabilities from EUR 2.8 million to EUR 2.4 million. In contrast, trade payables increased from EUR 1.4 million to EUR 2.4 million as of 31 December 2012. Overall, this resulted in a reduction of the total debt of the company from EUR 20.7 million to EUR 19.6 million as of 31 December 2012.

The consolidated cash flow statement for Essanelle Hair Group again showed a strong cash flow increase from on-going business activity, which increased from EUR 11.1 million in the previous year to EUR 11.7 million at present. With a decreased outflow of paid income taxes (EUR 2.0 million after EUR 2.8 million in 2011), this resulted in a significantly increased net cash inflow from on-going business activities in the amount of EUR 9.5 million after EUR 8.0 million in the previous year. The net cash outflow from investment activities significantly increased in 2012 compared to the previous year, from EUR 2.4 million to EUR 4.0 million. Reason for this is the discontinuation of special effects in the previous year resulting from the sale of the TOP TEN salons which brought earnings of EUR 1.2 million from the sale of plant, property and equipment. The outflow from the purchase of plant, property and equipment within the scope of the continuing growth strategy and the openings of new salons increased from EUR 3.5 million to EUR 4.0 million in the fiscal year 2012.

The cash flow from financing activities shows the usual outflow from the payment of dividends amounting to EUR 2.3 million. Because of repayment of financial liabilities, EUR 2.5 million flowed out after EUR 2.8 million in the previous year. In the fiscal year 2012, no in-payments from financial liabilities were recorded after EUR 1.6 million in 2011. This resulted in a net cash outflow from financing activities amounting to EUR 4.7 million after EUR 3.4 million in the previous year. Overall, the inventory of cash and cash equivalents increased by EUR 0.8 million from EUR 7.1 million to EUR 7.9 million at the end of the fiscal year 2012.

EXPENSES AND INCOME (AG, HGB)

With EUR 126.5 million, the sales revenues of Essanelle Hair Group in the past fiscal year were only slightly below previous year's numbers of EUR 127.2 million. The new openings during 2011 and 2012 had a positive impact, while the sale of the remaining TOP TEN salons at the end of the third quarter of 2011, as well as a consistently weak department store environment had a negative impact on sales revenues. Other operating earnings increased from

EUR 1.7 million to EUR 2.2 million. Cost of materials remained on previous year's level of EUR 10.0 million. With that, the materials cost ratio relative to sales was also the same as in the previous year at 7.9%. Personnel expenses amounted to a rounded EUR 71.2 million in the fiscal year 2012 after EUR 71.0 million in the previous year. The reduction from the discontinuation of the TOP TEN salons was set against the increase in personnel costs from new openings as well as rate increases. Overall, the personnel expense ratio related to sales revenues slightly increased from 55.8% to 56.3% in the past fiscal year. Other operating expenses, which mainly include rents for salon locations and marketing expenses, remained on previous year's level of EUR 36.4 million.

Overall, these expenses increased slightly. With simultaneously slightly decreasing sales revenues, this amounted to earnings before interest, taxes, depreciation and amortisation (EBITDA) under HGB of EUR 11.0 million for the Essanelle Hair Group AG in 2012 after EUR 11.5 million in the previous year (-4.2%). At EUR 6.2 million, the deductions of the Group in 2012, which included both investment assets and regular company value deductions, also ranged below the previous year's value of EUR 6.3 million. After subtracting interest, the result of common business activity ranged at EUR 4.6 million in the fiscal year 2012 after previous year's level of EUR 4.8 million. The tax expense decreased from EUR 1.9 million to EUR 1.6 million in the year under report, so that annual profit under HGB remained on previous year's level of EUR 2.9 million. With an accumulated profit of EUR 1.3 million (previous year: EUR 0.6 million), this resulted in an increase of the balance profit of a rounded EUR 4.2 million in the fiscal year 2012, from EUR 3.6 million.

NET ASSET AND FINANCIAL SITUATION (AG, HGB)

Because of planned deductions of company values, the immaterial assets on the asset side of the commercial balance sheet decreased from EUR 3.7 million to EUR 1.7 million as of 31 December 2012. Overall, investment assets decreased from EUR 22.9 million to EUR 20.7 million. In contrast, current assets increased from EUR 15.6 million to EUR 16.9 million in the year under report. Here, cash assets, in particular, increased from EUR 7.1 million to EUR 7.9 million. The total assets of the AG decreased from EUR 38.6 million to EUR 37.7 million as of 31 December 2012.

On the liabilities side of the balance sheet, the equity ratio continued to increase from 56.8% to 59.8% as of 31 December 2012 while the total assets decreased by EUR 0.8 million. Here, equity increased from EUR 21.9 million to EUR 22.6 million because accumulated profits increased from EUR 3.6 million to EUR 4.2 million. Overall, liabilities decreased from EUR 11.2 million to EUR 9.8 million on closing date comparison. Trade payables increased to EUR 4.5 million (31 December 2011: EUR 3.2 million), but liabilities to banks decreased to EUR 0.9 million (31 December 2011: EUR 1.5 million) and other liabilities decreased to EUR 4.3 million (31 December 2011: EUR 6.5 million).

As in the previous year, the cash flow calculation of Essanelle Hair Group shows cash earnings amounting to EUR 9.3 million, thus proving the continuing strong operative situation of the company in the past fiscal year. The cash flow from current business activity increased from EUR 7.9 million to EUR 9.5 million. The negative cash flow from investment activities increased from EUR -2.4 million in 2011 to EUR -4.1 million in the past fiscal year – in particular because, in contrast to the previous year, no earnings from the sale of investment assets were recorded, and at the same time, investment activity increased slightly. Cash flow from financing activity is marked by the outflow of dividend payments at previous year's level of EUR 2.3 million as well as an improved reduction of financial liabilities by EUR 2.4 million overall (previous year: reduction amounting to EUR 1.0 million). This results in cash flow from financing activity in the amount of EUR -4.6 million after EUR -3.3 million in the previous year. Overall, the cash inventory increased by EUR 0.8 million in 2012, from EUR 7.1 million to EUR 7.9 million.

THE SHARE

In the fiscal year 2012, Essanelle Hair Group's stock opened on the Xetra at a price of EUR 9.30. The stock reached its annual high of EUR 11.00 on the Xetra on November 9. The all-time low of EUR 8.95 was reached on January 24. The closing price on December 28, 2012 was EUR 10.00. Thus, the stock of Essanelle Hair Group had an annual performance of 7.5%. Added to this is a dividend profit for shareholders of about 5%. With 4,595,044 million shares, the value of the enterprise at the end of the fiscal year 2012 was EUR 46.0 million.

It was decided at the Annual General Meeting to pay a dividend of EUR 0.50 per share for the fiscal year 2012, as in the previous year.

There were no changes regarding the shareholder structure. In the fiscal year 2012, as at the end of the fiscal year 2011, Saxonia Holding GmbH remained the majority shareholder with approximately 89.77% of shares. Thus, the free float is 10.23%.

RISK REPORT

RISK MANAGEMENT AND BUSINESS RISKS

The Essanelle Hair Group has implemented 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 risk warning system serves to recognise dangerous developments at an early stage and to enable reasonable and quick responses. 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 decentralised risk delegates, who are in charge of overseeing the implementation of these measures. By taking a regular inventory, risks within an area of responsibility are identified and reported to the central risk manager every three months, who 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 enables 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 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 development is of great importance.

REPORT ON THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS: INPUT PURSUANT TO SECTION 289 (5) OF THE GERMAN COMMERCIAL CODE (HGB) AND 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)

Basically, there is a risk that with external financial reporting, misinformation could occur in the annual and interim financial statements, which 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 to identify, minimise and avoid such risks. The systems are conceived so 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 system is based on the salon earnings plan. 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 early risk 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 and the 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 uncovered.

MARKET RISK

In principle, there is a correlation between the general development of retail trade and the development of the market for hairdressing services. Continuing restraint by consumers or a change in consumer expectations can also have a corresponding effect on the demands for hairdressing services and the Group's salons in weakened form. In order to take into account the significant demands and needs of the customers and to develop as independently as possible from these general conditions, the Essanelle Hair Group trades in the market with contemporary brand concepts that are tailored to the customer groups' different quality and price needs and adapts these on a regular basis.

The salons of Essanelle Hair Group are predominantly situated in department and warehouse stores, consumer 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. This was confirmed by the weaker performance of salons in so-called free locations, the percentage of which was again reduced in 2011. This nevertheless results in an unusual dependence on the overall location as well as the structure and behaviour of its users. Currently, Essanelle Hair Group is benefiting from the generally very good development in consumer markets, but has also experienced weak performance in department stores.

In order to recognise individual risks or misguided developments, all available data from the individual salons, locations and concepts is 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. As a reaction to the overall performance of TOP TEN, the remaining salons were closed or sold in 2011 to optimise the portfolio of brand concepts. Also, because of the current situation in department and warehouse stores, no new salons will be opened in these locations at present.

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 and that the Group must then give up a location. In case of a certain number of leases with one and the same partner, there is, on the one hand, a dependency on that partner, while 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

Cooperation agreements for hairdressing and hairstyling products exist 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 therefore the success of the company. With that in mind, strategic and operational measures to motivate and further train the employees are highly valued and have been intensified significantly over the past years.

For review of the effectiveness of these measures, detailed analyses about productivity, labour turnover and 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 site establish a central communication and information system to provide continual support to the employees.

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

COMPENSATION REPORT

The overall compensation of the Management Board in 2012 was structured as follows (EUR k):

	Mansen	Bonk	Wiethölter	Total
Basic salary (non-performance related)	259	177	171	607
Performance-related bonus	206	103	103	412
Non-cash benefit from use of company car	17	13	15	45
Total	**482**	**293**	**289**	**1,064**

The variable compensation is calculated according to whether the enterprise has reached its target value. The value for calculation of this variable compensation is basically calculated as a multiple of the group EBITDA (IFRS) less the net debt on the balance sheet day. The variable compensation is a combination of two partial compensations that 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 provision set aside for the active Management Board is EUR 363k in the Group under IFRS and EUR 319k in the AG under HGB. The basis for the agreement to pay a pension to Mr Mansen is a promise from the year 2008, adjusted in 2012, regarding a pension starting at age 65 in the amount of EUR 5,000.00 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. There is also 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 July 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 by the Supervisory Board with adequate notice, the Management Board contracts include an agreement to pay a transitional monthly allowance for a limited period of time (max. 12 months), in the amount of 100% of the last basic salary paid.

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 fixed compensation of EUR 10,000 for the past fiscal year, in addition to reimbursement of expenses and reimbursement of the turnover taxes levied because of the member's activity. The chairman of the Supervisory Board is paid thrice as much; the vice-chairman receives twice the compensation amount. In the fiscal year 2012, compensation in the amount of EUR 158k (EUR 155k in the previous year) was paid.

TAKEOVER PROVISIONS PURSUANT TO SECTION 289 (4) AND SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB)

The share capital of Essanelle Hair Group consists of 4,595,044 ordinary 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, in particular, the right to vote, pursuant to the legal requirements and the articles of association.

Saxonia Holding GmbH holds 89.77% of the shares of Essanelle Hair Group. There are no other large shareholders.

There are no special rights given to the Supervisory Board, such as delegation rights, or a right to control votes of 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 to structure, 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 2011, the Management Board was given the right to repurchase up to 10% of the company's own shares until 31 May 2015. In 2012, no shares were repurchased. There is no authorized 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 2013 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, the declaration of conformity and the corporate governance report of the company are 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 2012 that materially influenced the revenues and earnings and asset and financial situation of Essanelle Hair Group.

OUTLOOK AND OPPORTUNITIES FOR THE GROUP (IFRS)

After the growth in Germany ranged significantly below recent years numbers with 0.7% in 2012, the Sachverständigenrat (Advisory Council for Economics) expects growth in the same range in 2013. But experts expect that the all-time economic low was experienced in the fourth quarter of 2012. The Sachverständigenrat (SVR) expects personal consumption expenses to grow on previous year's level of 0.9%. This is expected to be supported by an increase of the working population and employees paying mandatory social security contributions in the current year 2013. The SVR estimates an increase of consumer prices of approximately 2.0%. The HDE trade group expects nominally increasing sales by 1% – which would mean a decline in real terms again. In all probability, this will manifest itself very differently in the individual consumption areas. In the past years, Internet trade in particular profited significantly from consumer demand, while retail trade and in particular the department store and warehouse environments performed less well. According to information from the HDE trade group, online trade is expected to increase by 12%.

Regarding the nominally only moderately growing retail sales and a significantly weaker performance in warehouses and department stores, Essanelle Hair Group AG does not expect any tangible positive external effects for the current fiscal year. Essanelle Hair Group will continue its growth strategy to stabilise and improve the sales performance and is planning to open about 20-30 new salons in the current fiscal year. With respect to sales, Essanelle Hair Group has therefore set the target objective to increase sales slightly with the new openings from 2012 and the current year. The Management Board expects a growth of 1 – 2%.

Strategically, the Essanelle Hair Group is on the one hand, focusing on the three strong locations: shopping centres, consumer markets and department stores, and on the other hand, on the continuation of the unique multiple brand strategy with essanelle Ihr Friseur, Super Cut and the fast-growing concept HairExpress. Various studies count a clear positioning among the success factors in the hair dressing market. New openings will primarily be realised in various shopping centres and will increase in consumer markets, as is predominantly the case with the HairExpress and Super Cut concepts. The great performance of the clearly positioned HairExpress concept in the dynamically growing segment of consumer markets in Germany offers particularly sustainable growth opportunities for Essanelle Hair Group AG. The Beauty Hair Shops in close proximity to the salons will round off the strategic profile.

With this clearly focused strategy and unique features compared with the competition, Essanelle Hair Group AG sees good opportunities for long-term profitable growth and better performance than the market in general.

Regarding earnings, Essanelle Hair Group AG consolidated was able to achieve the top of the range projection of EUR 5.5 million to EUR 6.0 million for the past fiscal year 2012 and generated a consolidated pre-tax result of EUR 6.0 million. With respect to the current fiscal year 2013, the Management Board again expects to generate a pre-tax result between EUR 5.5 million and EUR 6.0 million for the group under IFRS. Positive effects, such as increased sales, will likely be used up at least by rate adjustments and thus increased personnel expenses. Furthermore, according to current estimations of the Management Board, there is a high probability that over the course of the current year a minimum wage will be introduced in the sector. The level of a minimum wage in Eastern and Western Germany would influence the business performance and particularly the earnings situation in the fiscal year 2013 – possibly beyond the projection made above, even as it will remain target objective. The bargaining committee will hold a meeting on this subject at the end of March. Furthermore, the Management Board expects rather steady to slightly increasing expense ratios. Overall, the dividend continuity planned by the Management Board could be realised with a pre-tax result within the expected range and therefore the desired continuing participation of shareholders in the company’s success. If sales revenues continue to increase in 2014, earnings performance indicators are also expected to improve again.

OUTLOOK AND OPPORTUNITIES FOR THE AG (HGB)

The future business performance of the AG is essentially subject to the same influences as the Group. Earnings before taxes are expected to be on previous year's level.

Düsseldorf, 15 March 2013
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 2012

ASSETS

€	Notes	31.12.2012	31.12.2011
ASSETS			
Long-term assets			
Property. plant and equipment	6	20,478,669.22	21,040,494.84
Goodwill	7	19,558,872.10	19,558,872.10
Other intangible assets	7	100,002.58	145,041.91
Other loans	8	208,184.80	235,667.64
		40,345,728.70	**40,980,076.49**
Short-term assets			
Other loans	8	31,649.20	26,479.28
Inventories	9	6,405,348.01	6,166,789.82
Accounts receivable	10	159,057.35	123,855.30
Other assets	11	603,065.09	505,335.40
Cash and cash equivalents	12	7,932,835.28	7,136,649.25
		15,131,954.93	**13,959,109.05**
Total assets		**55,477,683.63**	**54,939,185.54**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	Notes	31.12.2012	31.12.2011
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	15,616,270.20	13,950,186.70
		35,856,810.37	**34,190,726.87**
DEBT			
Long-term debt			
Financial debt	16	1,946,106.57	3,444,089.72
Deferred tax liabilities	17	5,706,103.86	5,260,002.13
Pension provisions	18	1,004,704.00	889,916.00
Other provisions	19	1,567,199.41	1,472,378.43
		10,224,113.84	**11,066,386.28**
Short-term debt			
Financial debt	16	994,655.33	1,854,916.11
Accounts payable	20	2,425,590.99	1,433,468.00
Current income tax liabilities	21	0.00	340,836.96
Other liabilities	22	2,419,604.59	2,835,310.83
Other provisions	23	3,556,908.51	3,217,540.49
		9,396,759.42	**9,682,072.39**
Total debt		**19,620,873.26**	**20,748,458.67**
Total shareholders' equity and liabilities		**55,477,683.63**	**54,939,185.54**

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2012 to 31 December 2012

€	Notes	01.01.2012 – 31.12.2012	01.01.2011 – 31.12.2011
Sales	24	126,464,702.36	127,216,897.40
Other operating income	25	1,866,364.56	1,698,852.87
Cost of materials	26	-10,044,805.93	-10,002,103.58
Personnel expenses	27	-71,134,899.26	-71,075,195.21
Depreciation and amortisation	28	-4,588,656.49	-5,039,683.23
Rental and ancillary rental expenses	29	-24,991,807.15	-25,482,135.46
Other operating expenses	30	-11,310,929.49	-10,581,680.83
Operating earnings		**6,259,968.60**	**6,734,951.96**
Financial income	31	101,558.06	28,837.32
Financial expenses	32	-373,901.41	-356,542.81
Financial result		**-272,343.35**	**-327,705.49**
Earnings before taxes		**5,987,625.25**	**6,407,246.47**
Tax expenses	34	-2,060,121.25	-2,615,271.60
Consolidated net income		**3,927,504.00**	**3,791,974.87**

	Notes		
Earnings per share	35		
basic		0.87	0.84
diluted		0.87	0.84

CONSOLIDATED CASHFLOW STATEMENT (IFRS)

for the period from 1 January 2012 to 31 December 2012

€k	Notes	2012	2011
1. CASHFLOW FROM OPERATING ACTIVITIES	37		
Cash generated by ongoing business activities		11,688	11,077
Interest paid		-247	-264
Taxes on income paid		-1,955	-2,788
Net inflow of funds from operating activities		**9,486**	**8,025**
2. CASHFLOW FROM INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	6	-3,959	-3,520
Proceeds from sale of property, plant and equipment	37	9	1,177
Acquisition of intangible assets	7	-42	-92
Loans paid out	8	-4	0
Loans repaid	8	26	35
Interest received	31	8	29
Net outflow of funds for investment activities		**-3,962**	**-2,371**
3. CASHFLOW FROM FINANCING ACTIVITIES			
Dividend payout	14, 15	-2,261	-2,261
Receipts from taking up of financial debt	16	0	1,636
Repayment of financial debt	16	-2,466	-2,809
Net outflow of funds for financing acivities		**-4,728**	**-3,434**
Net decrease/increase in cash and cash equivalents		796	2,220
Cash and cash equivalents at beginning of year	12	7,137	4,917
Cash and cash equivalents at 31 December		**7,933**	**7,137**

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 31 December 2012

€	Notes	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 1 Jan. 2011		**4,522,841.00**	**15,717,699.17**	**12,419,632.20**	**32,660,172.37**
Dividend payout	15			-2,261,420.37	-2,261,420.37
Consolidated earnings	15			3,791,974.87	3,791,974.87
Balance at 31 Dec. 2011		**4,522,841.00**	**15,717,699.17**	**13,950,186.70**	**34,190,726.87**
Balance at 1 Jan. 2012		**4,522,841.00**	**15,717,699.17**	**13,950,186.70**	**34,190,726.87**
Dividend payout	15			-2,261,420.50	-2,261,420.50
Consolidated earnings	15			3,927,504.00	3,927,504.00
Balance at 31 Dec. 2012		**4,522,841.00**	**15,717,699.17**	**15,616,270.20**	**35,856,810.37**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IFRS) as of 31 December 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(IFRS) as of 31 December 2012

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 franchiser for proprietor-managed hairdressing salons.

The total salon network is comprised of 684 hairdressing salons and shops, compared to 686 in the previous year.

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

– essanelle Ihr Friseur
– Super Cut
– HairExpress
– 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” concept being targeted at price-conscious customers. Essanelle’s hairdressing salons are, in most cases, located in department stores and shopping centres.

As in the previous year, independent hairdressing salons are included as franchisees within the “essanelle Ihr Friseur” brand concept.

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

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 publicly listed corporation that emerged from ESSANELLE GmbH on 4 May 2001 through corporate transformation.

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

MEMBERS OF THE MANAGEMENT BOARD

The members of the Management Board during the fiscal year 2012 were:

Achim Mansen, Monheim	Finance, Chairman
Dieter Bonk, Dormagen	Distribution and Marketing
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 – until June 2012
Dieter Bonk	Administrative Board Essanelle Company Health Insurance Fund,, Augsburg Chairman of the Board of Advertising Community of the shopping centre Neuss – until June 2012
Dirk Wiethölter	Administrative Board Essanelle Company Health Insurance Fund, Augsburg (Alternating Chairman)

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	Hairdressing salon proprietor
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	Hairdresser

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

Fritz Kuhn	Ondal Friseurtechnik GmbH, Eiterfeld (Advisory Board) – until June 2012
Olaf Rogowski	Ondal Holding GmbH, Hünfeld (Advisory Board) – until August 2012

2 SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

2.1 GENERAL PROVISIONS

The consolidated financial statements have been compiled in Euros and cents, and in thousand Euros (EUR k).

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 depicted thereby.

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 European Union. All standards and interpretations of the IASB that were mandatory as of 31 December 2012 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 2012.

The supplementary provisions of the German Stock Corporation Act (AktG) have been applied. The Group management report as of 31 December 2012 has also been compiled in accordance with the requirements of the German Commercial Code (HGB).

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

New International Financial Reporting Standards (IFRS) and Interpretations (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 2012. For the ESSANELLE Group one of these reforms was relevant and applied accordingly.

The following standard that was applied for the first time in this financial year has no material impact on the ESSANELLE Hair Group:

– Amendment to IFRS 7, Financial Instruments: Disclosures – Transfer of financial assets

Standards, interpretations and amendments to existing standards that are not yet effective or were not applied on time:

The following standards, amendments to standards and interpretations have been adopted but will only become effective for the next annual reporting periods beginning on or after 1 January 2013 and 2014 (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.

Mandatory applications for the reporting period beginning on or after 1 January 2013

- Amendment to IAS 1, "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income" (EU-Endorsement as of 5 June 2012)
- Amendment to IAS 12, "Income Taxes - Deferred Tax: Recovery of Underlying Assets" (EU-Endorsement as of 11 December 2012)
- IAS 19, "Employee Benefits" (rev. June 2011) (EU-Endorsement as of 5 June 2012). Due to the discontinuation of the corridor method for recording actuarial gains and losses, the existing, accumulated and not yet recorded actuarial losses from pension obligations as of 31 December 2012 will be recorded in other results amounting to EUR 420k in the following fiscal year.
- Amendment to IFRS 1, "First-Time Adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters" (EU-Endorsement as of 11 December 2012)
- Amendment to IFRS 7: "Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities" (EU-Endorsement as of 13 December 2012)
- IFRS 13, "Fair Value Measurement" (EU-Endorsement as of 11 December 2012)
- IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine" (EU-Endorsement as of 11 December 2012)

Mandatory applications for the reporting period beginning on or after 1 January 2014

- IAS 27, "Consolidated and Separate Financial Statements" (rev. May 2011) (EU-Endorsement as of 11 December 2012)
- IAS 28, "Investments in Associates and Joint Ventures" (rev. May 2011)
- Amendment to IAS 32: "Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities" (EU-Endorsement as of 13 December 2012)
- IFRS 10, "Consolidated Financial Statements" (EU-Endorsement as of 11 December 2012)
- IFRS 11, "Joint Arrangements" (EU-Endorsement as of 11 December 2012)
- IFRS 12, "Disclosure of Interests in Other Entities" (EU-Endorsement as of 11 December 2012)

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

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

- Amendment to IFRS 1, "First-Time Adoption of International Financial Reporting Standards – Government Loans
- IFRS 9, "Financial Instruments: Classification and Measurement: Financial Assets" (November 2009)
- IFRS 9, "Financial Instruments: Classification and Measurement: Financial Assets" (October 2010)
- Amendment to IFRS 7 and IFRS 9: Effective Date and Disclosure of Transition
- Amendment to IFRS 10, "Consolidated Financial Statements"; IFRS 12, "Disclosure of Interests in Other Entities", and IAS 27, "Consolidated and Separate Financial Statements – Investment Companies"
- Amendment to Transitional Provisions of IFRS 10, IFRS 11 and IFRS 12 (June 2012)
- Improvements of International Financial Reporting Standards (May 2012)

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 the 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 an acquisition, as well as of the fair values of assets thereby transferred, shares issued and/or liabilities assumed. 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 2012:

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 in 2012 or in 2011. 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 are subject to straight-line depreciation over their expected useful life. Costs of acquisition/manufacture include expenses directly allocable to such acquisitions. 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 four to seven years in the case of other plant and office equipment.

The Group acts exclusively 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 offset against these financial liabilities on an ongoing basis, while the interest portion is recorded under interest expenses.

Leases that do not substantially transfer all 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 salon infrastructure are stated at present values and depreciated over the useful life of the salon in question. A provision is simultaneously capitalised as a liability and is compounded over the useful life involved until the full repayment amount has been reached.

The assets are reviewed should any triggering event occur, in order to ascertain whether there are any indications of value impairments. In the event of the recoverable amount for an asset being lower than its respective carrying amount, such an 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 the maximum of the amount of updated acquisition/manufacture cost.

Profits and losses incurred in 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.

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, 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 that 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 and 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 as to 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 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 the 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 a transaction, then no tax accrual is stated. Deferred taxes are posted on all feasible tax loss carry-forwards. 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 prorated deferred taxes. It also includes the reserves resulting from the value of employees' services from share options issued at fair values. Moreover, the premium for the acquisition of own shares is also recorded as a negative item in the capital reserve.

Retained earnings and the annual results less dividend payment from the previous year 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 and liabilities under finance leases. 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 period 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 3.1%; previous year 4.5%).

Actuarial gains and losses based on historical 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 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-forfeiture 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 into account exercise hurdles that 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 required 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-forfeiture. 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 at 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 PAYABLES

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 and 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. rental income) are incurred, or for which prepayments have been made, 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, in principle the Group is exposed to various financial risks and other material risks. It is the responsibility of the overall risk management of the Group to identify and evaluate 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.

The remained granting of loans to a franchise company using the "essanelle Ihr Friseur" brand name involves a certain degree of risk. However, these individual transactions are very closely monitored by the Management Board.

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

(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 on 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 long-term loans.

No use is made of derivative financial instruments.

(e) Material risk

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 finance- and accounting-departments.

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 year; 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 1.61 in 2012 (previous year 1.44).

Medium- and long-term financial planning mainly refers to the financing of salon expansion. To monitor and manage the expansion, planned investments are compared with planned revenues. This is monitored by annual planning and a 5-year plan and acknowledged by the Supervisory Board in the budget meeting.

In the long-term segment, the improvement in capital management is measured by the equity-to-non-current-assets ratio, which changed from 0.83 in 2011 to 0.89 in 2012. The equity ratio increased from 62.23% in 2011 to 64.63% in 2012.

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, however, this test is carried out no less than once per year. This involves the achievable earnings of the underlying cash generating unit, which are calculated by determining its use value 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 management, this would not result in any major changes to the existing result of the impairment test.

(b) Provision for customer subscriptions and customer vouchers

Essanelle 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. The estimate is made on the basis of sales surpluses of the past three years (mainly the last quarter of the respective year) because vouchers and subscriptions are not necessarily redeemed in the year of purchase and therefore a fulfilment shortfall must be stated. Because a certain percentage of vouchers and subscriptions will not be redeemed and a possible redemption becomes more and more improbable with the passage of time, the carrying forward from the previous year (2011) is considered in the calculation of the provisions at 50% and at 20% for the previous year (2010).

If the actual claims were to be 10% higher or lower than the estimated figure, the provision would change by an amount of EUR -77.5k/77.5k (previous year EUR -90.6k/90.6k).

(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. 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 2011			
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
2011 financial year			
Opening carrying amount (net)	22,140,760.56	1,263,797.95	23,404,558.51
Additions	3,595,887.12	51,728.00	3,647,615.12
Disposals	-3,586,998.17	0.00	-3,586,998.17
Impairments (IAS 36)	-255,066.13	0.00	-255,066.13
Additions to depreciation	-4,297,503.98	-397,724.49	-4,695,228.47
Disposals from depreciation	2,525,613.98	0.00	2,525,613.98
Closing carrying amount (net)	20,122,693.38	917,801.46	21,040,494.84
As of 31 December 2011			
Costs of acquisition/manufacture	60,509,270.23	10,430,139.39	70,939,409.62
Cumulative impairments (IAS 36)	-687,834.73	0.00	-687,834.73
Cumulative depreciation	-39,698,742.12	-9,512,337.93	-49,211,080.05
Carrying amount (net)	20,122,693.38	917,801.46	21,040,494.84
2012 financial year			
Opening carrying amount (net)	20,122,693.38	917,801.46	21,040,494.84
Additions	4,080,071.97	108,015.00	4,188,086.97
Disposals	-4,597,601.85	-5,480,396.83	-10,077,998.68
Impairments (IAS 36)	-144,674.45	0.00	-144,674.45
Additions to depreciation	-4,037,595.31	-319,355.45	-4,356,950.76
Disposals from depreciation	4,373,706.55	5,456,004.75	9,829,711.30
Closing carrying amount (net)	19,796,600.29	682,068.93	20,478,669.22
As of 31 December 2012			
Costs of acquisition/manufacture	59,991,740.35	5,057,757.56	65,049,497.91
Cumulative impairments (IAS 36)	-832,509.18	0.00	-832,509.18
Cumulative depreciation	-39,362,630.88	-4,375,688.63	-43,738,319.51
Carrying amount (net)	**19,796,600.29**	**682,068.93**	**20,478,669.22**

Investments in property, plant and equipment amounted to EUR 4,188k (previous year EUR 3,648k) and are predominantly related to salon furnishings at newly opened salons and renovations of existing salons. The disposal of assets in 2012 in a net carrying amount of EUR 248k (previous year EUR 1,061k) mainly refers to salon closings. Income from asset disposals amounted to EUR 4k (previous year EUR 205k), while losses amounted to EUR 243k (previous year EUR 90k).

Property, plant and equipment are not subject to any restraints on disposal. There were extended reservations of title in the case of salon furnishings financed by suppliers until loan redemption as of 30 June 2012.

Leasing expenses relating to operating lease agreements for motor vehicles amounting to EUR 270k (previous year EUR 273k) have been recorded in the income statement. Moreover, rental expenses amounting to EUR 21,124k (previous year EUR 21,529k) have also been included in connection with the letting of premises for hairdressing salons and Beauty Hair Shops and headquarters.

Because of a regular examination, historic acquisition and manufacturing costs were abandoned totalling EUR 8,219k. Of this, EUR 2,739k were allotted to already fully depreciated operating and business equipment. This is based on the fiction that a disposal of old facilities occurred at full renovation (full renovation = renovation costs larger as/equal to 50% of historic acquisition and manufacturing costs). Another EUR 5,480k were allotted to capitalised leases with a remaining carrying amount of EUR 24k. All the affected leases were already fully liquidated and the old facilities were all disposed of within the scope of renovations or technical overhaul.

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 earning budgets approved by 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 145k (previous year EUR 255k).

7 INTANGIBLE ASSETS

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

€	Goodwill	Other	Total
As of 1 January 2011			
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
2011 financial year			
Opening carrying amount (net)	19,558,872.10	142,555.22	19,701,427.32
Additions	0.00	91,875.32	91,875.32
Disposals	0.00	-49,481.18	-49,481.18
Impairment (IAS 36)	0.00	0.00	0.00
Additions to amortisation	0.00	-89,388.63	-89,388.63
Disposals from amortisation	0.00	49,481.18	49,481.18
Closing carrying amount (net)	19,558,872.10	145,041.91	19,703,914.01
As of 31 December 2011			
Costs of acquisition/manufacture	19,929,880.72	949,678.40	20,879,559.12
Cumulative impairment (IAS 36)	-371,008.62	-4,672.19	-375,680.81
Cumulative amortisation	0.00	-799,964.30	-799,964.30
Carrying amount (net)	19,558,872.10	145,041.91	19,703,914.01
2012 financial year			
Opening carrying amount (net)	19,558,872.10	145,041.91	19,703,914.01
Additions	0.00	41,991.95	41,991.95
Disposals	0.00	-80,009.38	-80,009.38
Impairment (IAS 36)	0.00	0.00	0.00
Additions to amortisation	0.00	-87,031.28	-87,031.28
Disposals from amortisation	0.00	80,009.38	80,009.38
Closing carrying amount (net)	19,558,872.10	100,002.58	19,658,874.68
As of 31 December 2012			
Costs of acquisition/manufacture	19,929,880.72	911,660.97	20,841,541.69
Cumulative impairment (IAS 36)	-371,008.62	-4,672.19	-375,680.81
Cumulative amortisation	0.00	-806,986.20	-806,986.20
Carrying amount (net)	**19,558,872.10**	**100,002.58**	**19,658,874.68**

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 the Essanelle hairdressing salons forming a 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 earning budgets of the following year as approved by 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 have an 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 3.19% (previous year 4.69%).

As in the previous year, the impairment test undertaken in 2012 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 2011			
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
2011 financial year			
Opening carrying amount (net)	0.00	296,776.94	296,776.94
Disposals	-400,729.48	-34,798.29	-435,527.77
Additions	0.00	168.27	168.27
Cumulative impairment (IAS 36)	400,729.48	0.00	400,729.48
Closing carrying amount (net)	0.00	262,146.92	262,146.92
As of 31 December 2011			
2012 financial year			
Opening carrying amount (net)	0.00	262,146.92	262,146.92
Disposals	0.00	-26,479.30	-26,479.30
Additions	0.00	4,166.38	4,166.38
Closing carrying amount (net)	0.00	239,834.00	239,834.00
As of 31 December 2012			
Costs of acquisition/manufacture	0.00	262,878.90	262,878.90
Cumulative impairment (IAS 36)	0.00	-23,044.90	-23,044.90
Carrying amount (net)	**0.00**	**239,834.00**	**239,834.00**

"Loans" refers to loans made to three different persons, which are being repaid as planned as well as to 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 8k (previous year EUR 9k).

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

€	31.12.2012	31.12.2011
Not due yet	239,834.00	262,146.92
Overdue and unimpaired	0.00	0.00
	239,834.00	**262,146.92**

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

€	31.12.2012			
	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	**239,834.00**	**31,649.20**	**119,622.83**	**88,561.97**

€	31.12.2011			
	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	**262,146.92**	**26,479.28**	**119,298.57**	**116,369.07**

9 INVENTORIES

Inventories are structured as follows:

€	31.12.2012	31.12.2011
Goods for sale	4,273,671.03	3,727,078.76
Goods for use	2,165,066.98	2,471,801.06
	6,438,738.01	6,198,879.82
Write-down	-33,390.00	-32,090.00
	6,405,348.01	**6,166,789.82**

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 to which are recorded under cost of materials.

Inventories are not subject to any restraints on disposal.

10 ACCOUNTS RECEIVABLE

€	31.12.2012	31.12.2011
Gross receivables	248,319.70	202,785.69
less write-downs	-89,262.35	-78,930.39
	159,057.35	**123,855.30**

The table below shows the amount with which the overdue and unimpaired accounts receivable are overdue:

€	31.12.2012	31.12.2011
Less than 30 days	111,304.36	44,026.97
Between 30 and 60 days	7,156.74	5,564.90
Between 61 and 90 days	0.00	0.00
Between 91 and 180 days	6,732.44	5,578.23
Between 181 and 360 days	0.00	0.00
More than 360 days	33,863.81	68,685.20
	159,057.35	**123,855.30**

The above accounts receivable are not collateralised.

The itemised allowances on accounts receivable developed as follows:

€	31.12.2012	31.12.2011
Allowances as at 1 January	78,930.39	78,814.61
Additions (Expenses on allowances)	10,331.96	115.78
Utilisation	0.00	0.00
Retransfers	0.00	0.00
	89,262.35	**78,930.39**

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

€	31.12.2012	31.12.2011
Prepayments made on assets ordered	120,429.30	26,954.62
Accrued income	135,745.70	107,571.56
Rental receivables	17,018.44	60,435.30
Payroll receivables	144,941.87	154,789.89
Taxrefund claims	69,906.30	9,006.29
Claim from non-seized reinsurance contract	38,340.00	0.00
Other	76,683.48	146,577.74
	603,065.09	**505,335.40**

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

€	31.12.2012	31.12.2011
Credit balances at banks	5,991,731.92	5,952,608.62
Payments in transit from Essanelle hairdressing salons (prior to credit to bank accounts)	1,064,650.71	384,545.96
Cash holdings	876,452.65	799,494.67
	7,932,835.28	**7,136,649.25**

The effective interest rate for short-term bank deposits amounted to an average of 0.50% (previous year 0.75%).

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.

€	31.12.2012	31.12.2011
Share capital	4,595,044.00	4,595,044.00
Acquisition of own shares	-72,203.00	-72,203.00
	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 its 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 its own shares representing up to 10% of the company's share capital.

In 2008, 12,203 non-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 its 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 programme (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 a 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 2012.

(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 at the date of the statement
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/London/Great Britain, the voting rights are to be assigned to the following companies: Threadneedle Investment Services Limited, Threadneedle Asset Management Limited – both were established 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 Köln	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 no longer have shares.

** subsequent notification for 2006

(3) Share options

On the basis of the share option programme adopted at 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 AG
Subscription right	Right to subscribe individual shares in ESSANELLE HAIR GROUP AG at the exercise price
Exercise price	Average closing prices of Essanelle share in XETRA trading in the first ten trading days of the months in which the subscription rights are granted
Performance targets	The exercising of the subscription rights is subject to an absolute and a relative performance target: – The stock market price of ordinary shares in ESSANELLE HAIR GROUP AG must have risen by a minimum average of 1% per month in the period between the issue and exercise of the subscription rights (absolute performance target) – The stock market price of ordinary shares in ESSANELLE HAIR GROUP AG must have risen by the same or a greater amount in percentage terms or have fallen by the same or a lower amount in percentage terms than the SDAX index in the period between the issue and exercise of the subscription rights (relative performance target)
Holding period	The holding period begins upon the issue of the subscription rights and ends upon the beginning of the first exercise window after the expiry of two years following the issue of the subscription rights
Term	The term begins upon the issue of the subscription rights and ends upon the expiry of the sixth exercise window following the expiry of the holding period
Exercise windows	The exercise windows begin in each case upon the stock market trading day and end 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. These rights expired in financial year 2010.

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.

In 2011, 67,785 subscription rights reached their date of expiration and expired.

In 2012, there are no more subscription rights in existence.

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

Number of items	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	-212,361	-2,365	-4,139	-138,072	-67,785
Expired because of termination of employee relationship	-19,838	0	0	0	-19,838
Not yet exercised	0	0	0	0	0
Expiry date		**25. Juli 2008**	**24. Juli 2009**	**23. Juli 2010**	**22. Juli 2011**

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

	1st Tranche	2nd Tranche	3rd Tranche	4th Tranche
Share price	2.55 €	4.00 €	7.44 €	7.63 €
Exercise price	2.53 €	3.98 €	6.88 €	7.75 €
Volatility Essanelle	70.92%	61.69%	57.73%	53.56%
Volatility SDAX	12.26%	11.64%	10.89%	11.43%
Correlation Essanelle/SDAX	0.3221	0.3083	0.3585	0.3779
Term	4.82 years	4.82 years	4.81 years	4.81 years
Risk-free interest rate	3.26%	3.27%	2.69%	3.56%
Expected dividend	0.00 €	0.00 €	0.00 €	0.00 €
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 as of 31 Dec. 2012	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:

€	2012	2011
Balance as of 1 Jan.	849,019.54	849,019.54
Additions acc. to accrual plan	0.00	0.00
Balance as of 31 Dec.	**849,019.54**	**849,019.54**

(4) Share

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

€	2012	2011
Annual high	11.00	11.51
Annual low	8.95	7.90
Year-end	10.00	9.29
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.

The capital reserve developed as follows:

€	31.12.2012	31.12.2011
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
	15,717,699.17	**15,717,699.17**

15 REVENUE RESERVES

Revenue reserves developed as follows:

€	2012	2011
Balance as of 1 Jan.	13,950,186.70	12,419,632.20
Dividend distribution	-2,261,420.50	-2,261,420.37
Consolidated net income	3,927,504.00	3,791,974.87
Balance as of 31 Dec.	**15,616,270.20**	**13,950,186.70**

The dividend distribution amounted to EUR 0.50 per share as in 2011, based on a volume of 4,522,841 shares (as in the previous year).

16 FINANCIAL DEBT

The financial debt is structured as follows:

€	31.12.2012			
	Total	**Remaining term up to 1 year**	**Remaining term 1 year to 5 years**	**Remaining term over 5 years**
Liabilities to banks	920,003.04	320,003.04	600,000.00	0.00
Liabilities in connection with financial leases	190,768.44	98,073.93	92,694.51	0.00
Other financial loans	1,829,990.42	576,578.36	1,253,412.06	0.00
	2,940,761.90	**994,655.33**	**1,946,106.57**	**0.00**

€	31.12.2011			
	Total	**Remaining term up to 1 year**	**Remaining term 1 year to 5 years**	**Remaining term over 5 years**
Liabilities to banks	1,463,154.62	543,154.62	920,000.00	0.00
Liabilities in connection with financial leases	204,854.20	95,555.27	109,298.93	0.00
Investment loans from suppliers	1,249,559.41	656,847.46	592,711.95	0.00
Other financial loans	2,381,437.60	559,358.76	1,822,078.84	0.00
	5,299,005.83	**1,854,916.11**	**3,444,089.72**	**0.00**

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

€	31.12.2012			
	Total	**Cash flows 2013**	**Cash flows 2014 to 2017**	**Cash flows after 2017**
Liabilities to banks	970,377.04	348,236.54	622,140.50	0.00
Liabilities in connection with financial leases	196,697.11	102,350.33	94,346.78	0.00
Other financial loans	1,959,921.08	644,091.47	1,315,829.61	0.00
	3,126,995.23	**1,094,678.34**	**2,032,316.89**	**0.00**

€	31.12.2011			
	Total	**Cash flows 2012**	**Cash flows 2013 to 2016**	**Cash flows after 2016**
Liabilities to banks	1,555,255.97	584,881.97	970,374.00	0.00
Liabilities in connection with financial leases	213,686.84	101,069.83	112,617.01	0.00
Investment loans from suppliers	1,300,420.45	689,013.35	611,407.10	0.00
Other financial loans	2,591,527.99	652,503.05	1,939,024.94	0.00
	5,660,891.25	**2,027,468.20**	**3,633,423.05**	**0.00**

The cash flows contain fixed interest (previous year: fixed and variable interest):

€	31.12.2012			
	Total interest	**Interest contained in cash flows 2013**	**Interest contained in cash flows 2014 to 2017**	**Interest contained in cash flows after 2017**
Liabilities to banks				
Fixed interest	50,374.00	28,233.50	22,140.50	0.00
Liabilities in connection with financial leases				
Fixed interest	5,928.67	4,276.40	1,652.27	0.00
Other financial loans				
Fixed interest	129,930.66	67,513.11	62,417.55	0.00
	186,233.33	**100,023.01**	**86,210.32**	**0.00**

€	31.12.2011			
	Total interest	**Interest contained in cash flows 2012**	**Interest contained in cash flows 2013 to 2016**	**Interest contained in cash flows after 2016**
Verbindlichkeiten gegenüber Kreditinstituten				
Fixed interest	90,115.50	39,741.50	50,374.00	0.00
Variable interest	1,985.85	1,985.85	0.00	0.00
Liabilities in connection with financial leases				
Fixed interest	8,832.64	5,514.56	3,318.08	0.00
Investment loans from suppliers				
Fixed interest	50,861.04	32,165.89	18,695.15	0.00
Other financial loans				
Fixed interest	210,090.39	93,144.29	116,946.10	0.00
	361,885.42	**172,552.09**	**189,333.33**	**0.00**

Liabilities to banks

Liabilities to banks are structured as follows:

€	31.12.2012			
	Interest rate	Total	Short-term	Long-term
Loan Gladbacher Bank	fest 3.95%	320,000.00	120,000.00	200,000.00
Loan Postbank	fest 3.384%	600,000.00	200,000.00	400,000.00
Current account UniCredit	fest 5.5%	3.04	3.04	0.00
		920,003.04	**320,003.04**	**600,000.00**

€	31.12.2011			
	Interest rate	Total	Short-term	Long-term
Loan UniCredit	Euribor + 1.25	211,286.24	211,286.24	0.00
Loan Gladbacher Bank	fest 3.95%	440,000.00	120,000.00	320,000.00
Loan Postbank	fest 3.384%	800,000.00	200,000.00	600,000.00
Current account Rheinland-Pfalz Bank	fest 5.5%	1,725.18	1,725.18	0.00
Current account Gladbacher Bank	fest 5.5%	10,143.20	10,143.20	0.00
		1,463,154.62	**543,154.62**	**920,000.00**

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 4.25 million (previous year EUR 5.5 million) have been signed. As of the balance sheet date, EUR 4.25 million of the total amount was unused (previous year EUR 5.5 million).

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 within the framework of the leasing contracts. As of the balance sheet date, the Group's leased salon fittings amounted to EUR 682,068.44 (previous year EUR 917,801.46). Lease liabilities total EUR 190,768.44 (previous year EUR 204,854.20). These liabilities are due to various leasing companies and carry interest rates of between 2.94% and 4.18% p.a. (previous year between 3.19% and 6.54%).

The remaining terms of liabilities in connection with finance leases are structured as follows:

€	2012		2011	
	Nominal amount	Discounted amount	Nominal amount	Discounted amount
Remaining term up to 1 year	102,350.33	98,073.93	101,069.83	95,555.27
Remaining term 1 to 5 years	94,346.78	92,694.51	112,617.01	109,298.93
Remaining term over 5 years	0.00	0.00	0.00	0.00
	196,697.11	**190,768.44**	**213,686.84**	**204,854.20**

Investment loans from suppliers

The loans serve to finance investments made in new salons. They were taken before 2011 and were redeemed prematurely as of 30 June 2012. The extended retention of title in favour of the lender became obsolete with settlement. The interest rates amounted to 3.5%.

Other supplier loans

The supplier loans relate to five hire purchase agreements concluded in 2010 and 2011 with SüdLeasing and one lease contract with VR Leasing, which are to be repaid on a monthly basis over the next four and five years respectively.

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	Transition to carrying amount	Measured pursuant to	
		Total **	no financial instruments	IAS 39 *	IAS 17
31.12.2012					
ASSETS					
Other loans	LaR	239,834.00	0.00	239,834.00	0.00
Accounts receivable	LaR	159,057.35	0.00	159,057.35	0.00
Other assets	LaR	603,065.09	482,635.79	120,429.30	0.00
Cash and cash equivalents	LaR	7,932,835.28	0.00	7,932,835.28	0.00
LIABILITIES					
Financial debt	FLAC	2,940,761.90	0.00	2,749,993.46	190,768.44
Accounts payable	FLAC	2,425,590.99	0.00	2,425,590.99	0.00
Other liabilities	FLAC	2,419,604.59	2,271,451.08	148,153.51	0.00
31.12.2011					
ASSETS					
Other loans	LaR	262,146.92	0.00	262,146.92	0.00
Accounts receivable	LaR	123,855.30	0.00	123,855.30	0.00
Other assets	LaR	505,335.40	478,380.78	26,954.62	0.00
Cash and cash equivalents	LaR	7,136,649.25	0.00	7,136,649.25	0.00
LIABILITIES					
Financial debt	FLAC	5,299,005.83	0.00	5,094,151.63	204,854.20
Accounts payable	FLAC	1,433,468.00	0.00	1,433,468.00	0.00
Other liabilities	FLAC	2,835,310.83	2,605,904.77	229,406.06	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 value.

17 DEFERRED TAX ASSETS/TAX LIABILITIES

Composition:

€	31.12.2012	31.12.2011
Deferred tax liabilities	5,706,103.86	5,260,002.13

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

Deferred tax liabilities refer to the following balance sheet items:

€k	31.12.12 assets	31.12.12 liabilities	31.12.11 assets	31.12.11 liabilities
Deferred tax liabilities on balance sheet items				
Goodwill (non-current)	0	5,519	0	4,921
Property, plant and equipment (non-current)	0	534	0	575
Pension provisions (non-current)	30	0	31	0
Other provisions				
current	59	0	16	0
non-current	224	0	126	0
Liabilities in connection with financial leases				
current	19	0	29	0
non-current	15	0	34	0
	347	6,053	236	5,496
Net balances	-347	-347	-236	-236
	0	**5,706**	**0**	**5,260**

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

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

€k	2012	2011
Increase in deferred trade tax liabilities due to increase in the IFRS capital gain	214	398
Increase in deferred corporate income tax liabilities due to increase in the IFRS capital gain	232	318
	446	**716**

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 grants.

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

€	2012	2011
Present value of the obligations	1,576,410.00	1,085,438.00
Fair value of plan assets	-151,575.00	-127,921.00
Actuarial gains	-420,131.00	-67,601.00
Balance as of 31 Dec.	**1,004,704.00**	**889,916.00**

Changes in the present value of the obligations:

€	2012	2011
1st Jan.	1,085,438.00	1,011,638.00
Current Service Cost	31,280.00	26,408.00
Postcalculated Service Cost	102,612.00	0.00
Interest Cost	47,986.00	45,821.00
Actuarial loss	347,254.00	38,983.00
Pension payments	-38,160.00	-37,412.00
Balance as of 31 Dec.	**1,576,410.00**	**1,085,438.00**

EUR 723k of the total obligation is counted under a funded plan, while EUR 853k is counted under a non-funded plan.

Changes in the plan assets:

€	2012	2011
1st Jan.	127,921.00	104,983.00
Contributions	24,069.00	24,065.00
Expected Return on Plan Assets	4,861.00	3,989.00
Actuarial loss	-5,276.00	-5,116.00
Balance as of 31 Dec.	**151,575.00**	**127,921.00**

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 2013.

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

€	2012	2011	2010	2009
Present value of the obligations	1,576,410.00	1,085,438.00	1,011,638.00	879,252.00
Fair value of plan assets	-151,575.00	-127,921.00	-104,983.00	-83,099.00
Non recognised actuarial losses (or gains)	-420,131.00	-67,601.00	-72,737.00	8,006.00
Balance as of 31 Dec.	**1,004,704.00**	**889,916.00**	**833,918.00**	**804,159.00**

The following amounts were recorded in the income statement:

€	2012	2011
Current period of service expenses	31,280.00	26,408.00
Postcalculated Service cost	102,612.00	0.00
Interest expenses	47,986.00	45,821.00
Expected Return on Plan Assets	-4,861.00	-3,989.00
Amortisation	0.00	49,235.00
	177,017.00	**117,475.00**

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

€	2012	2011
Beginning of the year	889,916.00	833,918.00
Total expenses recorded in the income statement	177,017.00	117,475.00
Endowment of plan assets	-24,069.00	-24,065.00
Payment of pensions	-38,160.00	-37,412.00
Balance as of 31 Dec.	**1,004,704.00**	**889,916.00**

The following principal actuarial assumptions were made:

€	2012	2011
Discount rate	3.10%	4.50%
Expected income on plan assets	3.80% resp. 0%	3.80% resp. 0%
Future salary increases	2.00% resp. 0%	2.00% resp. 0%
Future pension increases	each 2.00%	each 2.00%

19 OTHER NON-CURRENT PROVISIONS

€	31.12.2012	31.12.2011
Provision for dismantling obligations	1,567,199.41	1,472,378.43
	1,567,199.41	**1,472,378.43**

Changes in non-current provisions:

€	Dismantling Obligations
Balance as of 1 Jan. 2012	1,472,378.43
Utilised	-42,833.72
Released	-16,682.82
Added	154,337.52
Balance as of 31 Dec. 2012	**1,567,199.41**

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.

20 ACCOUNTS PAYABLE

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

21 CURRENT INCOME TAX LIABILITIES

€	01.01.2012	Utilised	Released	Added	31.12.2012
Taxes resulting from tax audit	55,000.00	0.00	-55,000.00	0.00	0.00
Trade tax 2011	180,914.37	-180,914.37	0.00	0.00	0.00
Corporate income tax 2011	104,922.59	-104,922.59	0.00	0.00	0.00
	340,836.96	**-285,836.96**	**-55,000.00**	**0.00**	**0.00**

22 OTHER LIABILITIES

Other current liabilities are structured as follows:

€	31.12.2012	31.12.2011
VAT liabilities	1,404,536.11	1,537,145.94
Liabilities towards employees due to wages, salaries and commission still to be paid	248,100.65	471,429.74
Liabilities relating to rental agreements	148,153.51	229,406.06
Wage tax and church tax 2012 (2011)	367,114.68	280,486.20
Miscellaneous	251,699.64	316,842.89
	2,419,604.59	**2,835,310.83**

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

23 OTHER CURRENT PROVISIONS

Composition and development of other current provisions:

€	01.01.2012	Utilised	Released	Added	31.12.2012
Personnel provisions	1,372,681.29	-1,330,833.47	-41,847.82	1,601,309.05	1,601,309.05
Subscriptions and customer vouchers	906,300.00	-794,455.27	0.00	662,755.27	774,600.00
Miscellaneous	938,559.20	-621,892.44	-150,457.50	1,014,790.20	1,180,999.46
	3,217,540.49	**-2,747,181.18**	**-192,305.32**	**3,278,854.52**	**3,556,908.51**

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 used as of the balance sheet reporting date.

Miscellaneous current provisions mainly relate to provisions for energy costs (EUR 535k, previous year EUR 451k) and for outstanding incoming invoices (EUR 287k, previous year EUR 217k).

All other current provisions are expected to result in expenses being incurred in the 1st quarter of 2013.

24 SALES

Consolidated sales are structured as follows:

€	2012	2011
Revenues from services	107,730,028.15	107,374,887.69
Revenues from sales	18,472,684.96	19,296,823.88
Revenues in connection with rental agreements	125,017.85	256,084.34
Other revenues	136,971.40	289,101.49
	126,464,702.36	**127,216,897.40**

Sales were exclusively generated in Germany.

25 OTHER OPERATING INCOME

Composition:

€	2012	2011
Advertising subsidies	655,907.05	431,529.36
Income from invoicing of ancillary rental expenses	617,567.28	375,560.27
Income from release of provisions	208,988.14	281,211.82
Income from disposal of assets	3,576.03	205,383.34
Income from the release of write-downs on accounts receivable	92,885.23	31,828.86
Insurance compensations	64,784.89	46,132.50
Other income	222,655.94	327,206.72
	1,866,364.56	**1,698,852.87**

26 COST OF MATERIALS

Cost of materials includes:

€	2012	2011
Expenses for goods purchased	10,043,505.93	10,005,933.58
Increase in written inventories (previous year decrease)	1,300.00	-3,830.00
	10,044,805.93	**10,002,103.58**

27 PERSONNEL EXPENSES

Personnel expenses are structured as follows:

€	2012	2011
Wages and salaries	58,643,843.43	58,555,801.31
Social security contributions	12,349,366.04	12,431,551.70
Pension expenses for defined benefit plans	129,032.78	75,642.51
Compensations resulting from the termination of employment contracts	12,657.01	12,199.69
	71,134,899.26	**71,075,195.21**

Contributions to the statutory pension insurance fund: EUR 5,673k (previous year EUR 5,807k).

28 DEPRECIATION AND AMORTISATION

Composition:

€	2012	2011
Scheduled depreciation and amortisation		
Amortisation of other intangible assets	87,031.28	89,388.63
Depreciation of proprietary salon furnishings	4,037,595.31	4,297,503.98
Depreciation of leased salon furnishings	319,355.45	397,724.49
Impairments IAS 36	144,674.45	255,066.13
	4,588,656.49	**5,039,683.23**

29 RENTAL AND ANCILLARY RENTAL COSTS

Composition:

€	2012	2011
Rent for hairdressing salons and head office in Düsseldorf	21,124,404.26	21,528,964.25
Ancillary rental expenses	3,867,402.89	3,953,171.21
	24,991,807.15	**25,482,135.46**

30 OTHER OPERATING EXPENSES

Other operating expenses include:

€	2012	2011
Losses incurred on the disposal of non-current assets	243,339.05	89,876.77
Operating requirements	568,387.92	486,782.45
Advertising and sales promotion	1,646,157.83	1,664,065.63
Employee training	30,796.52	114,196.96
Vehicle-related expenses	615,559.48	610,559.08
IT-related expenses	888,369.00	904,022.27
Legal and advisory expenses	647,211.47	536,112.08
Bank charges	331,268.25	336,869.27
Telephone, office materials, print materials	428,876.56	494,322.61
Travel expenses and hospitality	381,269.53	362,253.60
Insurances	102,109.81	136,279.75
Cleaning companies	112,777.93	130,919.09
Postal charges, radio fees	178,933.78	190,251.82
Energy costs, electricity	2,187,818.03	2,046,681.10
Miscellaneous	2,948,054.33	2,478,488.35
	11,310,929.49	**10,581,680.83**

31 FINANCING INCOME

This item relates to interest income of EUR 8k on loans (previous year EUR 9k), interest income of EUR 34k on short-term bank deposits and other current receivables (previous year EUR 20k) and to interest income of EUR 59k (previous year EUR 0k) on taxes.

32 FINANCING EXPENSES

This item relates to pension-related interest of EUR 48k (previous year EUR 42k), to interest of EUR 33k on dismantling obligations (previous year EUR 38k), interest from taxes of EUR 64k (previous year EUR 3k) and interest expenses of EUR 229k in connection with financial debt (previous year EUR 274k).

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

€	2012	2011
Loans and Receivables		
Other loans	7,610.78	8,596.46
Cash and cash equivalents	34,626.51	20,196.86
Financial Liabilities Measured at Amortised Cost		
Commitments towards creditinstitutions	-70,289.40	-70,506.92
Leasing liabilities	-7,592.37	-9,042.99
Financial loans	-151,488.54	-194,082.94
	-187,133.02	**-244,839.53**

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

€	2012	2011
Actual taxes		
Trade tax for previous years	-78,349.44	125,994.82
Corporate income tax for previous years	-65,667.36	-15,195.95
Corporate income tax for current year	710,210.17	714,354.19
Trade tax for current year	1,047,826.15	1,074,470.98
	1,614,019.52	**1,899,624.04**
Deferred taxes		
Deferred corporate income tax for current year	232,496.02	317,715.40
Deferred trade tax for current year	213,605.71	397,932.16
	446,101.73	715,647.56
	2,060,121.25	**2,615,271.60**

Deferred taxes have been accounted for at 30.7% (previous year 30.7%). This is equivalent to a trade tax rate of 14.7% (previous year 14.7%), 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 2012 (2011):

€k	2012	2011
Earnings before taxes	5,988	6,407
Taxes based on a rate of 30.7% (previous year 30.7%)	1,838	1,966
Taxes on income as stated in income statement	2,060	2,615
less income taxes on modifications	-446	-432
less trade taxes caused by tax rate changes	0	-106
including/less effects from other periods	224	-111
	1,838	**1,966**

The effective tax rate amounts to 34.40% (previous year 40.81%).

35 EARNINGS PER SHARE

(1) Basic

	2012	2011
Earnings allocable to providers of equity in EUR	3,927,504.00	3,791,974.87
Average number of shares issued	4,522,841	4,522,841
Basic earnings per share (EUR per share)	**0,87**	**0,84**

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 by the respective temporal weighting factor, less the shares held by Essanelle Hair Group itself.

(2) Diluted

	2012	2011
Earnings allocable to providers of equity in EUR	3,927,504.00	3,791,974.87
Average number of shares issued	4,522,841	4,522,841
Diluted earnings per share (EUR per share)	**0,87**	**0,84**

As in the past fiscal year, no dilution effects of potential equity shares occurred, the diluted result per share corresponds to the basic result per share.

36 DIVIDEND PER SHARE

In 2012, the company paid out its dividend for the year 2011. The dividend amounted to EUR 0.50 per share and totalled EUR 2,261,420.50 based on a volume of 4,522,841 shares. The Management Board of Essanelle proposed to pay out a dividend of EUR 0.50 per share for 2012 in 2013.

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 was 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	2012	2011
Consolidated annual earnings	**3,928**	**3,792**
Adjustments for …		
Taxes (Note 34)	2,060	2,615
Depreciation of property, plant and equipment (Note 6)	4,502	4,950
Amortisation of intangible assets (Note 7)	87	89
Gains/Losses on the sale of property, plant and equipment	239	-116
Interest income (Note 31)	-102	-29
Interest expenses (Note 32)	341	357
Change in working capital		
Inventories (Note 9)	-239	459
Accounts receivable and other receivables (Note 10)	-35	-62
Provisions (Notes 18, 19 and 23)	428	-152
Other financial assets valued at fair value (Note 11)	-98	83
Accounts payable and other liabilities (Notes 20 to 22)	576	-909
Inflow of funds from operating activities	**11,688**	**11,077**

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

€k	2012	2011
Net carrying amount	248	1,061
Gain/Loss on the sale of property, plant and equipment (balance)	-239	116
Proceeds from the sale of property, plant and equipment	**9**	**1,177**

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

38 OTHER FINANCIAL OBLIGATIONS

(1) Operate lease

The Group rents numerous store premises for hairdressing salons within the framework of non-terminable operating lease 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 21,124k (previous year EUR 21,529k).

The Group also leases motor vehicles. The expenses relating to these assets amounted to EUR 270k (previous year EUR 273k).

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

€	31.12.2012	31.12.2011
Remaining term up to 1 year	19,847,468.73	19,455,252.48
Remaining term 1 to 5 years	60,166,199.10	58,014,088.25
Remaining term more than 5 years	19,145,499.34	19,089,293.09
	99,159,167.17	**96,558,633.82**

(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 2012 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 6k (previous year EUR 8k) 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 No. 45.

Majority investment of Saxonia Holding GmbH in ESANELLE HAIR GROUP AG

Saxonia Holding GmbH 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 to connected businesses to the auditor on 15 March 2013.

Shares held by the Supervisory Board and the Management Board

As of 31 December 2012, the members of the Management Board and the Supervisory Board held no shares in Essanelle Hair Group.

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

41 NUMBER OF EMPLOYEES

The company had an average of 2,106 full-time employees, 1,613 part-time employees and 311 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, 2 of the German Commercial Code (HGB) amounted to:

€k	2012	2011
Auditing of financial statements	111	108
Other audit services	4	2
Tax advisory services	167	40
Other services	0	17
	282	**167**

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. Neither were there any areas where it was planned to discontinue activities in 2012.

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 1,064k in 2012 (previous year EUR 1,076k) and was structured as follows:

	2012			
€k	**Mansen**	**Bonk**	**Wiethölter**	**Gesamt**
Basic salary (non-performance related)	259	177	171	607
Bonus (performance-related)	206	103	103	412
Benefit in kind from use of company car	17	13	15	45
	482	**293**	**289**	**1,064**

	2011			
€k	**Mansen**	**Bonk**	**Wiethölter**	**Gesamt**
Basic salary (non-performance related)	259	177	171	607
Bonus (performance-related)	215	106	106	427
Benefit in kind from use of company car	15	12	15	42
	489	**295**	**292**	**1,076**

A defined benefit pension commitment has been made to Management Board member Achim Mansen. The respective provision after deduction of plan assets of EUR 152k (previous year EUR 127k) amounts to EUR 363k (previous year EUR 242k). The interest rate used for accounting purposes is 3.10% (previous year 4.50%). EUR 146k was added to this provision in the year under report. The fair value of this commitment amounts to EUR 724k (previous year EUR 369) as of the balance sheet reporting date.

Achim Mansen is entitled to a monthly retirement pension of EUR 5,000.00 from the age of 65, as well as to a monthly disability pension of EUR 5,000.00 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 642k (previous year EUR 648k). EUR 31k was added and EUR 38k was utilised in the year under report. The current value of the obligation amounts to EUR 853k at the reporting date (previous year: EUR 716k).

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 pension currently amounts € 3,238.22. In the fiscal year 2012, € 38k was paid to Mr. Grimminger in retirement benefits.

(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 three times as much and his Deputy two times this compensation. Compensation in the form of wages or salaries paid to labour representatives outside their member activities took place at market-based conditions. Compensation totalling EUR 158k (previous year EUR 155k) was paid in the financial year 2012.

46 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 2013

Achim Mansen
(Chairman of the Management Board)

Dieter Bonk
(Management Board)

Dirk Wiethölter
(Management Board)

BALANCE SHEET (HGB) as of 31 December 2012

ASSETS

€	31.12.2012	31.12.2011
A. FIXED ASSETS		
I. Intangible Assets		
1. Concessions industrial and similar rights assets and licenses in such rights and assets acquired for valuable consideration	100,002.58	145,041.91
2. Goodwill	1,582,900.53	3,530,405.47
	1,682,903.11	**3,675,447.38**
II. Tangible Assets		
1. Office equipmnent including fixtures in rented premises	18,650,950.91	18,913,745.88
2. Prepayments	120,429.30	26,954.62
	18,771,380.21	**18,940,700.50**
III. Financial Assets		
1. Investments in associated companies	1.00	1.00
2. Other loans	239,834.00	262,146.92
	239,835.00	**262,147.92**
	20,694,118.32	**22,878,295.80**
B. CURRENT ASSETS		
I. Inventories		
Merchandise	6,405,348.01	6,166,789.82
	6,405,348.01	**6,166,789.82**
II. Receivables and other assets		
1. Accounts receivables	159,057.35	123,855.30
2. Receivables from associated companies	2,760.72	2,988.54
3. Other assets	2,432,396.49	2,167,967.18
	2,594,214.56	**2,294,811.02**
III. Cash on hand, Balance with banks	**7,904,719.06**	**7,104,734.59**
	16,904,281.63	**15,566,335.43**
C. PREPAID EXPENSES	**135,745.70**	**107,571.56**
Total assets	**37,734,145.65**	**38,552,202.79**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	31.12.2012	31.12.2011
A. EQUITY		
I. Subscribed Capital	4,595,044.00	4,595,044.00
./. Accounting par value of own shares	-72,203.00	-72,203.00
Issued capital stock	4,522,841.00	4,522,841.00
II. Capital Reserves	13,595,420.24	13,595,420.24
III. Surplus Reserve		
Other retained earnings	209,425.41	209,425.41
IV. Distributable profit	4,244,666.28	3,573,420.22
	22,572,352.93	**21,901,106.87**
B . ACCRUALS		
1. Accruals for pensions and similar obligations	988,298.00	855,672.00
2. Tax Accruals	0.00	340,836.96
3. Other Accruals	4,411,529.77	4,294,678.54
	5,399,827.77	**5,491,187.50**
C. LIABILITIES		
1. Liabilities to banks	920,003.04	1,463,154.62
2. Accounts Payable Trade	4,511,097.39	3,230,625.96
3. Other liabilities	4,328,864.52	6,466,127.84
	9,759,964.95	**11,159,908.42**
D. PREPAID EXPENSES	**2,000.00**	**0.00**
Total liabilities and shareholders' equity	**37,734,145.65**	**38,552,202.79**

INCOME STATEMENT (HGB)

for the Period from 1 January 2012 to 31 December 2012

€	01.01.-31.12.2012	01.01.-31.12.2011
1. Revenue	126,464,702.36	127,216,897.40
2. Other operating income	2,170,027.63	1,691,235.02
3. Cost of materials	-10,044,805.93	-10,002,103.58
	118,589,924.06	**118,906,028.84**
4. Personnel expenses		
a) Wages and salaries	-58,656,500.44	-58,568,001.00
b) Social security, pensions and other benefit costs (of which for pension € 144,864.25; PY € 39,030.52)	-12,494,230.29	-12,470,582.22
5. Depreciation and amortization of non-current intangible assets and property, plant and equipment	-6,215,313.55	-6,324,917.02
6. Other operating expenses	-36,389,806.61	-36,367,232.10
	4,834,073.17	**5,175,296.50**
7. Income from investments	7,610.78	8,596.46
8. Other interest and similar income (therefore from associated companies € 476.54; PY € 562.52), (therefore from discounts € 26,236.59; PY € 0.00)	120,660.41	20,803.38
9. Write-downs of financial assets	0.00	-28,069.22
10. Interest and similar expenses (thereof accumulations € 85,916.67; PY € 67,280.28)	-373,418.53	-334,691.14
11. Profit from ordinary operations	**4,588,925.83**	**4,841,935.98**
12. Income taxes	-1,614,019.52	-1,899,624.04
13. Other taxes	-42,239.75	-8,003.49
14. Net profit for the year	**2,932,666.56**	**2,934,308.45**
15. Profit carry forward	1,311,999.72	639,111.77
16. Net result	**4,244,666.28**	**3,573,420.22**

AUDIT OPINION

We have audited the consolidated financial statements compiled by Essanelle Hair Group AG, Düsseldorf, which consist of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement as well as the notes to the consolidated financial statements, as well as the group management report, which is combined with the management report of the company, for the financial year from 1 January to 31 December 2012. The responsibility for the compilation of the consolidated financial statements and combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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