Annual Report 2013 ESSANELLE HAIR GROUP AG

IN MOTION

ESSANELLE HAIR GROUP

KEY FIGURES

Mio. € – IFRS, Group

Mio. €	2013	2012	2011	2010	2009
Consolidated sales	129.7	126.5	127.2	127.2	128.0
essanelle Ihr Friseur	54.3	54.7	56.6	58.4	63.3
Super Cut	23.6	22.9	21.6	21.2	20.5
HairExpress	44.2	41.5	38.6	35.7	32.1
beautyhairshop	7.6	7.3	6.9	6.8	6.7
EBITDA	10.7	10.8	11.8	10.8	11.3
EBIT	5.8	6.3	6.7	5.4	5.9
EBT	5.6	6.0	6.4	5.1	5.5
Annual net income	3.4	3.9	3.8	3.4	3.2
Earnings per share	0.75 €	0.87 €	0.84 €	0.75 €	0.71 €
Equity ratio	63.9 %	64.1 %	62.2 %	58.8 %	56.1 %
Cashflow (from operating activities)	9.2	9.5	8.0	6.2	9.1
Cashflow per share	2.00 €	2.06 €	1.74 €	1.35 €	1.99 €
Number of employees	4,100	4,083	4,016	4,246	4,185
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 2014

Three Months Interim Report	May 2014
Annual General Meeting	27 Juni 2014 (Düsseldorf)
Half-Year Report	August 2014
Nine Months Interim Report	November 2014
Analysts' Conference	24.–26. November (equity capital forum)

ESSANELLE HAIR GROUP


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CONTENTS

In Motion

On tour for Essanelle Hair Group: Motivate, organise, communicate. Sales Manager Sabrina Oelsner is a real all-rounder. In her job, the 30-year-old, a trained hairdresser, supervises 28 Super Cut salons in North Rhine-Westphalia, Hesse and Rhineland-Palatinate. Altogether, about 35 sales managers are responsible for approximately 700 salons. We accompanied Sabrina Oelsner during a typical work day.

She has a final gulp of coffee, grasps her keys and mobile phone, slings her handbag over her shoulder and off she goes. The weather is bleak because it rained in the night. But Sabrina Oelsner is in a cheerful mood. She gets into her black company car, turns the radio on and drives off. Today, she wants to visit two Super Cut salons. The first one is in Leverkusen, the second in Neuss. “Both salons are running well, the teams are highly motivated and work very professionally”, explains Sabrina Oelsner who began working as a hairdresser at Essanelle Hair Group in 2005 and climbed the career ladder quickly. “To begin with, I was a salon manager and since 2009 I have been a sales manager.” Since then, the tall woman with a fashionable pixie cut is always on the road; she travels about 40,000 kilometres annually. “The furthest salon in my region is located in Fulda”, she explains, “but I plan my routes myself and am able to work very independently.”

7:23

This morning, Sabrina Oelsner gets through the traffic well because the highway is rather empty. She has a key for the Super Cut salon in the Rathaus Galerie Leverkusen. She uses the quiet time until the team and the first customers arrive for organisational stuff such as filling and checking the cash register, checking the cash register file against the receipts, filing receipts, checking sales and product stocks and taking a glance at the duty rosters. In between, she rearranges a few bottles of shampoo on the shelf, turns on the coffee machine and starts the stereo equipment. Sabrina Oelsner knows the daily salon procedures and only needs a few seconds to get an overview.

8:13

8:47

Nadja, the acting salon manager, enters the salon. Because Sabrina Oelsner always comes unannounced, it is a big surprise – but she welcomes her warmly. The team is well enough prepared so that visits from the sales manager could be a daily occurrence. “Therefore we aren’t nervous when Sabrina pays us a visit”, explains Nadja. “With most employees, I am on rather friendly terms”, adds Sabrina Oelsner. “Even when I criticise, I try to stay positive. But each sales manager has to find his or her own method in this regard.” Speaking of criticism: With her trained eye, she discovers dust on the adjustable hairdressing mirror hanging high up, beneath the ceiling. She grabs a wet cloth, stretches up and wipes the mirror clean. “The girls have a hard time reaching it”, laughs the 1.80m tall woman.


CUT

9:51

Sabrina Oelsner goes into the staff-room with Anna. Anna has been working in the Leverkusen salon for just a month and the sales manager wants to know whether she has settled down well into the new team. The feedback is positive. “I don’t feel new here at all, I enjoy working here tremendously”, Anna says. Her three colleagues Nadja, Monique and Sarah are also satisfied with the “new girl”. “Being a good listener and having a sense for the mood within the team – that is very important in my position”, says Sabrina Oelsner after this successful staff interview.

Sabrina Oelsner takes over the phone and receives new customers while the four hairdressers cut, wash and colour. “On days like this, when business is booming, I also lend a helping hand, of course”, says the 30-year-old. “And to be honest, I am really happy if I can take out my scissors once in a while!” But before she can do so, she needs to check the time sheets and organise for a technician to come: The monitors in the salon haven’t been working for a few days.

10:48

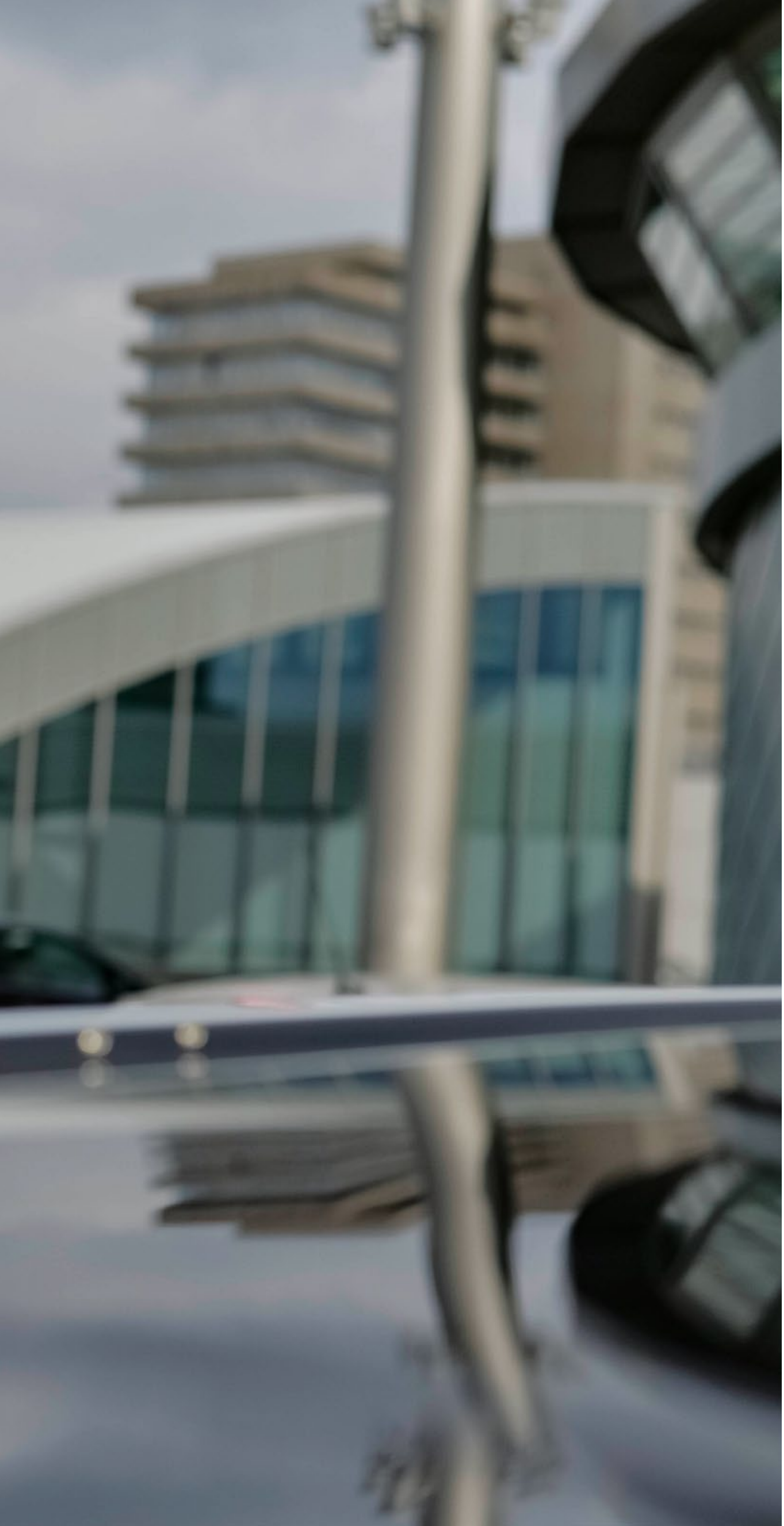
11:35

Leon, a nine-year-old boy, sits down in front of the mirror. Sabrina Oelsner is going to style his hair. She buckles on her belt with scissors, clips and brushes and begins. “Do you want your hair to cover your ears? Do you want a slanted fringe? Do you know how to use wax?” The hairdresser has a ten-year-old daughter herself and is familiar with the styling ideas of fashion-conscious children. A little later, Leon’s new hairstyle is complete and Sabrina Oelsner finishes it off with wax. “Super”, says the boy.

The customers visit the salon one after another and the team works at full speed. When it’s so busy, some little tasks can fall by the wayside. Therefore, Sabrina Oelsner empties the dryer, folds towels and sorts detergents. “Whether I am too good for this? That’s silly!” She waves the notion aside. It is precisely this variety which fascinates her about her job. “Sometimes I have to mediate because there is friction within the team and on other days everything runs smoothly, like today”, she explains. “In the case of emergencies, it can also happen that I am called in spontaneously, for example if there has been a break-in at one of the salons.”

12:42


SUPER
CUT



13:54

Now we move along! The sales manager is very satisfied with her first visit. “Now on to Neuss.” On the way, the phone rings once again. The salon manager from Lüdenscheid is on the other end of the line: “Hello boss”, she greets Sabrina Oelsner, “I need your advice...” She feels uncertain about an applicant who does not conform to her expectations at all. Sabrina Oelsner listens, gives advice on how the salon manager should act and finally offers a few concrete proposals. Afterwards she explains: ”I always encourage my employees to work independently and make certain decisions by themselves, because in the end, the team knows best who would fit in well.” But if her experience and advice is asked for, she naturally intervenes immediately and makes the decision for the whole team.

The black estate car glides across the top parking level of the Neuss Rheinpark Center. Still sitting in the car, Sabrina Oelsner sorts some documents and checks her emails. Then she hangs her bag over her shoulder and enters the Center. Jessy, the salon manager, spots her boss through the window and waves from afar. In this case the visit is no surprise because this afternoon, both ladies have a joint appointment with the manager of the Rheinpark Center.

14:47

14:53

Some of the action in this salon is the same as during the previous salon visit: checking the cash register, sorting and filing receipts, checking the duty rosters and signing various documents. After this, Sabrina Oelsner quickly runs to the neighbouring bank, takes care of some financial matters and deposits part of the earnings.

15:04

The first talk is scheduled: A written complaint by a customer that was forwarded to Sabrina Oelsner. Now she and the salon manager discuss the best way to proceed. Jessy looks thoughtful, nods every so often and appears dejected. But her boss is able to raise her spirits again and together, they find a solution. “In situations like these, I naturally remain neutral and take each complaint seriously. But I always try to put myself in front of my team to protect my colleagues”, she stresses. “So far, we have always been able to find a solution which is acceptable to all parties.”


ONE WAY


ONE WAY

The sales manager has a discussion with the hairdresser Cristina. The young Greek girl wants to go back to her home country. Sabrina Oelsner would like to convince her to renew her contract. After about half an hour, the discussion is over and Sabrina Oelsner's disappointment is clearly visible. "A pity! I would have liked to have kept her. But naturally, I have no choice but to accept such private decisions."

15:36

16:00

Appointment with the Center manager. The Neuss Super Cut salon is going to participate in a special promotion in the shopping mall, in which customers can win a makeover: new clothes, new make-up and naturally also a new hairstyle. Sabrina Oelsner and salon manager Jessy discuss the rough schedule and important details: How many customers are going to participate? Must additional stylists be ordered? How far is the "transformation" of the winners allowed to go? How much time do the hairdressers have? The discussion goes well and Sabrina Oelsner addresses a whole lot of points which the Center manager hadn't thought of in her planning. "In such cases, my experience makes itself felt", Sabrina Oelsner says humbly. The discussion also involves a promotion area which the Super Cut salon in the Rheinpark Center wants to hire in order to present a new product there. Now, costs and calculations are the subject of the discussion. Sabrina Oelsner negotiates cleverly and persistently, but the parties can't come to an agreement. "But I am confident that we will find a solution", says the sales manager after the 45-minute discussion.

17:19

There are problems with the different shifts on the duty roster. Sabrina Oelsner immediately has the overview and rearranges the schedule. After a quick coffee she says goodbye to her colleagues.


SUPER CUT
SALON MANAGER
WWW.ICH-BIN-ESSANELLE-FRISEUR.DE
SUPER CUT

18:01

The car door closes and Sabrina Oelsner starts the engine and leaves the car park. Time to sum up: “Today was very effective, I was able to take care of all the points on my to-do list”, she says. She is happy that she will get home to her family relatively early. “Usually, I get home at about 19H00. First, I take off my shoes and say hello to my husband and my daughter. Then I make myself a coffee”, she explains as she navigates her car through the smoothly-running commuter traffic.

Sabrina Oelsner unlocks the front door, puts down her bags and takes of her jacket. Home at last! But when her daughter goes to bed later, the sales manager often checks her emails once again and prepares for the next day. A new day, on which she will once again pass on the passion she feels for her profession to her employees.

18:16

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 2013 you projected a sales increase of 1 % – 2 %. How satisfied are you with the actual results?

Achim Mansen We are very satisfied. First, we significantly exceeded our projections from the beginning of the past year with a sales increase of 2.6 %. Additionally, since spring we have focused on the implementation of various measures with regard to minimum wages. This was indeed a mandatory agreement in spring and we had to decide how to deal with it.

And what was your decision?

Dieter Bonk We decided to aggressively communicate the wage increases and to pass them on by corresponding price increases. At the same time, we introduced the campaign “fair wages – fair prices”. It was our goal to compensate for the increasing personnel expenses. To achieve this, we had to generate a sales increase of approximately 5 % with the introduction of the minimum wage by the beginning of August. And that worked well.

Were all salons affected by the price increases?

Dirk Wiethölter The vast majority of our staff was already earning more than the minimum wage now agreed upon. Thus, the price increases of up to 30 % affected those salons in which the minimum wage had significant effects. Altogether, this affected approximately a quarter of our 700 salons.

And did you achieve a sales increase by 5 %?

Achim Mansen We also awaited the reaction of our customers with bated breath. Such situations are unique and therefore never accurately predictable. In the autumn, we had a mixed picture from month to month. At the end of the year, however, we observed that we had done everything right. While some of our customers failed to show up, the bottom line proves that we were able to generate the necessary sales to keep our earnings figures relatively stable. With earnings before taxes of EUR 5.6 million, we are fully in line with our expectations.

So everything fine with the minimum wage.

Dirk Wiethölter Careful. Last year, the first level of the minimum wage was introduced at EUR 7.50 in West-Germany and EUR 6.50 in East-Germany. In 2014, we reach the next level at EUR 8 respectively EUR 7.50 and finally in 2015, EUR 8.50 nationally. Here, we also have to counter this with price increases – and it is by no means certain that this will work so well again. Will our customers agree with the very valid argument that a minimum wage of EUR 8.50 should also apply to hairdressers the second and third time around or will significantly more of them fail to show up than in 2013?

That is why you have already suggested that you will generate EUR 1 million less earnings in 2014? Because you suspect that it will not work this time?

Dirk Wiethölter On the one hand we believe that this is quite possible. On the other hand, the minimum wage is likely to have a different effect: We employ a number of hairdressers who in part earn significantly more than the minimum wage and there is a certain wage difference in respect of employees on different levels. Just consider our 700 salon managers. We must also implement increases in the higher income groups in order to continue to maintain this gap.

Achim Mansen And thus, our personnel expenses will also grow beyond just minimum wage increase. We probably cannot compensate for everything.

How does the sector overall deal with this topic?

Achim Mansen We know from other big chain stores that they also go this way: wage increases and price increases. But how will the many independent hair dressers react? How will the 20,000 hairdressing salons who allegedly do not even reach the sales tax limit of EUR 17,500 react? Will nothing happen officially on the wage side here, and will their prices remain at levels that are much too low? This would completely thwart a politically and socially desired development – which we advocate and have implemented – due to the competition for customers. At the end of the day the consumers will decide whether they are willing to accept higher prices and thus what impact the introduction of a minimum wage will have.

Let's get back to 2013 with an EBT of EUR 5.6 million. Are you satisfied?

Achim Mansen Yes – similar to sales. Because of the sales and earnings performance in autumn, we were uncertain whether we would be able to reach the projected range of EUR 5.5 – 6.0 million EBT and therefore issued a new range from EUR 5.0 to 6.0 million. So this of course is a success – that we were able to have such a positive holiday season that we now lie within the original range. After all, we had an increase of around EUR 1 million in personnel expenses from August to December just because of the minimum wage. So it is very gratifying that we were still able to achieve good results regarding the earnings figures.

essanelle Ihr Friseur has only recorded a very slight decrease in sales. Is the concept on the way to a trend reversal?

Dieter Bonk Here our price increases have a positive effect. But we also worked very well on and in this concept, for example by launching a service campaign. It is our goal to once again generate sales increases in the medium-term with essanelle Ihr Friseur. In the past year, we have made good progress.

And how are the other concepts doing?

Dieter Bonk Super Cut has performed well in the past year. In 2013, HairExpress became the concept with the most salons for the first time. In the medium-term it will also contribute the highest share of sales. Our strategy, which we have been pursuing for years, is now showing very clearly in the sales mix of our concepts and also in the distribution of our locations: Less department stores, more shopping centres and consumer markets.

Sales in product sales have been declining for some time now. What is the reason for this?

Achim Mansen The decrease in 2013 was due to a change in our calculation of the sales revenue. We started doing this with some concepts in the last few years and completed it with Super Cut in 2013. Now all concepts are rearranged so that this trend will not continue with the current intensity. But we should also recognise that – compared to the industry – we are on an extremely high level regarding our sales share. This of course makes it more difficult to realise further increases from year to year. Especially against the background of the fact that online sales are increasing in this sector as well as in many other sectors.

Let's get to the subject of personnel. You have a campaign whereby you are searching for more and more qualified hairdressers and trainees – how did that go?

Dirk Wiethölter The campaign "I am an essanelle hairdresser" has worked fantastically regarding the large number of applications we have received. However, this campaign which took place mainly on the Internet, also led to a lot more online applications. Here, the quality is not always as high. But the choice is increasing and we continue our plan to employ approximately 500 trainees in the coming years.

What else are you doing in this area?

Dirk Wiethölter A variety of individual measures. For example, casting shows which take the form of a small event or several Facebook campaigns. We focus on media and formats used by and addressed at young people. And we are also conducting discussion on the prospect of offering some kind of dual studies at some point. In a company such as ours, career is not a foreign word, in contrast to independent hairdressers. In order to form the right employees and junior staff members into managers of the future, on the one hand we have to train intensively. And on the other hand we also have to offer something sophisticated to young, qualified people. Dual studies could involve something like that.

In this annual report you make your distribution a subject of discussion. What do sales managers and distribution directors actually do at a hairdressing chain store such as Essanelle Hair Group?

Dieter Bonk The task spectrum is very broad and also much more demanding and difficult than it was in my time as a sales manager and distribution director. Intensified competition, the constant search for qualified personnel and often difficult situations with some of our location partners demand increasingly high performances.

Personnel issues are a very important part of such tasks: Guiding salon managers through guidance talks, progress dialogues and individual coaching. In addition, there is the placement of our numerous point-of-sale promotions – the arrangements in this regard being made with both the centre managers of the location partners – and the controlling of the entire marketing and individual actions. The task spectrum is extremely broad – but also very varied.

What kind of training is necessary for this?

Dieter Bonk First, all sales directors and managers are trained hairdressers. This is very important for acceptance on location. In addition, all – a large majority of them women – are trained specifically for this position in terms of personnel management, time management, and of course, business management and marketing. Additionally, there are individually tailored measures. We need a good mix of focus on interpersonal skills in leadership – but on the other hand we also need strategic thinking employees, because observation of the market in terms of concepts and locations are also important issues. So I coordinate closely with sales staff regarding new locations. What will probably work well, what is crucial, where new opportunities will emerge? And of course, we always observe how offerings and prices are developing in terms of the competition. Especially now, while a lot is happening on the entire market regarding prices due to the minimum wage, it is particularly important to keep up to date at all times. Thus, our approximately 40 managers out there always have their hands full if they want to succeed.

Let's move away from daily business operations. Your majority shareholders now have announced that they want to merge you – how do you rate this step?

Achim Mansen Saxonia, respectively the Klier brothers, have held around 90 % of the shares for years now. We cooperate on partnership-basis and exchange information regularly. We assume that this will not change in the future. Our goal is and remains good development of our business. We did this in the past and will continue to do so in the future.

How are you going to proceed now?

Achim Mansen We will negotiate the merger agreement with the HairGroup, valuation reports will be prepared and if all goes as expected, we will vote on this agenda item at the next Annual General Meeting. This means at the end of June we will know more.

Will the name also change?

Dieter Bonk If the process goes as planned, we will be merged into the HairGroup. So there will be a new name, but first it fits as a brand, and secondly it takes into account the growing importance of concepts such as Hair Express and Super Cut. This works very well.

Let's talk about the operative development in the current year. How many salons do you want to open in 2014?

Dieter Bonk Again, at least 30 new salons. If we are able to find suitable locations it could also be more. However, the focus continues to be on our profitability – even more so regarding the development of the personnel costs. That's why on the one hand we only open locations where we are convinced and on the other hand we will continue to close salons that are not likely to be profitable in the foreseeable future. In 2014, this could be more than 20 salons, as in the previous year.

Where do you see yourself at the end of the year in terms of sales?

Achim Mansen We expect a decent increase of 3 – 5 %. Our new openings from previous years will contribute to this, as will targeted price increases in the current year. This sales growth must also be our goal if we do not want to fall back too far on the earnings side.

What is the medium- to long-term trend regarding other cost items?

Achim Mansen In line with the trend, we cannot expect that expense items will decline significantly. Regarding material costs, we already have saved a lot in the past years. Rents and energy are not going to get cheaper in the foreseeable future either, which means that we have to expect moderate increases here. Therefore, on the bottom line, we will focus heavily on the earnings situation.

What do you expect specifically regarding EBT in 2014?

Achim Mansen At EUR 5.6 million, our result in 2013 was very good considering all environmental factors. In view of the described developments in 2014, we cannot expect to repeat this. Currently we plan earnings before taxes between EUR 4.5 million and EUR 5.5 million. Thereby, we have our result from 2013 still firmly in view, but have also considered the possible effects of increasing personnel costs. It is extremely difficult to make a really reliable projection for the coming two to three years.

And the dividend?

Achim Mansen As has already become a good tradition, together with the Supervisory Board, we will once again recommend a dividend amounting to EUR 0.50 per share for the past fiscal year. Thus, we would once again let our shareholders participate in the good results of Essanelle Hair Group AG.

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Essanelle Hair Group can look back on a successful fiscal year of 2013. We were able to surpass the sales projections made at the beginning of the year and fully achieve the earnings projection. Group earnings before tax (EBT) of EUR 5.6 million and an annual surplus of EUR 3.4 million as well as an accumulated profit by Essanelle Hair Group AG of EUR 4.6 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 2013 at the Annual General Meeting.

Within the scope of our activity as Supervisory Board, we carried out in full, the duties assigned to us by law, ordinance, corporate governance principles and rules of procedure in the past fiscal year. In this regard, we advised, checked and monitored the Management Board regularly with respect to leadership of the company. The Management Board has directly involved the Supervisory Board 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 and risk management and compliance. The Management Board also consulted with us regularly with regard to the strategic orientation of the company. Deviations of business processes from the agreed plans and goals were explained to us in detail by the Management Board. 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 2013; on March 27, June 20, September 24 and November 27. More than half of the members were present at each meeting.

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 2013
- Extent of the growth strategy for 2014
- Plans for fiscal years 2014 to 2018
- Possible expansion of business activity
- Strategic orientation of brand concepts and possibilities of our own hair cosmetics brand

The chairman of the Supervisory Board kept himself informed, via the Management Board, regarding current business developments and key business events outside of the regular board meetings.

At the meetings held on February 22 and March 14, the Audit Committee primarily discussed issues involving financial reporting, risk management and compliance. In addition, the Audit Committee also analysed the annual and consolidated financial statements in detail at both meetings in preparation for the Supervisory Board's balance sheet meeting. In conclusion, the Audit Committee made recommendations to the Supervisory Board of Directors regarding approval and adoption of the results. Outside of the meetings, the Audit Committee gave attention to quarterly reports and the half-year report.

The Appointments and Compensation Committee met on March 27, June 20, September 24 and November 26 in the past fiscal year. Major topics were bonuses for the Management Board and the preparation of the contract extensions for the members of the Management Board, Dieter Bonk and Dirk Wiethölter.

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 27, 2013, the Management and Supervisory Boards jointly issued an updated compliance declaration pursuant to § 161 of the German Stock Corporation Act (AktG) and made this 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, 2013, 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 with the Audit Committee, 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, 2013, the corresponding management report for the company and the group for the fiscal year 2013 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 contained 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 reports, 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 25, 2014, the chairman of the Audit Committee reported in-depth on the consultations and results of his preliminary examinations. In addition, the auditor also 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 was prepared by the Management Board as of December 31, 2013. As such, the annual report of Essanelle Hair Group AG was thereby adopted. In addition, after our own review, we also concurred with the Management Board's proposal that the retained earnings be used for another distribution of dividends amounting to 50 cents per share.

Looking back on the successful fiscal year 2013, we thank all of the employees and the Management Board for their great personal commitment. Only through their efforts could the current good results of Essanelle Hair Group be achieved.

Düsseldorf, March 25, 2014

Fritz Kuhn
Chairman of the Supervisory Board

THE SHARE

In 2013, global stock exchanges performed distinctly positively, with the Dow Jones in the U.S. and the DAX in Germany leading the way. The Dow Jones increased from below 13,500 points at the beginning of the year to above 16,500 points at the end of the year. German stock index DAX opened at below 7,800 points and exceeded the 9,500 point mark before the end of the year.

Essanelle Hair Group's stock opened at EUR 10.03 on Xetra in the fiscal year 2013 which, incidentally, was the annual all-time low. The stock reached its annual high of EUR 12.32 on Xetra on September 12. The final closing price on December 30, 2013 was EUR 10.69. Thus, the stock of Essanelle Hair Group had an annual performance yield of 6.9 %. Additionally, there was a dividend yield for shareholders of almost 5 %. With 4,595,044 shares, the value of the enterprise at the end of the fiscal year 2013 was EUR 49.1 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 2013. Furthermore, in the year 2013, the company stock was monitored and analysed by the research team of GSC-Research at Close Brothers Seydler Bank AG and by performaxx.

At the Annual General Meeting, a decision was made to pay a dividend at previous year's level of EUR 0.50 per share for the fiscal year 2013. Neither were there any changes to the shareholder structure. As at the end of the fiscal year 2012, Saxonia Holding GmbH remained the majority shareholder with approximately 89.77 % of shares in the fiscal year 2013. The free float thereby continues to lie at 10.23 %.

HairGroup, a subsidiary of Saxonia Holding GmbH, announced at the beginning of the fiscal year 2014 that they are holding the shares of Saxonia Holding GmbH now and are planning a squeeze-out under merger law.

SHARE DATA

SHAREHOLDER STRUCTURE (AS OF 28 FEBRUARY 2014)

HairGroup AG	89.78 %
Free float	10.22 %

SHARE PERFORMANCE IN FISCAL YEAR 2014 (XETRA)

High on 12.9.2013	EUR 12.32
Low on 2.1.2013	EUR 10.03
Opening price 2.1.2013	EUR 10.03
Closing price 30.12.2013	EUR 10.69
Annual performance	6.9 %
Market cap 30.12.2013	EUR 49.1 million

CONSOLIDATED FINANCIAL STATEMENTS

under IFRS for the fiscal year 2013

COMBINED MANAGEMENT REPORT

for fiscal year 2013

THIS MANAGEMENT REPORT WAS PREPARED AS A COMBINED MANAGEMENT REPORT FOR THE GROUP AND THE AG. ANY DEVIATIONS THAT OCCUR BETWEEN THE GROUP AND THE AG ARE PRESENTED SEPARATELY.

COMBINED MANAGEMENT REPORT FOR THE GROUP UNDER IFRS AND FOR THE AG UNDER HGB FOR THE FISCAL YEAR 2013

BASIC INFORMATION ABOUT THE GROUP AND THE AG

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 company consists of the ESSANELLE HAIR GROUP AG as parent company and the CFS Coiffure Franchising System GmbH as sole not operational subsidiary as well as the "Karrierewerkstatt für Friseure" (KfF) (career workshop for hairdressers) as a subsidiary of the CFS. The KfF predominantly focuses on training and further education of hairdressers. 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 beautyhairshop. At the end of 2013, Essanelle Hair Group owned 689 salons and sales outlets (last year 684). In the fiscal year 2013, 32 new salons were opened and 27 salons were closed. The company generated sales revenues of EUR 129.7 million after last year's revenue of EUR 126.5 million. This is an increase of 2.6 %.

EMPLOYEES

As of 31 December 2013, Essanelle Hair Group employed a total of 4,100 people, compared to 4,083 in the previous year. This reflects an increase of 0.4 %. Of those employees, 3,992 work in salons and 108 employees work at headquarters and in distribution. The share of part-time employees is about 41.2 %. In addition, there were 362 trainees. The share of employees in training increased further to 8.8% – after last year's rate of 8.5 %. Due to the high number of part-time employees, the fluctuation of employees was approximately 30 % in 2013.

STRATEGY AND CONCEPTS

Essanelle Hair Group's strategy is aimed at profitable growth. With this strategy, the Group has been very successful in recent years, with continually increasing sales revenues and growing earnings, insofar as this was not influenced by special effects. In the opinion of the Management Board, the three existing brand concepts are a good foundation for sustainable expansion. The beautyhairshops round off the profile of the company optimally by opening up the possibility of forcing high-margin sales of hairdressing products beyond the salons. The company will continue to focus on its qualitative growth strategy in the future. This continues to include closing non-profitable salons 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 successively force the development of concepts outside of the department store environment. In this regard, the first matters that shall be mentioned are the HairExpress concept and the Super Cut concept, which are primarily located in consumer markets and which have grown continuously in recent years, with respect to both the number of salons and the sales revenue. In 2012, these two concepts generated more than 50 % of total sales for the first time. In 2006, it was barely above 30 %. This trend continued in 2013.

The goal for 2014 is to continue to grow moderately and profitably. To achieve this, approximately 20-30 new salons are expected to open this year. 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 target groups “young consumers” and “price-sensitive customers”. In the opinion of management and according to 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 in respect of 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 38% between 2006 and 2013; 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 is decreasing. In the context of what has been described above, the share of department store locations has decreased – from 44 % in 2006 to 25 % in 2013.

In the past, free locations have only proven successful in isolated cases. Therefore, the percentage of our salons located in those kinds of locations was only about 11 % in 2013. 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 beautyhairshops. 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 beautyhairshops, which are specialised exclusively in the sale of salon products, offer an additional successful distribution channel.

The gradual introduction of the agreed minimum wage for the hairdressing industry since August 1, 2013, presents another strategic challenge for the company. By 2015, the minimum wage for the hairdressing industry in Germany will be EUR 8.50 nationwide, which is also the level of the proposed statutory minimum wage. Even though Essanelle Hair Group had already reached or exceeded the desired amount in the vast majority of all employee agreements, the agreed minimum wage still made itself felt in the increased personnel costs. Therefore, the Management Board decided, in the past fiscal year, to pass on the wage increases – in the West to at least EUR 7.50 and in the East to EUR 6.50 – almost entirely via price increases to customers. With the accompanying campaign "Fair wages – Fair prices", they openly informed customers about the impact of socially desirable wages. The aim was to compensate for the increase in personnel costs completely via increased turnover of at least 5 %. For 2014, the Group also plans to pass on the next phase of the increase correspondingly, so as to guarantee the viability of some of the salons.

ECONOMIC REPORT

CONTROLLING SYSTEM

The Management Board monitors the development of all areas of the company and salons with a comprehensive control system. This enables up-to-date analyses, current statements of objectives and the implementation of necessary measures on all levels of responsibility. In this way, undesirable developments can be counteracted head-on. Beyond the quarter reports, comparisons of budgeted to actual performance and analyses are prepared weekly and monthly and forwarded to the Management Board. Primarily, the Management Board uses sales and EBT as the financial key performance indicator. The number of salons serves as the primary non-financial key performance indicator.

OBJECTIVES OF THE PREVIOUS FISCAL YEAR

For the fiscal year 2013, Essanelle Hair Group projected the opening of 20 – 30 new salons, a sales revenue increase of 1 – 2 % and earnings before tax ranging between EUR 5.5 million and EUR 6.0 million. After the third quarter, the Management Board increased the projection range for the EBT to EUR 5.0 – 6.0 million, in order to cope with the impact of the agreed minimum wage, which is difficult to predict, and price increases in the fourth quarter and especially in the Christmas season. The objective of the AG corresponded to the objective of the Group regarding the trend.

BUSINESS PERFORMANCE IN THE PAST FISCAL YEAR

In the fiscal year 2013, the Essanelle Hair Group AG was able to fully meet and partly even exceed its projections regarding the opening of salons, the development of sales and earnings before taxes. Specifically, 32 salons were opened in the past fiscal year. Sales increased by 2.6 % to EUR 129.7 million and earnings before tax amounted to EUR 5.6 million. The main factors of influence in the past year were the opening of new salons, the introduction of an agreed minimum wage for the hairdressing industry for workers and consequent price increases in some of the salons. This had a significant impact on the sales and earnings performance, which are explained in detail in the business performance of 2013. In the AG, the sales trend is similar to the Group; the EBT reached EUR 4.5 million.

The overall business performance of Essanelle Hair Group in the fiscal year 2013 was satisfactory – despite the difficult environmental factors such as the introduction of an agreed minimum wage for the hairdressing industry and the continued weak department store environment.

MACROECONOMIC DEVELOPMENT

Macroeconomic developments which may have an impact on the purchasing behaviour of consumers – especially in the retail sector – are of primary significance for the Essanelle Hair Group AG. In addition, specific customer and competition indicators of the hairdressing industry are also relevant.

The German economy grew only moderately in 2013. After an increase in Gross Domestic Product by 0.7 % in 2012 and even higher, by 3.3 % still in 2011, the increase in the past year was only 0.4 %, according to preliminary calculations by the Federal Statistical Office. According to the Federal Statistical Office this is due, among other things, to the real and financial economic problems in the Euro zone. A stable domestic economy with a real-term increase in private consumer spending by 0.9 % was only partially able to compensate for this. The continued good consumer demand over the full year was due in part to the increase in the employment rate, which rose to 41.8 million employees, setting a new record for the seventh year in a row.

This slightly positive trend in consumer demand was also reflected in the retail sector. According to the Federal Statistical Office, retail sales increased by a nominal 1.4 % in 2013. In real terms, sales were 0.1 % above last year's level. This growth however resulted exclusively from an increase in sales of food, beverages and tobacco products. In contrast, the number of non-foods relevant for Essanelle Hair Group decreased both nominally (-0.1 %) and in real terms (-0.5 %). "Other retail sales of goods of various kinds", a category in which the Federal Statistical Office includes warehouses and department stores, where a percentage of the company's salons are located, again continued to experience weaker development than was the case for overall retail sales – as it did in the previous year. According to the survey, sales decreased nominally by 0.9 %, actually declining by 1.8% in real terms.

According to provisional data of the Federal Statistical Office, consumer prices for services in Germany on an annual average ranged by 1.4 % above last year's figure.

SECTOR DEVELOPMENT

The current market volume of the hairdressing industry in Germany was estimated at EUR 5.8 billion for 2011 by the "Zentralverband des deutschen Friseurhandwerks" (ZV) (Central Association of the German Hairdressing Craft) with an increasing trend compared to previous years (2010: EUR 5.7 billion). In the estimation of the Management Board, both the increase in the hairdressing chain store market share and the growth in small and micro operations (revenues of less than EUR 17,500) that typically are operated by a single hairdresser will continue. Overall, the number of providers continues to rise significantly, thereby leading to intensified competition, particularly in terms of pricing. This is confirmed by statistical data. According to provisional data of the „Zentralverband des deutschen Friseurhandwerks" (ZV) (Central Association of the German Hairdressing Craft), approximately 83,000 hairdressing businesses and chain stores were licensed in Germany as craft enterprises in 2012. This is about 10,000 more than in 2008. The growth of micro operations with annual revenues of less than EUR 17,500 is continuing and amounts to over 20,000 according to the ZV. At the same time, the number of trained hairdressers decreased by 3.1 % in 2012. The number of trainees also decreased by 9.3 %, sector-wide, in 2012. However, at 4.3 %, the number of new contracts indicates a weakening of this decline, although a reversal of this trend is not yet apparent. Overall, competition for qualified personnel continues to intensify due to this situation.

According to a study by the GfK consumer research association, based on data from 2012, both the visiting frequency of customers and the number of citizens calling on professional hairdressing services are increasing. From 2009 to 2012, the customer coverage among women rose from 66.4 % to 71.2 % and among men from 62.7 % to 67.7 %. According to data from the survey, women visited the hairdresser approximately 5.8 times in 2012 (2009: 5.5) and men 7.1 times (2009: 6.5) per year. Regarding services, women mainly wanted blow-dry hairstyles (58.9 %) and colouring (41.6 %) in addition to the haircut (70.5 % of all female visitors). In the case of men, haircuts traditionally dominated, while all other services were only of secondary importance.

BUSINESS PERFORMANCE OF ESSANELLE HAIR GROUP IN 2013

With 32 new salons opening, Essanelle Hair Group has been able to almost completely implement their growth plans. Due to 27 closings, the portfolio now includes 689 salons and beautyhairshops. With a net growth of 14 shops, the HairExpress concept showed the largest increase in the number of salons.

In the fiscal year 2013, the sales performance was satisfactory, due to both salon performance and price increases. With an increase of 2.6 %, Essanelle Hair Group performed above the expected range of 1 – 2 %. The increasing earnings of the Super Cut and HairExpress concepts in particular, were responsible for the positive sales performance. But the concept essanelle Ihr Friseur was also able to keep its sales practically constant at EUR 54.3 million after EUR 54.7 million in the previous year, whereas in previous years, some rather significant declines were recorded.

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 usual. Sales revenue from services was at EUR 111.8 million in 2013 and was thus slightly above the previous year's level of EUR 108.0 million by 3.5 %. The sales revenue share was 86.2 % (previous year 85.4 %). Sales revenue from salon products alone decreased from EUR 18.5 million to EUR 17.9 million compared to the previous year, achieving a sales revenue share of 13.8% (previous year 14.6 %). Here again, price increases for services shall be considered as a driving force behind this development.

Regarding earnings performance indicators, in the past fiscal year the Group achieved an EBITDA (Earnings before interest, taxes, depreciation and amortisation) of EUR 10.7 million thereby ranging barely under previous year's level. The pre-tax earnings of the Group under IFRS amounted to EUR 5.6 million after EUR 6.0 million in the previous year. With this, the Essanelle Hair Group was able to reach the expectations for earnings before taxes within the last estimated range of between EUR 5.0 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 2013, this salon concept generated sales of EUR 54.3 million after EUR 54.7 million the previous year. This is a decrease of 0.8%. The number of salons decreased simultaneously from 276 to 263 salons. Against this background, the sales performance can be assessed positively.

For years now, HairExpress has been by far the fastest growing concept of Essanelle Hair Group. It targets price-sensitive customers who demand a simple, but nevertheless professional, basic service. Now, HairExpress has, for the first time, become the most numerous concept of the company with a growth from 261 to 275 salons. In the fiscal year 2013, Hair Express was once again able to increase sales – by 6.4 % to EUR 44.2 million (previous year EUR 41.5 million).

The Super Cut concept concentrates on a young, trend-oriented target group and appeals to its customers with an uncomplicated approach and contemporary music. In 2013, the number of salons increased by three salons: i.e. the total number increased from 110 to 113. This resulted in an increase of sales revenue by 3.3 % to EUR 23.6 million (previous year EUR 22.9 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 beautyhairshop in close proximity to its own salons. Here, products, which are primarily 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 2013, the 38 shops (previous year 37) achieved sales revenues amounting to EUR 7.6 million, which corresponds to an increase of 3.6 % after last year's value of EUR 7.3 million.

SALES OF SALON CONCEPTS

(Change on previous year in € mio.)

NUMBER OF SALONS BY CONCEPTS

(Change on previous year)

INCOME AND EXPENDITURE (GROUP, IFRS)

The sales revenues of Essanelle Hair Group in the past fiscal year increased by 2.6 % from EUR 126.5 million to EUR 129.7 million. Both the new openings in 2012 and 2013 and the price increases in the second half of 2013 had a positive impact. This resulted in an increase in the service revenue of the company. Other operating earnings decreased from EUR 1.9 million to EUR 1.4 million. The cost of materials decreased by 1.6 % to EUR 9.9 million after EUR 10.0 million the previous year. This resulted in a decrease in the materials cost ratio relative to sales, from 7.9 % to 7.6 %, due to the fact that the sales increase is mainly due to services. Personnel expenses on the other hand increased significantly by 3.7 % in the fiscal year 2013, mainly due to the introduction of an agreed minimum wage for the hairdressing industry as of 1 August 2013. Thus, personnel expenses amounted to EUR 73.7 million in the past fiscal year after EUR 71.7 million the previous year. As a result, the personnel expense ratio increased from 56.2 % to 56.8% in the past fiscal year, despite increased sales. Expenses for rents and related costs increased by 1.6 % from EUR 25.4 million after EUR 25.0 million. Other operating expenses, which consisted mainly of energy, marketing and distribution expenses, recorded a slight increase to EUR 11.4 million after EUR 11.3 million in the previous year.

Overall, Essanelle Hair Group was able to significantly limit the liabilities resulting from the minimum wage for the hairdressing industry and its impact on the earnings situation in the fiscal year 2013. Therefore, earnings before interest, taxes, depreciation and amortisation (EBITDA) under IFRS amounted to EUR 10.7 million after EUR 10.8 million in the previous year (-0.9 %). At EUR 5.0 million, the deductions of the Group in 2013 ranged above the previous year's figure of EUR 4.6 million, due to the increased impairment losses in accordance with IAS 36. The earnings before interest and taxes (EBIT) thus decreased by 7.6 % from EUR 6.3 million to EUR 5.8 million in the fiscal year 2013. The financial results also decreased slightly to EUR -0.2 million after EUR -0.3 million in the previous year. As a result, Essanelle Hair Group generated a pre-tax result of EUR 5.6 million in the fiscal year 2013 after EUR 6.0 million in the previous year (-7.1 %). The tax expenses increased from EUR 2.1 million in 2012 to EUR 2.2 million in the past fiscal year. Thus, the annual profit of the Group amounts to EUR 3.4 million after EUR 3.9 million in 2012 (-13.7 %). Earnings per share of Essanelle Hair Group AG, with an unchanged number of shares, finally decreased to EUR 0.75 after EUR 0.87 in 2012.

NET ASSETS AND FINANCIAL SITUATION (GROUP, IFRS)

Non-current assets on the asset side of the balance sheet decreased from EUR 40.3 million to EUR 39.4 million as of 31 December 2013. This was due, in particular, to a reduction of property, plant and equipment from EUR 20.5 million to EUR 19.5 million. In current assets, inventories increased from EUR 6.4 million to EUR 7.6 million due to special promotions at the beginning of the year, and cash and cash equivalents increased significantly from EUR 7.9 million in the previous year to EUR 9.8 million on the balance sheet closing date 2013. This resulted in an increase of current assets from EUR 15.1 million to EUR 18.1 million. As of 31 December 2013, the balance of the group had increased overall from EUR 55.5 million to EUR 57.5 million.

On the liabilities side of the balance sheet, equity increased from EUR 35.6 million to EUR 36.8 million as of balance sheet closing date. Reasons for this include higher retained earnings of EUR 16.5 million from the increased annual profit, after EUR 15.3 million in the previous year. Thus, the balance sheet as of 31 December 2013 showed a further increasing equity ratio of 63.9 % after 64.1 % at the end of the fiscal year 2012. In long-term debt, financial liabilities decreased from EUR 1.9 million to EUR 1.0 million. Deferred tax liabilities on the other hand increased slightly from EUR 5.6 million to EUR 5.9 million. Overall, this resulted in a decrease of long term debt from EUR 10.5 million to EUR 9.8 million as of 31 December 2013. In contrast, current liabilities increased from EUR 9.4 million to EUR 10.9 million. Primarily, this can be traced back to an increase in trade payables from EUR 2.4 million to EUR 3.2 million corresponding to the increase of inventories and other provisions from EUR 3.6 million to EUR 3.9 million as of 31 December 2013. Overall, this resulted in an increase in the total debt of the company from EUR 19.9 million to EUR 20.7 million as of 31 December 2013.

Just as in the previous years, the consolidated cash flow statement for Essanelle Hair Group shows the strength of the company's liquidity. Cash flow from on-going business activities amounted to EUR 11.2 million after EUR 11.7 million in the previous year. With a slightly decreased outflow of paid income taxes of EUR 1.8 million after EUR 2.0 million in the fiscal year 2012, this resulted in a net cash inflow from on-going business activities in the amount of EUR 9.2 million in 2013 after EUR 9.5 million in the previous year. At EUR 4.0 million, the net cash outflow from investment activities in 2013 remained on the previous year's level, proving the continuing active expansion activities of the company with investments in the opening of new salons.

The cash flow from financing activities shows the traditional outflow from the payment of dividends amounting to EUR 2.3 million. Repayment of financial liabilities continued in 2013 but ranged significantly below the previous year's level, with an outflow of EUR 1.0 million after EUR 2.5 million in 2012. This resulted in a net cash outflow from financing activities amounting to EUR 3.3 million after EUR 4.7 million in the previous year. Overall, the inventory of cash and cash equivalents increased by EUR 1.9 million from EUR 7.9 million to EUR 9.8 million at the end of the fiscal year 2013.

EXPENSES AND INCOME (AG, HGB)

At EUR 129.7 million, the sales revenue of Essanelle Hair Group AG in the fiscal year 2013 were 2.5 % above the previous year's figure of EUR 126.5 million. Both the new openings in 2012 and 2013 and the price increases from the second half of 2013 had a positive impact. As a result, the service revenue of the company increased. Other operating earnings decreased from EUR 2.2 million to EUR 1.4 million, mainly due to the decrease of other marketing earnings and prior-period income. The cost of materials decreased from EUR 10.0 million to EUR 9.8 million, resulting in a decrease in materials cost ratio relative to sales from 7.9 % in the previous year to 7.6 %, due to the fact that the sales increase is mainly due to services. Personnel expenses increased significantly from EUR 71.2 million to EUR 73.8 million in the fiscal year 2013. Reasons for this are mainly the introduction of an agreed minimum wage for the hairdressing industry as of 1 August 2013 and additional personnel expenses from new openings. With this, the personnel expense ratio relative to sales increased from 56.3 % in the past fiscal year to 56.9 % at present. Other operating expenses, which mainly include rents for salon locations and marketing expenses, increased from EUR 36.4 million to EUR 36.9 million in 2013.

Overall, this results in earnings before interest, taxes, depreciation and amortisation (EBITDA) under HGB of EUR 10.6 million in contrast to EUR 11.0 million in the previous year (-3.6 %). The deductions of the Group in 2013, which included both investment assets and regular company value deductions, ranged at EUR 5.9 million after EUR 6.2 million in the previous year. After subtracting interest, the result of common business activities ranged at EUR 4.5 million in the fiscal year 2013 after EUR 4.6 million in 2012. The tax expenses increased from EUR 1.6 million to EUR 1.9 million in the year under report. Overall, annual profit under HGB therefore decreased to EUR 2.6 million compared to the previous year's figure of EUR 2.9 million. At an accumulated profit of EUR 2.0 million (previous year EUR 1.3 million), this results in an increase of balance sheet profit from EUR 4.2 million to EUR 4.6 million in the fiscal year 2013.

NET ASSETS 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 1.7 million to EUR 0.3 million as of 31 December 2013. Because of this, investment assets also decreased from EUR 20.7 million to EUR 18.8 million. In contrast, current assets increased from EUR 16.9 million to EUR 20.2 million as of the balance sheet closing date of the year under report, which is mainly due to an increase of inventories because of special promotions, of about EUR 1.2 million at the beginning of the year. Furthermore, cash on hand in particular increased from EUR 7.9 million to EUR 9.8 million. Thus, total assets of the AG increased from EUR 37.7 million to EUR 39.1 million as of 31 December 2013.

On the liabilities side of the balance sheet, the equity ratio decreased from 59.8 % as of 31 December 2012 to 58.7 % at present. Here, equity increased from EUR 22.6 million to EUR 22.9 million because accumulated profits increased from EUR 4.2 million to EUR 4.6 million. Provisions increased from EUR 5.4 million to EUR 5.8 million. Overall, liabilities increased from EUR 9.8 million to EUR 10.3 million on closing date comparison. Here, trade payables increased to EUR 5.5 million (31 December 2012: EUR 4.5 million). In contrast, liabilities to banks decreased as planned to EUR 0.6 million (31 December 2012: EUR 0.9 million) and other liabilities decreased to EUR 4.2 million from EUR 4.3 million.

With cash earnings amounting to EUR 8.5 million after EUR 9.3 million in the previous year, the cash flow calculation of Essanelle Hair Group in fiscal year 2013 proves the continuing strong operative situation of the company. The cash flow from current business activities amounts to EUR 9.1 million after EUR 9.5 million in the previous year. At EUR -4.0 million, the negative cash flow from investment activities in 2013 practically remained on the previous year's level of EUR -4.1 million. This was due to continued high investments in new salons. Cash flow from financing activity was marked by the outflow of dividend payments at the previous year's level of EUR 2.3 million as well as a slight reduction of financial liabilities by EUR 0.9 million overall (previous year reduction amounting to EUR 2.4 million). This resulted in a cash flow from financing activities in the amount of EUR -3.2 million after EUR -4.6 million in the previous year. Overall, the cash inventory increased by EUR 1.9 million in 2013, from EUR 7.9 million to EUR 9.8 million. In addition, Essanelle Hair Group currently has promised but not yet used credit lines amounting to about EUR 4.0 million at its disposal. The exceptionally stable cash flow serves as the foundation of the well-functioning financial management and furthermore offers the opportunity for continued payment of dividends.

THE SHARE

In the fiscal year 2013, Essanelle Hair Group's stock opened on the Xetra at a price of EUR 10.03. The stock reached its annual high of EUR 12.32 on the Xetra on September 12. The all-time low of EUR 10.03 was reached on January 2. The closing price on December 30, 2013 was EUR 10.69. Thus, the stock of Essanelle Hair Group had an annual performance of about 6.9 %. Added to this is a dividend profit for shareholders of about 5 %. At 4,595,044 million shares, the value of the enterprise at the end of the fiscal year 2013 was EUR 49.1 million.

At the Annual General Meeting, it was decided to pay a dividend of EUR 0.50 per share for the fiscal year 2013, as in the previous year. There were no changes regarding the shareholder structure. In the fiscal year 2013, as at the end of the fiscal year 2012, Saxonia Holding GmbH remained the majority shareholder with approximately 89.77 % of shares. Therefore, the free float remains at 10.23 %.

COMPENSATION REPORT

The overall compensation of the Management Board in 2013 was structured as follows (EUR k):

	Mansen	Bonk	Wiethölter	Gesamt
Basic salary (non-performance related)	259	177	172	608
Performance-related bonus	208	103	103	414
Non-cash benefit from use of company car	20	13	15	48
Total	**487**	**293**	**290**	**1,070**

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 428k in the Group under IFRS and EUR 289k 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 three times as much; the vice-chairman receives twice the compensation amount. Each ordinary member of a committee formed by the Supervisory Board receives an additional EUR 1,000 and each chairman of such a committee receives an additional EUR 1,500 for every meeting day of said committee, plus turnover taxes in each case where applicable. This additional compensation is paid for meetings for which attendance is mandatory, regardless of the session duration of each committee, but not for telephone and video conferences or similar gatherings without simultaneous presence in a common place. In the fiscal year 2013, compensation in the amount of EUR 177k (EUR 158k 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.

As of 31 December 2013, Saxonia Holding GmbH held 89.77 % of the circulating 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 the 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 taken 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 2013, no shares were repurchased. There is no authorised capital.

Should there be a change of control, as a consequence of a takeover bid (Change of Control), agreements have been made 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 with regard to relationships with affiliated companies on 14 March 2014. 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 regarding 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

With notification of 10 February 2014, the HairGroup AG, a subsidiary of Saxonia Holding GmbH, announced that it holds a total of 91.2 % of the share capital and shares of Essanelle Hair Group AG, taking into account treasury shares of Essanelle Hair Group. In addition, the company announced the intention to begin negotiations with the Management Board regarding the conclusion of a merger agreement. The declaration that the remaining shareholders of ESSANELLE HAIR GROUP AG are excluded with regard to the merger, according to Section 62 (5), Sentence 1 of the Transformation Act in conjunction with Section 327 et seq (so-called merger legal squeeze out) is to be included in the merger agreement.

Accordingly, the HairGroup AG filed a request to the Management Board to decide at the next Annual General Meeting of ESSANELLE HAIR GROUP AG about the transfer of shares of all other shareholders (minority shareholders) to the HairGroup AG for granted payment of adequate cash compensation.

According to an ad-hoc notification from 10 February, the Management Board intends to meet this request and enter negotiations regarding the conclusion of a corresponding merger contract with the HairGroup AG. In addition, the request shall be adapted to put the resolution regarding the transfer of the shares from all minority shareholders to the HairGroup AG as main shareholder onto the agenda for the Annual General Meeting scheduled for 27 June 2014. Impacts resulting from this, with regard to the earnings and the asset and financial situation, are unforeseeable at present.

There were no further events that materially influenced the revenues, earnings, assets and financial situation of Essanelle Hair Group after the closing date on 31 December 2013.

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 passed on.

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. They, in turn, report these risks to the Management Board after an independent review.

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.

The following business risks are categorised as follows: Small risks consist of risks below EUR 0.1 million, medium risks range between EUR 0.1 million and EUR 0.5 million, serious risks amount to more than EUR 0.5 million. These are weighted values of the probability of occurrence. The risks relate primarily to the impact on earnings before tax.

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 recipients of the report. 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 in such a way 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 place 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 etc. 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.

The Management Board of Essanelle Hair Group AG has overall responsibility for the internal control and risk management system with regard to the accounting process. The principles, procedures, the organisation of structure and process and also the processes of the accounting-related internal control and risk management system are set out in organisational procedures, which are periodically adjusted according to current external and internal developments.

Given the size and complexity of the financial reporting process, Management has determined the scope and structure of the control activities and implemented them in this process. Controls independent of these processes have also been set up. The control activities address those controlling risks that may affect the accounting and the overall presentation of the consolidated financial statements and group management report significantly in terms of their probability of occurrence and their impact. The key principles, procedures and measures and the control activities include:

– Identification of essential controlling risks relevant for the accounting process.
– Process-independent controls for monitoring of the accounting process.
– Controlling activities in accounting and controlling of Essanelle Hair Group AG, which provide essential information for the preparation of the Annual report, including the Management report.
– Measures which assure the proper EDP-supported processing of accounting-related information.

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 could 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 requirements 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 level of customer traffic there. This was confirmed by the weaker performance of salons in so-called free locations, the percentage of which has once again been reduced. 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 benefits from the generally very good development in consumer markets, but it 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. Because of the current situation in department and warehouse stores, neither will new salons be opened in these locations at present.

The price increases that are currently being implemented to offset the increases in personnel expenses due to the introduction of the agreed minimum wage for the hairdressing industry also carry the risk of a drop in consumer confidence. To prevent this, the company communicates the direct link to the wage increases extensively. Nevertheless, in this context, the decreasing profitability of individual salons or even increased closings of salons that are running at a loss are not ruled out. This is also dependent on whether the wage increases to the agreed minimum wage for the hairdressing industry will be carried out by the entire industry. It is possible that individual hairdressers will continue to work for remuneration below the minimum wage for the hairdressing industry and to offer their services accordingly. This is especially true when the next stages of the implementation of the agreed minimum wage for the hairdressing industry come into effect, accompanied by price increases in 2014 and 2015. At the same time, our own price increases also offer a medium to long-term opportunity to realise additional revenue beyond increasing personnel costs.

These market risks are mainly considered to be smaller risks.

RENTAL

Essanelle Hair Group has long-term leases with a variety of partners in different types of locations. In this regard, there is a general risk that individual contractual partners will close an affiliate and that the Group will be forced to give up a location. In the 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 lease periods also protect the Group from the risk of losing especially good locations that are in demand. The largely long-term, good relationships with the leasing partners offer additional security and support the continuous development of the Group's own network of salons, thus offering the opportunity to steadily expand our own market share. In principle, it is a significant goal for the Group to optimise its own mix of lessors on a regular basis. Overall, there are equal shares of small and medium risks in this respect.

SUPPLIERS

Cooperation agreements for hairdressing and hairstyling products exist with two important suppliers. Currently there is no risk involved here.

PERSONNEL

Providing hairdressing services is an extremely labour-intensive business. The relationship between customer and employee thus decides, to a significant extent, the level of customer satisfaction and ultimately, whether or not the company is successful. 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. The introduction of an agreed minimum wage for the hairdressing industry, which affects employees who, until now, have yet not reached the agreed level, has an impact regarding the wage gap in respect of employees who are already earning more than the minimum wage for the hairdressing industry. In principle, the decrease of the wage gap involves an additional personnel risk. To counter this, corresponding adjustments are conducted where possible in such cases. The introduction of the agreed minimum wage for the hairdressing industry involves both small and high risks in the area of personnel.

The company's strong focus on the important issue of personnel and employees and the non-existent advancement opportunities at smaller hairdressers give us the opportunity to gradually gain the best hairdressers in the market for the company.

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.

IT RISKS

Through further expansion of the information technology (IT) and extensive networking with the help of the Internet, risks such as the failure of hardware or unauthorised access to data and information of the company increase. In order to prevent potential danger, Essanelle Hair Group has established advanced security solutions in collaboration with specialised service companies that protect data and IT infrastructure. These are exclusively small risks.

OVERALL RISK

In close coordination with the Supervisory Board, the Management Board of Essanelle Hair Group AG regularly assesses the risk situation with the objective of recognising and evaluating all described risks and counteracting them accordingly. Currently, special focus is set on the introduction of the agreed minimum wage for the hairdressing industry and corresponding price increases.

In our opinion, the risks described above represent no danger to the existence of the company, either individually or in their entirety, in view of their probability of occurrence and their impact. Regarding our structured processes for early risk detection, we are confident that we are able to meet the above-mentioned risks.

Beyond the risks described, the company currently sees no particular risks for future development.

PROJECTION REPORT

In macro-economical terms, the Sachverständigenrat (Advisory Council for Economics) expects stronger growth in 2014 than was the case in 2013 and estimates an increase of the Gross Domestic Product by 1.6 % in its annual expert report. At 0.8 %, the Sachverständigenrat expects personal consumption expenses to grow close to the previous year's level. This is expected to be supported by an increase of the working population and employees paying mandatory social security contributions in the current year 2014. The HDE trade group expects nominally increasing sales by 1.5 % in retail in 2014. In the estimation of HDE, this will mainly be carried by the purchase of food and online sales – and thus cannot be transferred to services as offered by Essanelle Hair Group AG. Nevertheless, an overall friendly inclination with regard to consumption offers a positive environment for hairdressing services.

With regard to the nominal retail sales that are only showing moderate growth 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. The company will continue its growth strategy to stabilise and improve the sales performance and is planning to open about 30 new salons in the current fiscal year. With respect to sales, Essanelle Hair Group has therefore set the target objective of increasing sales further with the new openings from 2013 and the current year. In addition, we plan to accompany the second stage of the introduction of the agreed minimum wage for the hairdressing industry with price increases as of 1 August 2014, as was done previously. This could burden the sales and earnings performance in the current fiscal year but could also lead to significant sales growth. The experience from fiscal year 2013, where increasing personnel expenses were largely compensated for, makes us feel positive about this. However, distinct conclusions for 2014 cannot be drawn from this, particularly due to the fact that a repetition effect could be subject to other laws. Therefore, the estimations for 2014 and 2015 are burdened with certain specific uncertainties. The Management Board expects a growth of 3 – 5 % in their projection for 2014.

Strategically, the Essanelle Hair Group focuses, on the one hand, 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 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 beautyhairshops in close proximity to the salons will round off the strategic profile. This market strategy will be accompanied by a personnel strategy betting on optimally qualified hairdressers. For this, the training ratio has been increased for years, while the number of trainees in the sector continues to decline. Targeted qualification of employees is also in focus, which corresponds to the demands of a chain store. This strategic orientation will continue in the future.

With its clearly focused strategy and unique features compared to the competition, Essanelle Hair Group AG views great opportunities for profitable growth in the long-term and better performance than the market.

On the earnings side, Essanelle Hair Group AG was able to achieve the Group-projection for the pre-tax result of EUR 5.0 – 6-0 million in the past fiscal year 2013 within the range, despite the significant burden due to the minimum wage for the hairdressing industry and generated consolidated earnings before taxes of EUR 5.6 million. For the current fiscal year 2014, which is once again burdened by projection uncertainties on the earnings side, the Management Board plans a pre-tax result in the range between EUR 4.5 – 5.5 million for the group. We hereby expect that sales growth will not be able to fully compensate for the increasing personnel expenses. Furthermore, the Management Board expects 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.

The future business performance of the AG is essentially subject to the same influences as the Group. In contrast to the Group, the pre-tax result is expected to be slightly above previous year's level because the company value was almost completely depreciated in the AG balance sheet. Correspondingly, higher income taxes are also to be expected.

Düsseldorf, 14 March 2014
The 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 2013

ASSETS

€	Anhang	31.12.2013	31.12.2012*	01.01.2012*
ASSETS				
Long-term assets				
Property. plant and equipment	6	19,548,210.92	20,478,669.22	21,040,494.84
Goodwill	7	19,558,872.10	19,558,872.10	19,558,872.10
Other intangible assets	7	65,520.09	100,002.58	145,041.91
Interests	8	4,579.67	0.00	0.00
Other loans	9	194,007.15	208,184.80	235,667.64
		39,371,189.93	**40,345,728.70**	**40,980,076.49**
Short-term assets				
Other loans	9	29,380.56	31,649.20	26,479.28
Inventories	10	7,619,697.88	6,405,348.01	6,166,789.82
Accounts receivable	11	155,908.67	159,057.35	123,855.30
Other assets	12	495,069.18	603,065.09	505,335.40
Cash and cash equivalents	13	9,800,392.78	7,932,835.28	7,136,649.25
		18,100,449.07	**15,131,954.93**	**13,959,109.05**
Total assets		**57,471,639.00**	**55,477,683.63**	**54,939,185.54**

*adjusted

SHAREHOLDERS’ EQUITY AND LIABILITIES

€	Notes	31.12.2013	31.12.2012*	01.01.2012*
SHAREHOLDERS’ EQUITY				
Capital and reserves allocable to the shareholders in the parent company				
Share capital	14	4,522,841.00	4,522,841.00	4,522,841.00
Capital reserve	15	15,717,699.17	15,717,699.17	15,717,699.17
Revenue reserves	16	16,537,101.41	15,325,119.42	13,903,339.21
		36,777,641.58	**35,565,659.59**	**34,143,879.38**
DEBT				
Long-term debt				
Financial debt	17	1,043,206.51	1,946,106.57	3,444,089.72
Deferred tax liabilities	18	5,933,830.70	5,577,123.64	5,239,248.62
Pension provisions	19	1,250,774.00	1,424,835.00	957,517.00
Other provisions	20	1,589,064.83	1,567,199.41	1,472,378.43
		9,816,876.04	**10,515,264.62**	**11,113,233.77**
Short-term debt				
Financial debt	17	984,557.24	994,655.33	1,854,916.11
Accounts payable	21	3,166,042.66	2,425,590.99	1,433,468.00
Current income tax liabilities	22	31,698.04	0.00	340,836.96
Other liabilities	23	2,775,243.51	2,419,604.59	2,835,310.83
Other provisions	24	3,919,579.93	3,556,908.51	3,217,540.49
		10,877,121.38	**9,396,759.42**	**9,682,072.39**
Total debt		**20,693,997.42**	**19,912,024.04**	**20,795,306.16**
Total shareholders’ equity and liabilities		**57,471,639.00**	**55,477,683.63**	**54,939,185.54**

*adjusted

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2013 to 31 December 2013

€	Notes	01.01.2013 – 31.12.2013	01.01.2012 – 31.12.2012*
Sales	25	129,712,093.81	126,464,702.36
Other operating income	26	1,398,194.20	1,866,364.56
Cost of materials	27	-9,882,776.58	-10,044,805.93
Personnel expenses	28	-73,740,788.38	-71,133,462.26
Depreciation and amortisation	29	-4,954,749.39	-4,588,656.49
Rental and ancillary rental expenses	30	-25,379,626.45	-24,991,807.15
Other operating expenses	31	-11,368,532.18	-11,310,929.49
Operating earnings		**5,783,815.03**	**6,261,405.60**
Financial income	32	27,749.90	101,558.06
Financial expenses	33	-248,383.36	-373,901.41
Financial result		**-220,633.46**	**-272,343.35**
Earnings before taxes		**5,563,181.57**	**5,989,062.25**
Tax expenses	35	-2,172,482.39	-2,060,562.41
Consolidated earnings		**3,390,699.18**	**3,928,499.84**
Other gains or losses			
Items that are not subsequently reclassified to profit or loss			
Revaluation of liabilities from employee benefits after termination of employment		**82,703.31**	**-245,299.13**
Consolidated net income		**3,473,402.49**	**3,683,200.71**

*adjusted

	Notes		
Earnings per share	36		
basic		0.75	0.87
diluted		0.75	0.87

CONSOLIDATED CASHFLOW STATEMENT (IFRS)

for the period from 1 January 2013 to 31 December 2013

€k	Notes	2013	2012
1. CASHFLOW FROM OPERATING ACTIVITIES	38		
Cash generated by ongoing business activities		11,156	11,688
Interest paid		-200	-247
Taxes on income paid		-1,784	-1,955
Net inflow of funds from operating activities		**9,172**	**9,486**
2. CASHFLOW FROM INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	6	-3,997	-3,959
Proceeds from sale of property, plant and equipment	38	22	9
Acquisition of intangible assets	7	-34	-42
Loans paid out	9	-14	-4
Loans repaid	9	31	26
Payments for acquisitions of stakes in companies and other business units		-11	0
Interest received	32	7	8
Nettomittelabfluss aus der Investitionstätigkeit		**-3,997**	**-3,962**
3. CASHFLOW FROM FINANCING ACTIVITIES			
Dividend payout	16	-2,261	-2,261
Repayment of financial debt	17	-1,046	-2,466
Net outflow of funds for financing acivities		**-3,308**	**-4,727**
Net decrease/increase in cash and cash equivalents		1,868	796
Cash and cash equivalents at beginning of year	12	7,933	7,137
Cash and cash equivalents at 31 December		**9,800**	**7,933**

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 31 December 2013

€	Notes	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 1 Jan. 2012 (as reported)		**4,522,841.00**	**15,717,699.17**	**13,950,186.70**	**34,190,726.87**
Impact of the adjustment of reporting and valuation methods				-46,847.49	-46,847.49
Balance at 1 Jan. 2012 (adjusted)		**4,522,841.00**	**15,717,699.17**	**13,903,339.21**	**34,143,879.38**
Other result				-245,299.13	-245,299.13
Dividend payout	16			-2,261,420.50	-2,261,420.50
Consolidated earnings	16			3,928,499.84	3,928,499.84
Consolidated net income				1,667,079.34	1,667,079.34
Balance at 31 Dec. 2012 (adjusted)		**4,522,841.00**	**15,717,699.17**	**15,325,119.42**	**35,565,659.59**
Balance at 1 Jan. 2013		**4,522,841.00**	**15,717,699.17**	**15,325,119.42**	**35,565,659.59**
Dividend payout	16			-2,261,420.50	-2,261,420.50
Consolidated earnings	16			3,390,699.18	3,390,699.18
Other result	16			82,703.31	82,703.31
Consolidated net income				3,473,402.49	3,473,402.49
Balance at 31 Dec. 2013		**4,522,841.00**	**15,717,699.17**	**16,537,101.41**	**36,777,641.58**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IFRS) as of 31 December 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IFRS) as of 31 December 2013

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 the KARRIEREWERKSTATT FÜR FRISEURE GmbH (in short: KfF GmbH, formerly 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 a franchiser for proprietor-managed hairdressing salons.

The total salon network is comprised of 689 hairdressing salons and shops, compared to 684 in the previous year. Essanelle Hair Group has developed various salon concepts that target various customer groups under the following brand names:

- essanelle Ihr Friseur
- Super Cut
- HairExpress
- beautyhairshop

The original concept "essanelle Ihr Friseur" targets regular and occasional customers of all age groups. The "Super Cut" concept is tailored to the needs of younger customers and the "HairExpress" concept targets 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 at 103–105 Himmelgeister Straße, 40225 Düsseldorf/Germany.

The company's corporate planning visualises an increase in the company's market share by giving special emphasis 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.

The 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 2013 were:

Achim Mansen, Monheim (Finance, Chairman)

Dieter Bonk, Dormagen (Distribution and Marketing)

Dirk Wiethölter, Hilden (Human Resources)

Other activities of the members of the Management Board:

Achim Mansen	Administrative Board Essanelle Company Health Insurance Fund, Augsburg
Dieter Bonk	Administrative Board Essanelle Company Health Insurance Fund, Augsburg
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:

Jürgen Tröndle	KMS Group Management GmbH – as of November 2013

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 2013 have been applied with supplementary application of the commercial law regulations requiring application pursuant to Section 315a (1) of the German Commercial Code (HGB).

In this respect, the consolidated financial statements of Essanelle Hair Group take account of all relevant provisions of IFRS adopted and requiring mandatory application as of 31 December 2013.

The supplementary provisions of the German Stock Corporation Act (AktG) have been applied. The Group management report as of 31 December 2013 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 (IFRIS IC) have adopted a series of reporting standards and interpretations, which were first made compulsory in 2013.

The following standards and interpretations that were applied for the first time in this financial year and their impact on ESSANELLE Hair Group are as follows:

– Amendment to IAS 19, Employee Benefits

The main change in IAS 19 is that in the future, revaluation effects from performance-orientated benefit plans, that is, fluctuations in pension obligations because of changed assumptions or experience-related adjustments and plan assets of any stocks, must be recorded directly in other comprehensive income (OCI) within equity. The option previously selected for use by ESSANELLE, i.e. reporting according to the so-called corridor method, was abolished. This is expected to lead to an increase in equity volatility. Another change in accounting is that interest expense will in future be calculated by multiplication with uniform actuarial interest on the basis of so-called performance-orientated net benefit liability. In addition, the amended standard requires more extensive statements in the notes than was previously required.

The amendments to IAS 19 have a material impact on the consolidated Financial Statements of ESSANELLE. The amendments are effective for annual periods beginning on or after 1 January 2013. The effects of the amendments are presented in detail in the notes under the item "Adjustment in accordance with IAS 8 - Amendment of the comparative periods presented in the consolidated financial statements".

– Amendments to IAS 1, Presentation of Financial Statements

In accordance with the amendments to IAS 1, the positions shown in other gains and losses shall be divided in two categories:
a) items that may be reclassified in subsequent periods in the income statement (so-called recycling) and
b) items that are not reclassified in subsequent periods in the income statement.

– Amendments to IFRS 7, Financial instruments: Disclosures

The amendment to the application policy of IFRS 7 causes a clarification of some rules for offsetting financial assets and financial liabilities in the balance sheet. In addition, more extensive disclosures than were previously necessary must be made in the case of offsets. The required supplementary information is included in the consolidated financial statements of ESSANELLE.

– IFRS 13, Fair Value Measurement

IFRS 13 describes how the fair value should be determined and extends existing fair value disclosures. The standard does not include any prescriptions for which the fair value is to be determined – this depends on the requirements of other IFRS / IAS. For individual standards, the application of IFRS 13 for the determination of fair values is excluded. The new standard requires additional disclosures in the case of the determination of fair values. The changes have no material impact on the consolidated financial statements; therefore a quantitative description of the effects was waived.

The following new and revised accounting standards and interpretations that were applied for the first time in this financial year have no material impact on the ESSANELLE Hair Group:

- Amendments to IFRS 1, First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- Amendment to IFRS 1, First-Time Adoption of International Financial Reporting Standards – Government Loans
- Amendment to IAS 12, Income Taxes – Deferred Tax: Recovery of Underlying Assets
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (October 2011)
- Annual Improvements on IFRS (Cycle 2009-2011)

The annual improvements (2009-2011) were adopted by the European Commission on 27 March 2013 and relate to clarifications in the following standards:

- IAS 1 Presentation of Financial Statements (Clarification of disclosure requirements for comparative information on mandatory or voluntary creation of a third balance sheet)
- IAS 16 Property, Plant and Equipment (Clarification regarding spare parts and maintenance equipment and their balance sheet recognition as tangible and inventories)
- IAS 32 Financial Instruments (clarification regarding recording of the tax consequences of dividend payments and transaction costs related to issuing or repurchasing of equity instruments)
- IAS 34 Interim Financial Reporting (clarification regarding disclosure of segment assets and liabilities in the interim report)
- IFRS 1, First-time Adoption of International Financial Reporting Standards (Various clarifications)

The following amendment to a standard has already been adopted, but mandatory application is only necessary for the next reporting periods beginning on 1 January 2014. ESSANELLE takes advantage of the permission for earlier application.

- Amendment to IAS 36: Details of the recoverable amount of non financial assets

  On the one hand, the amendments correct the disclosure requirement introduced by IFRS 13, Fair Value Measurement in IAS 36, to disclose the recoverable amount of each cash-generating unit (or group of units), which are assigned to an important business or company value or to significant intangible assets with indefinite useful lives. The IASB in fact, only intended to demand such a statement for the cash-generating units (or groups of units) for which impairment or revaluation has been recorded in the current period. With the amended standard, the IASB now makes a corresponding correction of the ill-advised disclosure note of IAS 36.

  On the other hand, the amended standard introduces new disclosure requirements that are mandatory if an impairment or revaluation of an asset or cash-generating unit is present and the recoverable amount has been determined based on the fair value less the selling cost.

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 2014 (the company did not take advantage of the permission for earlier application). It is estimated that they will have no material impact on the ESSANELLE Hair Group.

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

– Amendment to IAS 32, Financial Instruments: Presentation - Offsetting of financial assets and financial liabilities (EU endorsement as of 13 December 2012)
– IAS 27, Separate Financial Statements (revised May 2011) (EU endorsement as of 11 December 2012)
– IAS 28, Investments in Associates and Joint Ventures (revised May 2011) (EU endorsement as of December 11 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 December 11 2012)
– Amendment of the Transitional Provisions of IFRS 10, IFRS 11 and IFRS 12 (June 2012) (EU endorsement as of 11 December 2012)
– Amendment to IFRS 10, Consolidated Financial Statements, IFRS 12, Disclosure of Interests in Other Entities and IAS 27, Separate Financial Statements – Investment Companies (EU endorsement as of 11 December 2012)
– Amendment to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting (EU endorsement as of 11 December 2012)

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

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

– IFRIC 21, Taxes
– Amendment to IAS 19: Employee contributions under defined benefit pension plans
– IFRS 9, Financial Instruments: Classification and Measurement: Financial assets (November 2009)
– IFRS 9 Financial Instruments: Classification and Measurement: Financial liabilities (October 2010)
– Amendments to IFRS 7 and IFRS 9: Mandatory Effective Date and Transition Disclosures
– IFRS 9, Financial Instruments: Hedge Accounting
– IFRS 14, Regulatory and accrued income
– Improvements to International Financial Reporting Standards, 2010-2012 cycle (December 2013)
– Improvements to International Financial Reporting Standards, 2011-2013 cycle (December 2013)

2.2 CHANGES IN ACCOUNTING AND VALUATION METHODS

ESSANELLE HAIR GROUP AG has retroactively adjusted IAS 19 (revised 2011) "Employee Benefits" as of 01 January 2012. The new accounting standard had the following impact on the consolidated financial statements:

The revised Standard (IAS 19R) on employee benefits brings changes to the recognition, measurement, disclosure and presentation of pension obligations. The standard also requires the calculation of net interest income/expense as the product of assets / liabilities arising from defined benefit plans (net) and the discount interest rate as determined at the beginning of the year. The effect of this is the removal of the previous concept regarding the presentation of expected return on plan assets.

Effects of the changes in accounting and valuation methods on the consolidated balance sheets

€	31 December 2013 as presented	Application IAS 19 R	31 December 2013
Equity			
Capital and reserves attributable to shareholders of the parent company			
Reserves	16,537,101.41	-111,472.04	16,648,573.45
Long-term liabilities			
Deferred tax liabilities	5,933,830.70	-49,382.28	5,983,212.98
Pension provisions	1,250,774.00	160,854.32	1,089,919.68

€	31 December 2012 (adjusted)	Application IAS 19 R	31 December 2012 (previously shown)
Equity			
Capital and reserves attributable to shareholders of the parent company			
Reserves	15,325,119.42	-291,150.78	15,616,270.20
Long-term liabilities			
Deferred tax liabilities	5,577,123.64	-128,980.22	5,706,103.86
Pension provisions	1,424,835.00	420,131.00	1,004,704.00

€	1 January 2012 (adjusted)	Application IAS 19 R	1 January 2012 (previously shown)
Equity			
Capital and reserves attributable to shareholders of the parent company			
Reserves	13,903,339.21	-46,847.49	13,950,186.70
Long-term liabilities			
Deferred tax liabilities	5,239,248.62	-20,753.51	5,260,002.13
Pension provisions	957,517.00	67,601.00	889,916.00

Effects of the changes of accounting principles on the consolidated income statement

€	2013 (as presented)	Application IAS 19 R	2013
Personnel expenses	-73,740,788.39	139,935.68	-73,880,724.07
Result of operating activities	**5,783,815.02**	**139,935.68**	**5,643,879.34**
pre-tax profit	**5,563,181.56**	**139,935.68**	**5,423,245.88**
Tax expenses	-2,172,482.38	-42,960.25	-2,129,522.13
Consolidated net income	**3,390,699.18**	**96,975.43**	**3,293,723.75**
Other profits or losses			
Items that are not subsequently			
reclassified to profit or loss			
Revaluation of liabilities from employee benefits			
after termination of the employment relationship	82,703.31	82,703.31	0.00
Consolidated Comprehensive Income	**3,473,402.49**	**179,678.74**	**3,293,723.75**

€	2012 (adjusted)	Application IAS 19 R	2012 (previously shown)
Personnel expenses	-71,133,462.26	1,437.00	-71,134,899.26
Result of operating activities	**6,261,405.60**	**1,437.00**	**6,259,968.60**
Pre-tax profit	**5,989,062.25**	**1,437.00**	**5,987,625.25**
Tax expenses	-2,060,562.41	-441.16	-2,060,121.25
Consolidated net income	**3,928,499.84**	**995.84**	**3,927,504.00**
Other profits or losses:			
Items that are not subsequently			
reclassified to profit or loss			
Revaluation liabilities from employee benefits			
after termination of the employment relationship	-245,299.13	-245,299.13	0.00
Consolidated Comprehensive Income	**3,683,200.71**	**-244,303.29**	**3,927,504.00**

The Consolidated Comprehensive Income is entirely attributable to the partners of the parent company.

The amendments to IAS 19R had no effect on the Consolidated cash flow statement shown in the previous period.

Effects of changes in accounting principle on the consolidated statement of changes in equity

€	Share capital	Capital reserves	retained earnings	Total equity
As of 1 January 2012 (as reported)	4,522,841.00	15,717,699.17	13,950,186.70	34,190,726.87
Effects of the adjustment of the accounting and valuation methods			-46,847.49	-46,847.49
As of 1 January 2012 (adjusted)	**4,522,841.00**	**15,717,699.17**	**13,903,339.21**	**34,143,879.38**
other result (as reported)			0.00	0.00
Effects of the adjustment of the accounting and valuation methods			-245,299.13	-245,299.13
other result (adjusted)			**-245,299.13**	**-245,299.13**
Payment of dividends			**-2,261,420.50**	**-2,261,420.50**
consolidated net income (as reported)			3,927,504.00	3,927,504.00
Effects of the adjustment of the accounting and valuation methods			995.84	995.84
consolidated net income (adjusted)			**3,928,499.84**	**3,928,499.84**
As of 31 December 2012 (as reported)	4,522,841.00	15,717,699.17	15,616,270.20	35,856,810.37
Effects of the adjustment of the accounting and valuation methods	0.00	0.00	-291,150.78	-291,150.78
As of 31 December 2012 (adjusted)	**4,522,841.00**	**15,717,699.17**	**15,325,119.42**	**35,565,659.59**

2.3 GROUP ACCOUNTING AND REPORTING ENTITY

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

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 from 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 to the uniform accounting and valuation methods applied by the Group wherever necessary.

2.3.2 Reporting Entity

The following companies were included in the reporting entity of Essanelle Hair Group as of 31 December 2013:

Parent Company

ESSANELLE HAIR GROUP AG, Düsseldorf

Direct Shareholdings (100 %)

CFS Coiffure Franchising System GmbH, Düsseldorf

Indirect Shareholdings (Subsidiaries of CFS)

KARRIEREWERKSTATT FÜR FRISEURE GmbH, Düsseldorf

The share capital of KARRIEREWERKSTATT FÜR FRISEURE GmbH amounts to EUR 25,000 and is held in full by CFS GmbH.

2.4 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 either 2013 or 2012. 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.

2.5 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 for the extent of 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 three to nine 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 beautyhairshops, 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 shall be 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 salons are 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 from 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.

2.6 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 whenever there is 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.

2.7 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 in order to determine whether any write-downs are required. The useful lives vary between 3 and 5 years.

2.8 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 under 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 being 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.

2.9 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.

2.10 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.

2.11 OTHER ASSETS

Other assets include current settlement items and prepayments made for assets and accrued income. They are measured at amortised cost.

2.12 CASH AND CASH EQUIVALENTS

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

2.13 TAXES ON INCOME

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

2.14 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 by 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 it is probable that taxable earnings will be available for the temporary difference to be offset against them.

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.

2.15 SHAREHOLDER'S 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. Moreover, this item contains the other comprehensive income – (OCI).

2.16 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 debts are 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.

2.17 PENSION PROVISIONS

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a non-Group company (insurance). The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay the pension entitlements of all employees from the current and previous financial years.

A defined contribution plan is not a defined benefit plan. Typically, defined benefit plans determine an amount of pension benefit which the employee will receive on retirement and which typically depends on one or more factors (such as age, years of service and salary). Two defined benefit plans exist within the Group, based on two individual commitments to a member of the Management Board and a former member of the Management Board, for whom reinsurance policies (planned assets) 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. The industrial bonds are denominated in the currency of the payment amounts and have maturities corresponding to the pension obligations.

Revaluation effects on defined benefit plans based on experience adjustments and changes in actuarial assumptions are recorded in other comprehensive income (OCI) in retained earnings in equity in the period incurred.

Past service expenses are recognised immediately in relation to the income statement.

The plan assets consist of the asset value of a reinsurance policy which are bonded to the beneficiaries.

For defined contribution plans, the Group pays contributions to private pension insurance plans pursuant to a contractual obligation. The Group has no further payment obligations relating to the payment of the contributions. The contributions are recognised when due, under personnel expenses. Prepayments of contributions are recognised as assets to the extent to which there is a right to a refund or a reduction in future payments.

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 a current employee in accordance with a detailed formal plan, which cannot be reversed, or if it can be proven that it is obliged to pay compensation in the event of 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 delivery of the service 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 and countermeasures are 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 granting of loans to a franchise company using the "essanelle Ihr Friseur" brand name, which is currently still being practiced, 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 a liquidity risk cannot be excluded. It is the responsibility of the Group’s financial management to structure its financial planning in such a way that these influences are suitably accounted for by creating financial reserves.

(d) Cash flow risk and fair value interest risk

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

The interest risk of the Group arises on account of its non-current interest-charging liabilities, which are subject in part to variable and in part to fixed-interest rates. The liabilities with variable interest rates expose the Group to a 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.

3.3 CAPITAL MANAGEMENT

The purpose of capital management is to ensure that the company has financial room to manoeuvre and, in particular, that it remains 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 that affect 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 1.66 in 2013 (previous year 1.61).

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 0.88 in 2012 to 0.93 in 2013. The equity ratio decreased to 63.99 % in 2013 after 64.11 % in 2012.

4 ESTIMATION UNCERTAINTIES 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 regarding future events, which appear reasonable in the given circumstances.

Those estimates and assumptions that involve 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 that requires such a test to be performed, 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 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 Hair Group sells subscriptions and vouchers for hairdressing services, for which payments are received, but for which no services have as yet been performed. Given that the obligations still outstanding are not individually recorded, their scope must 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 at 50 % and at 20 % for the previous year (2010) in the calculation of the provisions.

If the actual claims were to be 10 % higher or lower than the estimated figure the provision would change to the value of EUR -73.7k/73.6k (previous year EUR -77.5k/77.5k).

(c) Estimated value impairment of salon furnishings

Any impairments in the value of property, plant and equipment resulting from unfavourable earnings performances 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 of future developments, both in regional and in macroeconomic terms.

5 SEGMENT REPORTING

The requirements for segment reporting are not met, either in regional terms or 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 throughout Germany.

The breakdown into marketing lines and salon concepts in terms of factual or organisational structures is not expedient, given that only one type 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 from all of the concepts. Our internal reporting is based on accounting information on the individual salon level. 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 and 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 2012			
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
2013 financial year			
Opening carrying amount (net)	19,796,600.29	682,068.93	20,478,669.22
Additions	4,052,938.29	133,318.90	4,186,257.19
Disposals	-8,316,819.08	-450,010.80	-8,766,829.88
Impairments (IAS 36)	-510,967.01	0.00	-510,967.01
Additions to depreciation	-4,088,339.65	-280,887.41	-4,369,227.06
Disposals from depreciation	8,144,309.80	385,998.66	8,530,308.46
Closing carrying amount (net)	19,077,722.64	470,488.28	19,548,210.92
As of 31 December 2013			
Costs of acquisition/manufacture	55,727,859.56	4,741,065.66	60,468,925.22
Cumulative impairments (IAS 36)	-1,343,476.19	0.00	-1,343,476.19
Cumulative depreciation	-35,306,660.73	-4,270,577.38	-39,577,238.11
Carrying amount (net)	**19,077,722.64**	**470,488.28**	**19,548,210.92**

Investments in property, plant and equipment amounted to EUR 4,186k (previous year EUR 4,188k) and are predominantly related to salon furnishings at newly opened salons and renovations of existing salons. The disposal of assets in 2013 to the net carrying amount of EUR 237k (previous year EUR 248k) mainly refers to salon closings. Income from asset disposals amounted to EUR 1k (previous year EUR 4k), while losses amounted to EUR 215k (previous year EUR 243k).

Leasing expenses relating to operating lease agreements for motor vehicles amounting to EUR 239k (previous year EUR 270k) have been recorded in the income statement. Moreover, rental expenses amounting to EUR 21,423k (previous year EUR 21,124k) have also been included in connection with the letting of premises for hairdressing salons, beautyhairshops and headquarters.

Because of a regular examination, historic acquisition and manufacturing costs totalling EUR 4,629k were abandoned. Of this, EUR 3,671k were allotted to already fully depreciated operating and business equipment and EUR 958k were allotted to low-value assets from the years 2004 to 2008, which are also fully depreciated. This is based on the supposition that a disposal of old facilities occurred at full renovation (full renovation = renovation costs amounting to actual historic acquisition and manufacturing costs).

The impairment tests for property, plant and equipment were 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 was taken of growth rates.

The impairment test revealed impairments of property, plant and equipment as defined in IAS 36 to the value of EUR 511k (previous year EUR 145k). The recoverable amount (value in use) of the salons affected by impairment (37; previous year 16) amounts to € 0k (previous year € 0k).

7 INTANGIBLE ASSETS

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

€	Goodwill	Other	Total
As of 1 January 2012			
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
2013 financial year			
Opening carrying amount (net)	19,558,872.10	100,002.58	19,658,874.68
Additions	0.00	34,152.50	34,152.50
Disposals	0.00	-27,892.57	-27,892.57
Impairment (IAS 36)	0.00	0.00	0.00
Additions to amortisation	0.00	-68,634.99	-68,634.99
Disposals from amortisation	0.00	27,892.57	27,892.57
Closing carrying amount (net)	19,558,872.10	65,520.09	19,624,392.19
As of 31 December 2013			
Costs of acquisition/manufacture	19,929,880.72	917,920.90	20,847,801.62
Cumulative impairment (IAS 36)	-371,008.62	-4,672.19	-375,680.81
Cumulative amortisation	0.00	-847,728.62	-847,728.62
Carrying amount (net)	**19,558,872.10**	**65,520.09**	**19,624,392.19**

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

The impairment test for goodwill takes place on the level of the entire group which forms the CGU, the level on which the management monitors goodwill. The recoverable amount of CGU is determined by calculating its value in use. These calculations are based on projected cash flows, which were derived from the five-year plan approved by the Management Board. A growth rate was not taken into account.

At 10 % (previous year 10 %), the discount factor used for this purpose 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.

In the derivation of the WACC, a greater emphasis on market view was taken into account in the year under report when determining the equity and debt costs. This approach serves as a better information base for the financial statements. The applicable WACC is reported as amounting to 8,73 %. For the previous year, the adjustment results in a corrected WACC of 8,27 %, compared with the WACC of 3.19 % reported in the previous year's statement.

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 INVESTMENTS

Since June 2013, there has been an investment of 32.81 % in the Gesellschaft bürgerlichen Rechts (company constituted under civil law) Interessengemeinschaft deutscher Friseurfilialisten – IGDF, Hamburg. The carrying amount of the investment amounted to EUR 4,579.67 as of 31 December 2013 (previous year EUR 0.00). For reasons of materiality, balancing using the equity method was waived.

9 OTHER LOANS

Other loans are structured as follows:

€	Miscellaneous loans	Total
As of 1. January 2012		
Costs of acquisition/manufacture	285,191.82	285,191.82
Cumulative impairment (IAS 36)	-23,044.90	-23,044.90
Carrying amount (net)	262,146.92	262,146.92
2012 financial year		
Opening carrying amount (net)	262,146.92	262,146.92
Disposals	-26,479.30	-26,479.30
Additions	4,166.38	4,166.38
Cumulative impairment (IAS 39)	0.00	0.00
Closing carrying amount (net)	239,834.00	239,834.00
As of 31 December 2012		
2013 financial year		
Opening carrying amount (net)	239,834.00	239,834.00
Disposals	-30,789.24	-30,789.24
Additions	14,342.95	14,342.95
Closing carrying amount (net)	223,387.71	223,387.71
As of 31 December 2013		
Costs of acquisition/manufacture	246,432.61	246,432.61
Cumulative impairment (IAS 39)	-23,044.90	-23,044.90
Carrying amount (net)	**223,387.71**	**223,387.71**

"Loans" refers to both rent deposits and loans made to four different persons, which are being repaid as planned.

The loans carry interest rates of between 2.00 % and 5.09 % (previous year 2.0 % to 4.5 %). The income statement shows interest income in the amount of EUR 7k (previous year EUR 8k).

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

€	31.12.2013	31.12.2012
Not due yet	223,387.71	239,834.00
Overdue and unimpaired	0.00	0.00
	223,387.71	**239,834.00**

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

€	31.12.2013			
	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	**223,387.71**	**29,380.56**	**107,119.21**	**86,887.94**

€	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**

10 INVENTORIES

Inventories are structured as follows:

€	31.12.2013	31.12.2012
Goods for sale	5,408,866.37	4,273,671.03
Goods for use	2,250,831.51	2,165,066.98
	7,659,697.88	6,438,738.01
Write-down	-40,000.00	-33,390.00
	7,619,697.88	**6,405,348.01**

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, and any changes to them are recorded under cost of materials.

Inventories are not subject to any restraints on disposal.

11 ACCOUNTS RECEIVABLE

€	31.12.2013	31.12.2012
Gross receivables	286,590.04	248,319.70
less write-downs	-130,681.37	-89,262.35
	155,908.67	**159,057.35**

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

€	31.12.2013	31.12.2012
Less than 30 days	146,629.49	111,304.36
Between 30 and 60 days	504.70	7,156.74
Between 61 and 90 days	2,661.05	0.00
Between 91 and 180 days	0.00	6,732.44
Between 181 and 360 days	116.45	0.00
More than 360 days	5,996.98	33,863.81
	155,908.67	**159,057.35**

The above accounts receivable are not collateralised.

The itemised allowances on accounts receivable developed as follows:

€	31.12.2013	31.12.2012
Allowances as at 1 January	89,262.35	78,930.39
Additions (Expenses on allowances)	41,419.02	10,331.96
Utilisation	0.00	0.00
Retransfers	0.00	0.00
	130,681.37	**89,262.35**

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

12 OTHER ASSETS

€	31.12.2013	31.12.2012
Prepayments made on assets ordered	85,237.80	120,429.30
Accrued income	135,327.46	135,745.70
Rental receivables	12,916.72	17,018.44
Payroll receivables	143,328.04	144,941.87
Taxrefund claims	10,893.62	69,906.30
Claim from non-seized reinsurance contract	0.00	38,340.00
Other	107,365.54	76,683.48
	495,069.18	**603,065.09**

Other assets were recognised at cost. In view of the short-term nature of the claims, no discounting was undertaken. The financial assets included in other assets relate to the prepayments made on assets ordered.

13 CASH AND CASH EQUIVALENTS

€	31.12.2013	31.12.2012
Credit balances at banks	7,824,898.56	5,991,731.92
Payments in transit from Essanelle hairdressing salons (prior to credit to bank accounts)	1,318,890.38	1,064,650.71
Cash holdings	656,603.84	876,452.65
	9,800,392.78	**7,932,835.28**

The effective interest rate for short-term bank deposits amounted to an average of 0.375 % (previous year 0.50 %).

The short-term bank deposits bear interest at variable market interest rates.

14 SHARE CAPITAL

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

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

€	31.12.2013	31.12.2012
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) 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
HairGroup AG, Wolfsburg, formerly Omikron AG, Wolfsburg	10.02.2014	Exceeding the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 and 75 % of the voting rights	89.78 %
William Geoffrey Oldfield, United Kingdom	01.06.2010	Exceeding the threshold of 5 % of voting rights **)	5.30 %
Friseur Klier GmbH, Wolfsburg	08.12.2009	Falling short of the thresholds of 25, 20, 15, 10, 5 and 3 % of the voting rights	0.00 %
Saxonia Holding-Verwaltungs-GmbH, Wolfsburg	24.09.2009	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	20.02.2008	Falling short of the threshold of 3 % of the voting rights	0.00 %
Jürgen Tröndle, Germany	11.02.2008	Falling short of the threshold of 3 % of the voting rights	0.00 %
Axxion S.A., Luxemburg-Munsbach/Luxemburg	22.02.2008	Falling short of the thresholds of 5 and 3 % of the voting rights	0.00 %
Saxonia Holding-Gesellschaft mbH & Co. KG, Wolfsburg	22.02.2008	Exceeding the thresholds of 50 and 75 % of the voting rights	89.77%
Hubertus Klier, Wolfsburg	22.08.2008	Exceeding the thresholds of 50 and 75 % of the voting rights	89.77 %
Joachim Klier, Wolfsburg	22.08.2008	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	20.02.2008	Falling short of the thresholds of 5 and 3 % of the voting rights	0.00 %
IVI UMBRELLA FUND PLC	20.02.2008	Falling short of the thresholds of 5 and 3 % of the voting rights	0.00 %
Ratio European Fund	20.02.2008	Falling short of the thresholds of 5 and 3 % of the voting rights	0.00 %
MAC Lochsong 19A Limited	20.02.2008	Falling short of the threshold of 3 % of the voting rights	0.00 %
Ratio Asset Management LLP, London, Great Britain	20.02.2008	Falling short of the thresholds of 10, 5 and 3 % of the voting rights	0.00 %
FPM Funds SICAV, Luxemburg	09.02.2007	Falling short of the threshold of 3 % of the voting rights	1.67 %
Fortis Investment Management S.A., Brussels/Belgium	22.05.2007	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	04.04.2007	Falling short of the threshold of 3 % of the voting rights	2.93 %
dit Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt am Main	21.11.2006	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	29.04.2005	Falling short of the threshold of 10 and 5 % of the voting rights	3.79 %
Stadtsparkasse Köln	24.11.2004	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

(2) The share

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

	2013	2012
Annual high	12.33 €	11.00 €
Annual low	10.03 €	8.95 €
Year-end	10.69 €	10.00 €
Number of shares	4,595,044	4,595,044
Of which: own shares	72,203	72,203

15 CAPITAL RESERVE

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

The capital reserve developed as follows:

€	31.12.2013	31.12.2012
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**

16 REVENUE RESERVES

Revenue reserves developed as follows:

€	31.12.2013	31.12.2012*
Balance as of 1 Jan. (as reported)	15,325,119.42	13,903,339.21
Dividend distribution	-2,261,420.50	-2,261,420.50
Consolidated net income	3,390,699.18	3,928,499.84
Other consolidated income	82,703.31	-245,299.13
	16,537,101.41	**15,325,119.42**

*adjusted

€	31.12.2013	31.12.2012*
Items that are not reclassified in the income statement		
Revaluation effects from defined benefit plans	-209,433.31	-292,146.62
	-209,433.31	**-292,146.62**

*adjusted

The dividend distribution amounted to EUR 0.50 per share as in 2012, based on a volume of 4,522,841 shares (as in the previous year).

17 FINANCIAL DEBT

The financial debt is structured as follows:

€	31.12.2013			
	Total	**Remaining term up to 1 year**	**Remaining term 1 year to 5 years**	**Remaining term over 5 years**
Liabilities to banks	600,000.00	320,000.00	280,000.00	0.00
Liabilities in connection with financial leases	174,351.69	74,306.83	100,044.86	0.00
Other financial loans	1,253,412.06	590,250.41	663,161.65	0.00
	2,027,763.75	**984,557.24**	**1,043,206.51**	**0.00**

€	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**

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

€	31.12.2013			
	Total	**Cash flows 2014**	**Cash flows 2015 to 2018**	**Cash flows after 2018**
Liabilities to banks	622,140.50	336,725.50	285,415.00	0.00
Liabilities in connection with financial leases	183,010.70	78,326.20	104,684.50	0.00
Other financial loans	1,315,829.61	631,872.18	683,957.43	0.00
	2,120,980.81	**1,046,923.88**	**1,074,056.93**	**0.00**

€	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**

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

€	31.12.2013			
	Total interest	Interest contained in cash flows 2014	Interest contained in cash flows 2015 to 2018	Interest contained in cash flows after 2018
Liabilities to banks				
Fixed interest	22,140.50	16,725.50	5,415.00	0.00
Liabilities in connection with financial leases				
Fixed interest	8,659.01	4,019.37	4,639.65	0.00
Other financial loans				
Fixed interest	62,417.55	41,621.79	20,795.76	0.00
	93,217.06	**62,366.66**	**30,850.41**	**0.00**

€	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**

Liabilities to banks

Liabilities to banks are structured as follows:

€	31.12.2013			
	Interest rate	Total	Short-term	Long-term
Loan Gladbacher Bank	fixed 3.95 %	200,000.00	120,000.00	80,000.00
Loan Postbank	fixed 3.384 %	400,000.00	200,000.00	200,000.00
		600,000.00	**320,000.00**	**280,000.00**

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 amounting to the sum of EUR 4.0 million (previous year EUR 4.25 million) have been signed. As of the balance sheet date, EUR 4.0 million of the total amount was unused (previous year EUR 4.25 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 470,488.28 (previous year EUR 682,068.93). Lease liabilities total EUR 174.351,69 (previous year EUR 190,768.44). These liabilities are due to various leasing companies and carry interest rates of between 2.94 % and 4.18% p.a. (previous year between 2.94 % and 4.18%).

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

€	2013		2012	
	Nominal amount	Discounted amount	Nominal amount	Discounted amount
Remaining term up to 1 year	78,326.20	74,306.83	102,350.33	98,073.93
Remaining term 1 to 5 years	104,684.50	100,044.86	94,346.78	92,694.51
Remaining term over 5 years	0.00	0.00	0.00	0.00
	183,010.70	**174,351.69**	**196,697.11**	**190,768.44**

Other supplier loans

The supplier loans relate to five (spurious) hire purchase agreements concluded in 2010 and 2011 with SüdLeasing and one (spurious) lease contract with VR Leasing, which are to be repaid on a monthly basis over the next three and four 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
31.12.2013					
ASSETS					
Other loans	LaR	223,387.71	0.00	223,387.71	0.00
Accounts receivable	LaR	155,908.67	0.00	155,908.67	0.00
Other assets	LaR	495,069.18	409,831.38	85,237.80	0.00
Cash and cash equivalents	LaR	9,800,392.78	0.00	9,800,392.78	0.00
LIABILITIES					
Financial debt	FLAC	2,027,763.74	0.00	1,853,412.06	174,351.68
Accounts payable	FLAC	3,166,042.66	0.00	3,166,042.66	0.00
Other liabilities	FLAC	2,775,243.51	2,587,493.70	187,749.81	0.00
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	2,425,590.97	0.00	2,425,590.97	0.00
Other liabilities	FLAC	2,419,604.59	2,271,451.08	148,153.51	0.00

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

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

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

Additional information on offsetting financial assets and financial liabilities in accordance with IFRS 7:

€	Gross amount of recognized financial assets	Gross amount of recognized financial assets that are offset in the balance sheet	Net amount of the financial assets that are recognized in the balance sheet
31.12.2013			
Other assets	2,821,854.29	2,326,785.11	495,069.18
Total	**2,821,854.29**	**2,326,785.11**	**495,069.18**
31.12.2012			
Other assets	2,688,571.13	2,085,506.04	603,065.09
Total	**2,688,571.13**	**2,085,506.04**	**603,065.09**

€	Gross amount of recognized financial liabilities	Gross amount of recognized financial liabilities that are offset in the balance sheet	Net amount of financial liabilities that are recognized in the balance sheet
31.12.2013			
Accounts payable	5,492,827.77	2,326,785.11	3,166,042.66
Total	**5,492,827.77**	**2,326,785.11**	**3,166,042.66**
31.12.2012			
Accounts payable	4,511,097.03	2,085,506.04	2,425,590.99
Total	**4,511,097.03**	**2,085,506.04**	**2,425,590.99**

18 DEFERRED TAX ASSETS AND LIABILITIES

Composition:

€	31.12.2013	31.12.2012*
Deferred tax liabilities	5,933,830.70	5,577,123.64

*adjusted

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.

They refer to the following balance sheet items:

€k	31.12.2013 assets	31.12.2013 liabilities	31.12.12 assets	31.12.12 liabilities
Deferred tax liabilities on balance sheet items				
Goodwill(non-current)	0	5,933	0	5,519
Property, plant and equipment (non-current)	0	402	0	534
Pension provisions (non-current)	122	0	159	0
Other provisions				
current	57	0	59	0
non-current	218	0	224	0
Liabilities in connection with financial leases				
current	4	0	19	0
non-current	0	0	15	0
	401	6,335	476	6,053
Net balances	-401	-401	-476	-476
	0	**5,934**	**0**	**5,577**

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

The change in deferred tax assets and liabilities in the current year, without taking into account the offsetting of open items within the same tax authority, is determined as follows:

€k	Goodwill	Tangible assets	Total
Deferred tax liabilities			
Balance as of 01 January 2012 (adjusted)	4,921	575	5,496
Amount recognised in income statement	598	-41	557
Balance as of 31 December 2012 (adjusted)	**5,519**	**534**	**6,053**
Amount recognised in income statement	414	-132	282
Balance as of 31 December 2013	**5,933**	**402**	**6,335**

€k	Pension provisions	Other provisions	Finance leases	Total
Deferred tax assets				
Balance as of 01 January 2012 (adjusted)	-52	-142	-63	-257
Amount recognised in income statement	2	-141	29	-110
amount recognized in other consolidated income	-109	0	0	-109
Balance as of 31 December 2012 (adjusted)	**-159**	**-283**	**-34**	**-476**
Amount recognised in income statement	0	8	30	38
amount recognised in other consolidated income	37	0	0	37
Balance as of 31 December 2013	**-122**	**-275**	**-4**	**-401**

19 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 Group operates defined benefit plans exclusively in Germany. All plans are final salary plans that assure members a guaranteed life-time pension. The amount of the pension payment is fixed in the benefit promise. A guaranteed increase of 2 % p.a. is fixed for pension payments. Plan assets are invested in an insurance institute for the benefit promise to the claimant in the form of so-called reinsurance policies.

With the exception of the longevity risk, there are no plan-specific risks.

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

€	31.12.2013	31.12.2012*
Present value of the obligations	1,503,134.00	1,576,410.00
Fair value of plan assets	-252,360.00	-151,575.00
	1,250,774.00	**1,424,835.00**

*adjusted

The defined benefit obligation developed as follows in the past fiscal year:

€	Present value of the obligations	Fair value of plan assets	Total (net liability)
Balance as of 1 January 2013	**1,576,410.00**	**-151,575.00**	**1,424,835.00**
Current Service Cost	55,848.00	–	55,848.00
Interest Cost/interest income	48,265.00	-5,072.00	43,193.00
Revaluations			
Actuarial gains and losses resulting from changes in the financial assumptions	-134,553.00	–	-134,553.00
Experience value adjustments	-3,913.00	–	-3,913.00
Expense / income from plan assets excluding amounts which are included above in the interest rates	–	19,125.00	19,125.00
Pension payments	-38,923.00	–	-38,923.00
Net increase via the qualification of new assets	–	-38,340.00	-38,340.00
Employer contributions	–	-76,498.00	-76,498.00
Balance as of 31 December 2013	**1,503,134.00**	**-252,360.00**	**1,250,774.00**
€	**Present value of the obligations**	**Fair value of plan assets**	**Total (net liability)**
Balance as of 1 January 2012*	**1,085,438.00**	**-127,921.00**	**957,517.00**
Current Service Cost	31,280.00	–	31,280.00
Interest Cost/interest income	47,986.00	-6,298.00	41,688.00
revaluations			0.00
Actuarial gains and losses resulting from changes in the financial assumptions	334,177.00	–	334,177.00
Experience value adjustments	13,077.00	-	13,077.00
Expense/income from plan assets excluding amounts which are included above in the interest rates	–	6,713.00	6,713.00
Past service cost	102,612.00	–	102,612.00
Pension payments	-38,160.00	–	-38,160.00
Employer contributions	–	-24,069.00	-24,069.00
Balance as of 31 December 2012*	**1,576,410.00**	**-151,575.00**	**1,424,835.00**

*adjusted

EUR 680k of the total obligation is counted under a funded plan, while EUR 823k is counted under a non-funded plan.

The plan assets relate to asset values from reinsurance policies at Swiss Life. The expected allocations of plans for services after termination of employment for the fiscal year ending on 31 December 2014 amount to EUR 88k. In 2013, a re-insurance already existing in 2012 was pledged to the beneficiaries and thus classified as plan assets for the first time in 2013.

The following principal actuarial assumptions were made (Entitlement resp. pension plan):

	2013	2012
Average discount rate	3.6 %	3.1 %
Future salary increases	2.0 % resp. 0 %	2.0 % resp. 0 %
Future pension increases	each 2.0 %	each 2.0 %

The future salary and pension increases (2 %) are contractually fixed in the individual commitments and hence not subject to fluctuations.

The weighted average duration of the defined benefit plans is 22.11 years for entitlements and 12.91 years for pensions.

The expected benefit payments for the next five fiscal years are as follows:

€	
Expected future benefit payments p.a.:	
2014	40,135.00
2015	41,866.00
2016	43,782.00
2017	45,920.00
2018	48,313.00

The sensitivity of the overall pension obligation regarding changes in the weighted principal assumptions amounts to:

	Change in assumption	Effect on the obligation	
Type of plan/major valuation factor		Increase of assumption	Decrease of assumption
Discount rate	0.5 %-points	-7.92 %	8.93 %
Probability of death	1 year	2.88%	–

The sensitivity analysis above is based on the change in one assumption while holding all other assumptions constant. It is unlikely that this would happen in reality and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation at actuarial assumptions, the same method was used as for determining the pension liability in the balance sheet (the present value of the defined benefit obligation is calculated using the projected unit credit method at the end of the reporting period). No sensitivities were calculated for salary and pension trends because they are fixed by contract.

The methods and types of assumptions used to prepare the sensitivity analysis have not changed compared to the previous period.

20 OTHER NON-CURRENT PROVISIONS

€	31.12.2013	31.12.2012
Provision for dismantling obligations	1,589,064.83	1,567,199.41
	1,589,064.83	**1,567,199.41**

Changes in non-current provisions:

€	Dismantling obligations
Balance as of 1 Jan. 2013	1,567,199.41
Utilised	-48,738.07
Released	-14,310.24
Added due to compounding	18,078.33
Added	66,835.40
Balance as of 31 Dec. 2013	**1,589,064.83**

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.

21 ACCOUNTS PAYABLE

These primarily relate to liabilities towards suppliers of hairdressing consumables required on an ongoing basis.

22 CURRENT INCOME TAX LIABILITIES

€	01.01.2013	Utilised	Released	Added	31.12.2013
Trade tax 2013	0.00	0.00	0.00	15,042.48	15,042.48
Corporate income tax 2013	0.00	0.00	0.00	16,655.56	16,655.56
	0.00	**0.00**	**0.00**	**31,698.04**	**31,698.04**

23 OTHER LIABILITIES

Other current liabilities are structured as follows:

€	31.12.2013	31.12.2012
VAT liabilities	1,798,415.31	1,404,536.11
Liabilities towards employees due to wages, salaries and commission still to be paid	271,805.76	248,100.65
Liabilities relating to rental agreements	187,749.81	148,153.51
Wage tax and church tax	364,435.52	367,114.68
Miscellaneous	152,837.11	251,699.64
	2,775,243.51	**2,419,604.59**

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

24 OTHER CURRENT PROVISIONS

Composition and development of other current provisions:

€	01.01.2013	Utilised	Released	Added	31.12.2013
Personnel provisions	1,601,309.05	-1,580,402.05	-20,907.00	1,966,000.00	1,966,000.00
Subscriptions and customer vouchers	774,600.00	-762,370.51	0.00	731,970.51	744,200.00
Miscellaneous	1,180,999.46	-855,813.71	-87,678.63	971,872.81	1,209,379.93
	3,556,908.51	**-3,198,586.27**	**-108,585.63**	**3,669,843.32**	**3,919,579.93**

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 725k, previous year EUR 535k) and for outstanding incoming invoices (EUR 287k, previous year EUR 287k).

All other current provisions are expected to result in expenses being incurred in the 1st quarter of 2014.

25 SALES

Consolidated sales are structured as follows:

€	2013	2012
Revenues from services	111,799,038.69	107,730,028.15
Revenues from sales	17,912,540.34	18,472,684.96
Revenues in connection with rental agreements	43,993.17	125,017.85
Other revenues	-43,478.39	136,971.40
	129,712,093.81	**126,464,702.36**

Sales were exclusively generated in Germany.

26 OTHER OPERATING INCOME

Composition:

€	2013	2012
Advertising subsidies	545,215.18	655,907.05
Income from invoicing of ancillary rental expenses	421,569.68	617,567.28
Income from release of provisions	111,824.99	208,988.14
Income from disposal of assets	522.76	3,576.03
Income from the release of write-downs on accounts receivable	19,821.64	92,885.23
Insurance compensations	63,449.44	64,784.89
Other income	235,790.51	222,655.94
	1,398,194.20	**1,866,364.56**

27 COST OF MATERIALS

Cost of materials includes:

€	2013	2012
Expenses for goods purchased	9,876,166.58	10,043,505.93
Increase in written inventories (previous year decrease)	6,610.00	1,300.00
	9,882,776.58	**10,044,805.93**

28 PERSONNEL EXPENSES

Personnel expenses are structured as follows:

€	2013	2012*
Wages and salaries	60,962,606.91	58,643,843.43
Social security contributions	12,598,405.29	12,349,366.04
Pension expenses for defined benefit plans	50,776.18	127,595.78
Compensations resulting from the termination of employment contracts	129,000.00	12,657.01
	73,740,788.38	**71,133,462.26**

*adjusted

Contributions to the statutory pension insurance fund: EUR 5.737k (previous year EUR 5,673k).

29 DEPRECIATION AND AMORTISATION

Composition:

€	2013	2012
Scheduled depreciation and amortisation		
Amortisation of other intangible assets	74,555.32	87,031.28
Depreciation of proprietary salon furnishings	4,088,339.65	4,037,595.31
Depreciation of leased salon furnishings	280,887.41	319,355.45
Impairments IAS 36	510,967.01	144,674.45
	4,954,749.39	**4,588,656.49**

30 RENTAL AND ANCILLARY RENTAL COSTS

Composition:

€	2013	2012
Rent for hairdressing salons and head office in Düsseldorf	21,423,473.94	21,124,404.26
Ancillary rental expenses	3,956,152.51	3,867,402.89
	25,379,626.45	**24,991,807.15**

31 OTHER OPERATING EXPENSES

Other operating expenses include:

€	2013	2012
Losses incurred on the disposal of non-current assets	215,261.22	243,339.05
Operating requirements	371,286.37	568,387.92
Advertising and sales promotion	1,741,777.75	1,646,157.83
Employee training	49,622.75	30,796.52
Vehicle-related expenses	548,170.41	615,559.48
IT-related expenses	950,065.02	888,369.00
Legal and advisory expenses	548,116.93	647,211.47
Bank charges	348,679.28	331,268.25
Telephone, office materials, print materials	447,423.91	428,876.56
Travel expenses and hospitality	452,324.09	381,269.53
Insurances	121,625.74	102,109.81
Cleaning companies	114,069.54	112,777.93
Postal charges, radio fees	235,541.76	178,933.78
Energy costs, electricity	2,399,225.20	2,187,818.03
Miscellaneous	2,825,342.21	2,948,054.33
	11,368,532.18	**11,310,929.49**

32 FINANCING INCOME

This item relates to interest income of EUR 7k on loans (previous year EUR 8k), interest income of EUR 18k on short-term bank deposits and other current receivables (previous year EUR 34k) and to interest income of EUR 3k (previous year EUR 59k) on taxes.

33 FINANCING EXPENSES

This item relates to pension-related interest of EUR 48k (previous year EUR 48k), to interest of EUR 18k on dismantling obligations (previous year EUR 33k), interest from taxes of EUR 1k (previous year EUR 64k) and interest expenses of EUR 180k in connection with financial debt (previous year EUR 229k).

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

€	2013	2012
Loans and Receivables		
Other loans	6,668.69	7,610.78
Cash and cash equivalents	18,041.24	34,626.51
Financial Liabilities Measured at Amortised Cost		
Commitments towards creditinstitutions	-79,499.05	-70,289.40
Leasing liabilities	-5,211.37	-7,592.37
Financial loan	-95,746.61	-151,488.54
	-155,747.10	**-187,133.02**

Interest from financial instruments is shown in the interest result.

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

35 TAX EXPENSES

€	2013	2012*
Actual taxes		
Trade tax for previous years	19,919.44	-78,349.44
Corporate income tax for previous years	14,727.97	-65,667.36
Corporate income tax for current year	739,879.12	710,210.17
Trade tax for current year	1,077,886.49	1,047,826.15
	1,852,413.02	**1,614,019.52**
Deferred taxes		
Deferred corporate income tax for current year	166,811.40	232,725.94
Deferred trade tax for current year	153,257.97	213,816.95
	320,069.37	446,542.89
	2,172,482.39	**2,060,562.41**

*adjusted

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 2013 (2012):

€k	2013	2012 *
Earnings before taxes	5,561	5,988
Taxes based on a rate of 30.7 % (previous year 30.7 %)	1,707	1,839
Taxes on income as stated in income statement	2,172	2,061
Plus effect from changes in tax rate	0	0
Plus effect of BP-adaptation for previous years	0	80
Less tax on loss subgroup CFS / KfF	0	-4
Less income taxes on modifications	-430	-442
Including/less effects from other periods	-35	144
	1,707	**1,839**

*adjusted

The effective tax rate amounts to 39.06 % (previous year 34.41 %).

The amount of income tax that was directly charged or credited to other comprehensive income is comprised as follows:

€k	Before taxes	Tax burden (-)/ credit (+)	After taxes
Actuarial gains from pension obligations	-119	37	-82

36 EARNINGS PER SHARE

(1) Basic

	2013	2012*
Earnings allocable to providers of equity in EUR	3,390,699.18	3,928,499.84
Average number of shares issued	4,522,841	4,522,841
Basic earnings per share (EUR per share)	**0.75**	**0.87**

*adjusted

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

	2013	2012*
Earnings allocable to providers of equity in EUR	3,390,699.18	3,928,499.84
Average number of shares issued	4,522,841	4,522,841
Diluted earnings per share (EUR per share)	**0.75**	**0.87**

*adjusted

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.

37 DIVIDEND PER SHARE

In 2013, the company paid out its dividend for the year 2012. 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 2013 in 2014.

38 CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement depicts the change in the amount 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	2013	2012
Consolidated annual earnings	**3,391**	**3,929**
Adjustments for …		
Taxes (Note 35)	2,172	2,060
Depreciation of property, plant and equipment (Note 6)	4,880	4,502
Amortisation of intangible assets (Note 7)	69	87
Write-downs on investments	6	0
Gains/Losses on the sale of property, plant and equipment	214	239
Interest income (Note 32)	-28	-103
Interest expenses (Note 33)	221	341
Change in working capital		
Inventories (Note 10)	-1,214	-239
Accounts receivable and other receivables (Note 11)	3	-35
Provisions (Notes 19, 20 and 24)	237	428
Other financial assets valued at fair value (Note 12)	108	-98
Accounts payable and other liabilities (Notes 21 to 23)	1,096	576
Inflow of funds from operating activities	**11,156**	**11,688**

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

€k	2013	2012
Net carrying amount	237	248
Gain/Loss on the sale of property, plant and equipment (balance)	-214	-239
Proceeds from the sale of property, plant and equipment	**23**	**9**

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

39 OTHER FINANCIAL OBLIGATIONS

(1) Operate Lease

The Group leases numerous store premises for hairdressing salons within the framework of non-terminable operating lease agreements. These lease agreements involve various conditions; lease-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 leasing expenses for premises amounted to EUR 21,423k (previous year EUR 21,124k).

The Group also leases motor vehicles. The expenses relating to these assets amounted to EUR 239k (previous year EUR 270k).

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

€	31.12.2013	31.12.2012
Remaining term up to 1 year	20,065,217.73	19,847,468.73
Remaining term 1 to 5 years	58,906,704.65	60,166,199.10
Remaining term more than 5 years	17,911,534.30	19,145,499.34
	96,883,456.68	**99,159,167.17**

(2) Purchase commitment

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

40 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.

41 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, one of which was cancelled as of 31 May 2013. The remuneration paid to these agreements amounted to EUR 57k (previous year EUR 80k). Moreover, travel expenses amounting to EUR 1k were paid (previous year EUR 1k). Furthermore, remuneration of EUR 3k (previous year EUR 6k) was calculated by the company Tröndle GmbH for the provision of trainers to train Essanelle Hair Group personnel.

A dividend of EUR 2,062k was paid to the Saxonia Holding GmbH (previous year EUR 2,062k). Furthermore, expenses for the audit of the reporting packages were charged amounting to EUR 2k (previous year EUR 2k). In return, Essanelle paid rata insurance contributions to the Saxonia Holding GmbH amounting to EUR 11k (previous year EUR 7k). Moreover, Essanelle paid invoices in respect of Klier GmbH for consulting services, amounting to EUR 24k (previous year EUR 0k).

The overall compensation of the Management Board and the Supervisory Board has been reported under No. 45.

Majority investment of the HairGroup AG in ESANELLE HAIR GROUP AG

The HairGroup AG 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 14 March 2014. The ultimate parent company of Essanelle Hair Group is the Saxonia Holding GmbH, Wolfsburg.

Shares held by the Supervisory Board and the Management Board

As of 31 December 2013, the members of the Management Board and the Supervisory Board held no shares in Essanelle Hair Group.

For the compensation in respect of the Management Board and Supervisory Board, please refer to No. 46.

42 NUMBER OF EMPLOYEES

The company had an average of 2,078 full-time employees, 1,666 part-time employees and 328 trainees during the financial year.

43 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	2013	2012
Auditing of financial statements	110	111
Other audit services	4	4
Tax advisory services	33	167
Other services	5	0
	152	**282**

44 EVENTS AFTER THE REPORTING DATE

With the notification of 10 February 2014, the HairGroup AG, a subsidiary of Saxonia Holding GmbH, announced that it holds a total of 91.2 % of the share capital and shares of Essanelle Hair Group AG, taking into account treasury shares of Essanelle Hair Group. In addition, the company announced the intention to begin negotiations regarding a conclusion of a merger agreement with the Management Board with the goal of a merger legal squeeze-out. Accordingly, the Hair Group AG filed a request to the Management Board to decide at the next Annual General Meeting of ESSANELLE HAIR GROUP AG about the transfer of shares of all other shareholders (minority shareholders) to the HairGroup AG for granted payment of adequate cash compensation. According to an ad-hoc notification from 10 February, the Management Board intends to meet this request and enter into negotiations regarding the conclusion of a corresponding merger contract with the HairGroup AG. Additionally, the request shall be adapted to put the resolution regarding the transfer of the shares from all minority shareholders to the HairGroup AG as main shareholder on the agenda for the Annual General Meeting scheduled for 27 June 2014.

There were no further events that materially influenced the revenues and earnings and asset and financial situation of Essanelle Hair Group after the closing date on 31 December 2013.

45 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

46 MANAGEMENT BOARD AND SUPERVISORY BOARD COMPENSATION

(1) Management Board compensation

The total compensation of the Management Board amounted to EUR 1,070k in 2013 (previous year EUR 1,064k) and was structured as follows:

		2013		
€k	**Mansen**	**Bonk**	**Wiethölter**	**Gesamt**
Basic salary (non-performance related)	259	177	172	608
Bonus (performance-related)	208	103	103	414
Benefit in kind from use of company car	20	13	15	48
	487	**293**	**290**	**1.070**

		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**

A defined benefit pension commitment has been made to Management Board member Achim Mansen. The respective provision after deduction of plan assets of EUR 252k (previous year EUR 152k) amounts to EUR 428k (previous year EUR 363k). The interest rate used for accounting purposes is 3.80 % (previous year 3.10 %). EUR 56k was added as service cost to this provision in the year under report (previous year EUR 134k). The fair value of this commitment amounts to EUR 680k (previous year EUR 724k) 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 pension amount in the previous year is guaranteed.

(2) Compensation of former members of the Management Board

A defined benefit pension commitment was made to former Management Board member Uwe Grimminger. The provision amounts to EUR 823k (previous year EUR 853k). In the report year, the provision only changed because of interest expenses (EUR 26k; previous year EUR 31k), actuarial gains recorded in other consolidated income (EUR 16k; previous year EUR 144k) and EUR 39k was utilised. The current value of the obligation amounts to EUR 823k at the reporting date (previous year EUR 853k). 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 amount of the pension in the previous year is guaranteed. The pension currently amounts to EUR 3,302.99. In the fiscal year 2013, EUR 39k in retirement benefits was paid to Mr. Grimminger.

(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 twice this compensation. Each ordinary member of a committee formed by the Supervisory Board receives an additional EUR 1,000 and each chairman of such a committee receives an additional EUR 1,500 for every meeting day of said committee, plus turnover taxes where applicable in each case. This additional compensation is paid for meetings with mandatory presence, regardless of the session duration of each committee, but not for telephone and video conferences or similar gatherings without simultaneous presence in the same place. Compensation in the form of wages or salaries paid to labour representatives outside of their member activities took place on market-based conditions.

Compensation totalling EUR 177k (previous year EUR 158k) was paid in the financial year 2013.

47 RESPONSIBILITY STATEMENT ACCORDING TO THE TRANSPARENCY DIRECTIVE IMPLEMENTATION ACT

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, 14 March 2014

Achim Mansen
Chairman of the Management Board

Dieter Bonk
Management Board

Dirk Wiethölter
Management Board

BALANCE SHEET (HGB) as of 31 December 2013

ASSETS

€	31.12.2013	31.12.2012
A. FIXED ASSETS		
I. Intangible Assets		
1. Concessions industrial and similar rights assets and licenses in such rights and assets acquired for valuable consideration	65,520.09	100,002.58
2. Goodwill	236,424.67	1,582,900.53
	301,944.76	**1,682,903.11**
II. Tangible Assets		
1. Office equipmnent including fixtures in rented premises	18,161,507.21	18,650,950.91
2. Prepayments	85,237.80	120,429.30
	18,246,745.01	**18,771,380.21**
III. Financial Assets		
1. Investments in associated companies	1.00	1.00
2. Interests	4,579.67	0.00
3. Other loans	223,387.71	239,834.00
	227,968.38	**239,835.00**
	18,776,658.15	**20,694,118.32**
B. CURRENT ASSETS		
I. Inventories		
Merchandise	7,619,697.88	6,405,348.01
	7,619,697.88	**6,405,348.01**
II. Receivables and other assets		
1. Accounts receivables	107,308.67	159,057.35
2. Receivables from associated companies	41,591.16	2,760.72
3. Other assets	2,598,347.35	2,432,396.49
	2,747,247.18	**2,594,214.56**
III. Cash on hand, Balance with banks	**9,788,128.19**	**7,904,719.06**
	20,155,073.25	**16,904,281.63**
C. PREPAID EXPENSES	**135,327.46**	**135,745.70**
Total assets	**39,067,058.86**	**37,734,145.65**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	31.12.2013	31.12.2012
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	4,622,092.15	4,244,666.28
	22,949,778.80	**22,572,352.93**
B . ACCRUALS		
1. Accruals for pensions and similar obligations	968,123.00	988,298.00
2. Tax Accruals	31,698.04	0.00
3. Other Accruals	4,842,543.00	4,411,529.77
	5,842,364.04	**5,399,827.77**
C. LIABILITIES		
1. Liabilities to banks	600,000.00	920,003.04
2. Accounts Payable Trade	5,484,072.15	4,511,097.39
3. Other liabilities	4,190,843.87	4,328,864.52
	10,274,916.02	**9,759,964.95**
D. PREPAID EXPENSES	**0.00**	**2,000.00**
Total liabilities and shareholders' equity	**39,067,058.86**	**37,734,145.65**

INCOME STATEMENT (HGB)

for the Period from 1 January 2013 to 31 December 2013

€	01.01.-31.12.2013	01.01.-31.12.2012
1. Revenue	129,675,446.75	126,464,702.36
2. Other operating income	1,448,824.31	2,170,027.63
3. Cost of materials	-9,849,613.06	-10,044,805.93
	121,274,658.00	**118,589,924.06**
4. Personnel expenses		
a) Wages and salaries	-61,091,606.91	-58,656,500.44
b) Social security, pensions and other benefit costs (of which for pension € 63,018.41; PY € 144,864.25)	-12,661,423.70	-12,494,230.29
5. Depreciation and amortization of non-current intangible assets and property, plant and equipment	-5,883,776.33	-6,215,313.55
6. Other operating expenses	-36,894,804.66	-36,389,806.61
	4,743,046.40	**4,834,073.17**
7. Income from investments	6,668.69	7,610.78
8. Other interest and similar income (therefore from associated companies € 555.09; PY € 476.54), (therefore from discounts € 23,586.88; PY € 26,236.59)	45,223.18	120,660.41
9. Write-downs of financial assets	-12,157.77	0.00
10. Interest and similar expenses (thereof accumulations € 98,938.61; PY € 85,916.67)	-280,111.52	-373,418.53
11. Profit from ordinary operations	**4,502,668.98**	**4,588,925.83**
12. Income taxes	-1,852,413.02	-1,614,019.52
13. Other taxes	-11,409.59	-42,239.75
14. Net profit for the year	**2,638,846.37**	**2,932,666.56**
15. Profit carry forward	1,983,245.78	1,311,999.72
16. Net result	**4,622,092.15**	**4,244,666.28**

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 2013. 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, 14 March 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bibiana Bolsenkötter	ppa. Dr. Michael Wittekindt
Wirtschaftsprüfer	Wirtschaftsprüfer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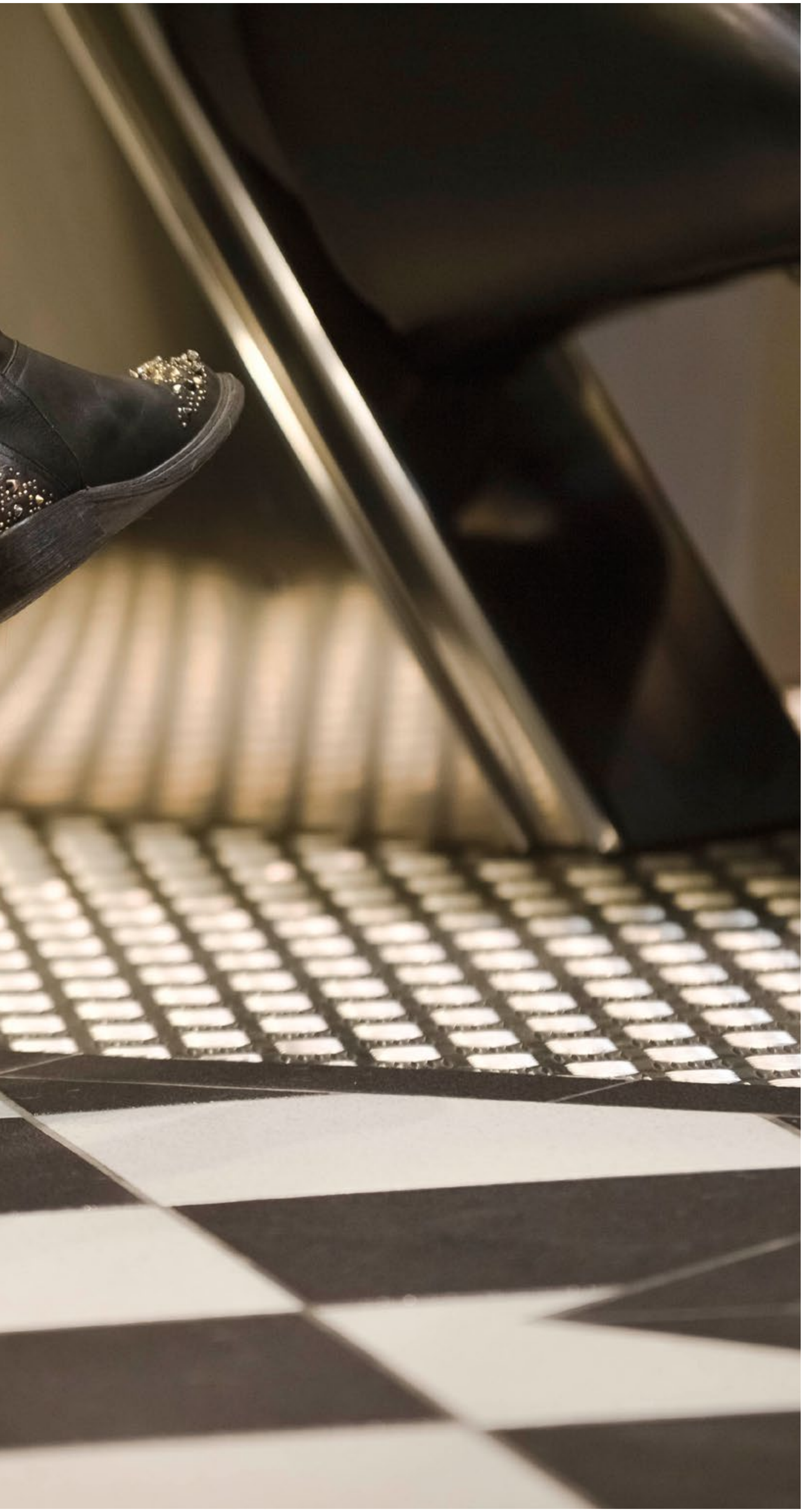

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