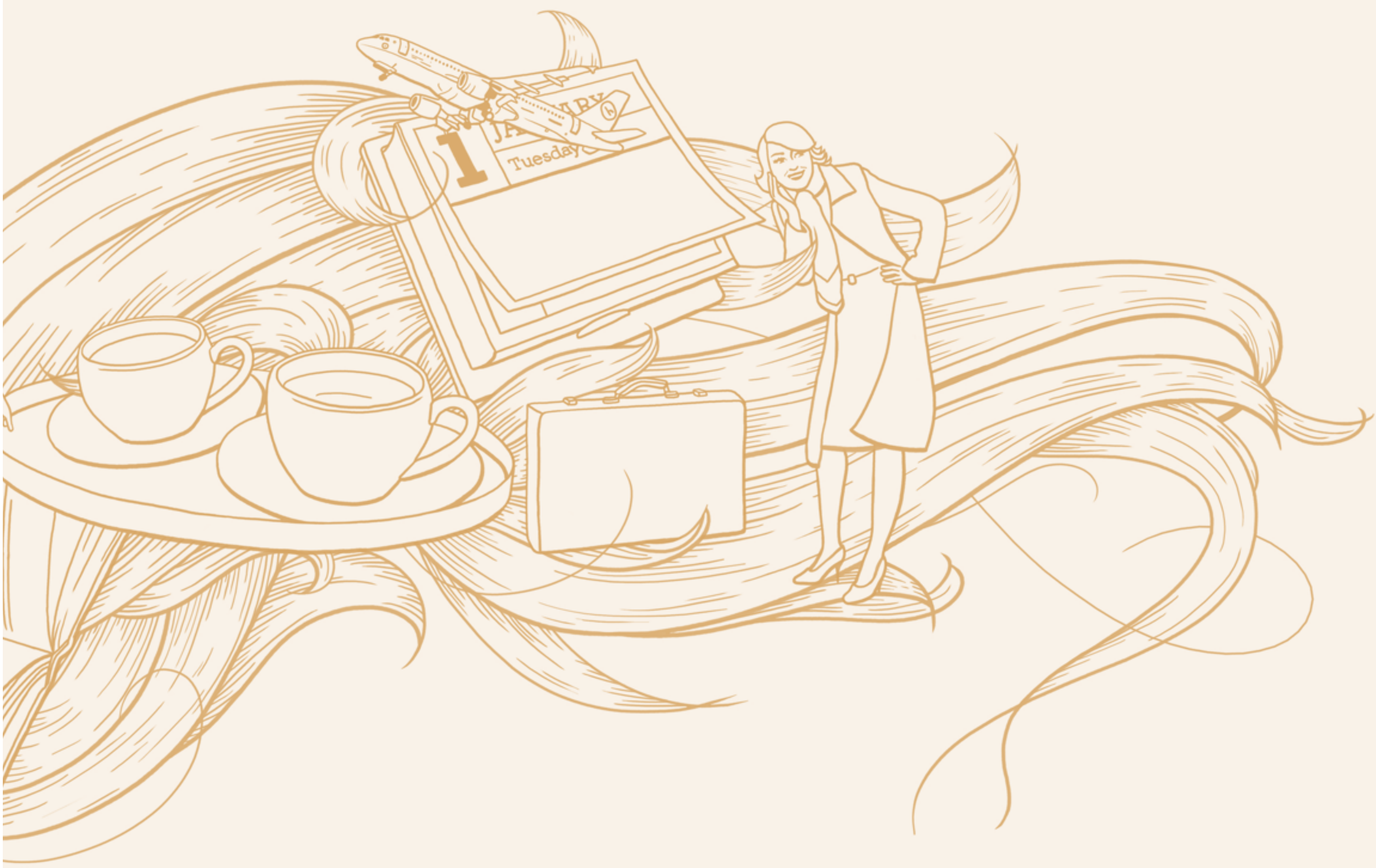
Annual Report 2011 ESSANELLE HAIR GROUP AG



ESSANELLE HAIR GROUP

KEY FIGURES

Mio. € – IFRS, Group

Mio. €	**2011**	**2010**	**2009**	**2008**	**2007**
Consolidated sales	127.2	127.2	128.0	129.2	123.1
essanelle Ihr Friseur	56.6	58.4	63.3	69.0	72.1
TOP TEN	3.6	5.1	5.4	5.9	4.1
Super Cut	21.6	21.2	20.5	20.6	19.6
HairExpress	38.6	35.7	32.1	27.7	22.2
Beauty Hair Shop	6.9	6.8	6.7	6.0	5.0
EBITDA	11.8	10.8	11.3	12.1	11.0
EBIT	6.7	5.4	5.9	7.0	6.1
EBT	6.4	5.1	5.5	6.4	5.4
Annual net income	3.8	3.4	3.2	3.6	4.6
Earnings per share (basic)	0.84 €	0.75 €	0.71 €	0.79 €	1.01 €
Equity ratio	62.2%	58.8%	56.1%	53.7%	53.0%
Cashflow (from operating activities)	8.0	6.2	9.1	11.5	8.3
Cashflow per share	1.74 €	1.35 €	1.99 €	2.50 €	1.81 €
Number of employees	4,016	4,246	4,185	4,306	4,183
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%**

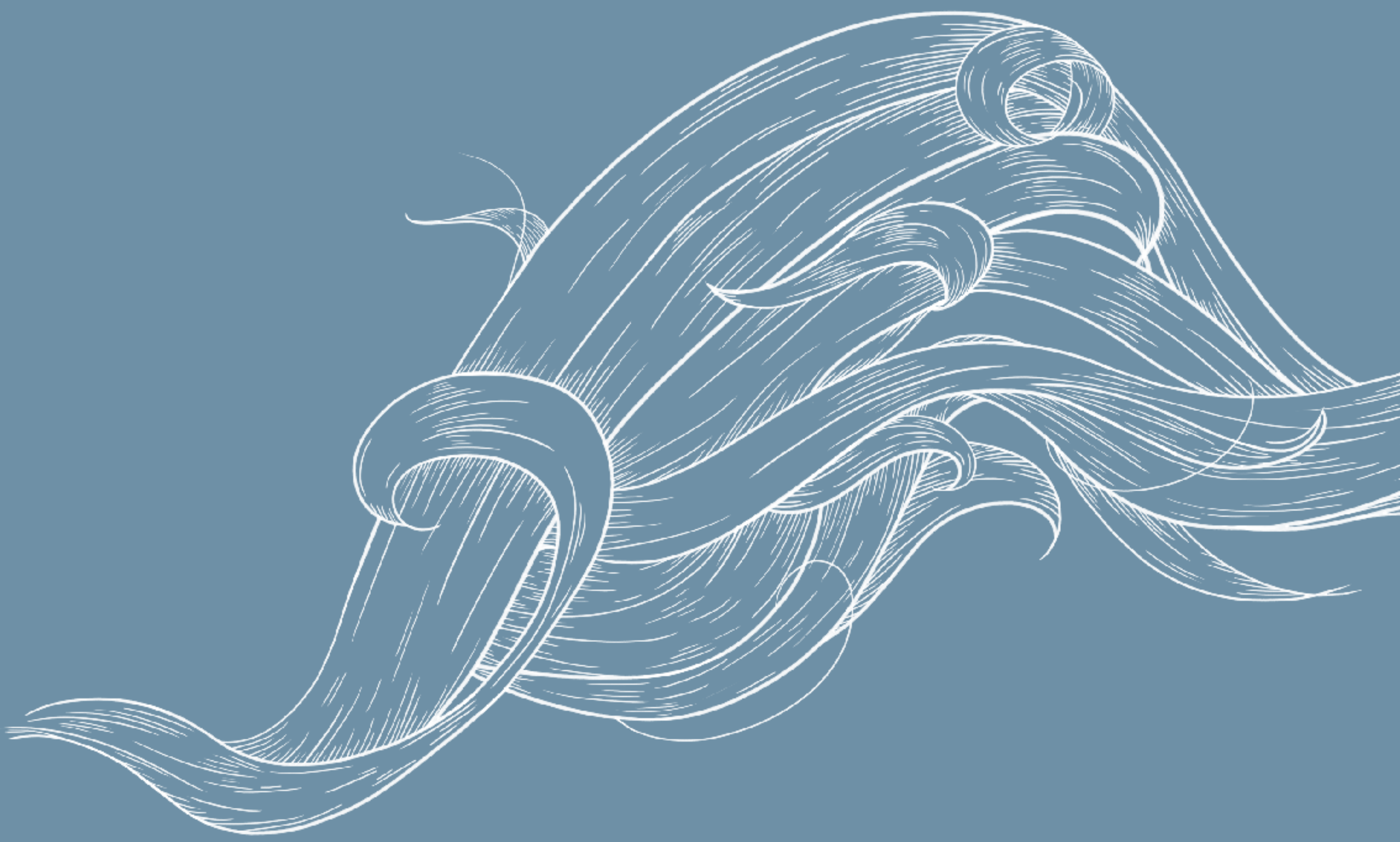
* per february of the following year

Editorial

What thoughts go through our customers' minds – when they are at the hairdresser? This of course is always an interesting topic for our employees at the salon as well as for our marketing division. And this year, this topic is covered in our annual report.

Customers of our respective salon concepts essanelle Ihr Friseur, Super Cut, HairExpress and also the Beauty Hair Shops have told us what is on their minds when they go to the hairdresser and what kind of associations come up – and we modified the answers somewhat for our readers.

And what do you think?



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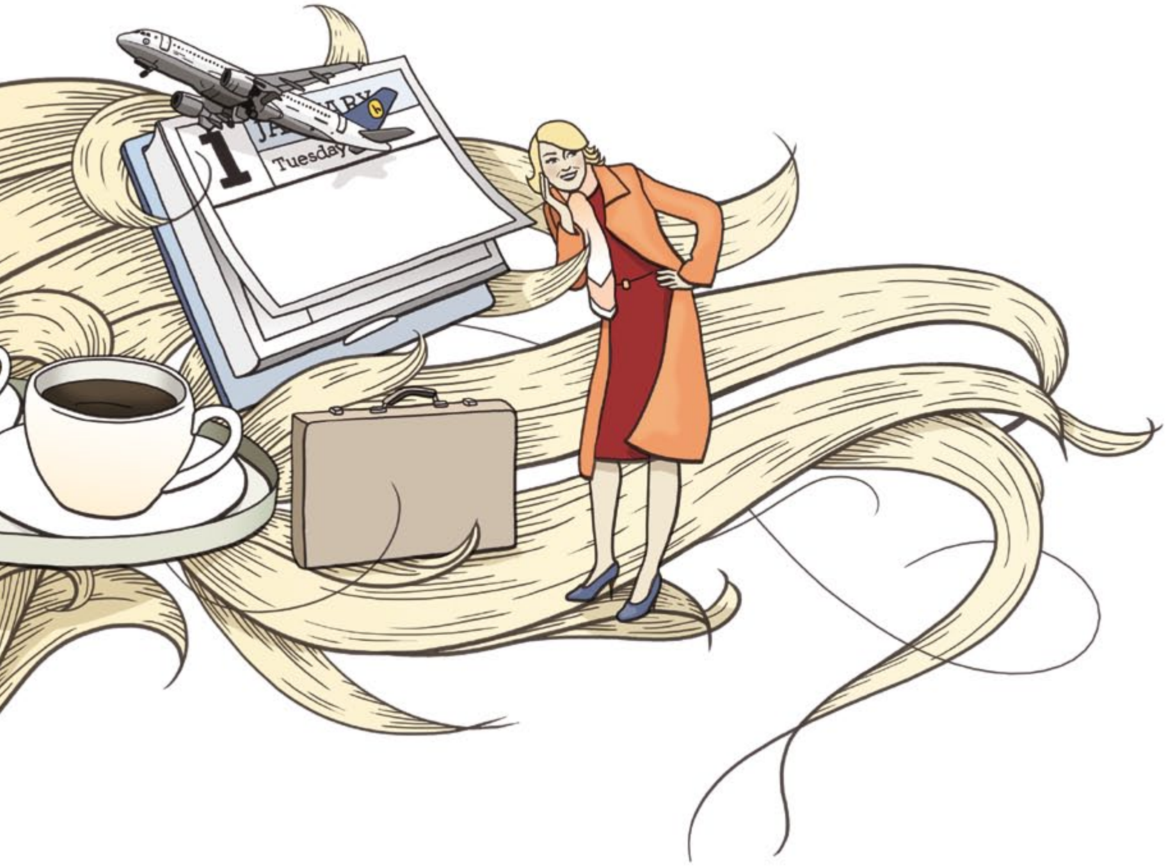
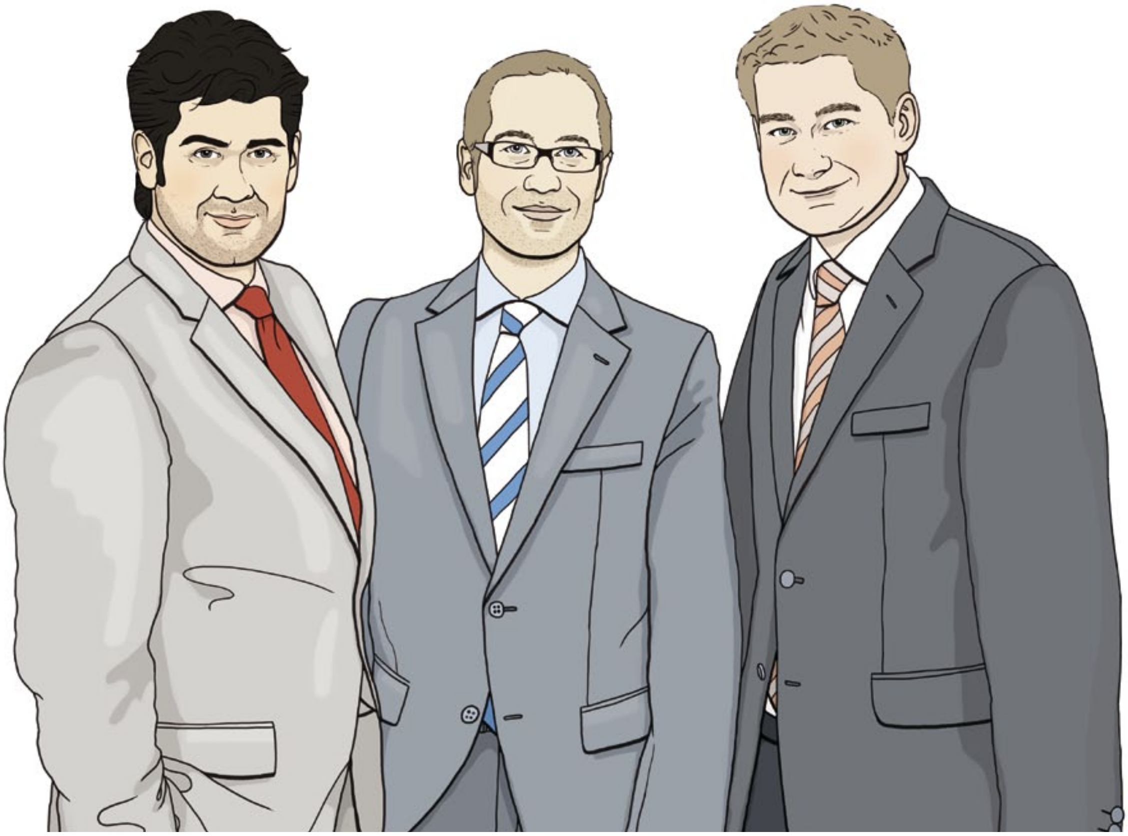


“Basically my hair is an open book –
people always see what is on my mind.”

INTERVIEW WITH THE MANAGEMENT BOARD OF ESSANELLE HAIR GROUP



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

Mr Mansen, at the beginning of 2011 your goals were to increase sales by 2% – 3% and to improve earnings before taxes by at least 5%. What is your conclusion one year later?

Achim Mansen Overall, I can offer a positive summary. We were able to increase our earnings performance indicators significantly above the previous year's figures and our plans. We achieved a plus of more than 26% regarding earnings before taxes. We are very satisfied with this. Regarding sales we almost reached the previous year's level – whereby we sold the TOP TEN salons and just through this action, achieved EUR 1.5 million less in sales than in the previous year. Otherwise, on the bottom line, we would have recorded growth for 2011.

What were the main reasons for the good earnings performance – if the sales growth was not able to contribute to this?

Achim Mansen Regarding the net expense items, we lowered personnel costs and spent less for advertising. A detailed view shows that we have 52 closings overall – this includes some re-brandings however – and the number of salons has decreased by 16 salons overall. It had been our goal to actively adjust our portfolio by restructuring and thereby improving the profitability of the company. We were successful in this.

Mr Bonk, how were you able to work with a lower advertising budget in the past year?

Dieter Bonk In the field of advertising we worked increasingly with co-operating partners in the past year and thereby reduced our own costs and achieved a comparable or even higher advertising effect. Furthermore no special costs for re-launches of brand concepts were incurred. That also lowered the total expense.

You wanted to open 30 new salons at the beginning of the year – to what extent are you satisfied with the realisation of this goal?

Dieter Bonk We have opened 26 completely new salons and created 10 additions to our concepts from re-brandings especially from TOP TEN – with this we are well within the scope of what we intended and what has made sense.

Despite this, you had a net loss of salons – wouldn't it have made sense to increase the speed of growth and open 50 salons as in previous years for example?

Achim Mansen It is not our style to react frantically. We only finally decided to sell the remaining TOP TEN salons over the course of the year. In the remaining time to the end of the year we certainly could have found 20 new locations quickly – but not 20 that we believe would work profitably in the medium and long-term.

Dieter Bonk Basically it is impossible to find 10-20 good locations in a short space of time. With regard to new openings, department stores are out of the question for us at present, and new shopping centres are only opened occasionally whereas in consumer markets – here the development continues to be dynamic – we are already very active. Therefore 30 new openings per year are a realistic and sensible goal for our company in the current environment.

Free locations are not an option anymore after the sale of TOP TEN?

Dieter Bonk Good locations are always interesting for us – including free locations. But of course our strategy continues to focus on locations with high customer frequency, which we mainly find in our usual context of location partners. But I can certainly imagine one or the other good free location in the future.

And how was the sales performance regarding the location types shopping centre, supermarket and department store?

Dirk Wiethölter We continue to be satisfied with the development in shopping centres – especially with local supply character – and particularly in consumer markets. Regarding the locations in department stores it can be said that in general, the situation there is not worsening – but we are not satisfied with such locations.

And regarding the concepts – where was business especially good and where not?

Achim Mansen At essanelle Ihr Friseur we have closed six salons in the past year and correspondingly lost some revenue with regard to sales. HairExpress has performed strongly regarding the number of salons as well as the sales performance. Here we have recorded a sales growth of 8.2%. The performance of Super Cut was satisfying – we want to push this concept significantly in the current year by re-launching the brand and the salons.

What should we understand under the term re-launch?

Dieter Bonk We have revised the visual direction and positioned the whole concept in an even higher quality category in order to seize current trends and to attract and delight our target group in the long term. Super Cut is a very emotional concept with a clear position. Here, as a subsidiary retailing business are fully able to play to our strengths of brand and marketing competence.

How will you proceed with the concepts in the short and medium term?

Dirk Wiethölter We are going to have new openings in all concepts in the current year. It has been our clearly stated goal to completely focus our resources on the other concepts after the sale of TOP TEN. We want to increase our market shares this way. As studies show, the polarisation of the sector continues. Apart from micro enterprises, especially companies with numerous salons – such as the Essanelle Hair Group – win market shares while the traditional middle layer shrinks. While micro enterprises try to score mainly with extremely low prices, which in our opinion cannot work in the long term, our competition advantages are professional staff management, target group oriented marketing and financial resources that allow us substantial growth.

HairExpress still continues to grow the strongest by far – that means that the lower price segment is fiercely contested? How does that fit together?

Achim Mansen Because the demand in this segment is the highest and it is growing the strongest. In our opinion the “it’s great to be a miser”-mentality is decreasing but the number of consumers who are at least price-sensitive continues to grow. And because this target group nevertheless expects good quality, we are not only optimally positioned with HairExpress but also consistently successful economically – in contrast to many micro enterprises of which a large number appear up on the market each year but almost as many vanish every year.

Dieter Bonk The dynamic of this segment is also demonstrated by the fact that the customer frequency in consumer markets, in other words the classical environment for price sensitivity, is showing the best performance of all location types. We expect this to continue for several years and therefore expect the best growth opportunities for us in this environment in the medium term.

The number of Beauty Hair Shops has not changed significantly in the past 2 – 3 years, even though you consider the sale of hairdressing products to be a core part of your business strategy – any plans for the future?
Dieter Bonk I expect that we will open five or six new shops in 2012. That would increase locations by almost 20% compared to today, and will contribute significantly to sales and results as of 2013. We certainly see potential for growth regarding the Beauty Hair Shops and want to realise this gradually in the coming years. But it is also our goal to continue to increase the sales share in our salons, even though we are already way above the average compared to the competition. Our employees are aware of this matter and profit personally if they sell products.

Mr Wiethölter, you continue to point out that your employees at the location decide over the success of the company. Shortage of skilled workers is a social mega-topic – does that apply to the hairdressing industry as well?
Dirk Wiethölter Yes, this is also an important topic for us. The number of salons in Germany is increasing more strongly than the number of hairdressers – which has not increased particularly in the past years and we do not think that this will change in the future.

And what impact does that have?
Dirk Wiethölter As an example, the average number of hairdressers in our salons is decreasing. But that of course also has other reasons such as our efforts to ensure a sensible workload for our employees or smaller salon spaces. But overall it must be our goal to have the best hairdressers and to significantly increase the number of trainees – and also to make them good hairdressers.

With which strategies do you want to reach that goal?
Dirk Wiethölter Apprenticeship is always the best strategy, because in so doing, we can guide the professional career of young people in the best way. It is no accident that our training ratio continues to grow steadily. We were able to increase the number of our trainees by almost 10% in 2011. For the coming years we are even more ambitious and have made an increase by 30% of the current number of trainees to our goal.

And how do you reach potential trainees?
Dirk Wiethölter On the one hand we are interested in getting the biggest possible pool of applicants. In addition to various activities in social media networks for example, we organised for the first time, a big trainee casting in the style of the casting-wave in the media in Berlin during the past year. This has been so successful that we are going to repeat it in other big cities like Hamburg or Cologne in 2012. A big pool of applicants means that we can filter the really talented ones – because in addition to the quantitative increase of our trainee numbers, the quality of the applicants is of course important for the quality of their work in our salons later.

Dieter Bonk In addition to increased awareness of young people regarding the hairdressing profession, such activities as the trainee casting have a positive effect on our image with qualified hairdressers. There are still a lot of black sheep in the sector. Illegal employment and a partially bad discourse with employees come up now and again. We consciously distance ourselves strongly from this. Not only because of legal regulations but also out of conviction. At the end of the day, the participation of the hairdressers in the salons, in their individual success via a clearly structured bonus-system, as well as various opportunities for a successful career, are part of this.

A hairdressing career?

Dirk Wiethölter Of course. In addition to training at renowned hairdressing schools to improve the professional know-how of our employees, we also offer our employees easy access to training as Master craftsmen. Furthermore we offer economically advanced education and the opportunity to become a salon director or to supervise a whole group of salons as distribution manager or even distribution director. Four of our five distribution directors are women, 32 of our 34 distribution managers are women – and 100% of these employees come from our salons. With this, we have already come very close to our goal to fill all positions internally if possible. Other hairdressers are not able to offer these perspectives, which make us an appealing employer.

Achim Mansen Overall we communicate the most important competition advantages for potential employees even more strongly now: No below-tariff salaries at the Essanelle Hair Group, above average salaries for above average performance and professional and individual opportunities for advancement.

And in which direction is the medium to long-term trend regarding personnel costs going?

Dirk Wiethölter That will range within the scope of the sales performance. We therefore expect a slight increase in personnel costs and a relatively constant personnel cost ratio in the coming years. Although we are unable to foresee how standard wages will change in the coming years. Principally this can always lead to increasing personnel costs – but in the past we have always been able to compensate for this.

Let us focus on the current fiscal year. Consumer behaviour continues to be projected positively. But with the sale of the TOP TEN salons you will lose more than EUR 3 million of sales – can you compensate for that in 2012?

Achim Mansen That is going to be difficult. We will certainly be able to generate additional sales from the new openings of 2011 and 2012. But currently, we do not expect to be able to completely absorb the EUR 3.6 million from the TOP TEN salons. We rather expect a slight minus, which will probably amount to 1-2%.

How many salons are you planning to open in 2012?

Dieter Bonk We plan again on 30 new salons as in the previous year. Here, HairExpress and Super Cut will be the main focus. With the concept Beauty Hair Shop we will also open five to six new salons thereby increasing the number of shops by approximately 20%.

Achim Mansen Overall this is a sensible speed and clearly oriented towards a sustainable and profitable growth. As of 2013, we expect growth in sales again and we want to continue this year by year as in the past. We have made great progress in adjusting our portfolio regarding salons as well as in our concepts and have realised the intended profitability effects, even though it cost us sales. This adjustment – or to be exact the high number of yearly closings – probably won't be necessary on this scope in the coming years if the environment remains somewhat stable. The sales generated in our new openings will then reflect fully in the overall sales.

The earnings figures improved by more than 25% in 2011? Which developments are still possible in 2012 and beyond?

Achim Mansen We are confident that we will generate a fair part of the earnings increases of 2011 again in the current year even with a decline in sales. Specifically we expect a range of EUR 5.5 – 6.0 million in earnings before tax after EUR 5.1 million in 2010 and EUR 6.4 million in 2011. With increasing sales as of 2013, the earnings performance indicators should be able to increase over-proportionately once again.

And what about the dividend?

Achim Mansen After talks with our Supervisory Board we expect that we can recommend at the Annual General Meeting, a dividend of EUR 0.50 as in the previous year. Sustainability is also very important to us regarding the payout – and if this should be realised, we would be paying a dividend for the fifth year in a row which constitutes a fair yield on the stock price.

Are increases possible in the medium term? Your result per share within the corporation already amounts to 65 cents in 2011, your equity ratio already ranges at almost 57%, and within the group at above 62%.

Achim Mansen In the medium term this is certainly possible. In 2013 we will have lower goodwill depreciation within the corporation, and as of 2014 it will disappear completely. Within this timeframe and with a sustained good profit situation, we certainly want to let our shareholders to participate in the success of our company to a corresponding level. But we will continue to make sure that the dividend payments develop continuously.

REPORT OF THE SUPERVISORY BOARD

Ladies and gentlemen,

Fiscal year 2011 was very successful for Essanelle Hair Group, especially regarding the earnings performance. The planned improvement of earnings before tax (EBT) has been surpassed significantly with a plus of more than 25%. Despite focusing on the concepts essanelle Ihr Friseur, HairExpress and Super Cut and the concomitant reduction of the number of salons, which the Supervisory Board supported, sales remained within the same range as in the previous year. Thus, 2011 has been a good fiscal year for Essanelle Hair Group AG, despite several unfavourable circumstances. This made it possible for the Management Board and the Supervisory Board to recommend a dividend of 50 cents per share for the fiscal year 2011 at the Annual General Meeting.

In 2011, the Supervisory Board carried out in full, the duties assigned to it by law, ordinance, corporate governance principles and rules of procedure. In this regard, we advised, checked and monitored the Management Board regularly with respect to the leadership of the company. The Supervisory Board was directly involved from an early stage, in all decisions of fundamental importance.

As part of our advisory and monitoring activity, we were regularly, fully and promptly informed in written and verbal reports provided to us by the Management Board, regarding all relevant topics. Important topics included, among others:

– corporate planning and strategic development,
– business trends and the company's position,
– risk level as well as risk management and compliance.

The Management Board consulted with us consistently with regard to the strategic orientation of the Company. Deviations of business processes from the agreed plans and goals were explained in detail. Based upon the Management Board's reports, we discussed all important business processes thoroughly.

The Supervisory Board came together for a total of four regular meetings in fiscal year 2011, on March 29, June 17, September 27 and November 29. More than half of the members were present at each meeting. Where members were unable to attend, they participated in the resolutions by submitting written votes. The meetings covered the topics of business development, assets, financial and earnings situations, proposed investments and the risk situation and risk management of Essanelle Hair Group. In addition, the following major topics were on the agenda and were thoroughly discussed and dealt with in cooperation with the Management Board:

- The economic course of fiscal year 2011
- Extent of the growth strategy for 2012
- Plans for fiscal years 2012 to 2016
- Sale of all salons of trademark TOP TEN
- Efficiency review of the work of the Supervisory Board

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

At the meetings held on February 24, 2011 and March 15, 2011, the Audit Committee occupied itself primarily with issues involving financial reporting, risk management and compliance. In addition, outside of the meetings, the Audit Committee gave considerable attention to quarter reports and the half-year report. At both meetings, the Audit Committee also analysed the annual and consolidated financial statements in detail, in preparation for the Supervisory Board's balance sheet meeting. In conclusion, the Audit Committee made recommendations to the Supervisory Board regarding approval and adoption of the results.

The Appointments and Compensation Committee met on March 28 and November 28 in the past fiscal year. Major topics were the bonuses for the Management Board for fiscal year 2010 as well as the preparatory work for the contract extension with the chairman of the Management Board.

At the Annual General Meeting of Essanelle Hair Group AG on June 17, 2011, elections for the Supervisory Board were due because the terms of office of all representatives of the shareholders within the Supervisory Board ended with the closing of the Annual General Meeting. The Supervisory Board recommended the re-election of the following people for the next four years: Fritz Kuhn, Seeheim, freelance management consultant, Olaf Rogowski, Munich, Managing Director, Werner Schneider, Cologne, Managing Consultant, Hiltrud Seggewiß, Düsseldorf, Managing Director, Jürgen Tröndle, Kelsterbach, Hairdressing entrepreneur and Andreas Tscherner, Ahlum, Director of Company Accounting and Controlling. Based upon her professional background, Hiltrud Seggewiß has the necessary know-how in the areas accounting and auditing as an independent member, according to section 100 (5) of the German Stock Corporation Act (AktG). All recommendations for the election of the Supervisory Board were accepted by the Annual General Meeting by a large majority. In their own opinion, the entire Supervisory Board now consists of members who possess the necessary general and company-specific knowledge, skills and professional experience required for properly performing their tasks. The goal of the Supervisory Board when setting up the board, to consider the recommendations of the Corporate Governance Code with regard to, company-specific situations, diversity and inclusion of women – five of the twelve members are female – has been reached with the current Supervisory Board.

During the reporting year, the Management Board and the Supervisory Board considered the recommendations and suggestions of the German Corporate Governance Code carefully. On November 29, 2011, the two boards jointly issued an updated compliance declaration pursuant to § 161 of the German Stock Corporation Act (AktG) and this was made permanently available to shareholders on the company's website. After a written audit, the Supervisory Board is still of the opinion that the board continues to function efficiently. Furthermore, there were no conflicts of interest either in the Management Board or in the Supervisory Board during the reporting year.

At the Annual General Meeting on June 17, 2011, the auditing firm PricewaterhouseCoopers Corporation, Düsseldorf, was re-elected as the auditor for the annual and consolidated financial statements. The chairman of the Supervisory Board, after obtaining the auditor's statement of independence, conveyed the audit engagement to the auditor, entered into the fee agreement and in combination, 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, 2011, the corresponding management reports for the company and the group for fiscal year 2011 and also the risk management system. The audits did not yield any objections; therefore an unqualified audit statement could be issued. In addition, the report of the Management Board regarding the relationship with controlled companies ("dependency report") was audited and approved with the following unrestricted audit statement:

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

The financial statements, management reports, audit reports and the Management Board's proposal as to how to use the profits were submitted to the Supervisory Board and the Audit Committee in good time before their respective meetings. In the balance sheet meeting on March 27, 2012, the chairman of the Audit Committee reported in-depth on the consultations and results of his preliminary examinations. In addition, the auditor reported on the major results of his audit and was available to answer questions.

Taking the results of the auditor and the Audit Committee into consideration, the Supervisory Board subjected the annual and consolidated financial statements, the corresponding management reports and the Management Board's proposal for the use of the retained earnings to its own detailed examination. After the completion of this review there were no objections. The Supervisory Board then concurred with the audit result of PricewaterhouseCoopers Corporation and approved the annual statement and the consolidated statement that had been prepared by the Management Board as of December 31, 2011. The annual report of Essanelle Hair Group AG is thereby adopted. In addition, after our own review, we also concurred with the Management Board's proposal that the retained earnings be used for another distribution of dividends.

Looking back on the successful fiscal year 2011, we thank all of the employees as well as the Management Board for their great personal commitment. Only through their efforts could the current good results of Essanelle Hair Group be achieved.

Düsseldorf, 27 March, 2012

Fritz Kuhn
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

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

During the fiscal year, the Management Board and the Supervisory Board dealt with the topic of corporate governance in depth, and on 29 November 2011, they jointly submitted an updated declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG). Pursuant to the aforementioned, conformity continues convincingly under the new version of the Code of 26 May 2010. Deviations exist only in substantiated cases based on size, structure and company-specific circumstances and are explained correspondingly in the declaration. The declaration was made permanently available to the general public on the company's web page.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

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

The Annual General Meeting of Essanelle Hair Group AG took place on 17 June 2011 in Düsseldorf. All items on the agenda were passed with a substantial majority, including the re-election of shareholder representatives on the Supervisory Board. All members who were in charge up to the Annual General Meeting were re-elected. In addition, the plenum agreed to the proposal to pay a dividend of 50 cents per share for fiscal year 2010.

COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

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

During the fiscal year, the Management Board informed the Supervisory Board regularly, promptly and comprehensively in writing and verbally about all aspects that were significant for the Essanelle Hair Group. These include among others, planning and strategic orientation, business development and the position of the Group, including risks, risk management and compliance. The Supervisory Board has determined that prior consent must be given for fundamentally important transactions.

The Supervisory Board follows concrete goals pursuant to point 5.4.1 of the Corporate Governance Code when deciding upon its membership. In that regard, the company-specific situation especially regarding sector and personnel work, expertise and also the diversity of the members, are among the main factors considered. The special consideration of women is not only a concrete goal in selecting members of the Supervisory Board, but has been in practice for years. Since 31.12.2011, five of the 12 members of the Supervisory Board have been female. A ratio on this scale will continue to remain a concrete goal in selecting members of the Supervisory Board. Furthermore, in its 2011 annual declaration of conformity, Essanelle Hair Group stated that exceptions may be made to the age limit for individual members of the Supervisory Board. Presently no member exceeds the age limit of 75 years.

The Supervisory Board has the opinion that it has a sufficient number of independent members. In addition, the Supervisory Board has established an Audit Committee as well as a Personnel Committee from among its members. In the past fiscal year, there were no conflicts of interest in the Supervisory Board that needed to be disclosed.

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

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

The compensation report, which forms a part of the management report on page 36 of the annual report, provides information about the compensation of members of the Management Board and the Supervisory Board.

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

TRANSPARENCY

In dealing with the shareholders of the company, Essanelle Hair Group follows the principle of comprehensive, continuous and prompt information. Thereby, the company reports according to the regulations of Prime Standard, the highest transparency standard of the German Stock Exchange – with obligations such as a regular quarter report. In the interests of open and regular communication with all interest groups, we put details in the form of documents and information about the Annual General Meeting, all financial reports as well as current ad hoc releases and press releases on our homepage both in German and English. In the fiscal year 2011 neither ad hoc releases pursuant to Section 15 of the German Securities Trading Act (WpHG) nor Directors' Dealings pursuant to Section 15a of the German Securities Trading Act, were published. No Managing Board or Supervisory Board member owns, either directly or indirectly, more than one per cent of the issued stock.

REPORTING AND AUDITING

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

All reports are published within the time limits determined by the rules of the Frankfurt Stock Exchange for Prime Standard. The audit for fiscal year 2011 was conducted by the appointed auditors, Pricewaterhouse Coopers Corporation, Auditing, Düsseldorf, as well as by the Audit Committee and the Supervisory Board before the Annual General Meeting on 17 June 2011.

DECLARATION BY THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF ESSANELLE HAIR GROUP AG PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG) OF THE CORPORATE GOVERNANCE CODE

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

Deviations that remain applicable:

3.8 The Company continues to retain the D & O insurance policy for the Supervisory Board that has existed for many years, with no deductible, because the board does not consider such a deductible to be an appropriate means to strengthen the sense of responsibility of the Supervisory Board further, nor does it notably reduce the premiums paid by the company.

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

5.3.3 The Supervisory Board will not establish a Standard Committee because the Supervisory Board believes that the current number of committees is already sufficient to ensure efficient functioning.

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

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

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

Düsseldorf, 29 November 2011
Essanelle Hair Group AG

The Management Board — The Supervisory Board

THE SHARE

In 2011, the international stock exchanges did not perform homogeneously – but overall, rather regressively. The MSCI World Index dropped about 7.5% in 2011. While the Dow Jones in the USA recorded a slightly positive performance in 2011, the stock exchanges in Germany performed rather weakly with a high level of variability. The Dax opened at approximately 7,000 points in January and closed below 6,000 points at the end of the year. In March 2011 the index of the 30 German Blue Chips decreased significantly for the first time as a result of the nuclear disaster in Japan and fell to approximately 6,500 points. After a quick recovery and an annual high of over 7,500 points the DAX dropped sharply in August during the European debt crisis – to its annual low in September of slightly over 5,000 points. The German leading index was able to recover to almost 6,000 points by the end of the year.

Essanelle Hair Group's stock opened on the Xetra in fiscal year 2011 at EUR 8.30. The stock reached its annual high on Xetra on June 17 – the day of the Annual General Meeting – at EUR 11.51. The all-time low was on January 24 at EUR 7.90. The final closing price on December 30, 2011 was EUR 9.29. Thus, the stock of Essanelle Hair Group had an annual performance yield of 11.9%. With 4,595,044 million shares, the value of the enterprise at the end of fiscal year 2011 was EUR 42.7 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 the comprehensive direct information of the shareholders, the Management Board introduced Essanelle Hair Group AG to investors, analysts and the financial press on the Equity Forum of the German stock exchange in November 2011.

For fiscal year 2010, the Annual General Meeting on June 17, 2011 decided to pay a dividend on the previous year's level of EUR 0.50 per share. There were no changes to the shareholder structure: As at the end of fiscal year 2010, Saxonia Holding GmbH remained majority shareholder with approximately 89.77% of shares in fiscal year 2011. The free float is thereby 10.23%.

SHARE DATA

SHAREHOLDER STRUCTURE (AS OF 29 FEBRUARY 2012)

Saxonia Holding GmbH	89.77%
Free Float	10.23%

SHARE PERFORMANCE IN FISCAL YEAR 2011 (XETRA)

High on 17.6.2011	EUR 11.51
Low on 24.1.2011	EUR 7.90
Opening price 2.1.2011	EUR 8.30
Closing price 30.12.2011	EUR 9.29
Annual performance	11.9%
Enterprise value 30.12.2011	EUR 42.7 million

"My hair has to deal with football, my motorcycle helmet and the hands of my girl-friend – and still has to look good!"

GROUP MANAGEMENT REPORT UNDER IFRS FOR FISCAL YEAR 2011

MACROECONOMIC FRAMEWORK

The economic development in Germany was consistently dynamic in the fiscal year 2011. According to the calculations of the Federal Statistical Office, the Gross Domestic Product (GDP) increased strongly by 3.0% in the past year after an increase of 3.7% in 2010, and thereby ranged above the expectations at the beginning of the year as well as above the growth rates of the neighbouring European countries. Consumer demand and investment dynamics were mainly responsible for a significant growth momentum in 2011 as well as the external balance and domestic consumption also contributed to this to a lesser degree. This good economic development was particularly strong in the first half of 2011.

In detail, the high investment activity of companies reflected a plus of 7.6% in investments in plant and equipment. German exports increased by 8.2% in 2011. With an increase of 7.4% in import trade, the external balance contributed 0.8% points to the growth of the Gross Domestic Product.

Consumer spending developed especially strongly in 2011 with an increase of 1.5% in real terms – a value that was achieved five years ago, the last time. Among other things, a 1.3% increase in the employment rate contributed to this. An average of 41.09 million people in Germany had employment in 2011, which represents a historic peak for the country. According to the data from the Federal Statistical Office, gross and net salaries in 2011 increased further after an increase in 2010. Gross salaries increased by 4.7%, and net salaries by 3.7%.Thereby, the recovery of the overall economy after the crisis year 2009 also had an effect on the private sector for the second year in a row.

Overall, the tendency towards consumer spending improved more strongly than expected. According to initial data from the Federal Statistical Office, sales revenues of retail businesses increased at a nominal rate of 2.7% to 2.9% in 2011 or 1.1% to 1.3% in real terms. The non-food retail sector increased nominally by 2.5% and in real terms by 1.8%. The "other retail sales of goods of various kinds", a category in which the Federal Statistical Office includes warehouses and department stores, developed significantly weaker than overall retail sales – as it did in the previous year – and showed nominal growth of 1.3%, actually declining by 0.3% in real terms. Internet and mail order businesses recorded the highest growth rates with a growth of 5.2% in real terms.

As a consequence of the continuing economic upswing, the inflation rate in Germany also increased to approximately 2.3% in 2011 following 1.1% in the previous year. According to preliminary information from the Federal Statistical Office, prices for goods increased by 3.3% while the prices for services only increased moderately by 1.3%.

SECTOR DEVELOPMENT

In the estimation of the Management Board, the increase in the market share of hairdressing chain stores as well as the growth in small and micro operations (revenues of less than EUR 17,500), that as a rule are operated by a single hairdresser, will continue in the German hairdressing market. This is also confirmed by statistical data. In mid-2011, more than 79,000 hairdressing businesses were licensed as craft enterprises. The Federal Statistical Office records less than 53,000 hairdressing enterprises with revenues above EUR 17,500 for 2009. Therefore more than a third of all hairdressing businesses on the market fall in the category of micro operations. As in other sectors of the retail market, there is a visible tendency towards a decline in the number of medium-sized salons. The Essanelle Hair Group estimates that the current market volume in Germany is about EUR 5 to 6 billion. According to preliminary results from the Federal Statistical Office, the market in Germany has grown slightly in the previous year. A non-representative survey from the Deutsche Friseurhandwerk and the EVA data from Procter & Gamble also reflect these tendencies.

According to estimates from a sector study by the Volksbank (VR Branchen special), market saturation on the one hand and the high number of new establishments, especially micro operations, on the other hand will continue to intensify price competition. According to the statements of the study, illegal employment also contributes to this, along with the micro operations that enjoy tax privileges. The authors continue to explain that the predatory competition and the increasing quality demands of customers require a positioning of distinct brand concepts and high quality standards. This ”requires well trained and motivated employees“.

Regarding consumer behaviour, the EVA panel shows that, on average, the price for a visit to the hairdresser increased in the past year. The cost per visit increased for both genders. Men spent EUR 16.48 per visit, which is 3.5% more than the previous year’s average of EUR 15.92. Women paid an average of EUR 40.79 per visit for services and products. This is an increase of 2.8% compared to EUR 39.69 in 2010. Observations show that small salons with annual revenue of EUR 85,000, record a price of EUR 34.83 (women) per visit, which is lower than that of bigger salons. In salons with an annual revenue of more than EUR 250,000, the average price was EUR 40.79 (women). Customers spent approximately EUR 3.03 per visit for products, compared to EUR 2.61 in the previous year. This is a pleasing increase of 16.1%.

GENERAL INFORMATION ABOUT THE GROUP

THE COMPANY

The ESSANELLE HAIR GROUP AG (also: Essanelle Hair Group) is one of the two leading hairdressing chains in Germany and the only publicly traded company in the industry. The Essanelle Hair Group offers its services exclusively through the brands essanelle Ihr Friseur, Super Cut and HairExpress. In addition, hair care products are sold in shops situated near the salons, under the brand Beauty Hair Shop. At the end of 2011, Essanelle Hair Group owned 686 salons and sales outlets (previous year: 702). In the fiscal year 2011, 36 new salons were opened, and 52 salons were closed or respectively sold. The company generated sales revenues on the previous year's level of EUR 127.2 million.

EMPLOYEES

As of 31 December 2011, Essanelle Hair Group employed a total of 4,016 people, compared to 4,246 in the previous year. This reflects a decrease of 5.4%. Of those employees, 3,915 work in salons and 101 employees work at headquarters and in distribution. The share of part-time workers is about 39.4%. In addition, there were 296 trainees. The share of employees in training was 7.4% and again was significantly higher than the previous year's rate of 6.4%.

STRATEGY AND CONCEPTS

Essanelle Hair Group's strategy is aimed at profitable growth. With that strategy, the Group has been very successful in recent years, with continually increasing sales revenues and earnings that have been growing exponentially and disproportionately to the increases in sales revenues. Because of the department store crisis and thereby a declining number of salons and sales revenues in this environment, this development slowed down a bit overall from 2009. Furthermore, Essanelle Hair Group AG sold the brand rights of TOP TEN at the end of 2010 and also sold the remaining salons in the past fiscal year, which had an impact on the number of salons belonging to the company as well as on the number of employees. This strategic step also had an operative damping impact on the sales performance in 2011, but in part also had a positive impact on the earnings performance. The sales revenue impact will still be felt in 2012. Based on the three strong brand concepts, which in the opinion of the Management Board have the necessary critical mass for sustainable expansion, the company can now continue to focus on its growth strategy.

Because of the continuing below average development of the department store locations, Essanelle Hair Group will successively accelerate the development of concepts outside of the department store environment as in previous years. In this regard, the first thing to be mentioned is the HairExpress concept that is primarily located in consumer markets; the number of salons increased from 33 in 2001 to 257 at the end of 2011. The concept Super Cut will also continue to grow in the future. Here, the number of salons has increased by more than 24% over the past five years.

The goal for 2012 is to open a total of at least 30 salons. The strategic success factors here are to have salon concepts that are precisely tailored to clearly defined target groups, 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 aims its focus at the target groups “young consumers” and “price-sensitive customers” above all. In the opinion of management and from the experience gained in recent years, these target groups offer the greatest sales potential for a hairdressing chain. As a result of its sales and cost structures, the Group is in a position to be able to make a profit even with low price concepts and thereby also to reach the one-third of the population that has not visited a hairdresser in recent years. The concepts Super Cut and HairExpress serve the two trends mentioned and have reported the highest rates of growth in the past. Thus, the sales revenue share of salons that are not part of the essanelle Ihr Friseur brand have increased from about 20% to a current share of more than 55% in the past years. HairExpress will represent the biggest concept of the company by 2012, or 2013 at the latest, with regard to the number of salons. The decrease in the share of sales revenues of the brand essanelle Ihr Friseur is attributable to the growth of other brands, decreasing sales revenues and closings 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. 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 35% between 2006 and 2011, the percentage in consumer markets increased from 18% to 26% in the same time period. However, the percentage of locations in department stores decreased from 44% to 27%. Free locations only proved to be successful in single cases – as was observed with TOP TEN, for example. After the sale of the TOP TEN salons, only 12% of our salons were located in free locations at the end of 2011, compared to about 13% in 2006. Despite the current unsatisfactory situation in department and warehouse stores, the Essanelle Hair Group currently expects that, in principle, it will maintain its presence, but will not, as a rule, open new salons there. In the 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 the salons and Beauty Hair Shops. Based upon 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 the employees who speak to the customers in their salons in a targeted manner, about possible purchases. Finally, the Beauty Hair Shops, which are exclusively specialised in the sale of salon products, offer a further successful distribution channel by connecting with salons.

BUSINESS PERFORMANCE OF ESSANELLE HAIR GROUP

OBJECTIVES OF THE PREVIOUS FISCAL YEAR

For the fiscal year 2011, Essanelle Hair Group planned the opening of about 30 new salons, a sales revenue growth of 2 – 3% and an increase of earnings before tax of at least 5%. Those projections showed the objective of the Management Board to once again improve the earnings performance indicators after two declining years. Additionally, at the beginning of the year it had not been decided yet if the approximately 30 salons of the TOP TEN brand should be retained or be sold after the sale of the trademark rights. Because of the good business performance, the Management Board was already able to report the certain achievement of the earnings objectives after the third quarter. Due to the sale of the remaining TOP TEN salons as of 1 October 2011, the Management Board also projected at this time that the consolidated sales revenue would at leastachieve the previous year's level.

BUSINESS PERFORMANCE IN 2011

With 36 new opened salons, Essanelle Hair Group was able to exceed their growth plans. 52 closings – including the reduction of the 30 TOP TEN salons from 31 December 2010 – result in a decrease in the number of salons of 16 to 686 at present. With a net growth of 17 salons, the HairExpress concept, based in consumer markets, showed the largest increase in the number of salons.

Over the course of the year the sales performance was stable and ranged above the numbers of the previous year at the time of the quarter reports. With the sale of the TOP TEN salons as of 1 October 2011, the overall sales revenue could not increase above the previous year's value as expected, but despite a smaller number of salons overall, it reached the previous year's level of EUR 127.2 million. 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. This continued to be a difficult environment as in 2010 – just as the fundamental development of these locations fell behind the good performance of retail sales according to the Federal Statistics Office. The fact that the overall sales revenue ranged on the previous year's level despite a decline of TOP TEN sales by 30.1% over the course of the year, must be assessed positively. The new openings from 2010 and 2011 were able to contribute some compensation here. The sales revenues of the concept HairExpress performed particularly well with a plus of 8.2%.

Regarding the distribution of sales revenues, services contributed the most, as per usual. Sales revenues from services were at EUR 107.9 million in 2011 and were thus on the previous year's level. The sales revenue share was 84.9% (previous year: 84. 8%). The sales revenues from salon products alone decreased slightly by 0.6% from EUR 19.4 million to EUR 19.3 million compared to the previous year, and achieved a sales revenue share of 15.1%.

The focus on earnings figures was fully implemented in the past year, and the objective of improving the individual key figures was exceeded by far. At unchanged sales revenues the pre-tax earnings in the group under IFRS increased significantly by 26.2% from EUR 5.1 million to EUR 6.4 million. EBITDA (Earnings before interest, taxes, depreciation and amortisation) also improved by 9.4% from EUR 10.8 million to EUR 11.8 million. Reasons for the positive earnings performances were reduced personnel expenses, less depreciation and lower marketing expenses at consistent sales.

PERFORMANCE OF THE SALON CONCEPTS

essanelle Ihr Friseur is the core brand of the group and appeals to customers of all ages. The salons are located primarily in department stores and shopping centres. In 2011, this salon concept generated sales of EUR 56.6 million, compared with EUR 58.4 million the previous year. This is a decrease of 3.1%, which above all can be traced back to a weak department store environment and a decrease of six salons in the salon inventory. At the end of the year, this brand had 290 salons compared with 296 salons the previous year.

For years, HairExpress has been by far the fastest growing concept of Essanelle Hair Group, and it targets price-sensitive customers that demand a clean, but nevertheless professional, basic service. HairExpress was again able to increase both the number of salons and sales revenues in 2011. Overall, the number of salons increased by 17 to a total of 257 salons. The sales revenues in the last fiscal year increased by 8.2% to EUR 38.6 million (previous year: EUR 35.7 million).

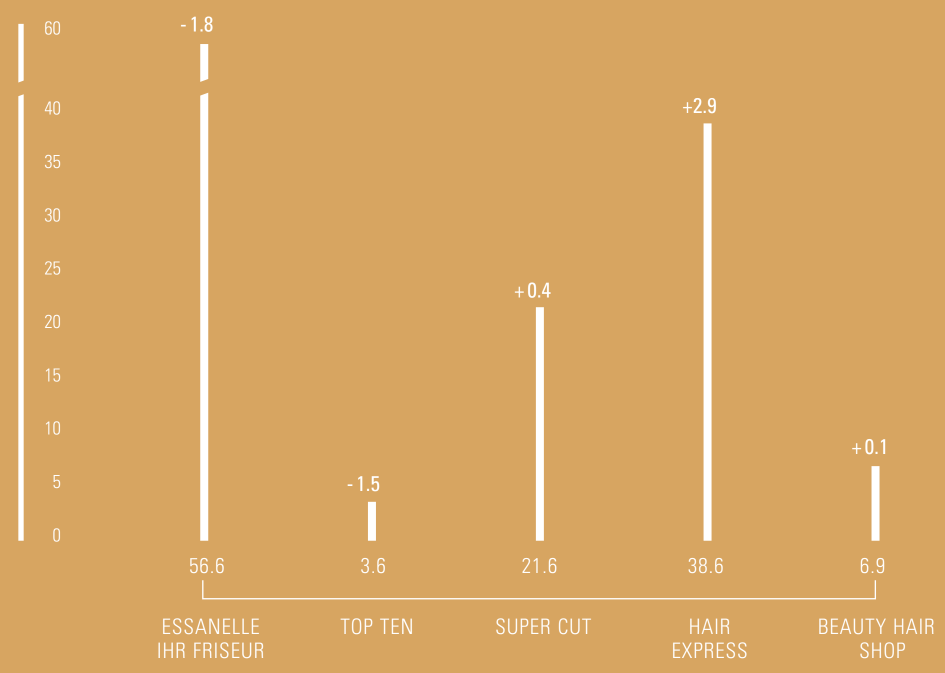
The Super Cut concept concentrates on a young and trend-oriented target group and appeals to its customers with an uncomplicated approach and contemporary music. In 2011, eight new salons were opened and four were closed, so that the total increased from 104 to 108 salons. The sales revenues increased correspondingly by 1.6% from EUR 21.2 million in the previous year to EUR 21.6 million at present.

The trademark rights of TOP TEN were sold at the end of 2010 while the remaining salons were either sold or changed to salons of the other concepts over the course of the year. Correspondingly, sales revenue decreased in the past fiscal year to EUR 3.6 million after the previous year's sales of EUR 5.1 million.

An important part of the business strategy of Essanelle Hair Group is the increase of sales revenues from salon products exclusively for hair. In order to generate additional sales revenues, Essanelle Hair Group operates retail product sales outlets under the brand name Beauty Hair Shop in close proximity to its own salons. Here products from the market leaders Wella and L'Oreal are mainly sold. With these shops, Essanelle Hair Group is able to stimulate customers into purchasing salon products between visits to the hairdresser and to generate a higher share of sales revenues overall with those product sales. In fiscal year 2011, the sales revenues from a total of 31 shops (previous year: 31) generated EUR 6.9 million (+0.9%), compared with EUR 6.8 million the previous year.

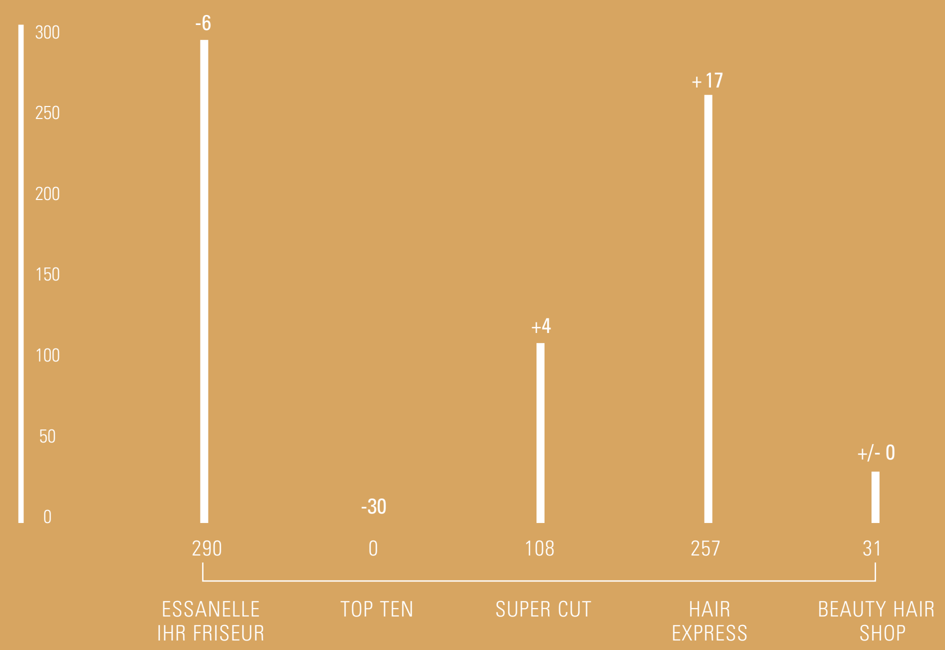
SALES OF SALON CONCEPTS IN € MILLION

(Change on previous year in € mio.)



NUMBER OF SALONS BY CONCEPTS

(Change on previous year)



EXPENSES AND INCOME (CONSOLIDATED, IFRS)

The sales revenues of Essanelle Hair Group in the past fiscal year were practically on the previous year's level at EUR 127.2 million. The new openings from the years 2010 and 2011 had a positive impact, however the sale of the remaining TOP TEN salons at the end of the third quarter of 2011 as well as a consistently weak department store environment had a negative impact on sales revenues. The other operating earnings decreased to EUR 1.7 million and were thereby 11.7% below the previous year's figure of EUR 1.9 million. Cost of materials increased by 2.1% which came to EUR 10.0 million, compared to EUR 9.8 million in fiscal year 2010. With that, the materials cost ratio relative to sales was 7.9%, which was 0.2 percentage points above previous year's figure of 7.7%. Personnel expenses decreased by 0.9% from EUR 71.7 million to EUR 71.1 million. This was mainly caused by the loss of the TOP TEN salons. Overall, the personnel expense ratio relative to sales could be decreased from 56.4% to 55.9% in the past fiscal year. The expenses for rent and related costs remained on the previous year's level and were EUR 25.5 million compared to EUR 25.4 million. The other operating expenses, which mainly included energy, marketing and distribution expenses, decreased by 7.7% from EUR 11.5 million to EUR 10.6 million.

In view of a steady sales performance whilst at the same time reducing personnel and other operational expenses, Essanelle Hair Group AG was able to significantly improve its earnings performance indicators. In the past fiscal year 2011, earnings before interest, taxes, depreciation and amortisation (EBITDA) under IFRS increased by 9.4% from EUR 10.8 million to EUR 11.8 million. At EUR 5.0 million, the deductions of the Group in 2011 also ranged below the previous year's value of EUR 5.4 million. The earnings before interest and taxes (EBIT) thereby strongly increased and were at about EUR 6.7 million in fiscal year 2011. This is an improvement by 24.4% compared to the previous year's value of EUR 5.4 million. The financial results were EUR -0.3 million compared to the previous year. With that, the pre-tax result increased significantly by 26.2% from EUR 5.1 million to EUR 6.4 million in the fiscal year 2011. The tax expense increased correspondingly from EUR 1.7 million to EUR 2.6 million in 2011. Thus, the annual profit was EUR 3.8 million after EUR 3.4 million in fiscal year 2010. This is an improvement of 12.3%. Thus, earnings per share of Essanelle Hair Group AG with an unchanged number of shares closed at EUR 0.84 after EUR 0.75 in 2010.

NET ASSET AND FINANCIAL SITUATION (GROUP, IFRS)

The non-current assets on the asset side of the balance sheet decreased from about EUR 43.4 million to EUR 41.0 million as of 31 December 2011.In particular this is due to a reduction of property, plant and equipment from EUR 23.4 million to EUR 21.0 million caused by the sale of the TOP TEN Salons. In current assets, cash and cash equivalents in particular increased from EUR 4.9 million in the previous year to EUR 7.1 million on balance sheet closing date 2011. The reduction of inventories from EUR 6.6 million to EUR 6.2 million resulted in an increase of current assets from EUR 12.2 million to EUR 14.0 million as of 31 December 2011. As of 31 December 2011, the balance of the group decreased to EUR 54.9 million after EUR 55.6 million at the balance sheet closing date of the previous year.

The liabilities side of the balance sheet as of 31 December 2011 showed an already further increasing equity ratio of 62.2% after 58.8% at the end of fiscal year 2010. Here, equity increased to EUR 34.2 million after EUR 32.7 million as of the previous year's closing date. Reasons for this are higher retained earnings of EUR 14.0 million from the increased annual profit after EUR 12.4 million in the previous year. In long-term debt, financial liabilities decreased slightly from EUR 3.7 million to EUR 3.4 million, while deferred tax liabilities increased from EUR 4.5 million to EUR 5.3 million. This resulted in an increase of long term debt from EUR 10.6 million to EUR 11.1 million as of 31 December 2011. The current liabilities, however, decreased significantly to EUR 9.7 million after EUR 12.4 million at the previous year's closing date. This can be traced back above all to the reduction of current financial liabilities from EUR 2.7 million to EUR 1.9 million as of 31 December 2011, as well as decreased trade payables from EUR 2.2 million to EUR 1.4 million. Overall, this resulted in a reduction of the total debt of the company from EUR 22.9 million to EUR 20.7 million as of 31 December 2011.

The consolidated cash flow statement for Essanelle Hair Group showed a strong cash flow increase from on-going business activity, which increased from EUR 8.6 million in the previous year to EUR 11.1 million at present. With a slightly increased outflow of paid income taxes (EUR 2.8 million compared to EUR 2.1 million in 2010), this resulted in a net cash inflow from on-going business activities in the amount of EUR 8.0 million after EUR 6.2 million in the previous year. The net cash outflow from investment activities significantly declined in 2011 compared to the previous year and decreased from EUR 3.9 million to EUR 2.4 million. The outflow from the purchase of plant, property and equipment within the scope of the continuing growth strategy and the openings of new salons remained almost on the previous year's level of EUR 3.8 million with EUR 3.6 million at present. On the other hand, Essanelle Hair Group recorded revenue from the sale of plant, property and equipment by selling the TOP TEN salons amounting to EUR 1.2 million in fiscal year 2011.

The cash flow from financing activities shows a lower increase in financial liabilities with EUR 1.6 million after the previous year's value of EUR 3.3 million as well as a lower repayment of financial liabilities of EUR -2.8 million after EUR -3.5 million in the previous year. With consideration of a dividend payment on the previous year's level in the amount of EUR 2.3 million, this resulted in an increased net cash outflow from financing activities amounting to EUR 3.4 million after EUR 2.4 million in fiscal year 2010. Overall, this leads to an increase of the inventory of cash and cash equivalents by EUR 2.2 million from EUR 4.9 million to EUR 7.1 million at the end of fiscal year 2011.

THE SHARE

In fiscal year 2011, Essanelle Hair Group's stock opened on the Xetra at a price of EUR 8.30. The stock reached its annual high on the Xetra on June 17 – the day of the Annual General Meeting – with EUR 11.51. The all-time low was on January 24 at EUR 7.90. The closing price on December 30, 2011 was EUR 9.29. Thus, the stock of Essanelle Hair Group had an annual performance of 11.9%. With 4,595,044 million shares, the value of the enterprise at the end of the fiscal year 2011 was EUR 42.7 million.

For fiscal year 2010, the Annual General Meeting decided to pay a dividend on the previous year's level of EUR 0.50 per share. There were no changes regarding the shareholder structure: In fiscal year 2011, as at the end of fiscal year 2010, Saxonia Holding GmbH remained majority shareholder with approximately 89,77% of shares. Thus, the free float is 10.23%.

RISK REPORT

RISK MANAGEMENT AND BUSINESS RISKS

The Essanelle Hair Group has implemented an early risk warning system pursuant to section 91 (2) of the German Stock Corporation Act (AktG), that covers all areas of the holding company and its subsidiaries. This risk warning system serves to recognise dangerous developments early and to enable reasonable and quick responses. The company handbook defines operations, responsibilities, reporting and possible controls and also specifies how information from the early risk warning system is to be forwarded.

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

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

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

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

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

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

MARKET

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

The salons of Essanelle Hair Group are predominantly in department and warehouse stores, consumer markets and shopping centres. The company sees the basic choice of these types of locations as advantageous because of the high amount of customer traffic there. This was confirmed by the weaker performance of salons in so-called free locations, the percentage of which was again reduced in 2011. This nevertheless results in an unusual dependence on the overall location as well as the structure and behaviour of its users. Currently, Essanelle Hair Group is benefiting from the generally very good development in consumer markets, but has also experienced weak performance in department stores.

In order to recognise individual risks or misguided developments, all available data from the individual salons, locations and concepts is collected and analysed and if necessary, countermeasures are initiated. If the Management Board does not see any chance of improving profitability in the medium term, salons will be closed or converted to a different concept. As a reaction to the overall performance of TOP TEN, the trademark rights were sold at the end of the fiscal year 2010 and the remaining salons were closed or sold in 2011 to optimise our portfolio of brand concepts. Also, because of the current situation in department and warehouse stores, no new salons will be opened in these locations at present.

RENTAL

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

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

SUPPLIERS

Cooperation agreements for hairdressing and hairstyling products exist with two important suppliers.

PERSONNEL

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

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

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

COMPENSATION REPORT

The overall compensation of the Management Board in 2011 was structured as follows (EUR k):

	Mansen	Bonk	Wiethölter	Total
Basic salary (non-performance related)	259	177	171	607
Performance-related bonus	215	106	106	427
Non-cash benefit from use of company car	15	12	15	42
Total	**489**	**295**	**292**	**1,076**

The variable compensation is calculated according to whether the enterprise has reached its target value. The value for calculation of this variable compensation is calculated basically as a multiple of the 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 meet 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 890k. The basis for the agreement to pay a pension to Mr Mansen is a promise from the year 2008 regarding a pension starting at age 65 in the amount of EUR 3,540.00 per month, a disability payment in the amount of the old-age pension and a widow's pension. The widow's pension shall be 60% of the old-age pension. 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, 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 income taxes levied because of the member's activity. The chairman of the Supervisory Board is paid twice as much; the vice-chairman receives one and one half times the compensation amount. In fiscal year 2011, compensation in the amount of EUR 155k (EUR 153k in the previous year) was paid.

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

The share capital of Essanelle Hair Group consists of 4,595,044 ordinary bearer shares with a nominal value of EUR 1. The subscribed capital of the company as of the end of the last fiscal year was EUR 4,595,044. According to the articles of association, each share has one vote. There are currently no restrictions on transfer and voting rights. The shareholders exercise their rights at the Annual General Meeting, in particular, the right to vote, pursuant to the legal requirements and the articles of association. Saxonia Holding GmbH holds 89.77% of the shares of Essanelle Hair Group. There are no other large shareholders.

There are no special rights given to the Supervisory Board, such as delegation rights, or a right to control votes of employees. According to the articles of association, the Management Board of the company consists of at least two members, who are chosen by the Supervisory Board, which also determines their number. The Supervisory Board can revoke the designation of a Management Board member and the naming of a chairman of the board, with good grounds. Each change in the articles, with the exception of changes to structure, requires a resolution at the Annual General Meeting, with a majority of at least three-fourths of the capital stock represented at the Annual General Meeting. According to a resolution at the Annual General Meeting of 18 June 2010, the Management Board was given the right to repurchase up to 10% of the company's own shares until 31 May 2015. In 2011, no shares were repurchased. There is no authorised capital. If there is a change of control as a consequence of a takeover bid (Change of Control), there are agreements with the Management Board of the company that under certain conditions, if the employment contract is not extended, the members will be paid a temporary transitional allowance. There are no other compensation agreements in place.

DEPENDENCY REPORT

Saxonia Holding GmbH Wolfsburg holds a majority interest. Pursuant to section 312 of the German Stock Corporation Law (AktG), we reported on 13 March 2012 about the relationships with affiliated companies. The report concludes: "We received appropriate consideration in the legal transactions listed. There were no other legal transactions or measures that were required to be reported under section 312 of the German Stock Corporation Act (AktG)."

STATEMENT ON MANAGEMENT

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

POST BALANCE SHEET EVENTS

There were no events after the closing date on 31 December 2011 that materially influenced the revenues and earnings and asset and financial situation of Essanelle Hair Group.

OUTLOOK AND OPPORTUNITIES

After two very good years in 2010 and 2011, experts expect a mitigated growth for the current year 2012 in Germany. The Sachverständigenrat (Advisory Council for Economics) expects the gross domestic product to grow by 0.9%. With that, the Sachverständigenrat expects a negative contribution of export trade (-0.3%) for the first time in years, resulting in a stronger increase of imports (+4.2%) than exports (+3.2%). Personal consumption, however, is expected to grow. But overall it still cannot be foreseen how the European debt crisis will continue to develop and what effects this will have on economic growth.

Thus, positive momentum continues to be expected for the fiscal year 2012, because of domestic demand. A consistently high level of employment and increasing salaries should sustain domestic demand on the high level of the previous year. Overall, consumer spending is expected to increase by 0.9% (previous year: 1.1%) according to projections of the Sachverständigenrat. In all probability this will manifest itself very differently in the individual consumption areas. In the past years, Internet trade in particular profited strongly from consumer demand, while retail trade and in particular the department store and warehouse environments performed less strongly. According to information from the trade group HDE, online trade is expected to increase by 13%. For retail trade, HDE expects at least continuously strong growth of 2.4% for 2012, or 1.2% in real terms.

For the Essanelle Hair Group the development of the direct salon environment will continue to be of special importance. The overall positive development of retail trade will be supported by a basically good environment in shopping centres and consumer markets. However, there are still no clear signs of a prompt improvement in the equally important department store environment. Therefore the company only expects moderate momentum from the sustained positive consumption mood of the consumers.

Essanelle Hair Group will continue its growth strategy to stabilise and improve the sales performance in the medium and long term and is planning the opening of about 30 new salons in the current fiscal year. The sale of the salons of the TOP TEN concept will have a negative impact on the sales performance, however, because they generated sales in the amount of EUR 3.6 million in 2011. Regarding sales, Essanelle Hair Group has therefore set the target objective to largely compensate for the lost sales revenues with the new openings from 2011 and the current year, and to generate sales revenues on a similar level to 2011. The Management Board expects a decrease by 1% – 2%. Based on this, sales revenues should increase successively in 2013 and the following years.

Strategically, the Essanelle Hair Group is still aiming towards the three strong locations, shopping centres, consumer markets and department stores on the one hand, and on the other hand the continuation of the unique multiple brand strategy with essanelle Ihr Friseur, Super Cut and the fast-growing concept HairExpress. New openings will mainly be realised in several shopping centres and increasing in consumer markets, as is predominant the case with the concepts HairExpress and Super Cut. The great performance of the clearly positioned concept HairExpress in the dynamically growing segment of consumer markets in Germany offers especially sustainable growth opportunities for Essanelle Hair Group AG. The Beauty Hair Shops in close proximity to the salons will round off the strategic profile.

Further new openings of this concept over the course of the current year will also increase the inventory and sales revenue.

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

The earnings situation has developed magnificently in the past fiscal year, 2011. The pre-tax earnings increased by 26.2% from EUR 5.1 million to EUR 6.4 million. It is the objective of the company to achieve this significant leap in earnings once again in the current fiscal year. Specifically, the Management Board projects pre-tax earnings in the scope of EUR 5.5 million to EUR 6.0 million for 2012. In addition to sales revenue reaching the previous year's level, a relatively stable expense ratio is also expected to contribute to this. Overall, the dividend continuity as intended by the Management Board would thereby be achieved together with the desired consistent participation of shareholders in the success of the company. With increased sales as of the year 2013, the earnings performance indicators should improve over-proportionately to the sales performance.

Düsseldorf, 13 March 2012

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 2011

ASSETS

€	Notes	31.12.2011	31.12.2010
ASSETS			
Long-term assets			
Property. plant and equipment	6	21,040,494.84	23,404,558.51
Goodwill	7	19,558,872.10	19,558,872.10
Other intangible assets	7	145,041.91	142,555.22
Other loans	8	235,667.64	257,921.97
		40,980,076.49	**43,363,907.80**
Short-term assets			
Other loans	8	26,479.28	38,854.97
Inventories	9	6,166,789.82	6,625,461.10
Accounts receivable	10	123,855.30	61,883.76
Other assets	11	505,335.40	587,875.56
Cash and cash equivalents	12	7,136,649.25	4,916,613.03
		13,959,109.05	**12,230,688.42**
Total assets		**54,939,185.54**	**55,594,596.22**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	Notes	31.12.2011	31.12.2010
SHAREHOLDERS' EQUITY			
Capital and reserves allocable to the shareholders in the parent company			
Share capital	13	4,522,841.00	4,522,841.00
Capital reserve	14	15,717,699.17	15,717,699.17
Revenue reserves	15	13,950,186.70	12,419,632.20
		34,190,726.87	**32,660,172.37**
DEBT			
Long-term debt			
Financial debt	16	3,444,089.72	3,742,389.53
Deferred tax liabilities	17	5,260,002.13	4,544,354.57
Pension provisions	18	889,916.00	833,918.00
Other provisions	19	1,472,378.43	1,441,342.11
		11,066,386.28	**10,562,004.21**
Short-term debt			
Financial debt	16	1,854,916.11	2,678,547.36
Accounts payable	20	1,433,468.00	2,237,066.95
Current income tax liabilities	21	340,836.96	1,268,954.05
Other liabilities	22	2,835,310.83	2,807,991.33
Other provisions	23	3,217,540.49	3,379,859.95
		9,682,072.39	**12,372,419.64**
Total debt		**20,748,458.67**	**22,934,423.85**
Total shareholders' equity and liabilities		**54,939,185.54**	**55,594,596.22**

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2011 to 31 December 2011

€	Notes	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Sales	24	127,216,897.40	127,243,425.71
Other operating income	25	1,698,852.87	1,924,037.76
Cost of materials	26	-10,002,103.58	-9,797,838.31
Personnel expenses	27	-71,075,195.21	-71,702,785.91
Depreciation and amortisation	28	-5,039,683.23	-5,350,476.89
Rental and ancillary rental expenses	29	-25,482,135.46	-25,434,716.51
Other operating expenses	30	-10,581,680.83	-11,465,862.41
Operating earnings		**6,734,951.96**	**5,415,783.44**
Financial income	31	28,837.32	23,390.82
Financial expenses	32	-356,542.81	-363,196.39
Financial result		**-327,705.49**	**-339,805.57**
Earnings before taxes		**6,407,246.47**	**5,075,977.87**
Tax expenses	34	-2,615,271.60	-1,697,959.45
Consolidated net income		**3,791,974.87**	**3,378,018.42**

Earnings per share	35		
basic		0.84	0.75
diluted		0.84	0.75

CONSOLIDATED CASHFLOW STATEMENT (IFRS)

for the period from 1 January 2011 to 31 December 2011

k€	Notes	2011	2010
1. CASHFLOW FROM OPERATING ACTIVITIES	37		
Cash generated by ongoing business activities		11,077	8,553
Interest paid		-264	-302
Taxes on income paid		-2,788	-2,063
Net inflow of funds from operating activities		**8,025**	**6,188**
2. CASHFLOW FROM INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	6	-3,520	-3,830
Proceeds from sale of property, plant and equipment	37	1,177	2
Acquisition of intangible assets	7	-92	-116
Loans repaid	8	35	18
Interest received		29	23
Net outflow of funds for investment activities		**-2,371**	**-3,903**
3. CASHFLOW FROM FINANCING ACTIVITIES			
Dividend payout	14, 15	-2,261	-2,261
Receipts from taking up of financial debt	16	1,636	3,335
Repayment of financial debt	16	-2,809	-3,463
Net outflow of funds for financing acivities		**-3,434**	**-2,389**
Net decrease/increase in cash and cash equivalents		2,220	-104
Cash and cash equivalents at beginning of year	12	4,917	5,021
Cash and cash equivalents at 31 December		**7,137**	**4,917**

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 31 December 2011

€	Notes	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 1 Jan. 2010		**4,522,841.00**	**15,717,699.17**	**11,303,033.79**	**31,543,573.96**
Dividend payout	15			-2,261,420.01	-2,261,420.01
Consolidated earnings	15			3,378,018.42	3,378,018.42
Balance at 31 Dec. 2010		**4,522,841.00**	**15,717,699.17**	**12,419,632.20**	**32,660,172.37**
Balance at 1 Jan. 2011		**4,522,841.00**	**15,717,699.17**	**12,419,632.20**	**32,660,172.37**
Dividend payout	15			-2,261,420.37	-2,261,420.37
Consolidated earnings	15			3,791,974.87	3,791,974.87
Balance at 31 Dec. 2011		**4,522,841.00**	**15,717,699.17**	**13,950,186.70**	**34,190,726.87**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IFRS) as of 31 December 2011

“I always need something to tame my hair.”

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(IFRS) as of 31 December 2011

1 BASIC INFORMATION

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

The total salon network is comprised of 686 hairdressing salons and sales shops, compared with 702 in the previous year.

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

- essanelle Ihr Friseur
- Super Cut
- HairExpress
- TOP TEN
- Beauty Hair Shop

The original concept “essanelle Ihr Friseur” is targeted at regular and occasional customers of all age groups. The “Super Cut” concept is tailored to the needs of younger customers, with the “Hair-Express” and “JT by essanelle” concepts being targeted at price-conscious and luxury-oriented customers respectively. Essanelle’s hairdressing salons are, in most cases, located in department stores and shopping centres.

As in the previous year, an independent hairdressing salon is included as a franchisee within the “essanelle Ihr Friseur” brand concept.

19 salons of the "TOP TEN" brand were sold for the total purchase price of EUR 1,017,500.00 as of 1 October 2011.

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

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

The parent company, ESSANELLE HAIR GROUP AG, is a stock corporation that emerged from ESSANELLE GmbH on 4 May 2001 through corporate transformation.

Essanelle Hair Group has been listed on the Frankfurt Stock Exchange since 22 June 2001. The Company was listed in the SMAX quality segment until 20 December 2002, and in official trading until 30 September 2005. Since then, Essanelle Hair Group has been listed in the prime standard. 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 2011 were:

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

Subsidiary activities of the members of the Management Board:

Achim Mansen	Administrative Board ESSANELLE Company Health Insurance Fund, Augsburg Member of Supervisory Board CRESCES Sports Media AG
Dieter Bonk	Administrative Board ESSANELLE Company Health Insurance Fund, Augsburg Chairman of the Board of Advertising Community of the shopping centre Neuss
Dirk Wiethölter	Administrative Board ESSANELLE Company Health Insurance Fund, Augsburg Alternating Chairman

MEMBERS OF THE SUPERVISORY BOARD

Shareholder Representatives:

	Profession
Fritz Kuhn, Seeheim (Chairman)	Management Consultant
Olaf Rogowski, Munich	Managing Director
Werner Schneider, Cologne	Management Consultant
Hiltrud Seggewiß, Düsseldorf	Managing Director
Jürgen Tröndle, Kelsterbach	Proprietor of a hairdressing salon
Andreas Tscherner, Ahlum	Head of Group Accounting and Controlling

Employee Representatives:

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

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

Fritz Kuhn	Ondal Friseurtechnik GmbH, Eiterfeld (Advisory Board)
Michael Eberhard	until April 2011 ELBLANDKLINIKEN Meißen Holding GmbH
Olaf Rogowski	Ondal Holding GmbH, Hünfeld (Advisory Board)

2 SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

2.1 GENERAL PROVISIONS

The consolidated financial statements have been compiled in Euros and cents, and 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 EU. All standards and interpretations of the IASB that were mandatory as of 31 December 2011 have been applied with supplementary application of the commercial law regulations requiring application pursuant to section 315a (1) of the German Commercial Code (HGB).

In this respect, the consolidated financial statements of Essanelle take account of all relevant provisions of IFRS adopted and requiring mandatory application as of 31 December 2011.

The supplementary provisions of the German Stock Corporation Act (AktG) have been applied. The Group management report as of 31 December 2011 has also been compiled in accordance with the requirements of the German Commercial Code (HGB).

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

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

The International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee (IFRS IC) have adopted a series of reporting standards and interpretations that became effective for annual periods beginning on or after 1 January 2011 and were first applied by the ESSANELLE Group as of this date.

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

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

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 become effective for annual periods beginning on or after 1 January 2012 (the company did not take advantage of the permission for earlier application). They are estimated to have no material impact on the ESSANELLE Hair Group.

- Amendment to IFRS 7, "Financial Instruments: Disclosures: Transfers of Financial Assets" (EU-Endorsement as of 22 November 2011)

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

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

- Amendment to IFRS 1, "First-Time Adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-Time-Adopters"
- Amendment to IAS 12, "Deferred Tax: Recovery of Underlying Assets"
- Amendment to IAS 1, "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income" (June 2011)
- Amendment to IFRS 7: "Disclosures – Offsetting of Financial Assets and Financial Liabilities"
- Amendment to IAS 32: "Offsetting of Financial Assets and Financial Liabilities"
- 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 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements"
- IFRS 12, "Disclosure of Interests in Other Entities"
- IFRS 13, "Fair Value Measurement"
- IAS 27, "Consolidated and Separate Financial Statements" (rev. May 2011)
- IAS 28, "Investments in Associates and Joint Ventures" (rev. May 2011)
- IAS 19, "Employee Benefits" (rev. June 2011)
- IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine" (October 2011)

2.2 GROUP ACCOUNTING AND REPORTING ENTITY

2.2.1 SUBSIDIARIES

Subsidiaries, i.e. companies in which Essanelle Hair Group either directly or indirectly controls more than half of the voting rights or is able to control their financial and business policies in other ways, have been included in the reporting entity. The assessment as to whether Essanelle Hair Group is in the position to control another company in this respect has taken into account the existence and implications of potential voting rights, which could be exercised or converted as of the balance sheet reporting date.

Subsidiaries are only consolidated when Essanelle Hair Group acquires the possibility of controlling the company thereby acquired; they are deconsolidated upon Essanelle Hair Group losing the possibility of control.

The acquisition of subsidiaries has been accounted for using the purchase method.

The acquisition costs relating to the acquisition of the company are measured in terms of the cash and cash equivalents spent on such an acquisition, as well as of the fair values of assets thereby transferred, shares issued and/or liabilities assumed. The identifiable assets, liabilities and contingent liabilities thereby acquired are stated at fair value at the time of acquisition, regardless of the existence of any minority interests. The costs of acquisition in excess of the fair value of the share of net assets of the subsidiary thereby acquired are stated as goodwill. In the event of the costs of acquisition being lower than the fair value of the share of net assets thereby acquired in the subsidiary, the difference is recorded in the income statement with a corresponding impact on earnings. Rather than being subject to scheduled amortisation, goodwill is only subject to extraordinary amortisation (impairment).

Inter-company receivables and liabilities are offset, as are inter-company expenses and income. Unrecognised profits on business transactions between Group companies are eliminated in full; unrecognised losses are eliminated to the extent that the resulting costs of acquisition/manufacture do not exceed the recoverable amount for the respective asset. The accounting and valuation methods of the subsidiaries have been adapted wherever necessary, to the uniform accounting and valuation methods applied by the Group.

2.2.2 REPORTING ENTITY

The following companies were included in the reporting entity of Essanelle Hair Group as of 31 December 2011:

Parent Company
ESSANELLE HAIR GROUP AG, Düsseldorf

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

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

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

2.3 CURRENCY CONVERSION

The consolidated financial statements have been compiled in Euros, which constitute the functional currency and reporting currency of the German parent company and of its subsidiaries and second-tier subsidiaries.

No foreign currency transactions were undertaken either in 2011 or in 2010. In the event of any foreign currency transactions being undertaken, these will be converted into the functional currency on the basis of the exchange rate valid at the time of such transactions. Profits and losses incurred on the performance of such transactions and on the conversion of monetary assets and liabilities denominated in foreign currencies using the rate valid on the reporting date will be recorded in the income statement with a corresponding impact on earnings.

2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment primarily include furniture and fittings in the hairdressing salons.

Property, plant and equipment are stated at cost of acquisition/manufacture and in most cases are subject to straight-line depreciation over their expected useful life. Costs of acquisition/manufacture include expenses directly allocable to such acquisitions. Costs of repairs are recorded as current expenses. Grants and subsidies for the acquisition of assets are deducted from the costs of acquisition of the respective assets. Scheduled depreciation is, in most cases, based on useful lives of ten years in the case of salon furnishings and four to seven years in the case of other plant and office equipment.

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

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

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

Dismantling obligations relating to salon infrastructure are stated at present values and depreciated over the useful life of the salon in question. A provision is simultaneously capitalised as a liability and is compounded over the useful life involved until the full repayment amount has been reached.

The assets are reviewed should any triggering event occur, in order to ascertain whether there are any indications of value impairments. In the event of the recoverable amount for an asset being lower than its respective carrying amount, then such an asset is subject to extraordinary depreciation. For the purposes of this impairment test, assets are combined at the lowest level for which cash flows can be separately identified and allocated (cash generating units, in short: CGUs). The individual hairdressing salon is viewed as representing the lowest such level, given that it is possible to identify economic success or failure at this level.

Should the reason for an exceptional write-down undertaken at an earlier date no longer pertain, then the value of the asset is written up to the maximum of the amount of updated acquisition/manufacture cost.

Profits and losses incurred in the disposal of property, plant and equipment are calculated on the basis of the carrying amount of the assets at the time of such disposal.

Expenditure on maintenance and repairs is recognised as an expense with a corresponding impact on earnings.

2.5 GOODWILL

Goodwill represents the excess value of the acquisition costs for the acquisition of a company over the fair value of the shares held by the Group in the net assets of the company thereby acquired, at the time of acquisition. Goodwill arising on account of the acquisition of a company is allocated to the intangible assets. It is assumed that these assets have an indefinite useful life and no more scheduled amortisation will be required. Goodwill is subject to an impairment test should there be any reason for such a test, but no less than once per year. Based on this impairment test, non-scheduled amortisation takes place whenever required.

The goodwill is distributed among the cash generating units for the purpose of the impairment tests.

Any write-downs undertaken on goodwill may not be written up at a subsequent date.

2.6 OTHER INTANGIBLE ASSETS

Other intangible assets are stated at cost of acquisition/manufacture and are generally subject to straight-line amortisation over the period of their expected useful lives. Moreover, in the event of any occurrences or change in circumstances indicating that the carrying amount might not be recoverable, the assets are reviewed to see whether any write-downs are required. The useful lives vary between 3 and 5 years.

2.7 FINANCIAL ASSETS

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

Receivables (including long-term loans) are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise when the Group provides money, goods or services directly to a debtor. In the Essanelle Group, receivables are included in non-current assets; as loans, they fall under non-current assets if their maturity exceeds a period of 12 months after the balance sheet reporting date. The Group does not use receivables and loans for trading purposes.

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

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

2.8 INVENTORIES

Inventories are stated at the lower value of their costs of acquisition or their net disposal value. The costs of acquisition are calculated using the first-in, first-out (FiFo) method. The net disposal value represents the estimated sales proceeds attainable in the course of normal business activities, less the required variable costs of such disposal.

2.9 ACCOUNTS RECEIVABLE

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

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

2.10 OTHER ASSETS

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

2.11 CASH AND CASH EQUIVALENTS

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

2.12 TAXES ON INCOME

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

2.13 DEFERRED TAXES

Deferred taxes are stated using the liability method for all temporary differences arising between the tax base of the assets and liabilities and their respective carrying amounts in the IFRS financial statements. However, if deferred tax arises in the context of a transaction which does not constitute a business combination from the initial statement of an asset, or a liability which does not have any impact on the loss stated in the balance sheet or that stated for tax purposes at the time of such a transaction, then no tax accrual is stated. Deferred taxes are posted on all feasible tax loss carry-forwards. Deferred taxes are valued at the respective tax rates (and tax regulations) valid or about to be adopted in law as of the balance sheet reporting date and which are expected to be valid at the time of recognition of the tax claim or the settlement of the deferred tax liability.

Deferred taxes are stated to the extent that is probable that taxable earnings will be available for the temporary difference to be offset against.

Deferred tax liabilities arising as a result of temporary differences in connection with shareholdings in subsidiaries and associated companies are stated, unless the time at which such temporary differences can be reversed can be controlled by the Group and provided that it is likely that the temporary differences will not be reversed in the foreseeable future.

2.14 SHAREHOLDERS' EQUITY

The share capital is stated at the nominal value of the shares in circulation.

The capital reserve includes premiums paid in cash upon various capital increases, following the deduction of expenses directly allocable to the issuing of new shares (stock market flotation expenses), taking due account of prorated deferred taxes. It also includes the reserves resulting from the value of employees' services from share options issued at fair values. Moreover, the premium for the acquisition of own shares is also recorded as a negative item in the capital reserve.

Retained earnings and the annual results less dividend payment from the previous year are stated under revenue reserves.

2.15 FINANCIAL DEBT

Financial debt exists in the FLAC category ("Financial Liabilities measured at Amortised Costs") and primarily relates to the financing of newly opened salons and includes liabilities to banks, liabilities under finance leases and investment loans from suppliers. Financial debt is classified as a current liability to the extent that there is no unconditional right to postpone the settlement of such liability to a period of at least 12 months following the balance sheet reporting date.

Financial debt is initially stated at fair value, less transaction expenses. In subsequent periods it is valued at updated cost. Each difference between the amount paid out (following the deduction of transaction expenses) and the repayment amount is recorded in the income statement on a prorated basis using the effective interest method.

The company makes use of the effective interest method to calculate the updated cost of the financial debt and the allocation of interest income and interest expenses to the respective period. The effective interest rate is the imputed interest rate at which the estimated future incoming and outgoing payments are discounted precisely to the net carrying amount of the financial debt over the expected term of such debt or over a shorter period if appropriate.

2.16 PENSION PROVISIONS

The Group has made two individual commitments to a member of the Management Board and a former member of the Management Board, for which reinsurance policies have been concluded.

The provision stated in the balance sheet is equivalent to the present value of the defined benefit obligation (DBO) as of the balance sheet reporting date, less the fair value of the plan assets, adjusted by cumulative unrecorded actuarial gains and losses. The DBO is calculated annually by an independent actuarial surveyor using the projected unit credit method. The present value of the DBO is calculated by discounting the expected outflow of funds using the interest rate for industrial bonds of top credit standing (interest rate 4.5%; previous year 5.15% for prospective entitlements and 4.4% for current pension obligations).

Actuarial gains and losses based on historical adjustments and amendments in actuarial assumptions are recorded with a corresponding impact on earnings over the expected remaining period of service of the employee in question, provided that they do exceed ten percent of the obligation.

The plan assets consist of the asset value of a reinsurance policy.

2.17 SHARE-BASED COMPENSATION

The Group has introduced share-based compensation plans, which are to be settled by issuing own shares and/or by means of a conditional capital increase. The fair value of the work performed by the employees as a counter-performance for the granting of options is regarded as an expense. The valuation has accounted for the particular circumstances involved in the individual design of the plan at Essanelle Hair Group. The total expenses that need to be recorded over a period up to non-forfeiture, are calculated on the basis of the fair value of the option granted, taking no account of market-oriented exercise hurdles (e.g. profit and sales growth targets). The assumptions underlying the calculation take into account exercise hurdles that are not market-oriented in respect of the number of options expected to be exercisable. The estimate as to the number of options expected to be exercisable is reviewed at each reporting date. The consequences of any changes in the original estimates required to be taken into consideration are recorded in the income statement and in the form of a corresponding adjustment to equity over the remaining period up to non-forfeiture. The payments received upon the options being exercised are credited to the share capital (nominal value) and the capital reserves following the deduction of directly allocable transaction expenses.

2.18 PAYMENTS RESULTING FROM THE TERMINATION OF EMPLOYMENT RELATIONSHIPS

Payments resulting from the termination of employment relationships are made in the event of an employee being dismissed prior to his/her reaching the regular retirement age or in the event of an employee voluntarily terminating the employment relationship in return for the payment of compensation. The Group records compensation payments when it can be proven that it is obliged to terminate the employment relationship with current employees in accordance with a detailed formal plan which cannot be reversed, or if it can be proven that it is obliged to pay compensation upon an employee voluntarily terminating the employment relationship. Payments with maturity dates of more than 12 months following the balance sheet reporting date are discounted at their present values.

2.19 BONUS PAYMENTS AND ROYALTIES

A provision is capitalised for bonus payments and royalties in cases involving a contractual obligation or in the event of a factual obligation arising on account of past business practice.

2.20 OTHER PROVISIONS

All other provisions take due account of all obligations identified as of the balance sheet reporting date relating to past business transactions or events and which are likely to be incurred and whose amount can be reliably calculated. The provisions are stated at the amount to be paid and are not offset against positive performance amounts.

Non-current provisions are stated at their discounted payment amounts as of the balance sheet reporting date in cases where the interest effect resulting from such discounting is substantial. The interest portion of additions to provisions is reported under net financial expenses.

2.21 TRADE PAYABLES AND OTHER PAYABLES

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

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

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

2.22 RECOGNITION OF INCOME/DELINEATION OF EXPENSES

(a) Sales

Sales include the fair value received for the sale of goods and services, excluding VAT, discounts and price reductions. Sales are recorded at the time at which the goods were delivered or the services performed. Retail sales and services are generally settled in cash or by debit (EC) or credit card.

(b) Operating expenses

Expenses impact on earnings upon the service being received or at the time of their being incurred. In cases where expenses which depend on certain reference values (e.g. rental income) are incurred, or for which prepayments have been made, then such amounts are delineated as liabilities or provisions.

(c) Financing income and expenses

Financing income and expenses are recorded using the effective interest rate method in line with the periods to which they relate.

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

As a result of its business activities, the Group is exposed in principle to various financial risks and other material risks. It is the responsibility of the overall risk management of the Group to identify and evaluate financial risks and to minimise the potential negative effects on the financial situation of the Group in cooperation with the operating units (salons).

(a) Market risk

General market risks are closely linked to the location risks of the individual salons. In order to identify and remedy erroneous developments at an early stage, the data available at the individual salons is recorded and analysed, with countermeasures being taken when necessary.

The Essanelle Group is not exposed to any significant foreign currency risk, given that its activities are exclusively based in Germany.

(b) Credit risk

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

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

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

(c) Liquidity risk

Given that the hairdressing business is subject to economic, seasonal and fashion-related fluctuations, the possibility of liquidity risk cannot be excluded. It is the responsibility of the Group’s financial management to structure its financial planning in such a way that these influences are suitably accounted for by creating financial reserves.

(d) Cash flow risk and fair value interest risk

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

The interest risk of the Group arises on account of its non-current interest-charging liabilities, which are subject in part to variable and in part to fixed-interest rates. The liabilities with variable interest rates expose the Group to cash flow interest rate risk. The fixed-interest liabilities give rise to a fair value interest risk. The Group reacts to the basic existence of this risk by ensuring that it has an appropriate balance of fixed and variable interest rates when taking long-term loans.

No use is made of derivative financial instruments.

(e) Material risk

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

3.2 CALCULATION OF THE FAIR VALUE

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

3.3 CAPITAL MANAGEMENT

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

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

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

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

The purpose of short-term financing is to secure the company's liquidity in day-to-day business, taking into account the seasonal factors of the hairdressing business. This is monitored by daily liquidity planning, which is extrapolated to one 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 0.99 in 2010 and 1.44 in 2011.

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

In the long-term segment, the improvement in capital management is measured by the equity-to-non-current-assets ratio, which changed from 0.75 in 2010 to 0.83 in 2011. The equity ratio increased from 58.75% in 2010 to 62.23% in 2011.

4 CRITICAL ESTIMATES USED IN ACCOUNTING AND VALUATION

All estimates and assessments are reviewed on an ongoing basis and are based on past experience and additional factors such as expectations as to future events, which appear reasonable in the given circumstances.

Those estimates and assumptions involving a significant risk in the form of a major adjustment to the carrying amounts of assets and liabilities within the coming financial year, have been outlined below:

(a) Estimated impairment of goodwill

In accordance with its overall accounting and valuation methods, the Group subjects goodwill to an impairment test in the event of any occurrence requiring such a test to be undertaken, but not less than once per year. This involves the achievable earnings of the underlying cash generating unit, which are calculated by determining its use value, being set in relation to its assets. In the event of the total of the expected and discounted cash flows falling short of the asset value of the investment, a write-down is undertaken. This involves adjusting the prorated carrying amount of the goodwill to the reduced earnings prospects. The calculation of the use value requires assumptions to be made (note 7).

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

(b) Provision for customer subscriptions and customer vouchers

Essanelle sells subscriptions and vouchers for hairdressing services for which payments are received, but for which no services have as yet been performed. Given that the obligations still outstanding are not individually recorded, their scope has to be estimated as of the balance sheet reporting date. The estimate is made on the basis of sales surpluses of the past three years (mainly the last quarter of the respective year) because vouchers and subscriptions are not necessarily redeemed in the year of purchase and therefore a fulfilment shortfall must be stated. Because a certain percentage of vouchers and subscriptions will not be redeemed and a possible redemption becomes more and more improbable with the passage of time, the carrying forward from the previous year (2010) is considered in the calculation of the provisions at 50% and at 20% for the previous year (2009).

If the actual claims were to be 10% higher or lower than the estimated figure, the provision would change by an amount of EUR -90.6k/90.6k (previous year EUR -67k/123k).

(c) Estimated value impairment of salon furnishings

Any impairments in the value of property, plant and equipment as a result of an unfavourable earnings performance at individual salons are also calculated within the framework of impairment tests, taking due account of reorganisation and closure measures. The income and expenses underlying such calculations are largely based on estimates as to future developments, both in regional and in macroeconomic terms.

5 SEGMENT REPORTING

The requirements for segment reporting are neither met in regional terms nor in respect of factual or organisational circumstances.

A regional breakdown of our sales territory is not feasible given that our activities are exclusively based in Germany and that the risks and rewards relating to the hairdressing business are largely identical within Germany.

The breakdown into marketing lines and salon concepts in terms of factual or organisational structures is not expedient given that only one kind of service, namely hairdressing services, is offered, supplemented by the sale of hair care products. Although the individual salon concepts have different focuses, in principle the entire range of hairdressing services is available to customers at all concepts. Our internal reporting is based on accounting information at the level of the individual salons. The sales resulting from the sale of hair care products, which complement our hairdressing services, are integrated into these evaluations and not managed as a standalone segment. The income and expenses from the franchising business, as well as the asset and liability items allocable to this business, are of subordinate overall significance.

6 PROPERTY, PLANT AND EQUIPMENT

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

€	Plant and office equipment	Capitalised leasing agreements	Total
As of 1 January 2010			
Costs of acquisition/manufacture	57,918,693.18	10,212,913.69	68,131,606.87
Cumulative impairments (IAS 36)	-179,392.52	0.00	-179,392.52
Cumulative depreciation	-35,359,064.78	-8,714,799.65	-44,073,864.43
Carrying amount (net)	22,380,235.88	1,498,114.04	23,878,349.92
2010 financial year			
Opening carrying amount (net)	22,380,235.88	1,498,114.04	23,878,349.92
Additions	4,676,983.84	274,615.78	4,951,599.62
Disposals	-2,095,295.74	-109,118.08	-2,204,413.82
Impairments (IAS 36)	-253,376.08	0.00	-253,376.08
Additions to depreciation	-4,526,353.58	-475,433.79	-5,001,787.37
Disposals from depreciation	1,958,566.24	75,620.00	2,034,186.24
Closing carrying amount (net)	22,140,760.56	1,263,797.95	23,404,558.51
As of 31 December 2010			
Costs of acquisition/manufacture	60,500,381.28	10,378,411.39	70,878,792.67
Cumulative impairments (IAS 36)	-432,768.60	0.00	-432,768.60
Cumulative depreciation	-37,926,852.12	-9,114,613.44	-47,041,465.56
Carrying amount (net)	22,140,760.56	1,263,797.95	23,404,558.51
2011 financial year			
Opening carrying amount (net)	22,140,760.56	1,263,797.95	23,404,558.51
Additions	3,595,887.12	51,728.00	3,647,615.12
Disposals	-3,586,998.17	0.00	-3,586,998.17
Impairments (IAS 36)	-255,066.13	0.00	-255,066.13
Additions to depreciation	-4,297,503.98	-397,724.49	-4,695,228.47
Disposals from depreciation	2,525,613.98	0.00	2,525,613.98
Closing carrying amount (net)	20,122,693.38	917,801.46	21,040,494.84
As of 31 December 2011			
Costs of acquisition/manufacture	60,509,270.23	10,430,139.39	70,939,409.62
Cumulative impairments (IAS 36)	-687,834.73	0.00	-687,834.73
Cumulative depreciation	-39,698,742.12	-9,512,337.93	-49,211,080.05
Carrying amount (net)	**20,122,693.38**	**917,801.46**	**21,040,494.84**

Investments in property, plant and equipment amounted to EUR 3,648k (previous year EUR 4,952k) and are predominantly related to salon furnishings at newly opened salons and renovations of existing salons. The disposal of assets in 2011 in a net carrying amount of EUR 1.061k (previous year EUR 170k) mainly refers to the sale of the Top Ten salons. Income from asset disposals amounted to EUR 205k (previous year EUR 2k), while losses amounted to EUR 90k (previous year EUR 170k).

The property, plant and equipment are not subject to any restraints on disposal. There are extended reservations of title in the case of salon furnishings financed by suppliers.

Leasing expenses relating to operating lease agreements for motor vehicles amounting to EUR 273k (previous year EUR 305k) have been recorded in the income statement. Moreover, rental expenses amounting to EUR 21,529k (previous year EUR 21,579k) have also been included in connection with the letting of premises for hairdressing salons and Beauty Hair Shops and headquarters.

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

The impairment test revealed impairments of property, plant and equipment as defined in IAS 36 in an amount of EUR 255k (previous year EUR 253k).

7 INTANGIBLE ASSETS

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

€	Goodwill	Other	Total
As of 1 January 2010			
Costs of acquisition/manufacture	19,929,880.72	844,789.72	20,774,670.44
Cumulative impairment (IAS 36)	-371,008.62	0.00	-371,008.62
Cumulative amortisation	0.00	-738,422.47	-738,422.47
Carrying amount (net)	19,558,872.10	106,367.25	19,665,239.35
2010 financial year			
Opening carrying amount (net)	19,558,872.10	106,367.25	19,665,239.35
Additions	0.00	116,758.40	116,758.40
Disposals	0.00	-54,263.86	-54,263.86
Impairment (IAS 36)	0.00	-4,672.19	-4,672.19
Additions to amortisation	0.00	-75,898.24	-75,898.24
Disposals from amortisation	0.00	54,263.86	54,263.86
Closing carrying amount (net)	19,558,872.10	142,555.22	19,701,427.32
As of 31 December 2010			
Costs of acquisition/manufacture	19,929,880.72	907,284.26	20,837,164.98
Cumulative impairment (IAS 36)	-371,008.62	-4,672.19	-375,680.81
Cumulative amortisation	0.00	-760,056.85	-760,056.85
Carrying amount (net)	19,558,872.10	142,555.22	19,701,427.32
2011 financial year			
Opening carrying amount (net)	19,558,872.10	142,555.22	19,701,427.32
Additions	0.00	91,875.32	91,875.32
Disposals	0.00	-49,481.18	-49,481.18
Impairment (IAS 36)	0.00	0.00	0.00
Additions to amortisation	0.00	-89,388.63	-89,388.63
Disposals from amortisation	0.00	49,481.18	49,481.18
Closing carrying amount (net)	19,558,872.10	145,041.91	19,703,914.01
As of 31 December 2011			
Costs of acquisition/manufacture	19,929,880.72	949,678.40	20,879,559.12
Cumulative impairment (IAS 36)	-371,008.62	-4,672.19	-375,680.81
Cumulative amortisation	0.00	-799,964.30	-799,964.30
Carrying amount (net)	**19,558,872.10**	**145,041.91**	**19,703,914.01**

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

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

The extrapolation is based on the assumption that once the start-up period of 1 to 2 years has been managed (mostly involving start-up losses), each salon will generate a certain level of earnings contribution based on its available capacity and situation. Moreover, one-off items relating to the previous year (e.g. as a result of conversion measures, changes in salon management) are eliminated and a decision is then made as to whether these factors will already have an impact on the coming year or only on the year thereafter.

At 10% (previous year 10%), the discount factor thereby used, corresponds to the rate used internally at Essanelle Hair Group as the minimum rate of return for investment decisions and to the rate subsequently used for performance measurement. This interest rate is intentionally substantially higher than the long-term investment rate of the company (value in use), which is determined in the form of weighted average cost of capital (WACC). Given that it was not necessary to undertake any extraordinary amortisation, even upon application of a rate of return of 10%, it was decided to forego any calculation based on the actual WACC. The applicable WACC is reported as amounting to 4.69% (previous year 4.7%).

As in the previous year, the impairment test undertaken in 2011 did not result in any extraordinary amortisation of goodwill according to IAS 36.

8 OTHER LOANS

Other loans are structured as follows:

€	Loans to mod´s hair franchisees	Miscellaneous loans	Total
As of 1 January 2010			
Costs of acquisition/manufacture	400,729.48	105,493.13	506,222.61
Cumulative impairment	-400,729.48	-8,301.89	-409,031.37
Carrying amount (net)	0.00	97,191.24	97,191.24
2010 financial year			
Opening carrying amount (net)	0.00	97,191.24	97,191.24
Disposals	0.00	-18,352.24	-18,352.24
Additions from transfer *	0.00	232,680.95	232,680.95
Cumulative impairment (IAS 36)	0.00	-14,743.01	-14,743.01
Closing carrying amount (net)	0.00	296,776.94	296,776.94
As of 31 December 2010			
2011 financial year			
Opening carrying amount (net)	0.00	296,776.94	296,776.94
Disposals	-400,729.48	-34,798.29	-435,527.77
Additions	0.00	168.27	168.27
Disposals cumulative impairment (IAS 36)	400,729.48	0.00	400,729.48
Closing carrying amount (net)	0.00	262,146.92	262,146.92
As of 31 December 2011			
Costs of acquisition/manufacture	0.00	285,191.82	285,191.82
Cumulative impairment	0.00	-23,044.90	-23,044.90
Carrying amount (net)	**0.00**	**262,146.92**	**262,146.92**

* from trade accounts receivable (after allocation) and other assets

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

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

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

€	31.12.2011	31.12.2010
Not due yet	262,146.92	296,776.94
Overdue and unimpaired	0.00	0.00
	262,146.92	**296,776.94**

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

€	31.12.2011			
	Total	**Remaining term of up to 1 year**	**Remaining term of more than 1 year to 5 years**	**Remaining term of more than 5 years**
Loans	262,146.92	26,479.28	119,298.57	116,369.07

€	31.12.2010			
	Total	**Remaining term of up to 1 year**	**Remaining term of more than 1 year to 5 years**	**Remaining term of more than 5 years**
Loans	296,776.94	38,854.97	103,760.48	154,161.49

9 INVENTORIES

Inventories are structured as follows:

€	31.12.2011	31.12.2010
Goods for sale	3,727,078.76	4,191,978.79
Goods for use	2,471,801.06	2,469,402.31
	6,198,879.82	6,661,381.10
Write-down	-32,090.00	-35,920.00
	6,166,789.82	**6,625,461.10**

Inventories have been stated at their cost of acquisition or at a lower net disposal value. Given the risk of obsolescence, damage and sinking retail prices, write-downs are undertaken, any changes to which are recorded under cost of materials.

Inventories are not subject to any restraints on disposal.

10 ACCOUNTS RECEIVABLE

€	31.12.2011	31.12.2010
Gross receivables	202,785.69	140,698.37
less write-downs	-78,930.39	-78,814.61
	123,855.30	**61,883.76**

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

€	31.12.2011	31.12.2010
Less than 30 days	44,026.97	-12,133.41
Between 30 and 60 days	5,564.90	13,229.79
Between 61 and 90 days	0.00	2,785.52
Between 91 and 180 days	5,578.23	12,134.71
Between 181 and 360 days	0.00	11,311.44
More than 360 days	68,685.20	34,555.71
	123,855.30	**61,883.76**

The above accounts receivable are not collateralised.

The itemised allowances on accounts receivable developed as follows:

€	31.12.2011	31.12.2010
Allowances as at 1 January	78,814.61	214,009.55
Additions (Expenses on allowances)	115.78	46,241.31
Utilisation	0.00	0.00
Retransfers	0.00	-181,436.25
	78,930.39	**78,814.61**

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

11 OTHER ASSETS

€	31.12.2011	31.12.2010
Prepayments made on assets ordered	26,954.62	75,573.44
Accrued income	107,571.56	51,518.33
Rental receivables	60,435.30	40,278.88
Payroll receivables	154,789.89	164,739.49
Taxrefund claims	9,006.29	13,828.28
Other	146,577.74	241,937.14
	505,335.40	**587,875.56**

Other assets were recognised at cost. In view of the short-term nature of the claims, no discounting has been undertaken.

12 CASH AND CASH EQUIVALENTS

€	31.12.2011	31.12.2010
Credit balances at banks	5,952,608.62	3,711,863.02
Payments in transit from Essanelle hairdressing salons (prior to credit to bank accounts)	384,545.96	433,476.18
Cash holdings	799,494.67	771,273.83
	7,136,649.25	**4,916,613.03**

The effective interest rate for short-term bank deposits amounted to an average of 0.75% (previous year 0.55%). The short-term bank deposits bear interest at variable market interest rates.

13 SHARE CAPITAL

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

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

€	31.12.2011	31.12.2010
Share capital	4,595,044.00	4,595,044.00
Acquisition of own shares	-72,203.00	-72,203.00
Balance at 31 Dec.	**4,522,841.00**	**4,522,841.00**

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

In 2005, the company acquired 60,000 non-par individual shares, equivalent to 1.31% of the share capital, in four transactions on the basis of the authorisation provided to the Management Board by resolution of the shareholders and shareholder representatives at the Annual General Meeting held on 25 June 2004:

7,275 shares at a price of EUR 7.70 and 4,750 shares at a price of EUR 7.74 on 28 October 2005, 19,600 shares at a price of EUR 7.70 on 7 November 2005 and 28,375 shares at a price of EUR 7.625 on 10 November 2005.

The shares were acquired in order to service the employee share option programme. However, the Management Board is also authorised to use or collect 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 no-par shares were acquired in four transactions: 3,440 shares were acquired on 23 September 2008 at a price of EUR 8.34, 5,183 shares were acquired on 7 November 2008 at a price of EUR 7.70, 1,740 shares were acquired on 28 November 2008 at a price of EUR 7.26 and 1,840 shares were acquired on 29 December 2008 at a price of EUR 7.06.

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

(1) Conditional Capital

The Annual General Meeting held on 28 May 2001 resolved to conditionally increase the share capital of the company by up to EUR 263,141.00 by issuing up to 263,141 new individual shares in order to service an employee option program (conditional capital). The conditional capital is only to be executed to the extent that subscription rights to shares are issued and that their owners exercise the subscription rights thereby granted. In fiscal year 2006, 95,044 new shares were subscribed in the context of a conditional capital increase (exercise of stock options). The new shares in each case participate in the profit of the company from the beginning of the financial year in which they arise as a result of the exercising of subscription rights. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the further details of the execution of the conditional capital increase. In this respect, the conditional capital increase serves exclusively to grant subscription rights to

- Members of the Management Board of Essanelle Hair Group,
- Members of the management bodies of certain subordinate affiliated companies and
- Employees of Essanelle Hair Group and of certain subordinate affiliated companies.

Following the expiry of this authorisation, the shareholders and shareholder representatives passed a resolution at the Annual General Meeting on 24 June 2005, authorising the Management Board to issue further subscription rights to parties entitled to subscribe, for a period of up to 6 months following the holding of the Annual General Meeting of Essanelle Hair Group in 2008. In the case of members of the Management Board of Essanelle Hair Group, the responsibility for granting subscription rights lies exclusively with the Supervisory Board. No further subscription rights were issued as of 31 December 2011.

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

Shareholders required to make such notifications	Date	Reason	Share in voting rights at the date of the statement
William Geoffrey Oldfield, United Kingdom	01.06.10	Exceeding the threshold of 5% of voting rights**	5.30%
Friseur Klier GmbH, Wolfsburg	08.12.09	Falling short of the thresholds of 25, 20, 15, 10, 5 and 3% of the voting rights	0.00%
Saxonia Holding-Verwaltungs-GmbH, Wolfsburg	24.09.09	Falling short of the thresholds of 75, 50, 30, 25, 20, 15, 10, 5 and 3% of the voting rights	0.00%
Uwe Grimminger, Germany	20.02.08	Falling short of the threshold of 3% of the voting rights	0.00%
Jürgen Tröndle, Germany	11.02.08	Falling short of the threshold of 3% of the voting rights	0.00%
Axxion S.A., Luxemburg-Munsbach/Luxemburg	22.02.08	Falling short of the thresholds of 5 and 3% of the voting rights	0.00%
Hubertus Klier, Wolfsburg	22.02.08	Exceeding the thresholds of 50 and 75% of the voting rights	89.77%
Joachim Klier, Wolfsburg	22.02.08	Exceeding the thresholds of 50 and 75% of the voting rights	89.77%
Saxonia Holding-Gesellschaft mbH & Co. KG, Wolfsburg	22.02.08	Exceeding the thresholds of 50 and 75% of the voting rights	89.77%
INTRINSIC VALUE INVESTORS (IVI) LLP, 1 HAT & MITRE COURT, 88 ST JOHN STREET, LONDON, EC1M 4EL, UNITED KINGDOM	20.02.08	Falling short of the thresholds of 5 and 3% of the voting rights	0.00%
IVI UMBRELLA FUND PLC	20.02.08	Falling short of the thresholds of 5 and 3% of the voting rights	0.00%
Ratio European Fund	20.02.08	Falling short of the thresholds of 5 and 3% of the voting rights	0.00%
MAC Lochsong 19A Limited	20.02.08	Falling short of the threshold of 3% of the voting rights	0.00%
Ratio Asset Management LLP, London, Great Britain	20.02.08	Falling short of the thresholds of 10, 5 and 3% of the voting rights	0.00%
FPM Funds SICAV, Luxemburg	09.02.07	Falling short of the threshold of 3% of the voting rights	1.67%
Fortis Investment Management S.A., Brussels/Belgium	22.05.07	Exceeding the threshold of 5% of voting rights	5.07%
Threadneedle Investment Funds ICVC, London/Great Britain, the voting rights are to be assigned to the following companies: Threadneedle Investment Services Limited, Threadneedle Asset Management Limited – both were established in London/Great Britain, Threadneedle Asset Management Holding Limited, London/Great Britain, and the Ameriprise Financial Inc., Minneapolis/USA	04.04.07	Falling short of the threshold of 3% of the voting rights	2.93%
dit Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt am Main	21.11.06	Falling short of the threshold of 5% of the voting rights	3.56%
INVESTMENTS IV-A CUSTODIAN B.V.,Netherlands, for account of Halder IN VESTMENTS IV-A C.V., Netherlands.	29.04.05	Falling short of the threshold of 10 and 5% of the voting rights	3.79%
Stadtsparkasse Köln	24.11.04	Falling short of the threshold of 5% of the voting rights	1.56%

* Because the requirement for notification of shares of less than 5% did not exist at the time, it is possible that some of these investors no longer have shares.
** subsequent notification for 2006

(3) Share options

On the basis of the share option programme adopted by the Annual General Meeting, subscription rights were issued to employees and the Management Board in 4 tranches in the years from 2003 to 2006, in each case on 29 September. These subscription rights are governed by the following conditions provided in summarised form:

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

In 2003, 60,928 subscription rights were allocated in the first tranche at an exercise price of EUR 2.53. Of these options, 58,563 were exercised by employees in 2006. The weighted average share price on the exercise date amounted to EUR 7.72.

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

In 2005, 138,072 subscription rights were allocated in the third tranche at an exercise price of EUR 6.88. These rights expired in financial year 2010.

In 2006, 87,623 subscription rights were allocated in the fourth tranche at an exercise price of EUR 7.75.

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

In 2008, no further change in subscription rights stock occurred.

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

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

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

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

€	Total	1st Tranche	2nd Tranche	3rd Tranche	4th Tranche
Options issued	613,679	134,198	87,898	229,500	162,083
Options not accepted	-286,436	-73,270	-47,278	-91,428	-74,460
Options accepted	327,243	60,928	40,620	138,072	87,623
Exercised in 2006	-95,044	-58,563	-36,481	0	0
Expiry	-212,361	-2,365	-4,139	-138,072	-67,785
Expired because of termination of employee relationship	-19,838	0	0	0	-19,838
Not yet exercised	0	0	0	0	0
Expiry date		**25 July 2008**	**24 July 2009**	**23 July 2010**	**22 July 2011**

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

	1st Tranche	2nd Tranche	3rd Tranche	4th Tranche
Share price	2.55 €	4.00 €	7.44 €	7.63 €
Exercise price	2.53 €	3.98 €	6.88 €	7.75 €
Volatility Essanelle	70.92%	61.69%	57.73%	53.56%
Volatility SDAX	12.26%	11.64%	10.89%	11.43%
Correlation Essanelle/SDAX	0.3221	0.3083	0.3585	0.3779
Term	4.82 years	4.82 years	4.81 years	4.81 years
Risk-free interest rate	3.26%	3.27%	2.69%	3.56%
Expected dividend	0	0	0	0
Fair value per option on issue date	1.30	1.85	3.47	3.18
Total fair value	79,206.40	75,147.00	479,109.84	215,556.30

The fair value of the work performed by the employees in return for the granting of options is recorded as expenses up to 2008.

A total amount of EUR 293,358.77 was received for the 95,044 subscription rights exercised in 2006.

Broken down into the individual share option programmes, the reserve is structured as follows:

	Total	1st Tranche	2nd Tranche	3rd Tranche	4th Tranche
Total reserve acc. to plan (100%)	849,019.54	79,206.40	75,147.00	479,109.84	215,556.30
Balance of reserve as of 31 Dec. 2011	849,019.54	79,206.40	75,147.00	479,109.84	215,556.30

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

€	2011	2010
Balance as of 1 Jan.	849,019.54	849,019.54
Additions acc. to accrual plan	0.00	0.00
Balance as of 31 Dec.	**849,019.54**	**849,019.54**

(4) Share

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

€	2011	2010
Annual high	11.51	9.00
Annual low	7.90	7.32
Year-end	9.29	8.60
Number of shares	4,595,044	4,595,044
of which: own shares	72,203	72,203

14 CAPITAL RESERVE

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

€	2011	2010
Premiums on cash deposits of the former GmbH shareholders as a result of capital increases	5,892,650.58	5,892,650.58
Agio stock market flotation	11,209,912.92	11,209,912.92
Stock market flotation expenses (after taxes)	-1,966,489.28	-1,966,489.28
	15,136,074.22	15,136,074.22
Acquisition of own shares	-465,709.36	-465,709.36
Capital increases resulting from payments made upon the exercising of share options (1st and 2nd tranches)	198,314.77	198,314.77
Value of services of employees from share option programmes	849,019.54	849,019.54
Balance as of 1 Jan.	15,717,699.17	15,717,699.17
Acquisition of own shares	0.00	0.00
Value of services of employees from share option programmes	0.00	0.00
Balance as of 31 Dec.	**15,717,699.17**	**15,717,699.17**

15 REVENUE RESERVES

Revenue reserves developed as follows:

€	2011	2010
Balance as of 1 Jan.	12,419,632.20	11,303,033.79
Dividend distribution	-2,261,420.37	-2,261,420.01
Consolidated net income	3,791,974.87	3,378,018.42
Balance as of 31 Dec.	**13,950,186.70**	**12,419,632.20**

The dividend distribution amounted to EUR 0.50 per share as in 2010, based on a volume of 4,522,841 shares (as in the previous year).

16 FINANCIAL DEBT

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

€	31.12.2010			
	Total	Remaining term up to 1 year	Remaining term 1 year to 5 years	Remaining term over 5 years
Liabilities to banks	2,352,007.69	902,007.69	1,450,000.00	0.00
Liabilities in connection with financial leases	312,815.25	154,182.25	158,633.00	0.00
Investment loans from suppliers	2,152,919.47	937,649.34	1,215,270.13	0.00
Other financial loans	1,603,194.48	684,708.08	918,486.40	0.00
	6,420,936.89	**2,678,547.36**	**3,742,389.53**	**0.00**

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

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

€	31.12.2010			
	Total	Cash flows 2011	Cash flows 2012 to 2015	Cash flows after 2015
Liabilities to banks	2,508,601.04	966,606.56	1,541,994.48	0.00
Liabilities in connection with financial leases	328,255.08	162,713.83	165,541.25	0.00
Investment loans from suppliers	2,263,354.16	996,773.60	1,266,580.56	0.00
Other financial loans	1,716,024.48	731,475.44	984,549.04	0.00
	6,816,234.76	**2,857,569.43**	**3,958,665.33**	**0.00**

The cash flows contain fixed and variable interest:

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

€	31.12.2010			
	Total interest	**Interest contained in cash flows 2011**	**Interest contained in cash flows 2012 to 2015**	**Interest contained in cash flows after 2015**
Liabilities to banks				
Fixed interest	145,509.74	55,394.24	90,115.50	0.00
Variable interest	11,271.61	9,392.63	1,878.98	0.00
Liabilities in connection with financial leases				
Fixed interest	15,439.83	8,531.58	6,908.25	0.00
Investment loans from suppliers				
Fixed interest	110,246.69	58,936.26	51,310.43	0.00
Other financial loans				
Fixed interest	109,343.80	43,281.16	66,062.64	0.00
Variable interest	3,486.20	3,486.20	0.00	0.00
	395,297.87	**179,022.07**	**216,275.80**	**0.00**

Liabilities to banks

Liabilities to banks are structured as follows:

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

€		31.12.2010		
	Interest Rate	**Total**	**Short-term**	**Long-term**
HypoVereinsbank, Nürnberg	Euribor + 1.25	633,924.97	423,924.97	210,000.00
Gladbacher Bank, Mönchengladbach	fixed 5.25%	157,894.72	157,894.72	0.00
Gladbacher Bank, Mönchengladbach	fixed 3.95%	560,000.00	120,000.00	440,000.00
Postbank	fixed 3.384%	1,000,188.00	200,188.00	800,000.00
		2,352,007.69	**902,007.69**	**1,450,000.00**

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

For this purpose, credit agreements with a total volume of EUR 5.5 million (previous year EUR 4.5 million) have been signed. As of the balance sheet date, EUR 5.5 million of the total amount was unused (previous year EUR 4.1 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 917,801.46 (previous year EUR 1,263,797.95). The lease liabilities total EUR 204,854.20 (previous year EUR 312,815.26). These liabilities are due to various leasing companies and carry interest rates of between 3.19% and 6.54% p.a. (previous year between 4.18% and 6.54%).

€	2011		2010	
	Nominal amount	Discounted amount	Nominal amount	Discounted amount
Remaining term up to 1 year	101,069.83	95,555.27	162,713.84	154,182.26
Remaining term 1 to 5 years	112,617.01	109,298.93	165,541.24	158,633.00
Remaining term over 5 years	0.00	0.00	0.00	0.00
	213,686.84	**204,854.20**	**328,255.08**	**312,815.26**

Investment loans from suppliers

The loans serve to finance investments made in new salons. They were taken before 2011 and are due in the next four years. The salon furnishings acquired by means of the loans have been provided as security with extended retention of title in favour of the lender. The interest rates amount to 3.5%.

Other supplier loans

The supplier loans relate to five hire purchase agreements concluded in 2010 and 2011 with SüdLeasing and one lease contract with VR Leasing, which are to be repaid on a monthly basis over the next four respectively five years. Furthermore two credit lines from one supplier were both repaid quarterly over the course of 2011. The two credit lines charged interest at 3-months Euribor plus 0.5% and 1.2% interest respectively, which were paid at the end of each respective quarter.

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

Additional disclosures on financial instruments acc. to IAS 39:

€	Measurement categories pursuant to IAS 39	Carrying amount	Transition to carrying amount	Measured pursuant to	
		Total **	No financial instruments	IAS 39 *	IAS 17
31.12.2011					
ASSETS					
Other loans	LaR	262,146.92	0.00	262,146.92	0.00
Accounts receivable	LaR	123,855.30	0.00	123,855.30	0.00
Other assets	LaR	505,335.40	478,380.78	26,954.62	0.00
Cash and cash equivalents	LaR	7,136,649.25	0.00	7,136,649.25	0.00
LIABILITIES					
Financial debt	FLAC	5,299,005.83	0.00	5,094,151.63	204,854.20
Accounts payable	FLAC	1,433,468.00	0.00	1,433,468.00	0.00
Other liabilities	FLAC	2,835,310.83	2,605,904.77	229,406.06	0.00
31.12.2010					
ASSETS					
Other loans	LaR	296,776.94	0.00	296,776.94	0.00
Accounts receivable	LaR	61,883.76	0.00	61,883.76	0.00
Other assets	LaR	587,875.50	402,918.00	184,957.50	0.00
Cash and cash equivalents	LaR	4,916,613.03	0.00	4,916,613.03	0.00
LIABILITIES					
Financial debt	FLAC	6,420,936.89	0.00	6,108,121.64	312,815.25
Accounts payable	FLAC	2,237,066.95	0.00	2,237,066.95	0.00
Other liabilities	FLAC	2,807,991.33	2,621,674.88	186,316.45	0.00

LaR = Loans and Receivables

FLAC = Financial Liabilities Measured at Amortised Costs (FLAC)

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

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

17 DEFERRED TAX ASSETS/TAX LIABILITIES

Composition:

€	31.12.2011	31.12.2010
Deferred tax liabilities	5,260,002.13	4,544,354.57

Deferred tax assets and liabilities have been netted in cases where there is an enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same tax authority. Only deferred tax liabilities occurred as of the balance sheet reporting dates of 31 December 2011 and 31 December 2010.

Deferred tax liabilities refer to the following balance sheet items:

€k	31.12.11 assets	31.12.11 liabilities	31.12.10 assets	31.12.10 liabilities
Deferred tax liabilities on balance sheet items				
Goodwill (non-current)	0	4,921	0	4,218
Property, plant and equipment (non-current)	0	575	0	733
Pension provisions (non-current)	31	0	38	0
Other provisions				
current	16	0	123	0
non-current	126	0	152	0
Liabilities in connection with financial leases				
current	29	0	46	0
non-current	34	0	48	0
	236	5,496	407	4,951
Net balances	-236	-236	-407	-407
	0	**5,260**	**0**	**4,544**

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

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

€k	2011	2010
Increase in deferred trade tax liabilities due to increase in the IFRS capital gain	398	132
Increase in deferred corporate income tax liabilities	318	115
	716	**247**

At EUR 106,031.14, the deferred business tax expense relates to the change of the tax rate from 14.0% to 14.7% caused by increased rates of assessment in individual communities.

18 PENSION PROVISIONS

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

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

€	2011	2010
Present value of the obligations	1,085,438.00	1,011,638.00
Fair value of plan assets	-127,921.00	-104,983.00
Non-recognised actuarial gains	-67,601.00	-72,737.00
Balance as of 31 Dec.	**889,916.00**	**833,918.00**

Changes in the present value of the obligations:

€	2011	2010
1st Jan.	1,011,638.00	879,252.00
Current Service Cost	26,408.00	24,215.00
Interest Cost	45,821.00	46,491.00
Actuarial loss	38,983.00	98,358.00
Pension payments	-37,412.00	-36,678.00
Balance as of 31 Dec.	**1,085,438.00**	**1,011,638.00**

EUR 369k of the total obligation is counted under a funded plan, while EUR 716k is counted under a non-funded plan.

Changes in the plan assets:

€	2011	2010
1st Jan.	104,983.00	83,099.00
Contributions	24,065.00	24,069.00
Expected Return on Plan Assets	3,989.00	3,407.00
Actuarial loss	-5,116.00	-5,592.00
Balance as of 31 Dec.	**127,921.00**	**104,983.00**

The plan assets consist of the asset values of reinsurance policies at Swiss Life. An estimated total of EUR 24k will be deposited into the plan assets in the financial year 2012.

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

€	2011	2010	2009	2008
Present value of the obligations	1,085,438.00	1,011,638.00	879,252.00	698,202.00
Fair value of plan assets	-127,921.00	-104,983.00	-83,099.00	-596,981.00
Non recognised actuarial losses (or gains)	-67,601.00	-72,737.00	8,006.00	53,143.00
Balance as of 31 Dec.	**889,916.00**	**833,918.00**	**804,159.00**	**154,364.00**

The following amounts were recorded in the income statement:

€	2011	2010
Current period of service expenses	26,408.00	24,215.00
Interest expenses	45,821.00	46,491.00
Expected Return on Plan Assets	-3,989.00	-3,407.00
Amortisation	49,235.00	23,207.00
	117,475.00	**90,506.00**

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

€	2011	2010
Beginning of the year	833,918.00	804,159.00
Total expenses recorded in the income statement	117,475.00	90,506.00
Endowment of plan assets	-24,065.00	-24,069.00
Payment of pensions	-37,412.00	-36,678.00
Balance as of 31 Dec.	**889,916.00**	**833,918.00**

The following principal actuarial assumptions were made:

€	2011	2010
Discount rate	4,50%	5,15% / 4,40%
Expected income on plan assets	3,80% / 0%	3,80% / 0%
Future salary increases	2% / 0%	2% / 0%
Future pension increases	2% in each case	2% in each case

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

€	31.12.2011		
	Obligation	**Development plan assets**	**Provision**
1 Jan. 2011	-153,247.64	153,247.64	0.00
Participant Contribution	-11,851.17	11,851.17	0.00
Payment of plan assets to Essanelle Hair Group in connection with the start of retirement of a beneficiary; transfer to other liabilities	-165,098.81	165,098.81	0.00
31 Dec. 2011	**-330,197.62**	**330,197.62**	**0.00**

€	31.12.2010		
	Obligation	**Development plan assets**	**Provision**
1 Jan. 2010	-147,518.00	147,518.00	0.00
Participant Contribution	-5,729.64	5,729.64	0.00
Actuarial gains/losses	0.00	0.00	0.00
31 Dec. 2010	**-153,247.64**	**153,247.64**	**0.00**

The plan assets were paid to the beneficiary Mr. Grimminger in January 2012.

19 OTHER NON-CURRENT PROVISIONS

€	31.12.2011	31.12.2010
Provision for dismantling obligations	1,472,378.43	1,441,342.11
	1,472,378.43	**1,441,342.11**

Changes in non-current provisions:

€	Dismantling Obligations
Balance as of 1 Jan. 2011	1,441,342.11
Utilised	-40,581.55
Released	-42,916.30
Added	114,534.17
Balance as of 31 Dec. 2011	**1,472,378.43**

The provision for dismantling obligations covers the renovation and conversion expenses expected to be incurred upon the expiry of the basic rental period for the hairdressing salons, which the company has contractually undertaken to cover.

20 ACCOUNTS PAYABLE

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

21 CURRENT INCOME TAX LIABILITIES

€	31.12.2010/ 01.01.2011	Utilised	Released	Added	31.12.2011
Taxes resulting from tax audit	0.00	0.00	0.00	55,000.00	55,000.00
Trade tax 2009	352,520.45	-352,520.45	0.00	0.00	0.00
Corporate income tax 2009	422,958.00	-422,958.00	0.00	0.00	0.00
Trade tax 2010	118,269.13	-118,269.13	0.00	0.00	0.00
Corporate income tax 2010	375,206.47	-349,010.07	-26,196.40	0.00	0.00
Trade tax 2011	0.00	0.00	0.00	180,914.37	180,914.37
Corporate income tax 2011	0.00	0.00	0.00	104,922.59	104,922.59
	1,268,954.05	**-1,242,757.65**	**-26,196.40**	**340,836.96**	**340,836.96**

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

22 OTHER LIABILITIES

Other current liabilities are structured as follows:

€	31.12.2011	31.12.2010
VAT liabilities	1,537,145.94	1,727,150.05
Liabilities towards employees due to wages, salaries and commission still to be paid	471,429.74	303,801.55
Liabilities relating to rental agreements	229,406.06	186,316.45
Wage tax and church tax 2011 (2010)	280,486.20	353,881.79
Miscellaneous	316,842.89	236,841.49
	2,835,310.83	**2,807,991.33**

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

23 OTHER CURRENT PROVISIONS

Composition and development of other current provisions:

€	01.01.2011	Utilised	Released	Added	31.12.2011
Personnel provisions	1,566,835.76	-1,436,316.81	-130,518.95	1,372,681.29	1,372,681.29
Subscriptions and customer vouchers	956,794.16	-956,794.16	0.00	906,300.00	906,300.00
Miscellaneous	856,230.03	-559,264.42	-107,776.57	749,370.16	938,559.20
	3,379,859.95	**-2,952,375.39**	**-238,295.52**	**3,028,351.45**	**3,217,540.49**

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 451k, previous year EUR 424k) and for outstanding incoming invoices (EUR 226k, previous year EUR 217k).

All other current provisions are expected to result in expenses being incurred in the 1st quarter of 2012.

24 SALES

Consolidated sales are structured as follows:

€	2011	2010
Revenues from services	107,374,887.69	107,263,582.11
Revenues from sales	19,296,823.88	19,414,734.88
Revenues in connection with rental agreements	256,084.34	276,121.56
Other revenues	289,101.49	288,987.16
	127,216,897.40	**127,243,425.71**

Sales were exclusively generated in Germany.

25 OTHER OPERATING INCOME

Composition:

€	2011	2010
Advertising subsidies	431,529.36	63,705.65
Income from invoicing of ancillary rental expenses	375,560.27	222,198.85
Income from release of provisions	281,211.82	554,163.06
Income from disposal of assets	205,383.34	1,680.67
Income from the release of write-downs on accounts receivable	0.00	172,218.72
Income from statute-barred debt	31,828.86	31,348.54
Insurance compensations	46,132.50	117,001.68
Other income	327,206.72	761,720.59
	1,698,852.87	**1,924,037.76**

26 COST OF MATERIALS

Cost of materials includes:

€	2011	2010
Expenses for goods purchased	10,005,933.58	9,793,438.31
Decrease in written inventories (previous year increase)	-3,830.00	4,400.00
	10,002,103.58	**9,797,838.31**

27 PERSONNEL EXPENSES

Personnel expenses are structured as follows:

€	2011	2010
Wages and salaries	58,555,801.31	58,992,230.42
Social security contributions	12,431,551.70	12,638,540.03
Pension expenses for defined benefit plans	75,642.51	44,015.46
Compensations resulting from the termination of employment contracts	12,199.69	28,000.00
	71,075,195.21	**71,702,785.91**

Contributions to the statutory pension insurance fund: EUR 5,807k (previous year EUR 5,875k).

28 DEPRECIATION AND AMORTISATION

Composition:

€	2011	2010
Scheduled depreciation and amortisation		
Amortisation of other intangible assets	89,388.63	80,570.43
Depreciation of proprietary salon furnishings	4,297,503.98	4,521,681.39
Depreciation of leased salon furnishings	397,724.49	475,433.79
Impairments IAS 36	255,066.13	272,791.28
	5,039,683.23	**5,350,476.89**

29 RENTAL AND ANCILLARY RENTAL COSTS

Composition:

€	2011	2010
Rent for hairdressing salons and head office in Düsseldorf	21,528,964.25	21,579,216.26
Ancillary rental expenses	3,953,171.21	3,855,500.25
	25,482,135.46	**25,434,716.51**

30 OTHER OPERATING EXPENSES

Other operating expenses include:

€	2011	2010
Losses incurred on the disposal of non-current assets	89,876.77	170,227.58
Operating requirements	486,782.45	507,626.88
Advertising and sales promotion	1,664,065.63	1,965,835.54
Employee training	114,196.96	48,284.78
Vehicle-related expenses	610,559.08	601,159.48
IT-related expenses	904,022.27	968,018.51
Legal and advisory expenses	536,112.08	622,657.05
Bank charges	336,869.27	341,638.34
Telephone, office materials, print materials	494,322.61	566,821.16
Travel expenses and hospitality	362,253.60	352,767.98
Insurances	136,279.75	117,390.25
Cleaning companies	130,919.09	135,334.91
Postal charges, radio fees	190,251.82	207,737.73
Energy costs, electricity	2,046,681.10	1,844,899.94
Miscellaneous	2,478,488.35	3,015,462.28
	10,581,680.83	**11,465,862.41**

31 FINANCING INCOME

This item relates to interest income of EUR 9k on loans (previous year EUR 9k), interest income of EUR 20k on short-term bank deposits and other current receivables (previous year EUR 4k) and to interest income of EUR 0k (previous year EUR 10k) on taxes.

32 FINANCING EXPENSES

This item relates to pension-related interest of EUR 42k (previous year EUR 46k), to interest of EUR 38k on dismantling obligations (previous year EUR 16k), interest from taxes of EUR 3k (previous year EUR 1k) and interest expenses of EUR 274k in connection with financial debt (previous year EUR 300k).

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

€	2011	2010
Loans and Receivables		
Other loans	8,596.46	9,498.79
Cash and cash equivalents	20,196.86	3,821.50
Accounts receivable	0.00	-181,436.25
Financial Liabilities		
Measured at Amortised Cost		
Commitments towards creditinstitutions	-70,506.92	-94,904.05
Leasing liabilities	-9,042.99	-18,972.71
Financing from suppliers	-194,082.94	-186,036.55
	-244,839.53	**-468,029.27**

Interest from financial instruments is shown in the interest result.

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

34 TAX EXPENSES

€	2011	2010
Actual taxes		
Trade tax for previous years	125,994.82	65,841.89
Corporate income tax for previous years	-15,195.95	-45,531.44
Corporate income tax for current year	714,354.19	552,257.00
Trade tax for current year	1,074,470.98	878,392.00
	1,899,624.04	**1,450,959.45**
Deferred taxes		
Deferred corporate income tax for current year	317,715.40	115,000.00
Deferred trade tax for current year	397,932.16	132,000.00
	715,647.56	247,000.00
	2,615,271.60	**1,697,959.45**

Deferred taxes have been accounted for at 30.7% (previous year 30%). This is equivalent to a trade tax rate of 14.7% (previous year 14%), a corporate income tax rate of 15% (previous year 15%) and a solidarity surcharge of 5.5% (previous year 5.5%).

The following tax reconciliation account shows the development of tax expenses in 2011 (2010):

€k	**2011**	**2010**
Earnings before taxes	6,407	5,076
Taxes based on a rate of 30.7% (previous year 30%)	1,966	1,523
Taxes on income as stated in income statement	2,615	1,698
less income taxes on modifications	-432	-155
less trade taxes caused by tax rate changes	-106	0
less taxes for previous years	-111	-20
	1,966	**1,523**

The effective tax rate amounts to 40.81% (previous year 33.45%).

35 EARNINGS PER SHARE

(1) Basic

	2011	**2010**
Earnings allocable to providers of equity in EUR	3,791,974.87	3,378,018.42
Average number of shares issued	4,522,841	4,522,841
Basic earnings per share (EUR per share)	**0.84**	**0.75**

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

	2011	**2010**
Earnings allocable to providers of equity in EUR	3,791,974.87	3,378,018.42
Average number of shares issued	4,522,841	4,522,841
Diluted earnings per share (EUR per share)	**0.84**	**0.75**

When calculating the diluted earnings per share, the number of shares issued was increased where employees still held subscription rights relating to the share option programme. At the same time, the number of available shares that the company could have re-purchased at the average share price for the year under report at the company's trial price was reduced in the event of such subscription rights being exercised.

36 DIVIDEND PER SHARE

In 2011, the company paid out its dividend for the year 2010. The dividend amounted to EUR 0.50 per share and totalled EUR 2,261,420.37 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 2011 in 2012.

37 CASH FLOW STATEMENT

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

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

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

€k	2011	2010
Consolidated annual earnings	**3,792**	**3,378**
Adjustments for …		
Taxes (Note 34)	2,615	1,698
Depreciation of property, plant and equipment (Note 6)	4,950	5,255
Write-ups to other loans (Note 8)	0	15
Amortisation of intangible assets (Note 7)	89	81
Gains/Losses on the sale of property, plant and equipment	-116	168
Interest income (Note 31)	-29	-23
Interest expenses (Note 32)	357	363
Change in working capital		
Inventories (Note 9)	459	180
Accounts receivable and other receivables (Note 10)	-62	-129
Provisions (Notes 18, 19 and 23)	-152	-12
Other financial assets valued at fair value (Note 11)	83	-68
Accounts payable and other liabilities (Notes 20 to 22)	-909	-2,553
Inflow of funds from operating activities	**11,077**	**8,553**

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

€k	2011	2010
Net carrying amount	1,061	170
Gain/Loss on the sale of property, plant and equipment (balance)	116	-168
Proceeds from the sale of property, plant and equipment	**1,177**	**2**

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

38 OTHER FINANCIAL OBLIGATIONS

(1) Operating Leases

The Group rents numerous store premises for hairdressing salons within the framework of non-terminable operating lease agreements. These rental agreements involve various conditions, rent increase clauses, in most cases linked to the German retail price index, and extension options, e.g. options for extension for a certain period on one or two occasions. The rental expenses for premises amounted to EUR 21,529k (previous year EUR 21,579k).

The Group also leases motor vehicles. The expenses relating to these assets amounted to EUR 273k (previous year EUR 305k).

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

€	31.12.2011	31.12.2010
Remaining term up to 1 year	19,455,252.48	19,865,581.09
Remaining term 1 to 5 years	58,014,088.25	59,336,799.78
Remaining term more than 5 years	19,089,293.09	23,571,574.05
	96,558,633.82	**102,773,954.92**

(2) Purchase commitment

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

39 FINANCIAL INSTRUMENTS

The financial instruments reported by the company involve various risks. On the asset side, the financial assets involve the risk of default on the part of debtors. On the liabilities side, the liabilities charging interest involve risks resulting from variable components in the interest charged on liabilities or from the entire interest charged on the liabilities being variable (c.f. notes on liabilities charging interest). As a result, financial instruments are subject to the risk of changes in the interest rate. Essanelle Hair Group does not deploy any derivative financial instruments.

40 BUSINESS TRANSACTIONS WITH CLOSELY RELATED COMPANIES AND INDIVIDUALS

Essanelle Hair Group concluded an advisory agreement with Jürgen Tröndle, a shareholder and member of the Supervisory Board, on 24 February 1999. This was replaced by two newly formulated contracts dated 9 February 2006. The remuneration paid in 2011 pursuant to the agreement valid as of the reporting date amounted to EUR 80k (previous year EUR 80k). Moreover, travel expenses amounting to EUR 1k were paid (previous year EUR 1k). Furthermore, remuneration of EUR 8k (previous year EUR 9k) was paid to the company Tröndle GmbH for the provision of trainers to train Essanelle Hair Group personnel.

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

Majority investment of Saxonia Holding GmbH in ESSANELLE HAIR GROUP AG

Saxonia Holding GmbH holds a majority investment in Essanelle Hair Group. In accordance with section 312 of the German Stock Corporation Act (AktG), the Management Board submitted the report on the company's relations to connected businesses to the auditor on 13 March 2012.

Shares held by the Supervisory Board and the Management Board

As of 31 December 2011, the members of the Management Board and the Supervisory Board held no shares in Essanelle Hair Group.

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

41 NUMBER OF EMPLOYEES

The company had an average of 2,213 employees, 1,618 part-time employees and 275 trainees during the financial year.

42 BREAKDOWN OF EXPENSES FOR THE GROUP AUDITOR PURSUANT TO SECTION 314 (1) NO. 9 OF THE GERMAN COMMERCIAL CODE (HGB)

The fee for the auditor, recorded as expenses in the financial year pursuant to section 319 (1) sentence no. 1, 2 of the German Commercial Code (HGB) amounted to:

€k	2011	2010
Auditing of financial statements	108	112
Other audit services	2	2
Tax advisory services	40	62
Other services	17	0
	167	**176**

43 EVENTS AFTER THE REPORTING DATE

There were no other events with major implications for the company's net asset, financial and earnings position after the balance sheet reporting date. Neither were there any no areas where it was planned to discontinue activities in 2011.

44 STATEMENT CONCERNING THE GERMAN CORPORATE GOVERNANCE CODE

The Statement of Compliance with the German Corporate Governance Code (DCGK) required by section 161 of the German Stock Corporation Act (AktG) has been submitted and made permanently available to shareholders on our homepage at http://www.essanelle-hair-group.com/sites/investor_cogo1.html.

45 MANAGEMENT BOARD AND SUPERVISORY BOARD COMPENSATION

(1) Management Board compensation

The total compensation of the Management Board amounted to EUR 1,076k in 2011 (previous year EUR 994k) and was structured as follows:

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

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

A defined benefit pension commitment has been made to Management Board member Achim Mansen. The respective provision after deduction of plan assets of EUR 127k (previous year EUR 105k) amounts to EUR 242k (previous year EUR 179k). The interest rate used for accounting purposes is 4,50% (previous year 5.15%). EUR 85k was added to this provision in the year under report. The fair value of this commitment amounts to EUR 369k (previous year EUR 284) as of the balance sheet reporting date.

Achim Mansen is entitled to a monthly retirement pension of EUR 3,540.00 from the age of 65, as well as to a monthly disability pension of EUR 3,540.00 and a widow's pension of 60% of the old-age pension entitlement. In addition, an entitlement to an orphan's pension exists.

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

(2) Compensation of former members of the Management Board

A defined benefit pension commitment has been made to former Management Board member Uwe Grimminger. The provision amounts to EUR 648k (previous year EUR 655k). EUR 6k was released in the year under report.

From the age of 60, Uwe Grimminger is entitled to a monthly pension of EUR 3,112.73 from the Essanelle Hair Group.

The widow's pension amounts to 60% of the old-age pension entitlement. An annual adjustment in the ongoing pension payments of 2% based on the level of pension in the previous year is guaranteed. The pension currently amounts € 3,174.73. In the fiscal year 2011 there were € 37k retirement benefits paid to Mr. Grimminger.

The salary conversion to a pension commitment was paid to Essanelle Hair Group in December 2011 and transferred to other liabilities.

(3) Supervisory Board compensation

The compensation of the Supervisory Board is defined in the Articles of Association of Essanelle Hair Group AG. In addition to the reimbursement of his or her expenses and of the VAT charged for his or her activities, each member of the Supervisory Board receives fixed compensation of EUR 10,000.00 for the past financial year. The Chairman of the Supervisory Board receives double and his Deputy one and half times this compensation. Compensation in the form of wages or salaries paid to labour representatives outside their member activities took place at market-based conditions.

Compensation totalling EUR 155k (previous year EUR 153k) was paid in the financial year 2011.

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

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

Düsseldorf, 13 March 2012

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

“My hair displays my lust for life and my good mood – which is usually infectious.”

BALANCE SHEET (HGB) as of 31 December 2011

ASSETS

€	31.12.2011	31.12.2010
A. FIXED ASSETS		
I. Intangible Assets		
1. Concessions industrial and similar rights assets and licenses in such rights and assets acquired for valuable consideration	145,041.91	142,913.74
2. Goodwill	3,530,405.47	5,498,432.95
	3,675,447.38	**5,641,346.69**
II. Tangible Assets		
1. Office equipmnent including fixtures in rented premises	18,913,745.88	20,701,791.32
2. Prepayments	26,954.62	75,573.44
	18,940,700.50	**20,777,364.76**
III. Financial Assets		
1. Investments in associated companies	1.00	1.00
2. Other loans	262,146.92	296,776.94
	262,147.92	**296,777.94**
	22,878,295.80	**26,715,489.39**
B. CURRENT ASSETS		
I. Inventories		
Merchandise	6,166,789.82	6,625,461.10
	6,166,789.82	**6,625,461.10**
II. Receivables and other assets		
1. Accounts receivables	123,855.30	61,883.76
2. Receivables from associated companies	2,988.54	0.00
3. Other assets	2,167,967.18	1,562,413.54
	2,294,811.02	**1,624,297.30**
III. Cash on hand, Balance with banks	**7,104,734.59**	**4,910,146.32**
	15,566,335.43	**13,159,904.72**
C. PREPAID EXPENSES	**107,571.56**	**51,518.33**
Total assets	**38,552,202.79**	**39,926,912.44**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	31.12.2011	31.12.2010
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	3,573,420.22	2,900,532.14
	21,901,106.87	**21,228,218.79**
B . ACCRUALS		
1. Accruals for pensions and similar obligations	855,672.00	841,022.00
2. Tax Accruals	340,836.96	1,268,954.05
3. Other Accruals	4,294,678.54	4,340,645.93
	5,491,187.50	**6,450,621.98**
C. LIABILITIES		
1. Liabilities to banks	1,463,154.62	2,352,007.69
2. Accounts Payable Trade	3,230,625.96	3,330,670.43
3. Intercompany Payables	0.00	1,468.27
4. Other liabilities	6,466,127.84	6,563,925.28
	11,159,908.42	**12,248,071.67**
Total liabilities and shareholders' equity	**38,552,202.79**	**39,926,912.44**

INCOME STATEMENT (HGB)

for the Period from 1 January 2011 to 31 December 2011

€	01.01.-31.12.2011	01.01.-31.12.2010
1. Revenue	127,216,897.40	127,243,425.71
2. Other operating income	1,691,235.02	1,855,679.61
3. Cost of materials	-10,002,103.58	-9,797,838.31
	118,906,028.84	**119,301,267.01**
4. Personnel expenses		
a) Wages and salaries	-58,568,001.00	-59,020,230.42
b) Social security, pensions and other benefit costs (of which for pension € 39,030.52; PY € 34,658.52)	-12,470,582.22	-12,673,198.55
5. Depreciation and amortization of non-current intangible assets and property, plant and equipment	-6,324,917.02	-6,637,906.54
6. Other operating expenses	-36,367,232.10	-37,347,232.34
	5,175,296.50	**3,622,699.16**
7. Income from investments	8,596.46	9,498.79
8. Other interest and similar income (therefore from associated companies € 562.52; PY € 413.85), (therefore from discounts € 0.00, PY € 2,244.57)	20,803.38	16,550.45
9. Write-downs of financial assets	-28,069.22	-14,743.01
10. Interest and similar expenses (thereof accumulations € 67,280.28, PY € 92,296.59)	-334,691.14	-374,083.44
11. Profit from ordinary operations	**4,841,935.98**	**3,259,921.95**
12. Extraordinary expenses	0.00	-55,982.00
13. Extraordinary result	**0.00**	**-55,982.00**
14. Income taxes	-1,899,624.04	-1,450,959.45
15. Other taxes	-8,003.49	-6,971.56
16. Net profit for the year	**2,934,308.45**	**1,746,008.94**
17. Profit carry forward	639,111.77	1,082,320.20
18. Withdrawals from capital reserves	0.00	72,203.00
19. Additions to Treasury Stock	0.00	0.00
20. Net result	**3,573,420.22**	**2,900,532.14**

AUDIT OPINION

We have audited the consolidated financial statements compiled by Essanelle Hair Group AG, Düsseldorf, which consist of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cashflow statement as well as the notes to the consolidated financial statements, as well as the group management report for the financial year from 1 January to 31 December 2011. The responsibility for the compilation of the consolidated financial statements and group management report in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), lies within the responsibility of the management board of the company. It is our responsibility to submit an opinion on the consolidated financial statements and the group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking due account of the principles governing the proper auditing of financial statements promulgated by the German Institute of Auditors (IDW). These standards require the audit to be planned and executed in such a manner that any inaccuracies and infringements with a material impact on the depiction of the net asset, financial and earnings situation provided by the consolidated financial statements, taking due account of the applicable accounting standards, and by the group management report are identified with reasonable certainty. When determining the audit procedures, account was taken of our knowledge of the business activities and economic and legal environment of the group, as well as of expectations as to any possible errors. The effectiveness of the internal accounting controlling system and the evidence supporting the disclosures made in the consolidated financial statements and the group management report were examined within the framework of the audit, principally on the basis of trial samples. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the delineation of the reporting entity, the accounting and consolidation principles thereby applied, and the principal estimates made by the management board, as well as an appraisal of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonably secure basis for our opinion.

Our audit did not give rise to any qualifications.

On the basis of the findings of our audit it is our opinion that the consolidated financial statements are in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), and that they provide a true and fair view of the net asset, financial and earnings situation of the Group, taking due account of the aforementioned requirements. The group management report is in agreement with the consolidated financial statements and provides an accurate overall impression of the situation of the group and adequately presents the opportunities and risks relating to its future development.

Düsseldorf, 13 March 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bibiana Bolsenkötter	ppa. Dr. Michael Wittekindt
Chartered Accountant	Chartered Accountant

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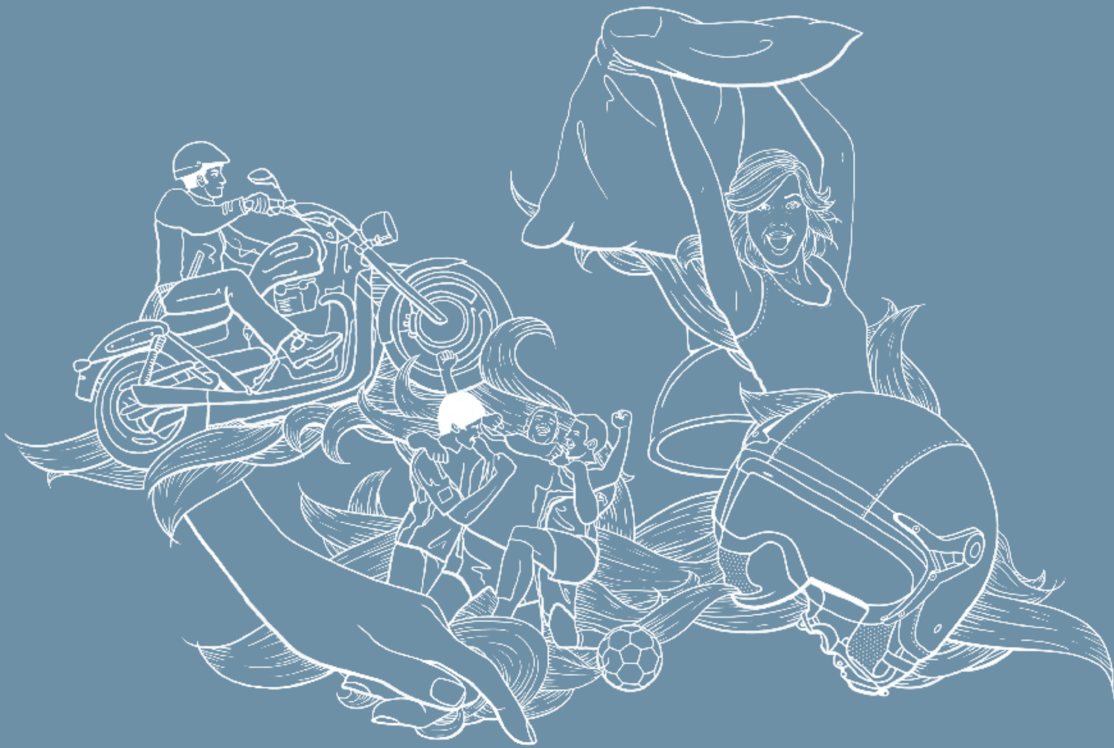

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