





FOREWORD OF THE MANAGEMENT BOARD .....	4
BUSINESS PERFORMANCE.....	6
THE SHARE.....	11
OUTLOOK.....	13
CONSOLIDATED BALANCE SHEET.....	14
CONSOLIDATED INCOME STATEMENT .....	16
CONSOLIDATED CASH FLOW STATEMENT .....	17
SCHEDULE OF CHANGES IN GROUP EQUITY .....	18

## FOREWORD OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

The performance of the Essanelle Hair Group remained on course in the first half of 2006. We have made further progress towards our objective of considerably increasing the number of our salons. By 1 July of this year, we had increased the number of our proprietary salons by 30. This growth was primarily attributable to the opening of numerous new salons in our Super Cut and HairExpress concepts, as well as salons operating under our new TOP TEN brand. We have found several interesting and attractive locations in this respect, where the investments made will certainly be worthwhile. We are now in the process of developing these salons and of guiding them towards achieving their maximum level of sales and earnings. We will see the full benefits of this process in six to nine months.

Furthermore, we have taken over nine salons from a regional hairdressing chain. Given that these mainly involve established salons in consumer stores, which fit superbly into our salon structure, in most cases in the HairExpress concept, we assume that this acquisition will very rapidly lead to the desired sales and earnings contributions. This is a crucial condition for us when deciding on such investments. The salons acquired in all cases involve well-established locations in the state of North Rhine-Westphalia.

We will continue in future to take both ways – acquisitions and new salon openings – in order to reach the growth targets we have set for the coming years. We will continue to open new salons as planned, but will also monitor the market very closely in order to exploit any takeover possibilities arising. Our aim remains that of growing by around 50 proprietary salons each year.

During the second quarter we also sold our mod's hair franchise business. The expectations we had placed in this concept fell far short of being met. Moreover, our analysis indicated clear benefits for proprietary salons, which meant that the decision to dispose of mod's hair then became a logical consequence. In terms of figures, we thereby disposed of 44 salons. Given that the sales at these franchise salons were not consolidated, however, the impact on our sales is minimal. Our strategy is now entirely focused on achieving growth by means of our proprietary salons.

Our expansion is now further reflected in an increase in sales in the course of the current financial year. We have now achieved sales growth of just under 2% in both quarters. We had therefore generated sales of Euro 56.7 million by the end of the first six months. Our earnings also developed positively. At Euro 4.8 million, our EBITDA were around 8.7% higher than in the equivalent period in the previous year. Operating earnings (EBIT) amounted to Euro 2.6 million and were thus 11.7% up on the previous year. We have of course benefited in this respect from the additional revenues generated on the sale of mod's hair. Even excluding this one-off item, however, our first-half earnings are above budget. We therefore remain very confident that we will meet our forecast of achieving pre-tax earnings of at least the level reported for the previous year. Furthermore, assuming that sales maintain their momentum, we expect to see sales growth of around 5%. With regard to 2007, it should then be possible to achieve sales growth of 5%-10%, as well as a disproportionate increase in earnings.

The Management Board



Uwe Grimminger



Achim Mansen

## BUSINESS PERFORMANCE

In the second quarter of 2006, the Essanelle Hair Group succeeded in maintaining the positive developments seen in the first quarter. Within the framework of the company's expansion, a total of 30 new salons had been opened or acquired by 1 July. The total number of salons has therefore risen to 575. It should be noted in this respect that the company sold its franchising rights for mod's hair, and thus for 44 salons, in the second quarter. However, the sales of these salons were not consolidated in the past, which means that this transaction has not had any major impact on sales. The company's new salons also include nine salons taken over from a regional hairdressing chain. All of these salons fit in with the concept structure of the Essanelle Hair Group, are to be found at attractive locations and are already optimally integrated into their respective environments. The newly opened salons focus on the TOP TEN (4), HairExpress (14) and Super Cut (5) concepts.

Essanelle Hair Group AG maintained its pleasing sales performance in the first half of 2006. The company generated consolidated sales of Euro 56.7 million in the first six months. This is equivalent to an increase of around 1.9% on the figure of Euro 55.6 million reported for the same period in the previous year. The year-on-year growth reported for the second quarter amounted to 1.8%.

essanelle – Ihr Friseur, the concept with the most salons and the highest sales volumes, generated sales of Euro 34.4 million in the first six months, compared with Euro 35.2 million in the equivalent period in the previous year. An increase in sales was reported by Super Cut and HairExpress, which are aimed at young consumers and price-sensitive target groups. Sales at the 91 HairExpress salons rose by 7.2% from Euro 6.9 million to Euro 7.4 million. Super Cut generated sales growth of 3.3% to Euro 9.3 million. The new TOP TEN concept, which was launched onto the market in the second half of 2005, generated sales of Euro 0.7 million in the first six months. The Jürgen Tröndle by essanelle brand generated sales of Euro 2.4 million, compared with Euro 2.6 million in the previous year. The Beauty Hair Shops, which sell products exclusive to hairdressers, increased their sales by around 43% from Euro 1.4 million to Euro 2.0 million in the first six months of 2006.

The sales generated at Essanelle Hair Group AG from hairdressing services, traditionally the largest share of sales, amounted to Euro 47.8 million, compared with Euro 47.2 million in the first six months of the previous year. This is equivalent to an 84.3% share of overall sales. The sale of products exclusive to hairdressers achieved further growth of 6.2% from Euro 8.1 million to Euro 8.6 million. The sale of products therefore contributed 15.2% to total sales. Franchising revenues amounted to Euro 0.3 million. No more sales were generated by proprietary mod's hair salons in the first six months of 2006, given that all active salons had been transferred in full to the franchising system which has now been sold. The external sales of the mod's hair franchisers, which are not included in consolidated sales, amounted to Euro 8.0 million in the first six months of 2006, compared with Euro 7.9 million in the equivalent period in the previous year.

Concepts	1st Half of 2006*			1st Half of 2005		
	Number of salons	Number of employees	Sales million €	Number of salons	Number of employees	Sales million €
Essanelle	350	2,503	34.4	341	2,484	35.2
Super Cut	84	488	9.3	76	474	9.0
HairExpress	96	505	7.4	81	450	6.9
Jürgen Tröndle	15	131	2.4	16	137	2.6
TOP TEN	9	48	0.7	0	0	0.0
Beauty Hair Shop	21	70	2.0	16	55	1.4
mod's hair	0	0	8.5	47	0	8.4
<b>Total</b>	<b>575</b>	<b>**3,745</b>	<b>64.7</b>	<b>577</b>	<b>** 3,600</b>	<b>63.5</b>

\* as of 01.07.

\*\* without overhead

## EARNINGS PERFORMANCE

The performance of earnings at Essanelle Hair Group AG was slightly ahead of the company's internal budget targets at the end of the first half of 2006. This is true of both the operating business and of all key earnings figures. The figures include the amount of around Euro 0.8 million generated on the disposal of mod's hair.

The largest item in the income statement, personnel expenses, rose from Euro 31.3 million to Euro 31.9 million. As in the equivalent period in the previous year, the personnel expenses ratio therefore amounted to 56%. The cost of materials amounted to Euro 5.4 million, or 9.5%. In spite of the company's expansion, this therefore led to a slight increase in earnings before interest, tax, depreciation and amortisation (EBITDA) to Euro 4.8 million, compared with Euro 4.5 million in the first six months of 2005. Following depreciation of Euro 2.2 million, Essanelle Hair Group AG therefore generated earnings before interest and tax (EBIT) of Euro 2.6 million in the first half of 2006, compared with Euro 2.4 million in the first half of the previous year. Net financial expenses amounted to Euro -0.3 million at the end of the first six months and had thus improved slightly. At Euro 2.3 million, pre-tax earnings were significantly higher than the figure of Euro 1.9 million reported in the previous year. Finally, the net income reported for the first half of the year amounted to Euro 1.4 million, compared with Euro 1.2 million one year earlier. Earnings per share amounted to Euro 0.31.

## BALANCE SHEET, INVESTMENTS AND LIQUIDITY

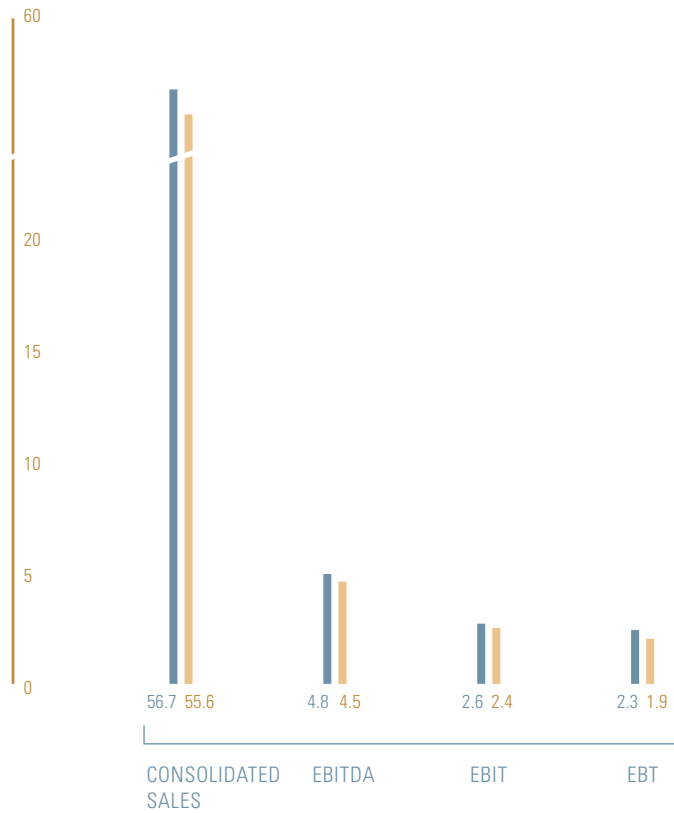
The principal changes on the asset side of the balance sheet compared with 31.12.2005 involve a reduction in cash and cash equivalents from Euro 4.0 million to Euro 1.3 million. On the one hand, this change results of the increase in the company's investment activity which is reflected to the amount of Euro 0.8 million in an increase in other assets by around Euro 2.8 million. On the other hand, cash and cash equivalents reduced due to the redemption of further liabilities. On the liabilities side, accounts payable declined by Euro 1.6 million to Euro 4.3 million. Short-term and long-term financial debt principally involves leasing obligations and liabilities to banks amounting to around Euro 6.7 million. It was possible to achieve a further increase in equity, which rose to Euro 22.3 million as a result of the positive earnings performance. The equity ratio therefore reached around 44%.

The investments made by the company also rose in the course of the second quarter and thus for the first half as a whole compared with the equivalent period in the previous year. A total of Euro 2.0 million was invested within the framework of the growth strategy. A total of 21 salons has been newly opened and nine salons taken over to date in 2006. The salons thereby taken over are included among the company's salons from 1 July. The sale of the franchising rights to mod's hair led to a reduction of 44 in the number of salons. The sales of these salons had however not previously been consolidated. Overall, the Essanelle Hair Group was operating 575 salons as of 1 July of this year. A total of around 50 new salons are to be opened during the financial year as a whole, meaning that at least 20 new salons remain to be opened in the second half of the year.

The net inflow of funds from operating activities declined compared with 30.06 of the previous year. IFRS standards require prepayments made for investments to be recorded in the cash flow statement under cash flow from operating activities rather than under cash flow from investments. Given that, unlike in the equivalent period in the previous year, numerous investments in salons have not yet been settled, the prepayments therefore have a more marked impact on the cash flow. Moreover, accounts payable were also reduced by around Euro 1.6 million. With Euro 4,000 the cash flow as of 30.06. of the current financial year is nevertheless significantly higher than the figure of Euro -1.3 million reported at the end of the first quarter.

The net outflow of funds for investment activities remained more or less constant at Euro 1.7 million and reflects the ongoing high level of investment being made by the company. The cash flow from financing activities on the one hand reflects the taking up of financial liabilities amounting to around Euro 2.6 million, which are offset on the other hand by repayments amounting to around Euro 3.6 million. These factors have resulted in a net outflow of funds for financing activities amounting to around Euro 1.0 million. Cash and cash equivalents therefore totalled around Euro 1.3 million as of 30.06.2006.

■ 1st Half of 2006 ■ 1st Half of 2005



#### DEVELOPMENT OF COSTS AND PRICES

The Essanelle Hair Group did not introduce any notable price increases in the first half of the year. Procurement expenses also remained within the expected framework.

#### EMPLOYEES

The number of employees amounted to 3,836 as of 30.06. of this year, compared with 3,686 in the previous year. The share of part-time staff amounted to 35%.

## THE SHARE

### IR ACTIVITIES

IR activities focused in the second quarter on the preparation and execution of the Annual General Meeting held on 27 June in Düsseldorf. Around 70 shareholders and friends of the company gathered at the Lindner Kongress Hotel. Following the presentations made by the members of the Management Board, Uwe Grimminger and Achim Mansen, the contributions made by the shareholders and shareholder representatives present underlined their agreement to the operative and strategic course being taken by the company's management.

The scheduled election of the shareholder representatives on the Supervisory Board took place at the Annual General Meeting. The new Supervisory Board includes the following individuals: Fritz Kuhn, Management Consultant, Hans-Joachim Oltersdorf, Managing Director, Werner Schneider, Graduate in Economics, Hiltrud Seggewiss, Management Consultant, Jürgen Tröndle, Hairdressing Entrepreneur, and Joachim Dübner, Managing Director, who was simultaneously nominated by the Supervisory Board to be its Chairman, with this nomination being confirmed at the following meeting of the Supervisory Board. Gabriele Eick and Dr. Gabriele Fontane have retired from their positions on the Supervisory Board. Furthermore, the employee representatives were also legally appointed to the Supervisory Board. These now include the following individuals: Peter M. Herold as Deputy Chairman (Trade Union Secretary), Michael Eberhardt (Trade Union Secretary), Dieter Bonk (Sales Director), Cornelia Glass (Senior Hairdresser), Barbara Wietusch (Senior Hairdresser) and Ulrike Witt (Hairdresser).

## SHAREHOLDER STRUCTURE

Management Board: .....8%

Klier GmbH: ..... 25.8%

Free float as defined by

Deutsche Börse: ..... 66.2%

of which: Axxion FA: ..... 13.2%

Dit Vermögensverwaltung: ..... 8.9%

FPM AG: ..... 9.4%

Ratio Asset Management (since 3 July): ..... 6.0%

## SHARE PRICE

Price at 30.06.06: ..... Euro 8.00

Market capitalisation as of 30.06.: ..... Euro 36.0 million

Market capitalisation of free float as of 30.06.: ..... Euro 23.8 million

## RISK REPORT

The extensive risk report of Essanelle Hair Group AG was presented on Pages 36 to 38 of the 2005 Annual Report. This report included detailed information concerning the typical risks facing Essanelle Hair Group AG.

## ACCOUNTING STANDARDS

This quarterly report has been compiled in accordance with International Financial Reporting Standards (IFRS). The accounting and valuation methods correspond to those applied in the most recent consolidated financial statements for the 2005 financial year.

## OUTLOOK

With the taking over of nine salons and a total of 21 salons already newly opened, we are already ahead of our expansion targets for the first half of the year and are therefore highly confident that we will be able to achieve the targeted total of 50 new salon openings in 2006. Thus, we have now achieved sales growth of around 2% in the first half of the year. We expect this development to gain further momentum in the course of the year. Sales at the newly opened salons will gradually improve, so that we continue to expect sales growth of around 5% for the overall financial year.

Our earnings figures were also ahead of our expectations at the end of the first six months. Should our performance remain on schedule, then we expect to be able to match the very pleasing level of earnings seen in the previous year once again. We will then have laid the foundations for achieving growth in both in sales and even stronger in earnings in 2007. With an expected EBITDA figure of around Euro 10 million and a free cash flow of a similar amount, we will then be in a position to maintain the pace of our growth in the coming years as well.

# CONSOLIDATED BALANCE SHEET (IFRS)

as of 30 June 2006

## ASSETS

€	30.06.2006	31.12.2005
ASSETS		
<b>Fixed assets</b>		
Property, plant and equipment	19,497,716.65	19,803,198.26
Goodwill	19,243,872.10	19,243,872.10
Other intangible assets	190,856.00	204,967.52
Financial assets valued at equity	1.00	1.00
Other loans	145,560.05	336,483.80
Deferred tax claims	0.00	0.00
	<b>39,078,005.80</b>	<b>39,588,522.68</b>
<b>Current assets</b>		
Inventories	6,222,251.33	5,838,391.02
Accounts receivable	248,834.37	327,520.14
Other assets	3,964,287.16	1,204,502.67
Cash and cash equivalents	1,307,507.56	4,023,586.86
	<b>11,742,880.42</b>	<b>11,394,000.69</b>
<b>Total assets</b>	<b>50,820,886.22</b>	<b>50,982,523.37</b>

## LIABILITIES

€	30.06.2006	31.12.2005
SHAREHOLDERS' EQUITY		
<b>Capital and reserves allocable to the shareholders in the parent company</b>		
Share capital	4,440,000.00	4,440,000.00
Capital reserve	15,055,941.85	14,922,074.35
Revenue reserves	2,839,185.25	1,465,846.08
	<b>22,335,127.10</b>	<b>20,827,920.43</b>
<b>DEBT</b>		
<b>Long-term debt</b>		
Financial debt	6,674,310.99	7,522,245.01
Deferred tax liabilities	1,961,008.58	1,104,000.00
Pension provisions	195,051.00	164,745.00
Other provisions	772,809.87	753,560.96
	<b>9,603,180.44</b>	<b>9,544,550.97</b>
<b>Short-term debt</b>		
Financial debt	6,994,712.25	7,182,302.22
Accounts payable	4,255,038.19	5,892,106.47
Current income tax liabilities	415,446.86	373,029.63
Other liabilities	4,089,437.05	4,132,429.83
Other provisions	3,127,944.33	3,030,183.82
	<b>18,882,578.68</b>	<b>20,610,051.97</b>
<b>Total debt</b>	<b>28,485,759.12</b>	<b>30,154,602.94</b>
<b>Total shareholders' equity and debt</b>	<b>50,820,886.22</b>	<b>50,982,523.37</b>

## CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2006 to 30 June 2006

€	01.01.-30.06.06	01.01.-30.06.05	01.04.-30.06.06	01.04.-30.06.05
Sales	56,682,864.09	55,648,103.19	29,041,543.83	28,525,870.46
Other operating income	1,511,253.64	644,760.92	1,149,621.75	433,774.29
Cost of materials	-5,417,533.82	-5,189,636.40	-2,761,759.91	-2,707,957.16
Personnel expenses	-31,949,598.10	-31,311,676.81	-16,162,654.75	-15,749,183.77
Depreciation and amortization	-2,217,591.33	-2,105,339.76	-1,121,449.99	-1,055,809.10
Rental and ancillary rental expenses	-11,060,188.21	-10,796,923.16	-5,619,925.14	-5,434,163.10
Other operating expenses	-4,908,726.05	-4,530,027.27	-2,575,126.68	-2,352,891.66
<b>Operating earnings</b>	<b>2,640,480.22</b>	<b>2,359,260.71</b>	<b>1,950,249.11</b>	<b>1,659,639.96</b>
Financing income	31,349.22	46,539.99	14,902.46	27,201.98
Financing expenses	-371,278.86	-487,880.40	-194,903.31	-248,769.97
Share of losses in companies valued at equity	0.00	0.00	0.00	0.00
Verluste aus Finanzdarlehen	0.00	0.00	0.00	0.00
<b>Net financial expenses</b>	<b>-339,929.64</b>	<b>-441,340.41</b>	<b>-180,000.85</b>	<b>-221,567.99</b>
<b>Earnings before taxes</b>	<b>2,300,550.58</b>	<b>1,917,920.30</b>	<b>1,770,248.26</b>	<b>1,438,071.97</b>
Tax expenses	-927,211.41	-671,464.10	-710,924.39	-477,388.04
<b>Consolidated net income for the half year</b>	<b>1,373,339.17</b>	<b>1,246,456.20</b>	<b>1,059,323.87</b>	<b>960,683.93</b>

## CONSOLIDATED CASH FLOW STATEMENT (IFRS)

as of 31 June 2006

€k	30.06.2006	30.06.2005
<b>1. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Cash generated by ongoing business activities	290	2,126
Interest paid	-269	-251
Taxes on income paid	-18	-15
<b>Net inflow of funds for operating activities</b>	<b>4</b>	<b>1,860</b>
<b>2. CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Acquisition of property, plant and equipment	-2,006	-1,812
Proceeds from the sale of property, plant and equipment	137	3
Acquisition of intangible assets	-22	-17
Loans paid out	-12	-54
Loans repaid	191	55
Loans paid out to closely related persons	0	0
Loans repaid by closely related persons	11	11
Interest received	15	22
<b>Net outflow of funds for investment activities</b>	<b>-1,684</b>	<b>-1,792</b>
<b>3. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Buyback of own shares	0	0
Receipts from the taking up of financial loans	2,589	519
Repayment of financial debt	-3,625	-591
<b>Net outflow of funds for financing activities</b>	<b>-1,036</b>	<b>-72</b>
Net decrease / increase in cash and cash equivalents	-2,716	-4
Cash and cash equivalents at the beginning of the year	4,024	5,113
<b>Cash and cash equivalents at the end of the quarter</b>	<b>1,307</b>	<b>5,109</b>

## SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 30 June 2006

	Share capital	Capital reserve	Revenue reserves	Minority interests	Total equity
<b>Balance at 1.1.2005</b>	<b>4,500,000.00</b>	<b>15,214,773.20</b>	<b>-1,107,337.24</b>	<b>0.00</b>	<b>18,607,435.96</b>
Consolidated earnings			2,573,183.32		2,573,183.32
Value of the services of employees in connection with employee share option programmes		107,363.03			107,363.03
Buyback of own shares	-60,000.00	-400,061.88			-460,061.88
<b>Balance at 31.12.2005</b>	<b>4,440,000.00</b>	<b>14,922,074.35</b>	<b>1,465,846.08</b>	<b>0.00</b>	<b>20,827,920.43</b>
<b>Balance at 1.1.2006</b>	<b>4,440,000.00</b>	<b>14,922,074.35</b>	<b>1,465,846.08</b>		<b>20,827,920.43</b>
Consolidated earnings			1,373,339.17		1,373,339.17
Value of the services of employees in connection with employee share option programmes		133,867.50			133,867.50
Buyback of own shares					0.00
<b>Balance at 30.06.2006</b>	<b>4,440,000.00</b>	<b>15,055,941.85</b>	<b>2,839,185.25</b>	<b>0.00</b>	<b>22,335,127.10</b>



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