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## FOREWORD OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

The third quarter provided further evidence of the positive impact of our growth strategy already witnessed in the previous quarters. Our sales performance is gaining in momentum, although we are not yet entirely satisfied with the extent of this growth. We increased our sales by 3.4% in the third quarter compared with the equivalent period in the previous year. At the end of the first nine months, our sales were therefore 2.4% higher than at the end of first three quarters of 2005. We have therefore continued to see the positive impact of the newly opened salons, following 5 years of declining or stable sales. We expect the Christmas period to generate further sales growth, although it is difficult to quantify precise growth rates. We assume that we will succeed in achieving the desired growth of 5% in the fourth quarter, but at this stage cannot predict whether this growth will be sufficiently strong for us to achieve the same figure for the 2006 financial year as a whole.

Given that our principal focus is on the medium to long-term development of our company, however, the most important aspect in this respect is that we have succeeded in the current year in shifting our sales performance trend into clearly positive territory and that momentum is increasing from quarter to quarter. Our earnings have also continued to show pleasing developments, meaning that we are certain to meet our forecast of matching the previous year's level of earnings. This illustrates that our growth has been well-judged and based on the right financial resources, and that we have adjusted our overhead and sales activities very precisely to fit the planned level of growth. In spite of the start-up losses incurred by new salons, we will be able as a minimum to maintain our earnings power at a stable level in 2006. After this, we aim to achieve sales growth and disproportionate earnings growth, enabling us to raise our share of the fragmented market and thus to gradually increase the value of our company.

In order to achieve these objectives, we will exploit and further extend our competitive advantages within the framework of our growth strategy. The launch of our new TOP TEN concept at the end of the previous financial year represented a major step in this direction. Our five different salon concepts enable us to address different groups and expectations within the population in a targeted manner, and thus provide us with a considerably broader base of potential customers than that of any other hairdressing chain in Germany. TOP TEN is aimed at a young and price-conscious target group and has achieved notable success in the past twelve months.

Alongside salon concepts, which enable us to precisely customise our offering for various target groups, our partner and location concept also clearly differentiates us from the rest of the market. The overwhelming majority of our salons are positioned at locations with high numbers of walk-in customers, especially in department stores, shopping centres and consumer markets. We nevertheless also look for standalone locations in cases where these fit the concept in question. Our expansion team, which consists of specialists from the relevant company departments, combines the necessary growth expertise and contacts to groups of lessors with the experience required to be able to assess potential locations with a high degree of precision. This therefore provides us with a very solid foundation for reaching decisions concerning the opening of new salons.

Finally, due to its exceptional position as a very large customer for industry, Essanelle Hair Group AG benefits from considerable procurement advantages when purchasing products exclusive to hairdressers. In view of this, it is especially fruitful for us that the 15% share of our sales generated by the sale of products is markedly higher than the equivalent percentage at our competitors. This also assists us in rapidly achieving pleasing operating margins at our newly opened salons.

The Essanelle Hair Group has benefited from these strategic advantages for many years – and will further extend them in line with the gradual growth in the business. The consolidation seen in the market for several years now therefore certainly works to our advantage – and provides us with an important foundation for profitable growth. It is this which we aim to achieve on behalf of our shareholders in 2006 and in the coming years.

The Management Board



Uwe Grimminger



Achim Mansen

## BUSINESS PERFORMANCE

The overall domestic economic provided hardly any positive momentum for the retail sector or the hairdressing segment in the first nine months of 2006. In view of this, all market players are almost entirely reliant on their own expansion efforts in order to achieve further growth. The Essanelle Hair Group has therefore continued to implement the previously announced opening of around 50 new salons as planned in the current year. A total of 41 salons had been newly opened by the end of September. The impact on sales has so far been reflected in all quarters, amounting to +3.4% in the past three months compared with the equivalent quarter in the previous year. The growth momentum has thus risen further in the course of the year and is now ahead of the two previous quarters, which each saw sales growth of around 2%.

Overall, the Essanelle Hair Group generated consolidated sales of around Euro 86.0 million in the first nine months of the current financial year, compared with Euro 84.0 million in the same period in 2005. This is equivalent to an increase of around 2.4% in the first nine months. In terms of the individual concepts, essanelle - Ihr Friseur generated sales of Euro 51.7 million, compared with Euro 52.7 million in the same period in the previous year. The high-growth concepts Super Cut and HairExpress, which are aimed at young consumers and price-conscious target groups respectively, generated positive growth. Sales at Super Cut rose by 3.0% from Euro 13.5 million to Euro 13.9 million. HairExpress achieved growth of 10.9% from Euro 11.0 million to Euro 12.2 million. The newly introduced TOP TEN concept generated sales of Euro 1.2 million and thus continued to perform very pleasingly. The first salons operating under this brand were opened in the third quarter of the previous year. At Euro 3.5 million, sales at Jürgen Tröndle by essanelle almost matched those of Euro 3.8 million generated in the previous year. Finally, the Beauty Hair Shops, which sell products exclusive to hairdressers, increased their sales by 36.4% from Euro 2.2 million to Euro 3.0 million in the first nine months of 2006.

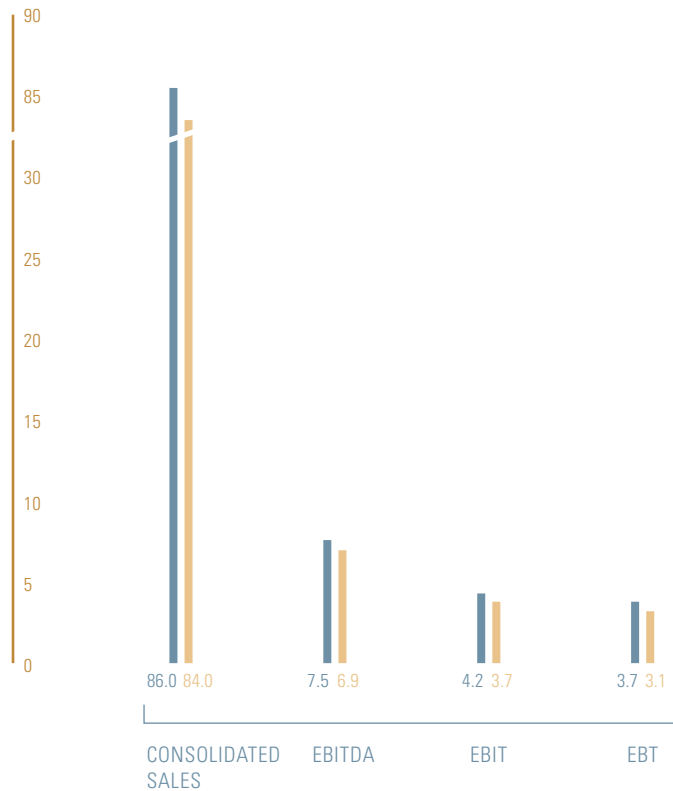
The company continues to generate the largest share of its sales from services. These amounted to Euro 72.6 million in the first nine months, compared with Euro 71.4 million in the equivalent period in the previous year. Services therefore account for 84.4% of sales. The sales generated by the sale of products exclusive to hairdressers at the salons and in the Beauty Hair Shops showed a further increase to Euro 13.1 million, compared with Euro 12.3 million in the same period in the previous year. Its share of total sales therefore increased further to reach 15.2%. The share of franchising revenues, which were only collected until the end of the first half, amounted to 0.4%.

Concepts	1st – 3rd Quarter 2006			1st – 3rd Quarter 2005		
	Number of salons	*Number of employees	Sales million €	Number of salons	*Number of employees	Sales million €
essanelle – Ihr Friseur	348	2,546	51.7	349	2,572	52.7
Super Cut	85	495	13.9	79	497	13.5
HairExpress	105	574	12.2	77	464	11.0
TOP TEN	12	64	1.2	3	18	0.1
JT by essanelle	15	124	3.5	16	140	3.8
Beauty Hair Shop	22	73	3.0	18	64	2.2
<b>Total</b>	<b>587</b>	<b>3,876</b>	<b>** 85.5</b>	<b>542</b>	<b>3,755</b>	<b>** 83.3</b>

\* plus 89 employees under overhead expenses (previous year: 83).

\*\* plus franchising revenues of Euro 0.5 million (previous year: Euro 0.7 million).

■ 9 Months 2006 ■ 9 Months 2005 (million €)



## EARNINGS PERFORMANCE

Essanelle Hair Group AG increased its earnings in the first three quarters of 2006. As at the end of the first half, earnings were ahead of the company's internal budget targets. The company generated earnings after tax of Euro 2.2 million in the first nine months of the current financial year, thus surpassing the previous year's figure of Euro 1.8 million by 20.4%. Earnings per share thus amount to Euro 0.49 at the end of the first nine months. Pre-tax earnings rose by around 19.4% from Euro 3.1 million to Euro 3.7 million. Earnings before interest and tax (EBIT) showed a corresponding increase from Euro 3.7 million to Euro 4.2 million. In spite of the large number of newly opened salons, earnings before interest, tax, depreciation and amortisation (EBITDA) rose by around 9.0% from Euro 6.9 million to Euro 7.5 million. Personnel expenses also increased as a result of the employees at the new salons. The personnel expenses ratio amounted to 56.4%, compared with 56.8% in the equivalent period in the previous year. At Euro 8.2 million, the cost of materials was higher than the previous year's figure of Euro 7.8 million.

## 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 2.3 million. This nevertheless represents an increase in cash and cash equivalents by around Euro 1.0 million since the reporting date on 30.06.2006. The change in this item is primarily due to the increase in the company's investment activity, which is reflected in part by an increase in other assets by around Euro 2.6 million. Moreover, the company achieved a further reduction in liabilities in the course of the year. On the liabilities side, accounts payable showed a significant decline of Euro 2.2 million to Euro 3.7 million. Short-term and long-term financial debt principally involves leasing obligations and liabilities to banks, the latter amounting to around Euro 4.2 million. It was possible to achieve a further increase in equity, which rose to Euro 23.4 million as a result of the positive earnings performance. The equity ratio therefore amounted to 45.4% at 30.09., compared with 40.9% at the reporting date on 31.12.2005.

The investments made by the company also continued rise in the course of the third quarter. Within the scope of the growth strategy a total of Euro 3.5 million was invested. Overall, 32 salons had been newly opened and nine salons taken over by the end of September 2006. 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. A further three salons were closed. Overall, the Essanelle Hair Group was operating 587 salons at the end of the third quarter 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 10 new salons remain to be opened in the final quarter.

The net inflow of funds from operating activities declined from around Euro 3.7 million at 30.09. of the previous year to Euro 2.7 million, but was thus markedly higher than the figure of Euro 4,000 reported at the end of the first half of the year. This figure reflects the cash strength of Essanelle Hair Group AG in the third quarter, also in terms of the net inflow of funds from operating activities. The net outflow of funds for investment activities amounted to around Euro 3.0 million, compared with Euro 2.5 million at 30.09. in the previous year. This is primarily due to the increased acquisition of property, plant and equipment and thus reflects the increasing investments made by the company in new salons. The net outflow of funds for financing activities, amounting to around Euro 1.4 million, reflects the repayment of further liabilities. Cash and cash equivalents amounted to around Euro 2.3 million as of 30.09.2006 and were thus higher than the figure as of 30.09. in the previous year (around Euro 1.8 million) and that as of 30.06. of the current year (around Euro 1.3 million).

## DEVELOPMENT OF COSTS AND PRICES

The principal cost factors, rental expenses and procurement prices, have not been subject to any major fluctuation in the current financial year to date. Price increases have been introduced to an appropriate extent.

## EMPLOYEES

The company had a total workforce of 3,965 as of 30 September 2006, compared with 3,838 at the same date in 2005. The share of part-time staff amounted to 35% and was thus at a level customary to the sector.

## 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 the company and the company's risk management systems.

## 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 set of consolidated financial statements for the 2005 financial year.

## OUTLOOK

We expect the pleasing performance seen to date to be maintained in the remaining months of the financial year. We expect to see an increasingly dynamic sales performance in the traditionally strong Christmas period. It is not yet possible to predict with any degree of reliability whether this will suffice to meet our original target of 5% sales growth. The salons previously opened and acquired continue to perform well, which means that we will achieve the desired growth rates in our business at the latest from the coming year. Our key earnings figures were above budget at the end of the first nine months. We assume that it will certainly be possible to match the previous year's level of earnings both in terms of EBITDA and of the key figures referred to below. Our net income should then amount to at least Euro 2.6 million.

In the coming financial year we expect to see further considerable sales growth with a higher rate of growth than in 2006 and an improvement in profit margins. The growth strategy will be consistently maintained, with around 50 new salon openings or takeovers in 2007.

## THE SHARE

Following the high of Euro 9.90 (Xetra) seen in the first half of the year and the decline in the price in line with overall market developments, the share price settled into a relatively fixed corridor between Euro 7 and Euro 8 in the third quarter. The share concluded the third quarter at a Xetra price of Euro 7.63 on 29 September.

The Management Board continued to hold in-depth discussions with interested institutional investors in the past quarter. On 3 July already, the London-based investment company Ratio Asset Management announced that its shareholding in the company had risen to 6%. The Essanelle Hair Group will maintain its activities aimed at attracting further investors with a road show in London and a presentation at the Eigenkapitalforum equity forum in Frankfurt in November. Moreover, as an additional service, analyst and press opinions relating to the company have also been available at the company's homepage since the past quarter.

## SHAREHOLDER STRUCTURE

Management Board: ..... 8 %

Klier GmbH: .....25.8 %

Free float as defined by

Deutsche Börse: .....66.2 %

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

dit Vermögensverwaltung: .....8.9 %

FPM: .....9.4 %

Ratio Asset Management: .....6.0 %

Other: .....28.7 %

## SHARE DATA

Price at 29.09.: ..... Euro 7.63

Market capitalisation as of 29.09.: ..... Euro 34.3 million

Market capitalisation of free float as of 29.09.: ..... Euro 22.7 million

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# CONSOLIDATED BALANCE SHEET (IFRS)

as of 30 September 2006

## ASSETS

€	30.09.2006	31.12.2005
ASSETS		
<b>Fixed assets</b>		
Property, plant and equipment	19,337,955.37	19,803,198.26
Goodwill	19,558,872.10	19,243,872.10
Other intangible assets	225,260.18	204,967.52
Financial assets valued at equity	0.00	1.00
Other loans	128,974.47	336,483.80
	<b>39,251,062.12</b>	<b>39,588,522.68</b>
<b>Current assets</b>		
Inventories	5,933,130.27	5,838,391.02
Accounts receivable	221,376.66	327,520.14
Other assets	3,790,151.74	1,204,502.67
Cash and cash equivalents	2,328,848.92	4,023,586.86
	<b>12,273,507.59</b>	<b>11,394,000.69</b>
<b>Total assets</b>	<b>51,524,569.71</b>	<b>50,982,523.37</b>

## LIABILITIES

€	30.09.2006	31.12.2005
SHAREHOLDERS' EQUITY		
<b>Capital and reserves allocable to the shareholders in the parent company</b>		
Share capital	4,498,563.00	4,440,000.00
Capital reserve	15,212,476.99	14,922,074.35
Revenue reserves	3,659,681.86	1,465,846.08
	<b>23,370,721.85</b>	<b>20,827,920.43</b>
<b>DEBT</b>		
<b>Long-term debt</b>		
Financial debt	7,512,592.85	7,522,245.01
Deferred tax liabilities	2,300,122.00	1,104,000.00
Pension provisions	210,204.00	164,745.00
Other provisions	789,324.94	753,560.96
	<b>10,812,243.79</b>	<b>9,544,550.97</b>
<b>Short-term debt</b>		
Financial debt	5,807,221.93	7,182,302.22
Accounts payable	3,704,995.96	5,892,106.47
Current income tax liabilities	534,583.92	373,029.63
Other liabilities	3,623,128.13	4,132,429.83
Other provisions	3,671,674.13	3,030,183.82
	<b>17,341,604.07</b>	<b>20,610,051.97</b>
<b>Total debt</b>	<b>28,153,847.86</b>	<b>30,154,602.94</b>
<b>Total shareholders' equity and debt</b>	<b>51,524,569.71</b>	<b>50,982,523.37</b>

## CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2006 to 30 September 2006

€	01.01.-30.09.06	01.01.-30.09.05	01.07.-30.09.06	01.07.-30.09.05
Sales	86,028,585.26	84,022,591.27	29,345,721.17	28,374,488.08
Other operating income	2,065,490.38	1,049,215.56	554,236.74	404,454.64
Cost of materials	-8,189,549.58	-7,772,766.74	-2,772,015.76	-2,583,130.34
Personnel expenses	-48,421,701.15	-47,276,336.77	-16,472,103.05	-15,964,659.96
Depreciation and amortization	-3,360,828.30	-3,169,934.48	-1,143,236.97	-1,064,594.72
Rental and ancillary rental expenses	-16,790,625.82	-16,282,012.97	-5,730,437.61	-5,485,089.81
Other operating expenses	-7,169,260.66	-6,819,296.25	-2,260,534.61	-2,289,268.98
<b>Operating earnings</b>	<b>4,162,110.13</b>	<b>3,751,459.62</b>	<b>1,521,629.91</b>	<b>1,392,198.91</b>
Financing income	35,613.32	69,248.12	4,264.10	22,708.13
Financing expenses	-550,822.69	-747,055.44	-179,543.83	-259,175.04
<b>Net financial expenses</b>	<b>-515,209.37</b>	<b>-677,807.32</b>	<b>-175,279.73</b>	<b>-236,466.91</b>
<b>Earnings before taxes</b>	<b>3,646,900.76</b>	<b>3,073,652.30</b>	<b>1,346,350.18</b>	<b>1,155,732.00</b>
Tax expenses	-1,453,064.98	-1,252,224.36	-525,853.57	-580,760.26
<b>Consolidated net income for the first nine months</b>	<b>2,193,835.78</b>	<b>1,821,427.94</b>	<b>820,496.61</b>	<b>574,971.74</b>

## CONSOLIDATED CASH FLOW STATEMENT (IFRS)

as of 30 September 2006

T€	30.09.2006	30.09.2005
<b>1. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Cash generated by ongoing business activities	3,328	4,276
Interest paid	-551	-559
Taxes on income paid	-81	-34
<b>Net inflow of funds for operating activities</b>	<b>2,696</b>	<b>3,683</b>
<b>2. CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Acquisition of property, plant and equipment	-3,517	-2,913
Proceeds from the sale of property, plant and equipment	683	308
Acquisition of intangible assets	-392	-26
Loans paid out	-12	-77
Loans repaid	195	143
Loans paid out to closely related persons	0	0
Loans repaid by closely related persons	18	16
Interest received	19	31
<b>Net outflow of funds for investment activities</b>	<b>-3,006</b>	<b>-2,518</b>
<b>3. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Buyback of own shares	0	0
Receipts from the taking up of financial loans	2,802	3,814
Repayment of financial debt	-4,187	-8,252
<b>Net outflow of funds for financing activities</b>	<b>-1,385</b>	<b>-4,438</b>
Net decrease / increase in cash and cash equivalents	-1,695	-3,274
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>2,329</b>	<b>1,839</b>

## SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 30 September 2006

	Share capital	Capital reserve	Revenue reserves	Minority interests	Total equity
<b>Balance at 01.01.2005</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 01.01.2006</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>
Nine months earnings			2,193,835.78		2,193,835.78
Value of the services of employees in connection with employee share option programmes	58,563.00	290,402.64			348,965.64
<b>Balance at 30.09.2006</b>	<b>4,498,563.00</b>	<b>15,212,476.99</b>	<b>3,659,681.86</b>	<b>0.00</b>	<b>23,370,721.85</b>



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