



QUARTERLY REPORT ESSANELLE HAIR GROUP AG

Q3/2010

KEY FIGURES for 1 January to 30 September 2010/2009 (EUR millions – IFRS)

Million EUR	2010	2009	Change*
Consolidated sales revenues	94.0	95.5	-1.6%
essanelle Ihr Friseur	43.3	47.7	-9.2%
Super Cut	15.6	15.2	+2.8%
HairExpress	26.3	23.7	+11.1%
TOP TEN	3.8	4.0	-6.0%
Beauty Hair Shop	4.9	4.9	+1.6%
EBITDA	5.9	7.2	-18.6%
EBIT	2.1	3.2	-35.8%
EBT	1.8	2.9	-37.8%
Net income for the first nine month	1.1	1.7	-34.5%
EPS	0.24 €	0.37 €	

*including rounding effects

Financial calendar

Analysts Conference	22 November 2010 (German Equity Forum)
2010 Annual Report	31 March 2011
2011 Annual General Meeting	17 June 2011

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FOREWORD OF THE MANAGEMENT BOARD

Dear readers,

The third quarter of 2010 has not gone by satisfactorily for the Essanelle Hair Group AG. Retail sales figures show a fluctuating picture: July and August saw attractive developments but were followed by a very weak September. Our salons also experienced strong weeks followed by weak weeks. We did not reach our desired sales figures in the first three quarters; with sales of EUR 94.0 million, compared to EUR 95.5 million in the previous year. These numbers are in part a result of salon-closures in the previous year, which despite several new salons opening in 2009 – the first ones to take place in years – prevented a net growth in the number of our salons. Since the new openings of 2009 and 2010 have not yet reached their full sales potential, we are, on the whole, losing sales as a result. In addition, the department store environment continued to be weak. When looking at the development of our salons in different locations, we can see a much weaker trend in department stores than in, for example, supermarkets and smaller shopping centres.

This analysis is by no means new to us. It formed the basis of our strategy to gradually expand other concepts, like the HairExpress salons, which are located in shopping centres, and in doing so reduce the proportion of sales generated by the essanelle Ihr Friseur (Your Hairdresser) concept, typically located in department stores. By the end of 2010, during a two-year period, we will have closed more than 60 outlets located mainly in department stores. During the same period we have opened approximately 100 new salons – all of them HairExpress – in smaller shopping centres. Thus, we have purposely changed the make-up of sales, and although some developments are still noticeable, we will now be much more independent. Out of a total of approximately 700 salons at the end of the year, some 300 are still part of the essanelle Ihr Friseur concept. At the moment it accounts for approximately 46,1% of sales, but the proportion of sales from the department store environment is declining. So although the essanelle Ihr Friseur remains an important concept, and the department store an important location, it does not hold the paramount importance it held in previous years. HairExpress in hypermarkets, SuperCut, and also essanelle Ihr Friseur salons in shopping centres, have for years reported a positive development in sales; a trend that is sure to continue.

In the medium-term, we are aiming for a sales distribution that sees essanelle Ihr Friseur contribute to 40% of sales, HairExpress 35%, and Super Cut 20%. Remaining sales will come from the Beauty Hair Shops. We see the Top Ten concept as a potential franchise opportunity.

Our current figures naturally reflect the very weak department store environment – as our revenue and expenditure have increased on a regular basis during previous years. In 2010 we are expecting a turnover of between EUR 127 and 128 million, with earnings before tax in the range of EUR 4.5 to 5 million – which is below 2009 figures. This is an observation at this moment. We know that the situation in the department store environment will improve. It is also possible that shopping centres and even hypermarkets will undergo a weaker phase. Therefore it is important for us to have various strategically strong pillars to rest on – which applies to our concepts, as well as our locations and rental partners. Choosing the right mix will be crucial for our middle- and long-term strategy. Here our current set-up, coupled with our strategy for growth, shows that we are on the right track. Hence, we are able to continue generating profits in a weak environment, as well as being able to continue paying dividends to our shareholders. In the coming years we see it as our task to achieve further significant growth in our key figures in an improving environment.

The Management Board



Achim Mansen
(Chairman of the Management Board)



Dieter Bonk
(Management Board)



Dirk Wiethölter
(Management Board)

BUSINESS TREND

The recovery of the global economy has slowed down as the year progresses, although overall it remains positive. Real gross domestic product (GDP) in the euro zone increased by 0.3% in the third quarter compared to the previous quarter, and thus has lost the speed of recovery displayed during the first half of the year, according to a joint euro zone economic outlook. The upswing in the German economy has continued, and has gained scope. Following a dynamic increase in GDP in the first half of 2010, economic experts report in their autumn forecasts an expected slow-down also in the German economy. Domestically, both private consumption spending and business investments contribute. The German retail sector saw very moderate developments. According to the German Federal Statistical Office, sales für January to September 2010 in the retail sector increased by 2.1 nominal per cent and 1.1 real per cent compared to the first nine months of 2009. However, the month of September was particularly weak, at 2.4 nominal per cent, and 2.3 real per cent, compared to the previous month of August.

This is the background – like the first half of the year – to which Essanelle Hair Group sales developed. Unfortunately, these results were not satisfactory. In addition to the overall slow economic development, the weak performance of the department store environment also contributed negatively to our sales figures. The salons in these locations showed significantly weaker performance than those in other locations. After nine months the Essanelle Hair Group has generated sales of EUR 94.0 million, compared to EUR 95.5 million for the same period in the previous year (-1.6%). Even a growing number of salons, which at 695 outlets represents an additional 22 compared to the number at the end of 2009, could not compensate for this development. Overall, 37 salons opened during the first nine months, while 15 closed. Due to this general trend, earnings figures are lower than those reported in the previous year. As a result, profits before tax amount to EUR 1.8 million after the first nine months of 2010, compared to EUR 2.9 million in the corresponding period of last year. On the whole, it will be difficult to achieve full-year sales and earnings figures on the same level as last year. Rather, we are currently looking at figures slightly below those of last year; with a profit before tax of EUR 4.5 to 5 million. Christmas holiday trading has traditionally a significant impact on final sales- and earnings-figures for the year.

Out of the different salon concepts, HairExpress recorded the highest absolute increase in sales, with an 11.1% increase, from EUR 23.7 to 26.3 million during the first three quarters. TOP TEN sales decreased by 6.0%, from EUR 4.0 to 3.8 million. The Super Cut brand achieved a growth of 2.8%, from EUR 15.2 to 15.6 million. essanelle Ihr Friseur reported sales of EUR 43.3 million, down from EUR 47.7 million (-9.2%) in the previous year.

Compared to the corresponding quarter of the previous year, the number of essanelle Ihr Friseur salons decreased by 13, and is now 296. There is a critical development taking place within this concept, among salons that are located in department stores, especially those in Karstadt stores. Sales of exclusive hair care products in the Beauty Hair Shops added up to EUR 4.9 million, on par with figures from last year. The professional advice offered in the Beauty Hair Shops is an essential factor in the continuing success of this concept.

Services accounted for EUR 80.0 million, or approximately 85.1% of revenue (previous year 83.4%) during the first nine months. The sale of exclusive products in the salons and the Beauty Hair Shops contributed EUR 14.0 million, or 14.9% of sales (previous year EUR 15.8 million or 16.6%).

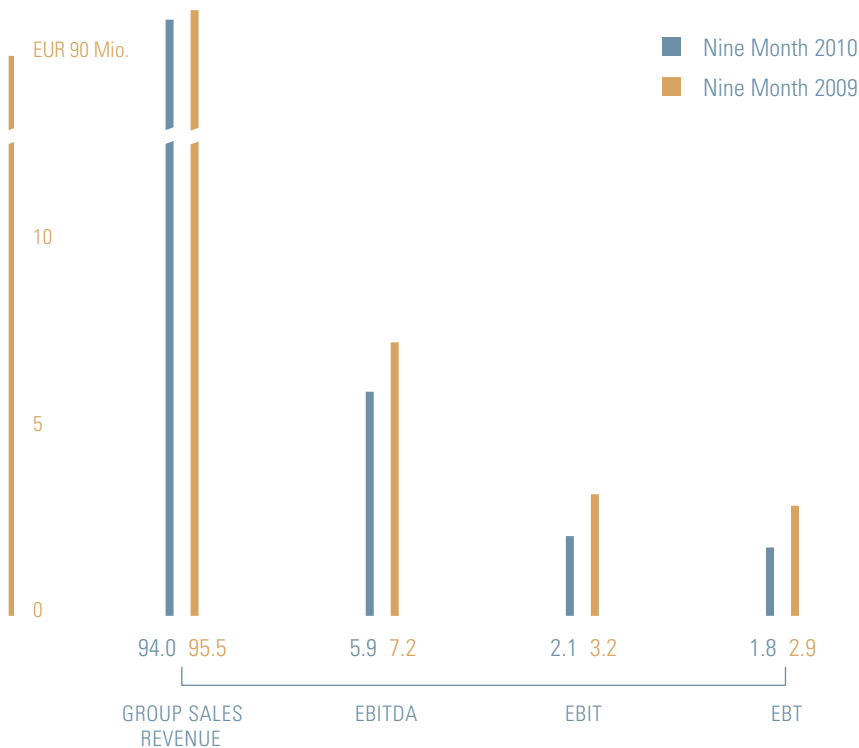
Concept – Salons – Employees – Sales revenue

Concepts	1st to 3rd Quarter 2010			1st to 3rd Quarter 2009		
	Number of Salons	Employees ¹	Sales million €	Number of Salons	Employees ¹	Sales million €
essanelle						
Ihr Friseur	296	2,048	43.3	309	2,187	47.7
Super Cut	103	574	15.6	92	524	15.2
HairExpress	234	1,277	26.3	195	1,112	23.7
TOP TEN	31	155	3.8	32	170	4.0
Beauty Hair Shop	31	112	4.9	30	102	4.9
Total	695	4,166	94.0	658	4,095	95.5

¹ without Overhead

EARNINGS PERFORMANCE

The profit and loss statement of the Essanelle Hair Group reflects the development of the business as a whole during the first nine months. Revenue fell by 1.6%, from EUR 95.5 to 94.0 million. Other operating income from the release of provisions increased by 49.9%, from EUR 0.7 to 1.0 million. The overall downward trend could not be fully offset by the reduction of some expense items. Material costs could be reduced by 4.5%, from EUR 7.8 to 7.5 million, in the first nine months of the current financial year. Personnel costs remained virtually at the same level as last year (-0.1%) with EUR 53.9 million. As such, the personnel ratio, based on sales, rose from 56.4% to 57.3%. Rental and utility costs increased by 2.1% with the opening of new salons, from EUR 18.7 to 19.1 million. Other operating expenses increased by 1.8%, from EUR 8.6 to 8.7 million. In total, the Essanelle Hair Group AG generated EBITDA (earnings before interest, taxes, depreciation and amortisation) of EUR 5.9 million in the first nine months of 2010, compared to EUR 7.2 million in the previous year. By depreciation of EUR 3.8 million (previous year EUR 4.0 million) the current EBIT (earnings before interest and taxes) is EUR 2.1 million, from last year's EUR 3.2 million. The financial result is registered at EUR -0.2 million after the first nine months of 2010, after EUR -0.3 million in the previous year. As a result, the final profit before tax is EUR 1.8 million, compared to EUR 2.9 million during the same period in the previous year. Consolidated profit after the first nine months of 2010 amounts to approximately EUR 1.1 million (last year: EUR 1.7 million). Earnings per share are finally registered at EUR 0.24 (previous year EUR 0.37).



BALANCE SHEET, INVESTMENTS AND LIQUIDITY

The balance sheet of Essanelle Hair Group AG on 30 September 2010 showed hardly any changes in long-term assets compared to 31 December 2009. Overall, the estimated value of long-term assets at the end of the third quarter is EUR 42.8 million, compared to EUR 43.6 million as of 31 December 2009. There was a reduction of fixed assets from EUR 23.9 to 23.0 million. Current assets fell from EUR 12.5 to 9.0 million. While other assets increased from EUR 0.5 to 1.0 million following higher payments due to salon openings, liquidity was reduced from EUR 5.0 to 1.1 million as of 30 September 2010. On the liabilities side, equity rose from 56.1% at the end of the financial year, to currently 58.7%, and is as such above the figures of 30 June 2010. Although equity went back from EUR 31.5 to 30.4 million, debt was, however, disproportionately reduced. Long-term debt increased from EUR 9.0 to 9.3 million; mainly a result of a EUR 0.3 million increase in deferred tax liabilities. Short-term debt, particularly accounts payable, decreased from EUR 4.5 to 1.9 million. Financial debt has increased from EUR 3.2 million as of 31 December 2009 to EUR 4.0 million as of 30 September 2010. Overall, liabilities at the effective date 30 September 2010 were EUR 21.4 million, compared to EUR 24.6 million as of 31 December 2009. Balance sheet total as of 30 September 2010 was EUR 51.8 million (EUR 56.2 million as of 31 December 2009).

Investment volume of Essanelle Hair Group AG amounted to approx EUR 3.3 million in the first nine months of 2010 which is on par with figures of last year. This illustrates the pursued growth strategy with the opening of 37 new salons in the year-to-date. A total of EUR 1.9 million has been invested in the new salons. Renovation of existing salons has cost EUR 0.8 million, and a further EUR 0.6 million has been put into other investments.

The cash flow statement of Essanelle Hair Group for the first nine months showed a net cash inflow from operating activities of EUR 0.4 million, compared to EUR 3.8 million in the previous year. Although the cash flow from operating activities amounted to EUR 2.5 million (previous year EUR 4.5 million) income taxes added up to EUR 1.8 million, while in the previous year they were only EUR 0.4 million. Investment activity nearly reached the level of last year in the first nine months (EUR 2.9 million compared to EUR 3.2 million) and saw a corresponding net cash outflow. Financing activities included payments of dividends (EUR 2.3 million) and repayments of financial debts (EUR 2.5 million). On the other hand, incurrence of new financial debt amounted to EUR 3.3 million. Overall, cash outflow from financing activities amounted to EUR 1.5 million, compared to EUR 4.2 million in the first nine months of 2009. The decrease in cash and cash equivalents amounts to EUR 4.0 million and thus is slightly above the level of the previous year of EUR 3.7 million. After a cash and cash equivalent stock of EUR 2.0 million as of 30 September 2009, it now amounts to approximately EUR 1.1 million as of 30 September 2010.

COST AND PRICE TREND

Essanelle Hair Group AG has not experienced any unexpected fluctuations in costs over the course of the current year. The company's prices have also not changed significantly.

EMPLOYEES

The number of employees reached a total of 4,269 as of 30 September 2010, of whom about 38.6% are employed on a part-time basis. At the end of the corresponding quarter of the previous year the number was 4,197 (38.9% on a part-time basis).

RISK REPORT

A detailed risk report of Essanelle Hair Group AG can be found in the 2009 Annual Report on pages 45 to 48. This report describes possible risks to the company, as well as appropriate counter-measures in the risk management system.

THE SHARE

In the third quarter, domestic and international stock markets underwent a lateral movement, which has lasted since April this year. During this period, the DAX moved in the range 5,800-6,350, reporting a low of 5,816 and a high of 6,351 points. Only at the beginning of the fourth quarter could the DAX index surpass its previous range, reaching more than 6,600 points. In the beginning of July, the Essanelle Hair Group AG share opened on Xetra on EUR 8.49, and closed on September 30 on EUR 8.50 – remaining virtually constant, despite interim fluctuations throughout the quarter period.

After the June general meeting and the decision over a EUR 0.50 dividend per share, the relationship with the financial community continued to be cultivated during the third quarter. Among other things, the management team did an interview with GSC Research, which was subsequently published. Further, CEO Achim Mansen will present Essanelle Hair Group AG to the German Equity Forum of the German Stock Exchange on November 22.

SHAREHOLDER STRUCTURE (AS OF 30 SEPTEMBER 2010)

Saxonia	89.76%
Freefloat according to Deutsche Börse	10.24%

SHARES DATA IN THE 3RD QUARTER 2010

Highest share price Xetra	EUR 8.90
Lowest share price Xetra	EUR 8.15
Performance 01 July – 30 September 2010	+0.1%
Share price as of 30 September 2010 Xetra	EUR 8.50
Authorised capital	EUR 4,595,044
Market capitalisation as of 30 September 2010	EUR 39.06 million

FORECAST

So far, the 2010 financial year has not been satisfactorily. Our sales revenue and earnings during the first nine months are below those of the previous year. The month of September was extremely weak for the retail sector as a whole. As such, we expect end-of-year sales and earning figures below those of last year – even if we experience an upturn in the fourth quarter, especially over the Christmas holiday season. In addition to the weak performance of the retail sector, outlets in department store locations also continued their weak trend. We have lost essential revenue and margins here, while the majority of other locations are reporting figures above those of the previous year. Our strategy to focus more on department store-independent locations and to generate additional growth from new salons therefore continues to hold true. This will reflect in increasing medium-term sales and earning figures. We expect end-of-year sales for 2010 to be between EUR 127 and 128 million. Earnings before tax will be between EUR 4.5 and 5.0 million.

CONSOLIDATED BALANCE SHEET (IFRS) as of 30 September 2010

ASSETS

EUR	30.09.2010	31.12.2009
ASSETS		
Fixed assets		
Property, plant and equipment	23,010,623.35	23,878,349.92
Goodwill	19,558,872.10	19,558,872.10
Other intangible assets	144,013.98	106,367.25
Other loans	75,174.82	88,037.69
	42,788,684.25	43,631,626.96
Current assets		
Other loans	9,153.55	9,153.55
Inventories	6,804,058.13	6,805,052.90
Account receivable	83,096.53	165,296.57
Other assets	1,009,989.64	548,070.91
Cash and cash equivalents	1,064,600.03	5,020,732.58
	8,970,897.88	12,548,306.51
Total assets	51,759,582.13	56,179,933.47

LIABILITIES

EUR	30.09.2010	31.12.2009
SHAREHOLDERS' EQUITY		
Capital and reserves allocable to the shareholders in the parent company		
Share capital	4,522,841.00	4,522,841.00
Capital reserve	15,717,699.17	15,717,699.17
Revenue reserves	10,130,514.22	11,303,033.79
	30,371,054.39	31,543,573.96
DEBT		
Long-term debt		
Financial debt	3,322,793.02	3,088,432.50
Deferred tax liabilities	4,589,625.51	4,297,354.57
Pension provisions	815,620.95	804,159.00
Other provisions	618,991.20	777,235.14
	9,347,030.68	8,967,181.21
Short-term debt		
Financial debt	3,960,140.24	3,186,393.62
Accounts payable	1,856,243.96	4,477,410.53
Current income tax liabilities	481,770.95	1,880,872.20
Other liabilities	2,144,455.16	2,885,634.05
Other provisions	3,598,886.75	3,238,867.90
	12,041,497.06	15,669,178.30
Total debt	21,388,527.74	24,636,359.51
Total shareholders' equity and debt	51,759,582.13	56,179,933.47

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2010 to 30 September 2010

EUR	01.01. – 30.09.2010	01.01. – 30.09.2009
Sales	94,010,778.92	95,536,438.05
Other operating income	1,016,947.77	678,250.91
Costs of materials	-7,476,531.54	-7,827,912.36
Personnel expenses	-53,851,513.89	-53,879,747.82
Depreciation and amortisation	-3,837,760.50	-4,035,924.99
Rental and ancillary rental expenses	-19,080,882.72	-18,693,610.63
Other operating expenses	-8,721,350.74	-8,567,302.60
Operating earnings	2,059,687.30	3,210,190.56
Financing income	19,604.49	12,313.26
Financing expenses	-249,514.70	-280,149.33
Net financial expenses	-229,910.21	-267,836.07
Earnings before taxes	1,829,777.09	2,942,354.49
Tax expenses	-724,485.12	-1,253,697.41
Consolidated net income	1,105,291.97	1,688,657.08
Earnings per share		
basic	0.24	0.37
diluted	0.24	0.37

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

for the period from 1 January 2010 to 30 September 2010

kEUR	30.09.2010	30.09.2009
1. CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated by ongoing business activities	2,542	4,505
Interest paid	-285	-315
Taxes on income paid	-1,831	-418
Net inflow of funds for operating activities	426	3,772
2. CASH FLOW FROM INVESTMENT ACTIVITIES		
Acquisition of property, plant and equipment	-2,840	-3,140
Proceeds from the sale of property, plant and equipment	3	7
Acquisition of intangible assets	-94	-26
Loans paid out	0	-70
Loans repaid	13	61
Interest received	20	12
Net outflow of funds for investment activities	-2,898	-3,156
3. CASH FLOW FROM FINANCING ACTIVITIES		
Dividend payout	-2,277	-2,261
Buyback of own shares	0	-16
Receipts from the taking up of financial loans	3,291	858
Repayment of financial debt	-2,498	-2,827
Net outflow of funds for financing activities	-1,484	-4,247
Net decrease in cash and cash equivalents	-3,956	-3,631
Cash and cash equivalents at the beginning of the year	5,021	5,600
Cash and cash equivalents at September 30	1,065	1,969

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 30 September 2010

EUR	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 01.01.2009	4,522,841.00	15,717,699.17	10,357,743.59	30,598,283.76
Dividend payout			-2,261,420.52	-2,261,420.52
Annual consolidated net income			3,206,710.72	3,206,710.72
Balance at 31.12.2009	4,522,841.00	15,717,699.17	11,303,033.79	31,543,573.96
Balance at 01.01.2010	4,522,841.00	15,717,699.17	11,303,033.79	31,543,573.96
Dividend payout			-2,277,811.54	-2,277,811.54
Net income for the period			1,105,291.97	1,105,291.97
Balance at 30.09.10	4,522,841.00	15,717,699.17	10,130,514.22	30,371,054.39

CONSOLIDATED ABRIDGED NOTES TO THE INTERIM FINANCIAL STATEMENTS

ACCOUNTING STANDARDS

This quarterly report has been prepared in accordance with the International Financial Reporting Standards (IFRS). The accounting and valuation standards correspond to those of the last Consolidated Annual Financial Statement for the 2009 financial year. In accordance with this, the interim financial statement needs to be viewed in the context of the audited consolidated annual financial statement as of 31 December 2009 and its respective notes.

The consolidated interim financial statement has not been audited. Various information and attachments which are usually included in a consolidated financial statement, prepared in accordance with IFRS, have been abridged or omitted.

BASIS OF CONSOLIDATION

There have been no changes to the basis of consolidation within the first nine months of 2010.

SEGMENT REPORTING

The requirements for segment reporting have neither been met in regional, factual nor in organisational terms. Further information can be found on page 80 in the notes of the 2009 Annual Report.

EARNINGS PER SHARE

The undiluted as well as the diluted earnings per share during the first nine months of the current financial year amount to EUR 0.24 after EUR 0.37 in the previous year.

EVENTS AFTER BALANCE SHEET DATE

No further substantial events occurred after 30 September 2010.

BUSINESS TRANSACTION WITH ASSOCIATED PEOPLE OR COMPANIES

For any business transactions with associated companies or people please refer to page 113 of the 2009 Annual Report. No further business transactions have been concluded in the first nine months of 2010.

CONTACT

Investor Relations, Business press

Haubrok Investor Relations GmbH & Co. KG

Michael Müller

Fon +49(0)2156 / 49 65-195

Fax +49(0)89 / 2 10 27- 598

m.mueller@haubrok.de

www.haubrok.de

Specialist press

PR & Kommunikation

Elisabeth Hammer

Jägerhofstraße 25

40479 Düsseldorf

Fon +49(0)211/513 695 14

Fax +49(0)211/513 695 16

hammer@hammerpr.de

IMPRINT

Published by

Essanelle Hair Group AG

Himmelgeister Straße 103–105

40225 Düsseldorf

Fon +49(0)211/17 48-0

Fax +49(0)211/17 48-290

kontakt@essanelle-hair-group.com

www.essanelle-hair-group.com

Concept, text and design

Haubrok Investor Relations GmbH & Co. KG

visuphil®, Düsseldorf

Essanelle Hair Group AG

Himmelgeister Straße 103 – 105

40225 Düsseldorf

Fon +49(0)211/17 48-0

Fax +49(0)211/17 48-290

kontakt@essanelle-hair-group.com

www.essanelle-hair-group.com