

Q3

Third Quarter Report 2005

KEY FIGURES for the Period from 1 January to 30 September 2005/2004 (Mio. Euro/HGB)

Mio. €	2005	2004	difference
Group sales*	96.0	96.2	-0.2 %
Sales	84.0	84.7	-0.8 %
essanelle – Ihr Friseur	53.4	55.1	-3.1 %
Jürgen Tröndle by essanelle	3.8	4.1	-7.3 %
Super Cut	13.6	12.9	5.4 %
HairExpress	10.3	9.6	7.3 %
mod's hair**	12.7	12.6	0.8 %
Beauty Hair Shops	2.2	1.9	15.8 %
EBITDA	6.5	6.5	+0.0 %
EBIT	2.4	2.3	+4.3 %
EBT	1.9	1.5	+26.77 %
Consolidated net income	1.7	1.4	+21.4 %
Cash Flow (DVFA/SG)	5.8	5.7	+1.8 %

* including external sales of franchisees

** including external sales of franchisees amounting to 12.0 Mio. Euro (previous year 11.5 Mio. Euro), which are not consolidated.

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FOREWORD OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

In the first nine months of the current financial year, we have consistently pressed ahead with the growth strategy of the Essanelle Hair Group AG. By the end of September, we had opened 26 new salons in Germany, and this figure is set to reach around 35 by the end of 2005. We have focused in this respect on Super Cut, our concept targeted at young people, and on HairExpress, our brand for price-sensitive customers. Moreover, in the third quarter we have successfully tested the marketability of a further, even more closely focused discount concept with the name TOP TEN.

The overwhelming majority of our new salons are being opened in the second half of the year. This has two implications for our key figures: in terms of sales, we have therefore fallen slightly short of budget in view of the fact that the newly opened salons can naturally only make a marginal contribution to our annual sales in 2005. Furthermore, we have also closed 13 salons in the course of the year. We therefore expect our overall sales to remain at the same level as in the previous year, or to fall very slightly short of this figure. Starting in 2006, we will then begin to see a markedly positive effect in the form of significant sales growth.

Our earnings figures have nevertheless benefited from this development, given that the earnings contributions of our new salons, which are still weak at the beginning, will only impact on the final months of 2005, or only on the coming year. Correspondingly, our earnings are above budget. We will achieve pre-tax earnings (EBT) of at least Euro 2.3 million and thus reach the top end of our forecast range of earnings. At Euro 1.9 million, our pre-tax earnings for the first nine months are already higher than the figure of Euro 1.8 million reported for the overall 2004 financial year. Given that sales have remained at the same level, this development is certainly to be evaluated positively. The improvement in earnings is also attributable to the significant reduction in our liabilities in 2004 and thus to an improvement in our net interest expenses.

The new concept: TOP TEN

In view of the developments seen in past years and of the forecasts for the medium to long-term future, one characteristic of our target groups can be assumed with a high degree of certainty: the number of consumers to be acquired primarily by means of pricing policies will remain at its high current level and will probably rise even further. For this reason, we intend to address this subsection of the market even

more intensively and precisely. With this in mind, we tested our new "TOP TEN" concept in several cities across Germany in the summer of this year. This proved to be hugely successful. TOP TEN is characterised by a distinct price focus. The concept is just as unambiguously positioned by its clear price of Euro 10 for each service as it is by its reduced furnishings and high customer turnover rate. In their first few months of operations, the first three salons opened have already achieved the level of sales targeted for a significantly later date. This shows that there is even more potential, especially for us as a chain operator, in the lower price segment than, for example, in the luxury segment.

The success of the first TOP TEN salons shows us that we are on the right track with our strategy. The clear focus on specific, largely homogeneous target groups, which we have implemented both at Super Cut and at HairExpress, and now at TOP TEN as well, promises to produce the greatest success. It should be noted in this respect that the new discount concept is targeted towards a highly price-sensitive customer group which we have previously not succeeded in reaching with HairExpress. We see potential for up to 100 TOP TEN salons in the coming five years. Even if we are not able to duplicate the success of the first salons in full, this will have a markedly positive impact on our sales and earnings figures.

Following a successful year to date in 2005, the omens are therefore also very good for the next and for the coming years.

The Management Board



Uwe Grimminger



Achim Mansen

BUSINESS DEVELOPMENT

The overall domestic economy still produced no noteworthy positive impulses for the retail sector and the hairdressing segment in the first nine months of 2005. All participants in the market are correspondingly obliged to draw on their own expansion efforts to achieve further growth. We are therefore implementing the announced opening of 20-30 new salons this year. A total of 26 new salons had been opened by the end of September. Overall, these new openings have mainly taken place in the second half of the year. Following their respective start-up phases, these can then be expected to generate rising sales contributions from the coming year onwards. No significant impulses are to be expected from this quarter in the remainder of 2005.

At around Euro 84 million, our consolidated sales in the first nine months of the current financial year were at roughly the same level as the previous year's figure of Euro 84.7 million. This is equivalent to a decline of around 0.8%. Group sales amounted to Euro 96.0 million, compared with Euro 96.2 million in the same period in the previous year. The external sales generated by the mod's hair franchisees amounted to Euro 12.0 million, compared with Euro 11.5 million in the first three quarters of 2004.

Turning to the individual concepts, *essanelle - Ihr Friseur* generated sales of Euro 53.4 million, as against Euro 55.1 million in the equivalent period in the previous year. This decline is attributable on the one hand to the closure of salons, and on the other to salons which are now being managed under a different concept. Significant growth rates were generated by the *Super Cut* and *HairExpress* growth concepts, which target young and price-sensitive consumers respectively. Sales at *Super Cut* rose by 5.4% from Euro 12.9 million to Euro 13.6 million. *HairExpress* also achieved growth of 7.3% from Euro 9.6 million to Euro 10.3 million. The *Jürgen Tröndle* by *essanelle* brand remained at almost the same level as in the previous year, with sales of Euro 3.8 million, as against Euro 4.1 million in the previous year. Finally, the *Beauty Hair Shops*, which sell products exclusive to hairdressers, increased their sales in the first nine months of 2005 by 15.8% from Euro 1.9 million to Euro 2.2 million.

The largest share of our sales continues to be generated by our services. These amounted to Euro 70.9 million in the first nine months, compared with Euro 71.7 million in the equivalent period in the previous year, thus accounting for 84.4% of overall sales. We have achieved a further increase in the sales generated by the sale of products exclusive to hairdressers in the salons and Beauty Hair Shops. Such sales rose to Euro 12.4 million, as against Euro 11.9 million in the previous year, with their share of total sales thus rising further to 14.8%. Franchising income amounted to Euro 0.7 million. No sales were generated by proprietary mod's hair salons in the first nine months of 2005 in view of the fact that all active salons have now been completely transferred to the franchising system.

Concept	1st–3rd Quarter of 2005			1st–3rd Quarter of 2004		
	Salons	Employees	Sales Mio. €	Salons	Employees	Sales Mio. €
Essanelle – Ihr Friseur	349	2,572	53.4	370	2,717	55.1
Super Cut	79	497	13.6	72	460	12.9
HairExpress	80	482	10.3	61	345	9.6
JT by essanelle	16	140	3.8	16	147	4.1
Beauty Hair Shops	18	64	2.2	16	54	1.9
mod's hair*	46	0	12.7	45	0	12.6

*of which external sales by franchisees: Euro 12.0 million (2005) and Euro 11.5 million (2004) – no company employees.

EARNINGS PERFORMANCE

The earnings of the Essanelle Hair Group AG continued to increase in the first three quarters of 2005 and continue to exceed the company's own forecasts. We generated earnings after taxes of Euro 1.7 million in the first nine months of the current financial year and have thus surpassed the previous year's figure of Euro 1.4 million by 21%. Earnings per share amounted to Euro 0.38 at the end of the first nine months. Pre-tax earnings rose by 27% from Euro 1.5 million to more than Euro 1.9 million. This is partly due to the reduction in liabilities in 2004 and the resultant decline in net interest expenses to Euro 0.6 million. Accordingly, our EBIT (earnings before interest and taxes) showed a slight increase from Euro 2.3 million to Euro 2.4 million. At Euro 6.5 million, our EBITDA (earnings before interest, taxes, depreciation and amortisation) were at the same level as in the previous year in spite of the newly opened salons, thus underlining the notable strength of our liquidity position. We have thus benefited from only opening the majority of the new salons towards the end of the year. Reductions were also achieved in personnel expenses, with the personnel expenses ratio declining to 56.4%, compared with 56.8% in the equivalent period in the previous year. At Euro 7.8 million, costs of materials were slightly higher than in the previous year.

BALANCE SHEET, INVESTMENTS AND LIQUIDITY

Key changes in the balance sheet data compared with 31.12.2004 include on the asset side the reduction in cash holdings from Euro 5.1 million to Euro 1.8 million as a result of the repayment of liabilities. Moreover, accounts receivable and other assets have increased from Euro 1.7 million to Euro 3.0 million. On the liability side, we have achieved a significant reduction in liabilities from Euro 29 million to Euro 23.6 million. This included the repayment of shareholder loans amounting to around Euro 2.5 million. As a result of the positive earnings performance, shareholders' equity increased from Euro 12.3 million to Euro 14.0 million. The equity ratio thus amounted to around 32.6% as of 30.09.2005.

Our investments amounted to around Euro 3.1 million in the first nine months of 2005. As a result of the accelerated expansion programme, they are therefore, as planned, higher than the figure of Euro 2.3 million reported for the previous year. A total of 26 salons have been opened to date in 2005. This is offset by the closure of 13 salons in the first nine months. We will continue to make considerable investments in new salons both in the fourth quarter and in subsequent years.

In the first nine months of 2005, the cash flow calculated in line with DVFA/SG increased further on the high level already reported in the previous year, amounting to Euro 5.8 million as against Euro 5.7 million in the previous year. At Euro 4.1 million, the cash flow from operating activities was significantly higher than the figure of Euro 1.2 million reported in the previous year. The outflow of funds for investment activities reached around Euro 2.5 million, while the cash flow from financing activities amounted to Euro -4.9 million. These figures result in financial funds of Euro 1.8 million at the end of the first nine months.

DEVELOPMENT OF EXPENSES AND PRICES

The key expense items of rent and procurement prices have not witnessed any significant fluctuations in the financial year to date. Price increases on our part have only been undertaken to a marginal extent.

EMPLOYEES

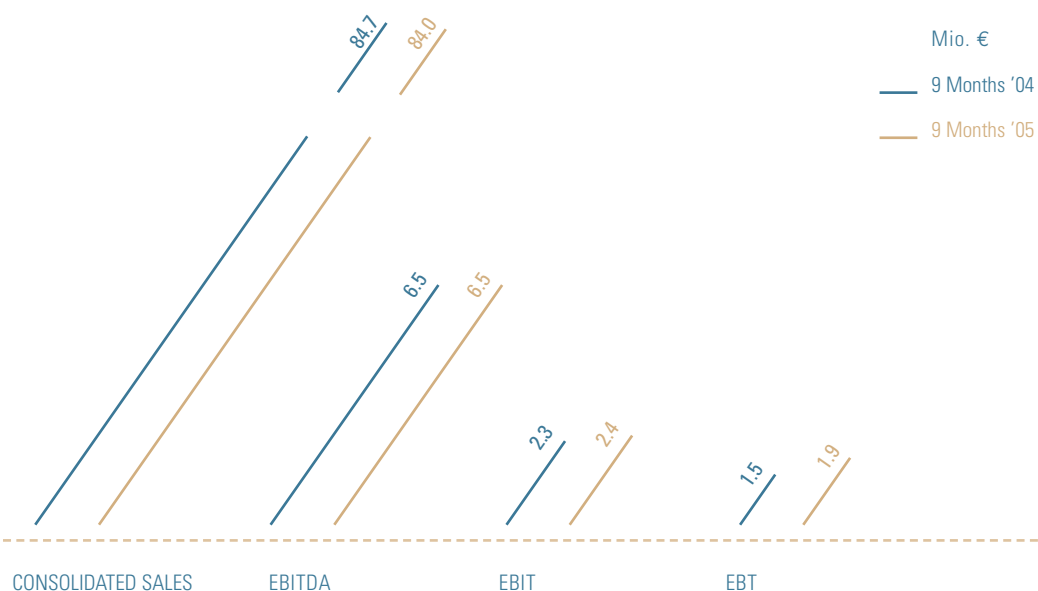
We had 3,839 employees as of 30 September 2005, compared with 3,807 employees at the same time in 2004. The share of part-time employees amounts to around 35% and is thus at the level customary to the sector.

RISK REPORT

The risk report of the Essanelle Hair Group AG was presented in detail on Pages 27 and 28 of the 2004 Annual Report. This report includes a detailed depiction both of the typical risks facing our company and of its risk management systems. It is further the case that, although the forecasts referring to the future are based on careful assessment, they nevertheless involve risk and may in some cases deviate from actual events.

ACCOUNTING STANDARDS

This quarterly report has been compiled in line with the requirements of the German Commercial Code (HGB). The accounting and valuation principles applied conform to those applied in the previous consolidated financial statements for the 2004 financial year.



THE SHARE

In order to further improve communications with our investors, analysts and the financial press, we decided in the third quarter to adopt the reporting obligations of the Prime Standard in full. This decision impacts, for example, on this extensive quarterly report. Moreover, the Essanelle Hair Group has been assessed in recent months by three analysts within the framework of a study. All three issued a "buy" recommendation with pricing targets which leave us plenty of upward scope based on our current share price. This pleasing picture is rounded off by further positive contributions in publications such as Börse Online and Focus Money.

The share of the Essanelle Hair Group reached a new high of Euro 8 in September. This in turn has been already been surpassed in the fourth quarter by a price of Euro 8.10. With an increase of more than 70%, our share has performed very well in the first nine months of 2005 and has demonstrated a significantly higher rate of growth than the SDAX, which has risen by around 37%.

SHAREHOLDER STRUCTURE

Management Board.	9 %
Klier GmbH	25.8 %
Freefloat pursuant to Deutsche Börse.	66.2 %
of which:	
dit Vermögensverwaltung	8.9 %
Axxion SA	13.2 %
FPM	9.42 %
Other	26.5 %

KEY SHARE FIGURES

Nine Months 2005 Highest price	8.10 Euro
Nine Months 2005 Lowest price	5.50 Euro
Performance (01.01.–30.09)	+71.59 %
SDAX (01.01.–30.09)	+36.72 %
Share price as of 30.09.	7.55 Euro
Market capitalisation	
as of 30.09.	Euro 33.98 million
Free Float as of 30.09.	Euro 22.49 million

OUTLOOK

We expect our business performance in the remainder of the year to be similarly pleasing to that in the past nine months. The Christmas business traditionally has a significant impact on our sales and will play a role in our performance for the overall year. We expect the developments seen in our sale and earnings to date to be maintained in the fourth quarter. We therefore forecast that sales will be at approximately the same level as in the previous year and that our earnings will be considerably higher than those reported for 2004.

We will be able to implement the growth strategy planned at the beginning of 2005, involving the opening of 20-30 new salons, in full and will reach the upper end of the range in this respect. More than two thirds of all new salons have been opened in the second half of the financial year. Our newly opened salons will therefore not yet make any significant sales contributions in 2005. This will then change in 2006 and the subsequent years.

Our key earnings figures, by contrast, have benefited from the new salons being opened at a later date. We therefore certainly expect to be able to achieve our forecast pre-tax earnings of Euro 2.3 million. Moreover, the conversion of our accounting to IFRS will have a positive impact which, on the basis of the information currently available, can be expected to amount to between Euro 1 million and Euro 1.5 million. At the same time, the conversion to IFRS will also improve our comparability with other publicly listed companies, given that the majority of such companies already make application of these accounting standards.

Overall, we expect the 2005 financial year, which has seen us maintain the course taken in past years, to be successful. The efforts taken to optimise our cost structures mean that we have laid the foundations for our growth in 2006.

CONSOLIDATED BALANCE SHEET (HGB) as of 30.09.2005

ASSETS

€	30.09.2005	31.12.2004
FIXED ASSETS		
Intangible assets		
Franchises, industrial property rights and similar rights and values, as well as licences to such rights and values	164,096.82	184,951.59
Goodwill	15,872,147.18	17,546,278.32
	16,036,244.00	17,731,229.91
Tangible assets		
Plant and office equipment, including fixtures in rented premises	14,615,584.96	15,283,046.30
Payments on account	897,631.88	126,664.05
	15,513,216.84	15,409,710.35
Financial assets		
Shareholdings	7,000.00	7,000.00
Other loans	427,980.95	535,143.03
	434,980.95	542,143.03
	31,984,441.79	33,683,083.29
CURRENT ASSETS		
Inventories		
Merchandise	5,823,294.85	5,826,725.87
Payments on account	0.00	0.00
	5,823,294.85	5,826,725.87
Accounts receivable and other assets		
Accounts receivable	788,536.06	248,547.16
Other assets	2,228,653.44	1,429,488.93
	3,017,189.50	1,678,036.09
Cash holdings, cash at bank	1,838,929.49	5,112,518.48
	10,679,413.84	12,617,280.44
PREPAYMENTS AND ACCRUED INCOME	425,708.42	98,928.76
	43,089,564.05	46,399,292.49

EQUITY AND LIABILITIES

€	30.09.2005	31.12.2004
SHAREHOLDERS' EQUITY		
Subscribed capital (Group)	4,500,000.00	4,500,000.00
Capital reserve	17,102,563.50	17,102,563.50
Losses carried forward	-9,290,939.93	-10,804,871.63
Consolidated net income	1,722,066.41	1,513,931.70
	14,033,689.98	12,311,623.57
PROVISIONS		
Provisions for pensions and similar commitments	404,767.50	329,868.00
Tax provisions	331,258.93	524,000.00
Other provisions	4,656,722.11	4,227,963.89
	5,392,748.54	5,081,831.89
LIABILITIES		
Liabilities to banks	7,388,000.00	9,387,891.73
Accounts payable	3,495,679.95	4,528,483.73
Other liabilities	12,734,022.84	15,089,461.57
of which: for tax	(2,584,602.79)	(1,768,908.02)
of which: for social security	(1,690,833.74)	(1,662,600.74)
	23,617,702.79	29,005,837.03
ACCRUALS AND DEFERRED INCOME		
	45,422.74	0,00
	43,089,564.05	46,399,292.49

CONSOLIDATED INCOME STATEMENT (HGB)

for the Period from 1 January to 30 September 2005

in €	01.01.–30.09.05	01.01.–30.09.04	01.07.–30.09.05	01.07.–30.09.04
Sales	84,022,591.27	84,756,289.00	28,374,488.08	28,257,985.78
Other operating income	1,043,513.29	750,689.87	398,752.37	13,597.28
Costs of materials				
Expenditure on merchandise purchased	-7,772,766.74	-7,608,777.87	-2,583,130.34	-2,603,685.50
Personnel expenses				
Wages and salaries	-38,667,960.77	-39,393,568.61	-13,185,285.36	-13,243,283.62
Social security contributions, expenses relating to pensions and other welfare measures	-8,685,338.66	-8,759,602.48	-2,920,677.82	-2,942,460.57
of which: for pensions	(-105,041.14)	(-54,046.73)	(-57,508.53)	(-18,016.44)
	-47,353,299.43	-48,153,171.09	-16,105,963.18	-16,185,744.19
Amortisation and depreciation				
of intangible assets and tangible assets	-3,986,201.83	-4,215,582.18	-1,321,601.40	-1,389,635.39
Other operating expenses	-23,487,376.07	-23,271,792.00	-7,914,209.72	-7,294,327.70
Income from loans of financial assets	37,301.23	41,364.37	11,595.89	41,364.37
Other interest and similar income	31,946.89	73,979.60	10,579.29	-11,442.81
Amortisation of financial assets	-25,000.00	-2,921.00	-25,000.00	-2,921.00
Interest and similar expenses	-619,013.48	-851,811.15	-197,448.13	-232,309.80
Result of ordinary business activities	1,891,695.13	1,518,267.55	648,062.86	592,881.04
Taxes on income	-168,598.48	-110,012.00	-49,617.36	-34,583.12
Other taxes	-1,030.24	0.00	-778.43	378.16
Consolidated net income	1,722,066.41	1,408,255.55	597,667.07	558,676.08

CONSOLIDATED CASH FLOW STATEMENT (HGB)

as of 30.09.2005

€ 000s	30.09.2005	30.09.2004
1. OPERATING ACTIVITIES		
Consolidated net income	1,722	1,408
Depreciation of fixed assets	4,011	4,218
Write-ups of fixed assets	0	0
Change in long-term provisions	92	74
Cash earnings pursuant to DVFA/SG	5,825	5,700
Losses (net) incurred on the disposal of fixed assets	184	41
Change in inventories	4	-326
Accounts receivable and accrued income	-587	138
Provisions	219	779
Liabilities (excluding financial liabilities) and deferred income	-1,554	-5,155
Cash flow from changes in short-term assets and liabilities	-1,734	-4,523
Cash flow from operating activities	4,091	1,177
2. INVESTMENT ACTIVITIES		
Incoming payments from the disposal of tangible assets	589	77
Outgoing payments for investments in tangible assets	-2,973	-2,170
Outgoing payments for investments in intangible assets	-26	-27
Outgoing payments for investments in financial assets	-86	-108
Incoming payments from the sale of consolidated companies	0	0
Cash flow from investment activities	-2,496	-2,228
3. FINANCING ACTIVITIES		
Change in financial liabilities	-4,869	-4,307
Cash flow from financing activities	-4,869	-4,307
4. FINANCIAL FUNDS		
Change in financial funds	-3,274	-5,358
Financial funds at beginning of year	5,113	8,839
Financial funds at end of year	1,839	3,481

GROUP EQUITY SCHEDULE

as of 30.09.2005

€	Subscribed Capital	Capital Reserve	Group Equity Generated	Cumulative Other Group Result (Balancing Item for Foreign Currency Conversion)	Shareholders' Equity pursuant to Consolidated Balance Sheet
Balance at 31.12.2003/01.01.2004	4,500,000.00	17,102,563.50	-10,834,299.44	29,427.81	10,797,691.87
Consolidated net income 2004	0.00	0.00	1,513,931.70	0.00	1,513,931.70
Balance at 31.12.2004/01.01.2005	4,500,000.00	17,102,563.50	-9,320,367.74	29,427.81	12,311,623.57
Consolidated net income 01-09.2005	0.00	0.00	1,722,066.41	0.00	1,722,066.41
Balance at 30.09.2005	4,500,000.00	17,102,563.50	-7,598,301.33	29,427.81	14,033,689.98

FINANCIAL CALENDAR

2005 Annual Report

April 2006

Annual Financial Statements Press Conference

April 2006

Annual General Meeting

27 June 2006

CONTACT

Investor Relations,

Business Press

Haubrok Investor Relations

Michael Müller

Phone +49(0)211/3 01 26-0

Fax +49(0)211/3 01 26-172

m.mueller@haubrok.de

www.haubrok.de

Specialist Press

PR & Kommunikation

Elisabeth Hammer

Stephanstraße 20a

41464 Neuss

Phone +49(0)2131/15 98-80

Fax +49(0)2131/15 98-15

ehammer@eventpeople.de



Essanelle Hair Group AG

Niederkasseler Lohweg 20

40547 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