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FOREWORD OF THE MANAGEMENT BOARD

Dear Readers,

Essanelle Hair Group AG is staying on course. A 5% rise in sales in Q2 2007 means that we increased our revenues for the sixth consecutive quarter. The success of our growth strategy is thus clearly reflected in our financials. We have achieved quite a lot since we declared "profitable expansion" as our company's strategic objective back in 2005. The number of our salons has risen from 530 two years ago to 616 in mid-2007, which represents an increase by over 16%. In particular, the number of HairExpress salons climbed from 79 to 126, while as many as 22 salons have been opened under the TOP TEN brand since August 2005. Sales revenues are up 7.6% on the first half of 2005, and earnings before taxes have almost doubled during this two years. At 4.9%, the increase in earnings from the previous year's EUR 2.3 million to EUR 2.4 million may seem moderate at first sight but the opposite is the case. In the first half of 2006, we generated EUR 0.8 million in non-recurrent income from the sale of mod's hair, which was compensated for after only six months thanks to our very good operating activities. This means that we are already clearly ahead of our objective to reach the pre-tax result of the previous year adjusted for this non-recurrent income.

While we are still in the midst of our expansion, we can already say at this state that our strategy is successful. And this applies to three very important aspects. First, to the positioning, planning and market launch of our new TOP TEN concept – which apparently meets the requirements of our target group with regard to both pricing and image. Second, we have seen dynamic sales growth, which accelerated on a quarterly basis already last year and exceeded the 5% minimum target in the first half of 2007. We want to maintain this pace of growth also in the long term. Third, and most importantly, our growth is absolutely profitable. Since the beginning of 2005, we have steadily improved our earnings figures and have consistently surpassed our own targets each year. The consistent increase in earnings after taxes should allow us to distribute the first dividend since our IPO for the current fiscal year. It has always been one of the main objectives of our expansion plans to give our shareholders a direct share in the performance of our company. Subject to the approval of the Supervisory Board, this is exactly what we will propose to the Annual General Meeting next summer. We have often been asked about the amount of a possible dividend.

While it is too early to quote an exact figure, we feel that it would not make sense to pay out a total dividend of less than EUR 1 million. This is the minimum amount that should be distributed and would be equivalent to a dividend of approx. EUR 0.22 per share. It is not clear yet how much more we may be able to distribute as this will depend on our earnings situation at the end of the year. Should we reach our pre-tax profit target of EUR 4.5 million and should our cash position permit it, we might consider paying out approx. EUR 2.5 million, which would represent more than EUR 0.50 per share. In view of the fact that the non-recurrent income from 2006 has already been compensated for, we rather see ourselves at the upper end of this bandwidth at present. But a lot still needs to be done. We intend to open more salons in the second half of the year to increase the total number of salons by at least 50 in the year as a whole. At the end of 2007, we should operate some 650 outlets and generate sales of roughly EUR 125 million. From today's point of view, we are very confident that both targets will be reached.

We are pleased that our strategy and the achievements made in this context are appreciated by our shareholders and their representatives. This year's Annual General Meeting attracted the largest number of shareholders ever. The comments made by our shareholders, the talks held after the meeting and the smooth endorsement of all items on the agenda showed that our shareholders share our view that we are on the right course a course on which we will definitely continue.

The Management Board



Uwe Grimminger



Achim Mansen

REPORT ON THE ECONOMIC DEVELOPMENT

The economic situation in Germany remains stable, and no negative effects of the VAT hike are being felt in the retail sector. This is also reflected in our business performance. The strong growth of the first three months continued in the second quarter. Following a 6.3% rise in sales in Q1, we generated sales of EUR 30.5 million between April and June, which represents an increase of 5.0% to the Q2 2006. Total sales for the first six months thus improved by 5.6% to EUR 59.9 million (2006: EUR 56.7 million).

In addition to the stable macroeconomic situation and good consumer spending, this development is mainly attributable to the new salons opened last year. These salons are now gradually realising their full revenue potential, which has helped us to more than offset the effect of the VAT hike in Germany.

This development vindicates our strategy of expanding primarily through the opening of new outlets, salons and Beauty Hair Shops. Also, the good situation of these salons shows that we are focusing on the right concepts, i.e. TOP TEN, Super Cut and HairExpress. In the first half of the year, nearly all new salons were opened under one of these brand names and this is also what we plan to do in the further course of the year.

The individual concepts developed as follows: HairExpress, the price-sensitive concept offering permanent special bargains, reported a significant increase of approx. 38.2% to EUR 10.2 million in the first half of 2007. Super Cut, which focuses on no-frills hairdressing services for the young generation, generated sales revenues of EUR 9.6 million in the first six months of 2007, compared to EUR 9.3 million in the same period of the previous year. Offering services at fixed prices, the TOP TEN salons, which were launched only in 2005, are also aimed primarily at a young target group. These salons generated EUR 1.7 million in sales in H1 2007, up from EUR 0.7 million in H1 2006. essanelle Ihr Friseur provides a wide range of services for all target groups and achieved revenues of EUR 33.8 million in the first half of 2007, compared to EUR 34.4 million in the same period of the previous year. Targeted at busi-

ness people, JT by essanelle reported sales of EUR 2.2 million in H1 2007, compared to EUR 2.4 million in H1 2006. The Beauty Hair Shops, which specialise in the sale of exclusive salon products, boosted their revenues by 18.3% to EUR 2.4 million in the first six months of 2007.

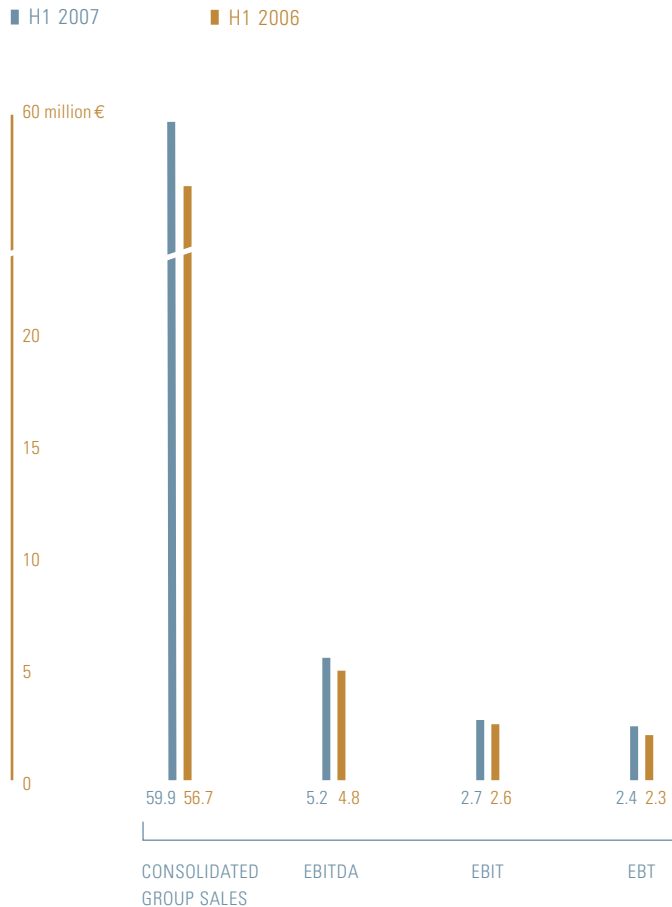
At EUR 50.6 million, the services provided by the Essanelle Hair Group again accounted for the highest percentage (84.5%) of total sales. Revenues generated from the sale of exclusive salon products in the Beauty Hair Shops and the salons continued to grow and reached EUR 9.3 million or 15.5% in the first half of the year. mod's hair-Franchise revenues were reported only up to the end of the first half of 2006 (EUR 0.5 million), when the franchise rights were sold.

Concepts	1st Half of 2007			1st Half of 2006		
	Number of Salons	Employees *	Sales million €	Number of Salons	Employees *	Sales million €
Essanelle	340	2,400	33.8	346	2,503	34.4
Super Cut	89	481	9.6	83	488	9.3
HairExpress	126	728	10.2	91	505	7.4
TOP TEN	22	123	1.7	9	48	0.7
Jürgen Tröndle	15	119	2.2	15	131	2.4
Beauty Hair Shop	24	79	2.4	21	70	2.0
Total	616	3,930	59.9	565	3,745	56.7

*without overhead

EARNINGS PERFORMANCE

Our earnings performance in the second quarter continued the positive trend of the first three months. First-half earnings before taxes (EBT) amounted to EUR 2.4 million, up 4.9% from the previous year's EUR 2.3 million. While second-quarter EBT, at EUR 1.5 million, were down on the EUR 1.8 million reported in Q2 2006, the previous year's result benefited from non-recurrent income of EUR 0.8 million from mod's hair. This is also reflected in other operating income, which dropped by 62.6% from EUR 1.5 million to EUR 0.6 million. By contrast, sales increased by 5.6% to EUR 59.9 million. Personnel expenses totalled EUR 33.4 million, compared to EUR 31.9 million in the first six months of 2006. Personnel expenses as a percentage of sales thus amounted to approx. 55.7% in H1 2007, compared to 56.4% in H1 2006. The cost of materials declined by 1.6% from EUR 5.4 million to EUR 5.3 million despite increased product sales. Rents and incidental rental expenses climbed 8.1% to EUR 12.0 million. Accordingly, EBITDA (earnings before interest, taxes, depreciation and amortisation) rose by 6.7% from the previous year's EUR 4.8 million to EUR 5.2 million. Depreciation and amortisation mainly of fixed assets amounted to EUR 2.4 million, up by



approx. 9.9% on the same period of the previous year. Accordingly, EBIT (earnings before interest and taxes) were up 3.9% on the previous year's EUR 2.6 million to EUR 2.7 million. The financial result remained unchanged at EUR 0.3 million. With earnings before taxes at EUR 2.4 million (2006: EUR 2.3 million) and the tax result to IFRS at EUR 1.0 million, net profit for the first six months amounted to EUR 1.4 million. This represents a 4.9% increase over the previous year's rounded result of EUR 1.4 million.

BALANCE SHEET, INVESTMENTS AND LIQUIDITY

The assets side of the balance sheet shows the usual annual decline in liquid funds from EUR 5.3 million as at December 31, 2006 to EUR 2.7 million as at June 30, 2007. This decline is attributable to the repayment of liabilities and payments for investments in new salons. These are mainly advance payments, which are shown under other assets for the time being. As a result and due to tax effects, other assets increased from EUR 0.4 million to EUR 2.2 million. On the liabilities side, accounts payable were reduced from EUR 4.5 million as at December 31, 2006 to EUR 3.0 million. While short-term financial liabilities remained relatively constant, long-term financial liabilities declined by EUR 1.4 million to EUR 7.8 million. Shareholders' equity increased from EUR 24.4 million to EUR 26.0 million due to the positive business performance. This resulted in an equity ratio of approx. 49.2% as at June 30, 2007, compared to 46.0% as at December 31, 2006.

Investments in the property, plant and equipment were increased once more in the first half of 2007, for a total of approx. EUR 2.5 million, compared to EUR 2.0 million in the same period of the previous year. An amount of EUR 1.5 million was invested in the opening of 23 new salons, while EUR 0.9 million was spent on the renovation of existing outlets.

Operating cash flow improved significantly as compared to the previous year. Overall, we generated a net cash flow of EUR 1.5 million, compared to a "black zero" last year. The implementation of the growth strategy and the opening of new salons were reflected in a higher net cash outflow from investing activities of EUR 2.5 million (2006: EUR 1.7 million). Given that we continued to reduce our financial liabilities, cash flow from financing activities is also negative at EUR -1.6 million (2006: EUR -1.0 million). Accordingly, cash and cash equivalents amounted to approx. EUR 2.7 million as at June 30, 2007, compared to EUR 1.3 million one year earlier.

THE SHARE

The share price of Essanelle Hair Group remained relatively stable between EUR 7.56 and 9.28 in the first half of 2007, with the share closing at EUR 8.56 (Xetra) on June 30, 2007, up on the previous year's EUR 8.20. This year's high to date was reached in January, at EUR 9.28. In the second quarter, the share price remained stable between EUR 8 and 9.

SHAREHOLDER STRUCTURE (JULY 2007)

Klier GmbH	29.8%
Management Board	3.4%
Free float acc. to Deutsche Börse	66.8%
thereof:	
Axxion SA	9.8%
Intrinsic Value Investors LLP	6.3%
Ratio Asset Management LL	5.0%
Fortis Investment Management S.A.	5.7%
Threadneedle Asset Management Ltd.	2.9%

SHARE INFORMATION FOR H1 2007

Highest price, Frankfurt	EUR 9.28
Lowest price, Frankfurt:	EUR 7.56
Opening price on Jan. 2, 2007	EUR 8.11
Closing price on June 30, 2007, Frankfurt	EUR 8.56
Performance Jan. 1 – June 30, 2007	+5.5%
Capital admitted to trading	EUR 4,595,044.00
Market capitalisation as at June 30, 2007	EUR 39.33 million
Free float	EUR 26.27 million

DEVELOPMENT OF EXPENSES AND PRICES

Apart from the usual cyclically induced adjustments, the key expense items, i.e. salon rents, procurement prices and terms of supply, have not been subject to any material fluctuations in the financial year to date. Our prices were adjusted only marginally and in line with general business practice.

EMPLOYEES

In view of the company's successive expansion, the number of employees was increased as compared to June 30, 2006. At the end of the first half of 2007, the company employed 4,021 people, up from 3,836 as at June 30, 2006. At around 36% (2006: approx. 35%), the share of part-time employees is at a level that is typical of our industry.

RISK REPORT

The extensive risk report of Essanelle Hair Group AG is presented on pages 39 and 40 of the 2006 Annual Report and includes a detailed description of company risks and market risks, risk mitigation measures and the risk management system introduced by the company. In the company's opinion, there are no other specific risks for the second half of the year.

OUTLOOK

In view of the fact that business developed according to plan in the first six months of the year, we assume that our growth strategy will be implemented successfully also in the second half of the year, with sales and earnings developing as projected. While 23 salons were opened in the first half-year, we plan to add at least another 27 so as to achieve the projected number of 50 new salons. In this context, we will continue to focus on choosing suitable locations that match our respective concepts.

Until the end of the year, we expect sales to grow within the projected bandwidth of 5% to 10%, which was also reached in the first half of the year (+5.6%). This is attributable to both the new salons opened last year and the positive development of like-for-like sales. In view of the successful performance in the first six months, we do not expect to see any negative effects from the VAT increase or the extended opening hours in the remaining course of the year.

Our earnings figures are currently ahead of our original projections, according to which earnings before taxes would amount to at least EUR 4.5 million. This is the previous year's result adjusted for the non-recurrent income of EUR 0.8 million from the sale of the franchise rights. At the half-year stage, earnings before taxes already stood at EUR 2.4 million, i.e. above the previous year's level. This means that the non-recurrent income has already been compensated for thanks to the excellent operating activities. We therefore assume that the original target of EUR 4.5 million will be surpassed. Earnings before interest, taxes, depreciation and amortisation should amount to at least EUR 10 million at the end of the year, thus enabling us to finance our expansion internally or to obtain optimally structured funding.

At this stage, we plan to continue our growth strategy in 2008, boosting our sales by between 5% and 10% and increasing earnings at a disproportionate rate.

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

We assure, to the best of our knowledge, that, in accordance with the applied principles of proper interim reporting, the present consolidated interim financial statements provide a true and fair view of the net worth, financial and earnings position of the Group, that the interim Group management report presents a true and fair view of the business results and the situation of the Group and that the main risks and opportunities of the expected development of the Group during the rest of the fiscal year have been outlined.

The Management Board



Uwe Grimminger



Achim Mansen

CONSOLIDATED BALANCE SHEET (IFRS)

as of 30 June 2007

ASSETS

€	30.06.2007	31.12.2006
ASSETS		
Fixed assets		
Property, plant and equipment	21,287,515.00	21,149,157.73
Goodwill	19,558,872.10	19,558,872.10
Other intangible assets	192,181.06	208,465.92
Other loans	92,852.42	92,624.24
	41,131,420.58	41,009,119.99
Current assets		
Inventories	6,619,452.66	6,132,112.32
Accounts receivable	69,308.76	105,320.13
Other assets	2,236,482.33	423,001.77
Cash and cash equivalents	2,732,526.76	5,321,163.33
	11,657,770.51	11,981,597.55
Total assets	52,789,191.09	52,990,717.54

LIABILITIES

€	30.06.2007	31.12.2006
SHAREHOLDERS' EQUITY		
Capital and reserves allocable to the shareholders in the parent company		
Share capital	4,535,044.00	4,535,044.00
Capital reserve	15,582,447.68	15,422,954.30
Revenue reserves	5,854,023.78	4,413,771.29
	25,971,515.46	24,371,769.59
DEBT		
Long-term debt		
Financial debt	7,832,895.30	9,277,886.80
Deferred tax liabilities	3,665,792.40	2,880,000.00
Pension provisions	215,827.00	179,977.00
Other provisions	700,269.64	683,542.40
	12,414,784.34	13,021,406.20
Short-term debt		
Financial debt	3,393,878.61	3,537,262.56
Accounts payable	3,015,633.26	4,471,932.01
Current income tax liabilities	316,560.27	668,497.20
Other liabilities	3,669,315.85	2,819,661.38
Other provisions	4,007,503.30	4,100,188.60
	14,402,891.29	15,597,541.75
Total debt	26,817,675.63	28,618,947.95
Total shareholders' equity and debt	52,789,191.09	52,990,717.54

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2007 to 30 June 2007

€	01.01.-30.06.07	01.01.-30.06.06	01.04.-30.06.07	01.04.-30.06.06
Sales	59,879,772.35	56,682,864.09	30,492,873.14	29,041,543.83
Other operating income	565,383.85	1,511,253.64	389,903.75	1,149,621.75
Cost of materials	-5,332,504.44	-5,417,533.82	-2,768,341.89	-2,761,759.91
Personnel expenses	-33,359,772.95	-31,949,598.10	-16,833,544.00	-16,162,654.75
Depreciation and amortization	-2,437,820.67	-2,217,591.33	-1,216,331.45	-1,121,449.99
Rental and ancillary rental expenses	-11,951,214.32	-11,060,188.21	-6,052,344.07	-5,619,925.14
Other operating expenses	-4,631,193.62	-4,908,726.05	-2,337,586.55	-2,575,126.68
Operating earnings	2,732,650.20	2,640,480.22	1,674,628.93	1,950,249.11
Financing income	29,029.35	31,349.22	12,903.19	14,902.46
Financing expenses	-361,258.80	-371,278.86	-178,364.89	-194,903.31
Net financial expenses	-332,229.45	-339,929.64	-165,461.70	-180,000.85
Earnings before taxes	2,400,420.75	2,300,550.58	1,509,167.23	1,770,248.26
Tax expenses	-960,168.26	-927,211.41	-603,666.85	-710,924.39
Consolidated net income	1,440,252.49	1,373,339.17	905,500.38	1,059,323.87
Earnings per share				
basic	0.32	0.31		
diluted	0.30	0.29		

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

for the period from 1 January 2007 to 30 June 2007

k€	30.06.2007	30.06.2006
1. CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated by ongoing business activities	2,273	290
Interest paid	-276	-269
Taxes on income paid	-492	-18
Net inflow of funds for operating activities	1,505	4
2. CASH FLOW FROM INVESTMENT ACTIVITIES		
Acquisition of property, plant and equipment	-2,548	-2,006
Proceeds from the sale of property, plant and equipment	11	137
Acquisition of intangible assets	-23	-22
Loans paid out	-1	-12
Loans repaid	18	191
Loans repaid by closely related persons	9	11
Interest received	29	15
Net outflow of funds for investment activities	-2,505	-1,684
3. CASH FLOW FROM FINANCING ACTIVITIES		
Receipts from the taking up of financial loans	0	2,589
Repayment of financial debt	-1,588	-3,625
Net outflow of funds for financing activities	-1,588	-1,036
Net decrease / increase in cash and cash equivalents	-2,588	-2,716
Cash and cash equivalents at the beginning of the year	5,321	4,024
Cash and cash equivalents at the end of the quarter	2,733	1,307

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 30 June 2007

	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 01.01.2006	4,440,000.00	14,922,074.35	1,465,846.08	20,827,920.43
Consolidated earnings			2,947,925.21	2,947,925.21
Value of the services of employees in connection with employee share option programmes		302,565.18		302,565.18
Capital increase through proceeds in line with exercised share options (tranche I and II)	95,044.00	198,314.77		293,358.77
Balance at 31.12.2006	4,535,044.00	15,422,954.30	4,413,771.29	24,371,769.59
Balance at 01.01.2007	4,535,044.00	15,422,954.30	4,413,771.29	24,371,769.59
Consolidated earnings		1,440,252.49	1,440,252.49	
Value of the services of employees in connection with employee share option programmes		159,493.38		159,493.38
Balance at 30.06.2007	4,535,044.00	15,582,447.68	5,854,023.78	25,971,515.46

CONSOLIDATED ABRIDGED NOTES TO THE INTERIM FINANCIAL STATEMENTS

ACCOUNTING STANDARDS

The present interim report was prepared in accordance with the applicable International Financial Reporting Standards (IFRS). The accounting and valuation standards are the same as those applied in the consolidated financial statements for the financial year 2006. The interim financial statements should therefore be seen in conjunction with the audited consolidated financial statements and the notes for the year ended December 31, 2006.

The consolidated interim financial statements have not been audited. Various information and notes that usually form part of consolidated financial statements to IFRS have been abridged or omitted.

SCOPE OF CONSOLIDATION

No changes in the scope of consolidation occurred in the first half of 2007.

SEGMENT REPORTING

The requirements for segment reporting are met neither in regional terms nor in factual or organisational terms. For more information refer to page 68 of the 2006 Annual Report.

EARNINGS PER SHARE

Basic earnings per share (EPS) amounted to EUR 0.32 in the first half of the current financial year (2006: EUR 0.31). By contrast, diluted earnings per share amounted to EUR 0.30 in H1 2007 (2006: EUR 0.29).

POST-BALANCE SHEET EVENTS

No other material events occurred after June 30, 2007.

RELATED PARTY DISCLOSURES

For related party disclosures, please refer to page 102 of the 2006 Annual Report

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