

Q2 / 2008



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FOREWORD OF THE MANAGEMENT BOARD

Dear Readers,

The good performance of the first three months continued in the second quarter, which means that the key sales and earnings figures for the first half of the year exceed the previous year's level. We are thus fully in line with our projections and therefore assume that we will achieve a 5–10% increase in sales as well as disproportionate earnings growth. The current slowdown in the domestic economy, which is also felt in the retail sector, may well influence our performance, though. While our projections are subject to the usual provisos regarding forecasting accuracy, we are confident that we will reach our operating targets for 2008.

We want to continue our strategy of consistent and sustainable growth in the coming years. To enable this, we are currently working on the positioning of our brand concepts. While we can proudly say that our positioning and the market coverage of our concepts *essanelle Ihr Friseur*, *Super Cut*, *HairExpress*, *JT by essanelle* and *TOP TEN* as well as the *Beauty Hair Shops* are unique at least in Germany, we must aim to constantly improve these concepts and their structure.

Against this background, we have analysed our market presence in the past months and planned to further sharpen the profiles of our concepts, which we will now implement in the coming months. Our aim is to reach the identified target groups even more effectively, while at the same time avoiding potential overlaps between the brand concepts. The main parameters besides the age of the target group, which is an important factor for every concept include the respective price level and the scope of services provided. One of our conclusions in this strategic process referred to our company's best-selling and most profitable concept *essanelle Ihr Friseur*. In the context of a clear revitalisation of this brand, we will modify our identity and give the salons a more exclusive appeal. This also includes the integration of existing *JT* salons into this concept; as a result, only a small number of absolute premium salons will be operated under the *JT* brand. This revitalisation will clearly upgrade the brand. We are convinced that this will enable us to address a much larger customer group in the medium term and to make this concept more interesting to excellent hairdressers. This way, we want to reverse the long-standing trend of declining sales in the next two to four years and grow the *essanelle Ihr Friseur* brand again. The necessary investments will be made this year and next. Due to our good liquidity situation, we can do this using our own funds and without lowering our earnings targets substantially. This will allow the brand to exploit significant additional growth opportunities in the medium term.

Besides the revitalisation of essanelle Ihr Friseur and moderate adjustments of other concepts, we have revised our strategy regarding our lessor groups. Our aim is to enable second and third outlets within the same department store or shopping centre with a view to increasing the sales revenues per location. Our JT salons will focus exclusively on prime locations, while our HairExpress salons will exclusively be positioned in hypermarkets, save for a few exceptions. essanelle Ihr Friseur salons will be placed in department stores and shopping centres, just like our Beauty Hair Shops, which will be located close to these salons. Super Cut will emulate this location strategy – although we will additionally choose stand-alone locations. The same applies to the TOP TEN brand, where the stand-alone locations have clearly proven their worth. Overall, this approach will allow us to place up to three outlets in suitable department stores and shopping centres, each of which addresses different target groups that shop in those stores. We can thus use the excellent relations with our major lessors even more effectively to generate additional sales to our mutual benefit.

These strategic adjustments do not mean that we have changed our general approach but represent a clearer positioning and an improvement of our system of brand concepts, each of which is already highly target group-oriented. In the medium term, they will lead to more steady growth. The implementation of the processes outlined here will certainly take more than a few days; it requires investments, which we have projected at EUR 1–1.5 million for this year. In the long term, this investment will enable us to accelerate the consolidation of the hairdressing market and generate growing sales and earnings.

Our outlook for Essanelle Hair Group AG is therefore clearly positive – both for 2008 and the coming years.

The Management Board



Achim Mansen
(Chairman of the Management Board)



Dieter Bonk
(Management Board)



Dirk Wiethölter
(Management Board)

BUSINESS TREND

Essanelle Hair Group AG looks back on a successful first half of 2008. The sales and earnings growth of the first three months continued in the second quarter. A 6.1% increase in sales to EUR 63.6 million means that the company performed in line with its own expectations, while it outperformed its peers. The increase in sales also exceeds the performance of the retail sectors as a whole, whose report for the first six months of 2008 is moderate, according to the Central Association of German Retailers (HDE). With sales growing 1.5% in nominal terms and declining by up to 1% in real terms, the retail sector fell short of its own expectations and has downgraded its target for 2008 from 2% to 1.5%. The first wage agreements for the hairdressing sector were signed in the second quarter. Collective wages in North Rhine-Westphalia have been raised by approx. 10%. Agreements for other regions are expected in the coming months, which will enable us to quantify the effects for our company.

In the first half of the fiscal year, the Essanelle Hair Group opened 23 new salons, which means that the target of 50 new salons announced at the beginning of the year remains realistic.

The positive performance of the individual salon concepts continued both on a quarterly basis and on a half-year basis: The young and trendy TOP TEN concept reported the strongest increase in first-half sales revenues, which amounted to EUR 2.8 million, up 65.6% on the previous year's EUR 1.7 million. The HairExpress concept is the Essanelle Hair Group's appropriate response to the continued trend towards greater price consciousness. The brand's sales rose by 25.4% to EUR 12.8 million (previous year: EUR 10.2 million). The Super Cut brand generated sales of EUR 10.1 million, up from EUR 9.6 million in the same period of the previous year. JT by essanelle primarily focuses on customers attaching great importance to exclusive hairdressing services. The brand generated sales of EUR 2.1 million in the first half of 2008 (previous year: EUR 2.2 million). Sales of essanelle Ihr Friseur amounted to EUR 32.9 million. For the brand offering the widest range of services, this represents a moderate decline from the previous year's EUR 33.8 million. The Beauty Hair Shops, which specialise in the sale of salon products, boosted their sales by 17.1% to EUR 2.8 million.

Service revenues traditionally make the biggest contribution to the Essanelle Hair Group's total sales, which is typical of a hairdressing company. In the first half of the previous year, service revenues amounted to EUR 50.6 million (84.5% of total Group sales) and increased to EUR 53.4 million in the first six months of 2008, which represents 84.0% of total Group sales. Revenues in an amount of EUR 10.2 million (16.0% of total sales) were generated from the sale of salon products in the Beauty Hair Shops and the other salons (previous year: EUR 9.3 million).

Concepts	1st Half of 2008			1st Half of 2007		
	Number of Salons	Employees ¹	Sales million €	Number of Salons	Employees ¹	Sales million €
essanelle Ihr Friseur	329	2,280	32.9	340	2,400	33.8
Super Cut	89	489	10.1	89	481	9.6
HairExpress	159	905	12.8	126	728	10.2
TOP TEN	31	177	2.8	22	123	1.7
JT by essanelle	14	107	2.1	15	119	2.2
Beauty Hair Shop	27	90	2.8	24	79	2.4
Total	649	4,048	63.6	616	3,930	59.9

¹ without Overhead

EARNINGS PERFORMANCE

A look at the income statement of the Essanelle Hair Group shows that, just like in the first quarter, personnel expenses and the cost of materials increased on higher sales. Personnel expenses in the first half of the year amounted to EUR 34.7 million, compared to EUR 33.4 million in the first six months of the previous year. This is attributable to the constant increase in the number of sales and the new staff hired in this context. However, personnel expenses as a percentage of sales declined to 54.6% (previous year: 55.7%). The cost of materials increased from EUR 5.3 million in H1 2007 to EUR 6.0 million in the first six months of 2008. Accordingly, the cost of materials as a percentage of sales rose by 0.6 percentage points to 9.6%. Rents and incidental rental expenses climbed from EUR 11.3 million to EUR 11.8 million, while other operating expenses rose from EUR 5.3 million in the previous year to EUR 6.1 million.

EBITDA (earnings before interest, taxes, depreciation and amortisation) for the first six months amounted to EUR 5.3 million, up 3.3% on the previous year's EUR 5.2 million. Due to a moderate increase in depreciation and amortisation from EUR 2.4 million to EUR 2.6 million, earnings before interest and taxes (EBIT) remained unchanged from the previous year at EUR 2.8 million. Earnings before taxes (EBT) increased by 4.2% from EUR 2.4 million to EUR 2.5 million. Consolidated net profit for the first six months rose by 3.4% from EUR 1.4 million to EUR 1.5 million. Basic earnings per share amounted to EUR 0.33 (previous year: EUR 0.32).

BALANCE SHEET, CAPITAL EXPENDITURE AND LIQUIDITY

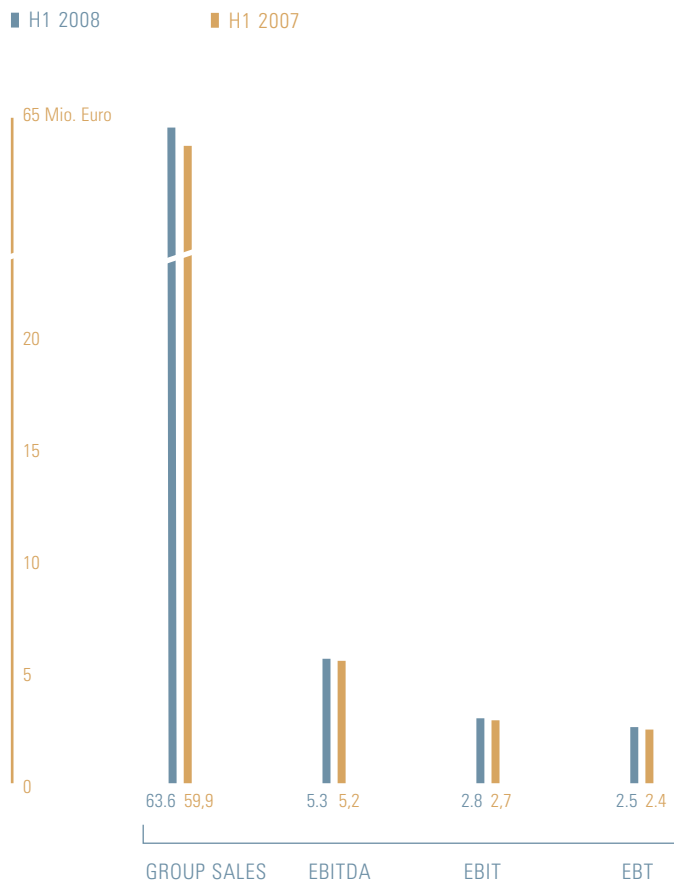
On the assets side of the balance sheet for the period ended 30 June 2008, property, plant and equipment increased by EUR 0.8 million, primarily as a result of the new salons opened.

At the same time, cash and cash equivalents declined by EUR 3.1 million because of the dividend payment (EUR 2.3 million) and the settlement of liabilities.

At EUR 5.5 million, other provisions were up EUR 0.2 million on the same period of the previous year. While tax liabilities increased due to the higher result, all other liabilities declined as a result of repayments.

As at 30 June 2008, total assets amounted to EUR 53.0 million (31 December 2007: EUR 55.1 million). Due to the decline in total assets, the equity ratio increased moderately from 53% on 31 December 2007 to 53.8% at the

half-year stage. Capital expenditure of Essanelle Hair Group AG in the first six months of 2008 amounted to approx. EUR 3.4 million, compared to EUR 2.5 million in the same period of the previous year. This reflects the ongoing growth strategy, with 23 new salons opened in the year to date. A total amount of EUR 1.9 million has been invested in these new salons. The company invested EUR 1.2 million in the renovation of existing salons especially in conjunction with the revitalisation of essanelle Ihr Friseur, while other investments amounted to EUR 0.3 million.



In contrast to the first quarter, when the cash flow statement of the Essanelle Hair Group showed a net cash outflow from operating activities, a net cash inflow in an amount of EUR 3.6 million was reported at the half-year stage. This represents a sharp increase from the previous year's EUR 1.5 million and reflects the company's strong cash position. At EUR 3.1 million, the net cash outflow from investing activities in the first half-year exceeded the previous year's EUR 2.5 million. The cash flow from financing activities reflects the dividend payments of EUR 2.3 million and shows a net cash outflow totalling EUR 3.6 million. At the half-year stage, this represents a net decline in cash and cash equivalents of EUR 3.1 million (previous year: EUR 2.6 million), with cash and cash equivalents amounting to EUR 2.9 million as of 30 June 2008 (previous year: EUR 2.7 million).

COST AND PRICE TREND

The main cost factors such as rents, supplier or procurement prices did not show any major fluctuations save for the usual cyclical adjustments. The company's prices were changed only to the usual extent.

EMPLOYEES

As a result of the company's ongoing growth strategy, the number of employees continued to increase in the second quarter. As at 30 June 2008, Essanelle Hair Group AG employed 4,152 people. Part-time employees accounted for 37% of the total workforce. At the same time of the previous year, the company had a headcount of 4,021 (part-time staff: 36%).

RISK REPORT

The detailed risk report of Essanelle Hair Group AG is published on pages 36 and 37 of the 2007 annual report. Apart from the corporate and market risks described therein and the related risk mitigation measures, the Management Board does not see any additional risks for the fiscal year.

THE SHARE

The price of the Essanelle Hair Group AG remained relatively stable in the first half of the year up to the distribution of the dividend. The Xetra closing price on 30 June 2008 was EUR 8.70, while the share reached a high of EUR 9.80 in January. In the second quarter, the share price ranged from EUR 8.25 to EUR 9.56.

The company's investor relations activities in the second quarter focused on the Annual General Meeting, which was held in Düsseldorf on 17 June 2008. The Management Board reported on the fiscal year 2007 and provided shareholders with an outlook on the fiscal year 2008. For the first time in the company's history, a dividend was paid out in the current fiscal year.

SHAREHOLDER STRUCTURE (AS AT 30 JUNE 2008)

Saxonia	89.76%
Free float as defined by Deutsche Börse	10.24%

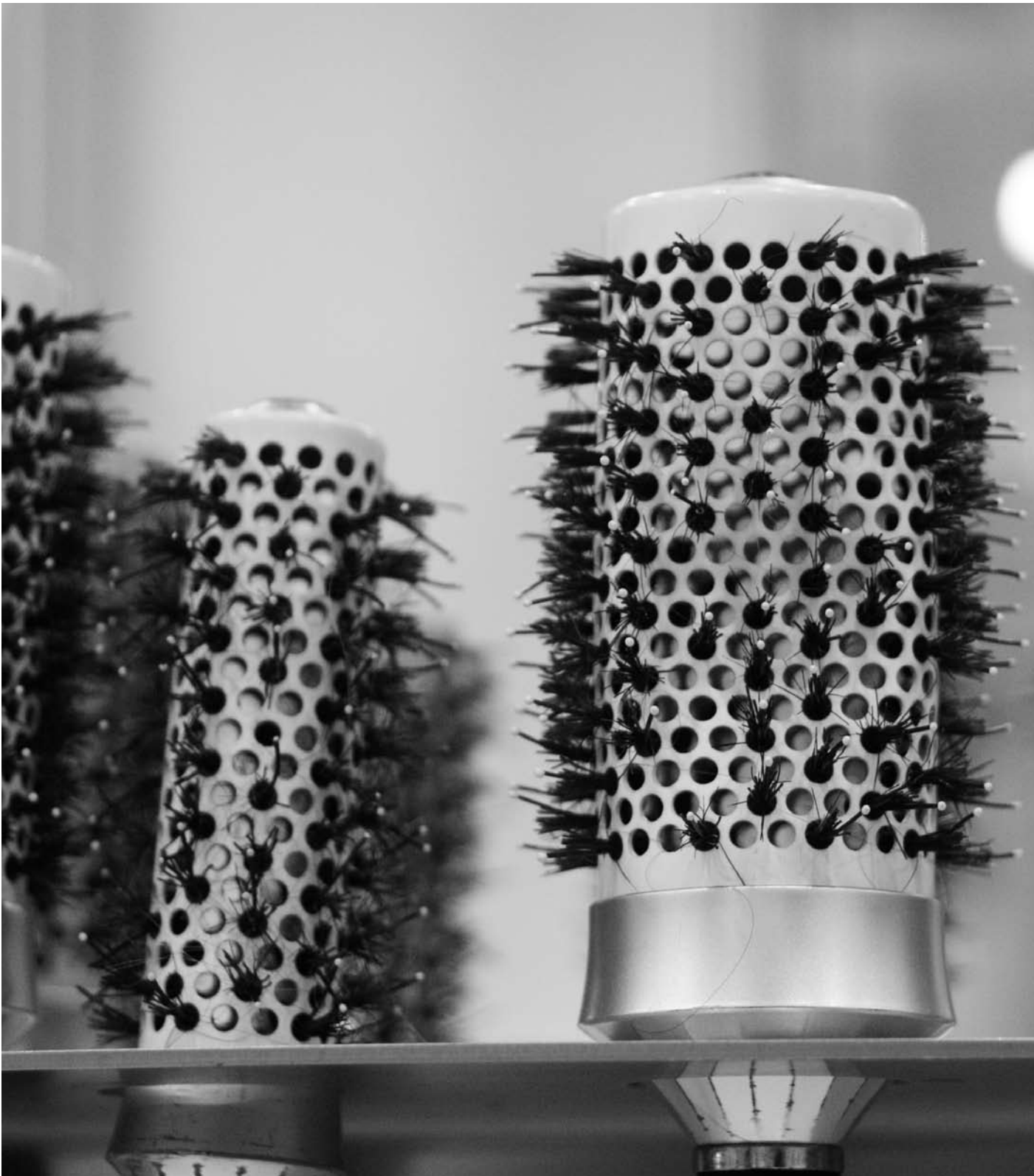
SHARE DATA IN H1 2008

Highest price (Xetra)	EUR 9.80
Lowest price (Xetra)	EUR 8.25
Performance 1 Jan. – 30 June 2008	- 11.22%
Price on 30 June 2008 (Xetra)	EUR 8.70
Capital admitted to trading	EUR 4,595,044
Market capitalisation as of 30 June 2008 ...	EUR 40.0 million
Free float	EUR 4.1 million

OUTLOOK

Looking back on a positive performance in the first six months, the Management Board maintains the targets projected for the fiscal year 2008. With 23 new salons opened in the first half, some 27 new salons will follow in the coming months to achieve the target of 50 new salons in 2008. While the Central Association of German Retailers has downgraded its growth projections from 2.0% to 1.5%, we assume that we will be able to reach our sales and earnings targets. A deviation from our targets is expected only in case of a sharp slowdown in consumer demand.

Besides our purely financial targets, we will continue our staff development measures on the basis of our revised strategy and gradually revitalise the essanelle Ihr Friseur brand. Depending on the actual amount of the expenses incurred in this context, this may have a minor impact on our earnings figures.



CONSOLIDATED BALANCE SHEET (IFRS)

as of 30 June 2008

ASSETS

€	30.06.2008	31.12.2007
ASSETS		
Fixed assets		
Property, plant and equipment	22,296,020.63	21,493,076.73
Goodwill	19,558,872.10	19,558,872.10
Other intangible assets	148,297.07	177,257.44
Other loans	83,683.97	88,877.88
	42,086,873.77	41,318,084.15
Current assets		
Other loans	10,815.16	10,815.16
Inventories	6,647,154.84	6,601,628.87
Accounts receivable	193,306.99	214,077.60
Other assets	1,096,890.79	920,612.76
Cash and cash equivalents	2,938,445.63	6,077,784.93
	10,886,613.41	13,824,919.32
Total assets	52,973,487.18	55,143,003.47

LIABILITIES

€	30.06.2008	31.12.2007
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	15,754,708.68	15,702,463.44
Revenue reserves	8,200,329.94	8,979,264.34
	28,490,082.62	29,216,771.78
DEBT		
Long-term debt		
Financial debt	6,102,478.56	7,200,220.76
Deferred tax liabilities	3,592,796.38	3,157,000.00
Pension provisions	178,076.00	160,076.00
Other provisions	770,217.80	738,737.38
	10,643,568.74	11,256,034.14
Short-term debt		
Financial debt	3,239,856.37	3,264,094.25
Accounts payable	2,377,497.70	3,461,653.92
Current income tax liabilities	1,014,464.97	639,380.67
Other liabilities	2,528,986.13	2,801,288.88
Other provisions	4,679,030.65	4,503,779.83
	13,839,835.82	14,670,197.55
Total debt	24,483,404.56	25,926,231.69
Total shareholders' equity and debt	52,973,487.18	55,143,003.47

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2008 to 30 June 2008

€	01.01.-30.06.08	01.01.-30.06.07	01.04.-30.06.08	01.04.-30.06.07
Sales	63,560,654.88	59,879,772.35	32,266,381.68	30,492,873.14
Other operating income	418,273.98	565,383.85	200,365.16	389,903.75
Cost of materials	-5,986,981.25	-5,332,504.44	-3,073,082.01	-2,768,341.89
Personnel expenses	-34,677,487.63	-33,359,772.95	-17,442,891.79	-16,833,544.00
Depreciation and amortization	-2,569,715.42	-2,437,820.67	-1,309,238.22	-1,216,331.45
Rental and ancillary rental expenses	-11,846,369.42	-11,301,503.39	-6,001,279.63	-5,402,633.14
Other operating expenses	-6,126,368.87	-5,280,904.55	-3,014,734.00	-2,987,297.48
Operating earnings	2,772,006.27	2,732,650.20	1,625,521.19	1,674,628.93
Financing income	59,947.94	29,029.35	30,504.16	12,903.19
Financing expenses	-331,406.27	-361,258.80	-157,961.93	-178,364.89
Net financial expenses	-271,458.33	-332,229.45	-127,457.77	-165,461.70
Earnings before taxes	2,500,547.94	2,400,420.75	1,498,063.42	1,509,167.23
Tax expenses	-1,011,961.18	-960,168.26	-600,942.53	-603,666.85
Consolidated net income	1,488,586.76	1,440,252.49	897,120.89	905,500.38
Earnings per share				
- basic	0.33	0.32		
- diluted	0.30	0.29		

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

for the period from 1 January 2008 to 30 June 2008

k €	30.06.2008	30.06.2007
1. CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated by ongoing business activities	4,094	2,273
Interest paid	-309	-276
Taxes on income paid	-223	-492
Net inflow of funds for operating activities	3,562	1,505
2. CASH FLOW FROM INVESTMENT ACTIVITIES		
Acquisition of property, plant and equipment	-3,198	-2,548
Proceeds from the sale of property, plant and equipment	13	11
Acquisition of intangible assets	-11	-23
Loans paid out	0	-1
Loans repaid	5	18
Loans repaid by closely related persons	0	9
Interest received	57	29
Net outflow of funds for investment activities	-3,134	-2,505
3. CASH FLOW FROM FINANCING ACTIVITIES		
Payments of dividend	-2,268	0
Receipts from the taking up of financial loans	451	0
Repayment of financial debt	-1,751	-1,588
Net outflow of funds for financing activities	-3,568	-1,588
Net decrease in cash and cash equivalents	-3,141	-2,588
Cash and cash equivalents at the beginning of the year	6,078	5,321
Cash and cash equivalents at the end of the first half year	2,938	2,733

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 30 June 2008

€	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 01.01.2007	4,535,044.00	15,422,954.30	4,413,771.29	24,371,769.59
Consolidated earnings			4,565,493.05	4,565,493.05
Value of the services of employees in connection with employee share option programmes		279,509.14		279,509.14
Balance at 31.12.2007	4,535,044.00	15,702,463.44	8,979,264.34	29,216,771.78
Balance at 01.01.2008	4,535,044.00	15,702,463.44	8,979,264.34	29,216,771.78
Distribution of earnings			-2,267,521.16	-2,267,521.16
Net income			1,488,586.76	1,488,586.76
Value of the services of employees in connection with employee share option programmes		52,245.24		52,245.24
Balance at 30.06.2008	4,535,044.00	15,754,708.68	8,200,329.94	28,490,082.62

CONSOLIDATED ABRIDGED NOTES TO THE INTERIM FINANCIAL STATEMENTS

ACCOUNTING STANDARDS AND GENERAL INFORMATION

This six-month 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 2007 financial year. The interim financial statements should therefore be seen in conjunction with the audited consolidated financial statements and the notes for the year ended 31 December 2007.

The consolidated interim financial statements have not been audited but have been reviewed.

BASIS OF CONSOLIDATION

There have been no changes in the basis of consolidation in the first six months of 2008.

SEGMENT REPORTING

The requirements for segment reporting are met neither in regional terms nor in factual or organisational terms. Further information can be found on page 66 of the 2007 annual report.

EARNINGS PER SHARE

Basic earnings per share amounted to EUR 0.33 in the first six months of the current financial year (previous year: EUR 0.32). Diluted earnings per share amounted to EUR 0.30 in the same period (previous year: EUR 0.29).

DIVIDEND PAID OUT

On 17 June 2008, the Annual General Meeting decided to pay out the company's first dividend of EUR 0.50 per share. Based on 4,535,044 shares outstanding, this represents a total dividend payment of EUR 2,267,522.

EVENTS AFTER THE BALANCE SHEET DATE

No other material events occurred after 30 June 2008.

RELATED PARTY DISCLOSURES

The business transactions undertaken with closely related companies and persons can be found on page 105 of the 2007 annual report.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.



Achim Mansen
(Chairman of the Management Board)



Dieter Bonk
(Management Board)



Dirk Wiethölter
(Management Board)

REVIEW REPORT

TO ESSANELLE HAIR GROUP AG, DÜSSELDORF

We have reviewed the condensed consolidated interim financial statements, comprising the condensed balance sheet, condensed income statement, condensed cash flow statement, condensed statement of changes in equity and selected explanatory notes, and the interim Group management report of Essanelle Hair Group AG, Düsseldorf, for the period from 1 January to 30 June 2008, which form part of the half-year financial report according to Section 37 (w) German Securities Trading Act (Gesetz über den Wertpapierhandel/Wertpapierhandelsgesetz – WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim Group management report, which has been prepared in accordance with the regulations of the German Securities Trading Act applicable to interim Group management reports, is the responsibility of the parent company's management. Our responsibility is to issue a review report on these condensed consolidated interim financial statements and on the interim Group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim Group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim Group management report has not been prepared, in all material respects, in accordance with the regulations of the German Securities Trading Act applicable to interim Group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim Group management report has not been prepared, in all material respects, in accordance with the regulations of the German Securities Trading Act applicable to interim Group management reports.

Düsseldorf, 18 August 2008

PricewaterhouseCoopers

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

(Bibiana Bolsenkötter)

German Public Auditor

(ppa. Dietrich Schollmeyer)

German Public Auditor

CONTACT**Investor Relations, Business press**

Haubrok Investor Relations
Michael Müller
Fon +49(0)211/3 01 26-0
Fax +49(0)211/3 01 26-172
m.mueller@haubrok.de
www.haubrok.de

General press

Advisa Wirtschaftskommunikation GmbH
Am Sportplatz 4
40789 Monheim
Fon +49(0)2173/96 65-5
Fax +49(0)2173/96 65-65
contact@advisa-gruppe.de

Specialist press

PR & Kommunikation
Elisabeth Hammer
Hansastraße 14c
41460 Neuss
Fon +49(0)2131/15 98-80
Fax +49(0)2131/15 98-15
hammer@hammerpr.de

IMPRINT**Published by**

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

Concept, text and design

Haubrok Investor Relations GmbH, Düsseldorf
visuphil®, Düsseldorf
Fotos: Uwe Sülflohn, Waltrop

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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