Half-year Report 2010

Zapf Creation AG
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Consolidated key figures (IFRS)	Q2/2010 € million	Q2/2009 € million	H1/2010 € million	H1/2009 € million	H1 + / - %	FY 2009 € million
Adjusted earnings (without restructuring costs and one-off effects)						
Continuing operations						
EBITDA	-1,7	-2,9	-2,2	-6,8	68	0,6
EBIT	-2,5	-3,8	-3,9	-8,7	55	-3,2
EBIT margin (in %)	-23,9	-41,9	-17,5	-44,4	-	-4,1
EBT	-3,5	-4,7	-5,8	-10,7	45	-8,0
Result from continuing operations	-3,1	-3,9	-5,0	-9,3	47	-8,9
Discontinued operations						
Result from discontinued operations	0,5	-0,3	0,9	0,2	>100	0,0
Group						
Net profit or loss for the period	-2,6	-4,2	-4,1	-9,1	55	-8,9
Earnings per share (in €) 1)	-0,14	-0,22	-0,22	-0,49	56	-0,47
Earnings according to the income statement (including restructuring costs and one-off effects)						
Continuing operations						
Revenue	10,4	9,0	22,3	19,6	14	78,8
Gross margin (in %)	31,6	28,4	39,5	29,1	-	37,0
EBITDA	-1,9	-2,9	-3,3	-6,8	52	0,5
EBIT	-2,7	-3,8	-5,0	-8,7	42	-3,4
EBIT margin (in %)	-25,9	-41,9	-22,5	-44,4	-	-4,3
EBT	-3,7	-4,7	-7,0	-10,7	35	-8,2
Result from continuing operations	-3,3	-3,9	-6,1	-9,3	35	-9,0
Included restructuring costs and one-off effects	0,2	0,0	1,1	0,0	-	0,1
Included depreciation and amortization	0,8	0,9	1,7	1,9	-7	3,8
Discontinued operations						
Result from discontinued operations	0,5	-0,3	0,9	0,2	>100	0,0
Included restructuring costs and one-off effects	0,0	0,0	0,0	0,0	-	0,0
Included depreciation and amortization	0,0	0,0	0,0	0,0	-	0,0
Group						
Net profit or loss for the period	-2,8	-4,2	-5,2	-9,1	43	-9,0
Earnings per share (in €) 1)	-0,15	-0,22	-0,28	-0,49	43	-0,48
Balance sheet						
Total assets	-	-	58,2	67,0	-13	77,0
Non-current assets	-	-	18,6	21,6	-14	19,2
Investments	0,3	0,4	0,4	0,7	-37	1,2
Current assets	-	-	39,6	45,4	-13	57,7
Equity	-	-	9,1	14,6	-37	14,6
Equity ratio (in %)	-	-	15,7	21,8	-	18,9
Liabilities to banks	-	-	28,6	31,8	-10	33,1
Net liabilities	-	-	18,8	21,8	-14	25,0
Cash flow						
Cash flow from operating activities	0,9	1,7	8,7	8,5	2	8,6
Cash flow from operating activities per share (in €)	0,05	0,09	0,46	0,45	2	0,46
Net cash flow	-2,5	-1,9	1,7	2,5	-30	0,7
Employees						
Number as of the closing date 2)	-	-	179	226	-21	224

The information for the 2010 and 2009 financial years is presented under the premise that the Company will continue as a going concern.
At this time, the consolidated financial statements of Zapf Creation AG as of December 31, 2009, are available only in preliminary form and have not yet been published. For more information, please see the management report and the notes.
The key figures are based on rounded values in € million. The calculation of sums and ratios can therefore result in differences when compared to the interim consolidated financial statements.
1) basic = diluted; 2) excluding Management Board and trainees

Interim management report of the Group as of June 30, 2010

- **Consolidated revenue up 14% year on year**
- **EBIT improved by € 3.7 million**
- **Net loss down 43%**
- **Gross profit margin up 10.4 percentage points**
- **Operating cash flow remains high at € 8.7 million**
- **Continued debt reduction**

1. Summary

The Zapf Creation Group's performance in the first six months of 2010 has been positive. Consolidated revenue in the first six months increased significantly year on year. The Group's earnings and cash position also improved.

2. Significant events during the reporting period

Zapf Creation AG was unable to comply with the Covenants stipulated with the banking syndicate because the 2008 Christmas season did not live up to our expectations. The Company's negotiations with the consortium on adjusting the terms of its syndicated loan have been ongoing since the spring of 2009. An understanding was reached on the temporary continuation of the Company's funding in the fall of 2009, and the banks stated their willingness to waive compliance with material Covenants until yet another renewed review in the spring of 2010.

On June 9, 2010, Zapf Creation announced that the banking syndicate had agreed in constructive negotiations to extend this standstill agreement until June 30, 2010.

For information on subsequent developments in this matter after the end of the reporting period, please see the report on events after the close of the reporting period in this interim management report of the Group.

3. Economic conditions

3.1. Business environment

The global economy continued to gather momentum in the first six months of 2010. Experts took this to mean that last year's governmental stimulus packages are having as much of an effect as internationally coordinated monetary policies and the bailout of the financial sector. Yet there were differences in the strength of the upturn. While emerging economies such as Brazil, India, and China posted robust growth in the first half of 2010, the economies of many industrialized countries (especially in the euro zone) recovered at a more restrained pace. But these countries are benefiting from the rising global demand for goods and the resulting increase in foreign trade that is stimulating their export industries. Inflationary trends with negative consequences for personal consumption are not expected to occur either. The German economy profited noticeably from the increase in manufacturing and the rise in capacity utilization. The continued high levels of sovereign debt of some European states had a dampening effect, however, because they increased uncertainty in the financial markets and created a substantial drag on the respective economies.

Experts are thus cautiously optimistic in their assessments of economic developments in 2010. According to the International Monetary Fund (IMF), regulatory as well as monetary and fiscal policies are key to stabilizing confidence levels in the global financial markets without interrupting the economic recovery. The IMF raised its forecasts for global economic growth in the current year from 4.2% to 4.6% nonetheless. It expects gross domestic product (GDP) growth in the euro zone to reach 1.0%, and the German economy to grow by 1.4% in 2010.

Sources:
Association of German Banks, Monthly Report, June 2010.
European Central Bank, Monthly Report, July 2010
International Monetary Fund, World Economic Outlook, July 2010

3.2. Industry environment in Europe

Demand developed positively in key European toy markets during the first six months of 2010 thanks to the impact of the recovering recovery. The market volume in Germany rose by 4.1% year on year relative to end consumer prices. In the United Kingdom, industry revenue even rose by 8.3%.

Yet the play and functional doll market segment — which constitutes the Zapf Creation Group's core activity — was unable to profit from this positive trend. As of the first half of the current year, sales in the German doll market had fallen by 7.2% compared to the first half of 2009. In the UK, the market volume even declined by 11.1% during the same period.

Source:
NPD Eurotoys

4. Performance of the Zapf Creation Group

4.1. Preliminary remark

The consolidated financial statements of Zapf Creation AG as of December 31, 2009, had not yet been audited at the time this quarterly report was prepared. This is due to the ongoing negotiations with the banking consortium regarding the adjustment of the Group's long-term financing. No auditor's opinion will be issued for the Company's 2009 annual financial statements unless these negotiations are brought to a successful conclusion. The Management Board of Zapf Creation AG remains confident that the talks will be brought to a successful conclusion.

The following disclosures on the performance indicators for the 2009 financial year — which were prepared on the assumption that the Group will remain a going concern — are published here with the proviso that they will be retroactively confirmed by the auditors.

4.2. Development of consolidated sales

The Zapf Creation Group's sales in the first six months of 2010 rose substantially by 13.7% to € 22.3 million (H1/2009: € 19.6 million). Aside from the increasingly positive market environment in the toy industry, this increase in sales also stems from positive demand for product innovations outside of the doll segment that have been available in the market since the spring of this year. Consolidated sales rose sharply to € 10.4 million in the second quarter of 2010, up from € 9.0 million in the same period the previous year (+15.2%).

4.3. Development of sales by region

At € 20.7 million, consolidated sales in Europe in the first six months of 2010 were 10.4% higher year on year (H1/2009: € 18.8 million). Sales in the Central Europe sales region (which comprises Germany, Austria, Switzerland, the Netherlands and Luxemburg) climbed to € 9.0 million, up from € 8.3 million in the first half of 2009 (+7.7%). In Northern Europe (which includes the United Kingdom, Ireland and Scandinavia), sales increased significantly by 53.7% to € 6.0 million (H1/2009: € 3.9 million) thanks to the expansion of business with key customers as well as the increase in demand in the new product categories. At € 3.3 million, sales in Southern Europe (Spain, France, Italy, Belgium), however, were slightly lower year on year (H1/2009: € 3.4 million; -4.0%). The downturn in sales in Eastern Europe by 21.5% to € 2.4 million (H1/2009: € 3.1 million) resulted largely from the switch to the distribution business in Poland.

In Latin America, where Zapf Creation launched the new product categories in the second quarter of 2010, consolidated sales were € 0.2 million. In Asia/Australia, sales rose strongly by 58.0% to € 1.3 million (H1/2009: € 0.8 million).

*Breakdown of sales (external sales) by region **

	H1/2010 K€	H1/2009 K€	+/- in %
Europe	**20,720**	**18,769**	**10%**
Central Europe	8,981	8,338	8%
Northern Europe	6,033	3,925	54%
Southern Europe	3,298	3,437	-4%
Eastern Europe	2,408	3,069	-22%
Latin America	240	0	-
Asia/Australia	**1,341**	**849**	**58%**
Total sales	**22,301**	**19,618**	**14%**

* In accordance with IFRS 5

4.4. Development of sales by product line

In the first half of 2010, the Zapf Creation Group posted sales of € 17.2 million in the play and functional doll segment, down from € 17.6 million in the same period the previous year (-2.1%). This means that Zapf Creation's branded play dolls managed overall to maintain their position in the shrinking doll markets.

At € 11.8 million, sales of the BABY born® doll line in the first six months of 2010 were 4.7% higher year on year (H1/2009: € 11.3 million). Sales of the Baby Annabell® toy concept were € 3.0 million and thus lower than sales in the previous year (€ 3.9 million), which had benefitted from the market launch of the new doll model. At € 1.5 million in the first half of 2010, the CHOU CHOU doll line also remained below the previous year's level of € 2.1 million.

Zapf Creation's mini dolls generated sales of € 1.0 million during the reporting period, especially the Baby born® line. No products were offered in this segment the previous year.

Sales in the "other products" segment, which comprises the innovations outside of the play and functional doll segment, rose substantially to € 4.2 million during the first half of 2010, up from € 2.1 million in the first half of 2009, thanks to the success in marketing the new product lines that have been on offer since the spring of 2010. The mini collectable figurines in the Chiqui product line generated sales of € 2.4 million during the reporting period, and the Magic Krysalix play set generated sales of € 1.1 million.

*Breakdown of sales by product line **

	H1/2010 K€	H1/2009 K€	+/- in %
Play and functional dolls	**17,191**	**17,562**	**-2%**
BABY born®	11,780	11,250	5%
Baby Annabell ®	3,041	3,863	-21%
CHOU CHOU	1,484	2,145	-31%
Other play and functional dolls	886	304	>100%
Mini dolls	**955**	**0**	**-**
Other play and functional dolls	**4,155**	**2,056**	**>100%**
Chiqui	2,377	0	-
Magic Krysalix	1,125	0	-
Other products	653	2,056	-68%
Total sales	**22,301**	**19,618**	**14%**

* In accordance with IFRS 5

5. Development of earnings

By the end of the first six months of 2010, the Zapf Creation Group had substantially improved its gross profit margin by 10.4 percentage points to 39.5%, up from 29.1% in the first half of 2009. Two factors account for this positive development: intensive negotiations with our suppliers that lowered procurement costs and the marketing success of the new product categories that generate higher margins. The gross profit margin in the second quarter of 2010 was 31.6% (Q2/2009: 28.4%).

We succeeded in holding operating costs more or less at the previous year's level during the reporting period despite the increase in the business volume. At € 5.0 million, selling costs were almost the same as in the previous year (€ 5.1 million). Marketing expenses fell to € 2.3 million, down from € 2.7 million in the same period the previous year. The slight increase in administrative expenses to € 7.3 million (H1/2009: € 6.6 million) reflected one-time costs related to the changes on the Company's Management Board.

Other expenses fell to € 0.2 million in the first half of 2010 (H1/2009: € 1.2 million), mainly due to currency translation differences.

The Zapf Creation Group substantially improved its earnings before interest and taxes (EBIT) as of the first six months of 2010 by € 3.7 million to € -5.0 million, up from € -8.7 million during the same period the previous year. Adjusted for one-time expenses — mainly termination benefits and restructuring costs related, among other things, to the realignment of our sales and distribution activities in both France and Poland — resulted in consolidated EBIT of € -3.9 million (H1/2009: € -8.7 million). As of the close of the second quarter of 2010, consolidated EBIT amounted to € -2.7 million (adjusted: € -2.5 million), up from € -3.8 million the previous year.

Finance costs were € 2.0 million during the first six months of 2010 and thus more or less at the previous year's level.

The Zapf Creation Group posted consolidated income before taxes of € -7.0 million (H1/2009: € -10.7 million). Deferred tax assets from loss carryforwards generated tax income of € 0.9 million during the reporting period (H1/2009: € 1.3 million).

The consolidated result from continuing operations as of the close of the first half of 2010 was € -6.1 million after € -9.3 million in the same period the previous year.

The result from discontinued operations was € 0.9 million (H1/2009: € 0.2 million). This amount corresponds to the closing-date measurement of a loan by Zapf Creation AG to its US subsidiary, which was discontinued as of December 31, 2006.

The net loss for the first half of 2010 improved to € 5.2 million. This compares to a loss of € 9.1 million as of the close of the first half of 2009. Earnings per share were € -0.28, compared to € -0.49 in the first half of 2009. The Zapf Creation Group posted a net loss of € 2.8 million for the second quarter of 2010 (Q2/2009: € 4.2 million). Earnings per share for the second quarter thus were € -0.15 (Q2/2009: € -0.22).

6. Assets

As of the June 30, 2010 reporting date, the Zapf Creation Group had total assets of € 58.2 million. Total assets had amounted to € 77.0 million as of the close of the 2009 financial year and € 67.0 million as of June 30, 2009. The decline primarily reflects the seasonal nature of business in the industry.

Non-current assets as of June 30, 2010 totaled € 18.6 million, which was almost on a par with the figure recorded at the end of 2009 (December 31, 2009: € 19.2 million; June 30, 2009: € 21.6 million).

Current assets amounted to € 39.6 million as of the reporting date. The decrease by € 18.1 million compared to 31 December 2009 (€ 57.7 million; June 30, 2009: € 45.4 million) was essentially due to substantially reduced trade receivables (down € 21.2 million to € 15.4 million; December 31, 2009: € 36.5 million; June 30, 2009: € 15.9 million). This development reflects both seasonal effects and streamlined working capital management. In contrast, inventories rose by € 1.9 million to € 7.9 million (December 31, 2009: € 5.9 million; June 30, 2009: € 11.4 million) in the wake of the market launch of new products since the spring. Cash and cash equivalents also increased by € 1.7 million to € 9.8 million year on year (December 31, 2009: € 8.1 million; June 30, 2009: € 9.9 million).

7. Liabilities

Current liabilities as of June 30, 2010 decreased by € 13.4 million to € 49.0 million, compared to € 62.4 million at the end of 2009 and € 52.4 million as of June 30, 2009. This was mainly due to the seasonal reduction in trade payables by € 6.9 million to € 15.2 million (December 31, 2009: € 33.1 million; September 30, 2009: € 16.3 million). Current liabilities to banks fell by € 4.5 million to € 28.6 million (December 31, 2009: € 33.1 million; June 30, 2009: € 31.8 million).

The Zapf Creation Group did not recognize any non-current liabilities to banks as of June 30, 2010, since all non-current bank borrowings had been reclassified as current liabilities in accordance with IFRS provisions.

The Group managed to reduce its net liabilities substantially by € 6.2 million to € 18.8 million as of June 30, 2010. This compares to net liabilities of € 25.0 million as of December 31, 2009 and € 21.8 million as of June 30, 2009.

Due to the net loss incurred for the period, equity as of the reporting date decreased to € 9.1 million (December 31, 2009 and June 30, 2009: € 14.6 million). The equity ratio was 15.7% after 18.9% as of the end of 2009 (June 30, 2009: 21.8%).

8. Liquidity

The Zapf Creation Group generated € 8.7 million in cash flows from operating activities in the first six months of 2010, thus slightly exceeding the already high level of € 8.5 million reported for the same period the previous year. This figure was mainly driven by the strong inflow of cash generated by the reduction of trade receivables.

Investments resulted in a cash outflow of € 0.3 million in the first six months of 2010. This compares to an outflow of € 0.7 million in the first six months of 2009.

The cash outflow of € 6.8 million (H1/2009: € 5.6 million) from financing activities is essentially the result of interest payments and the repayment of bank loans.

At € 9.8 million, cash and cash equivalents as of the end of the reporting period in the Zapf Creation Group remained virtually unchanged year on year (H1/2009: € 9.9 million).

9. Employees

The Zapf Creation Group had 179 employees (excluding both the Management Board and trainees) as of the June 30, 2010 reporting date, down from 226 employees as of the previous year's reporting date. The personnel reduction by 47 employees stems from the continued streamlining of the Group's corporate structures, which the Management Board had announced at the start of the year. It is possible that additional structural adjustments will be carried out in all of the Company's divisions as the year wears on. This might also entail another selective reduction in personnel.

10. Events after the close of the reporting period

Zapf Creation AG announced on July 2, 2010 that its negotiations with the banking syndicate on the Group's financing in the long term were continuing in a positive way even though the banks were unwilling to extend their waiver of compliance with key financial indicators beyond June 30, 2010. In the meantime, Mr. Isaac Larian — who, along with his family, has a majority stake in Zapf Creation via various trusts — has indicated his willingness to take over a portion of the Company's loans from the banks subject to specific conditions yet to be finalized in negotiations.

Zapf Creation announced on July 8, 2010, that Mr. Jens U. Keil — who had served on the Management Board member since March 1, 2007, and had been responsible for Finance, Investor Relations, IT, Logistics and Risk Management — resigned from the Company effective June 30, 2010. Mr. Ron Oboler, Chief Executive Officer, has taken over his responsibilities on an interim basis.

On August 6, 2010, Zapf Creation AG announced long-term appointments to its Management Board. The Supervisory Board appointed Ms. Hannelore Schalast the Company's Chief Financial Officer (CFO) effective February 1, 2011. She will serve as Executive Vice President for Finance until then. Also effective February 1, 2011, Mr. Josef Lukas was appointed Chief Sales Officer.

The Company also reported that Mr. Ron Oboler will resign from his interim position as Chief Executive Officer and leave the Management Board as previously announced effective February 15, 2011. Mr. Ron

Brawner will also leave the Management Board as previously announced and resign from his office effective December 31, 2010.

11. Opportunities and risks

The Zapf Creation Group provided detailed information regarding opportunities and risks in the combined management report of Zapf Creation AG and the Group for the 2008 financial year. There has been no material change in the Group's opportunities and risk profile compared to the disclosures made in that report. Therefore, please see these disclosures for more information.

We do wish to address the following additional risk:

At the present time, the Company is negotiating with the banking consortium on adjusting the terms governing the Group's long-term financing. This development was sparked by noncompliance with the Covenants due to business developments in the fourth quarter of 2008. The banking consortium agreed in the fall of 2009 to waive compliance with the Covenants until April 30, 2010. This period was extended in several steps until June 30, 2010, against the backdrop of the ongoing intensive negotiations. In the end, however, the banking consortium was unwilling to extend their waiver beyond said date.

Nonetheless, the Management Board remains confident in the light of the constructive nature of the talks that it will be able to bring the negotiations on the Group's long-term financing to a positive conclusion. Yet we cannot preclude that the banking consortium might exercise its right to call the loans to the Company. In this case, the solvency of both the Zapf Creation Group and Zapf Creation AG would be at risk in the short term, acutely threatening the Company's existence as a going concern.

12. Anticipated developments

Zapf Creation posted solid results in the first half of 2010, meeting all targets. The substantial improvement over the previous year shows that the Group is in the position to continue strengthening both its brands and its earnings through further reductions in operating costs and further efficiency gains. The Management Board maintains an optimistic view of the fall season and the Christmas business when additional new products will be brought to market.

In light of this, the Management Board expects that consolidated revenue and earnings in 2010 will be significantly improved compared to the previous year.

Roedental, Germany, August 13, 2010

The Management Board

Ron Oboler

Chairman of the Management Board

Ron Brawer

Member of the Management Board

José Antonio Santana

Member of the Management Board

Zapf Creation AG
Roedental

Consolidated income statement
for the period from January 1, 2009, to June 30, 2010

	Q2/2010 K€	Q2/2009 K€	H1/2010 K€	H1/2009 K€	FY 2009 K€
Revenue	10.419	9.048	22.301	19.618	78.834
Cost of sales	-7.127	-6.478	-13.502	-13.906	-49.637
Gross profit	**3.292**	**2.570**	**8.799**	**5.712**	**29.197**
Selling and distribution expenses	-2.178	-2.220	-4.990	-5.075	-10.678
Marketing expenses	-806	-1.287	-2.262	-2.685	-9.836
Administrative expenses	-3.180	-3.114	-7.343	-6.567	-14.545
Other income	339	681	965	1.085	3.531
Other expenses	-168	-420	-190	-1.173	-1.038
Operating result	**-2.701**	**-3.790**	**-5.021**	**-8.703**	**-3.369**
(Restructuring costs included therein	*-214*	*0*	*-1.115*	*0*	*-137)*
(One-off costs, mainly consultancy, included therein	*0*	*0*	*0*	*0*	*0)*
(Adjusted operating income derived therefrom	*-2.487*	*-3.790*	*-3.906*	*-8.703*	*-3.232)*
Finance income	28	29	49	50	64
Finance costs	-1.003	-936	-1.990	-2.008	-4.855
Result from continuing operations before income taxes	**-3.676**	**-4.697**	**-6.962**	**-10.661**	**-8.160**
Income taxes	406	757	876	1.345	-880
Result from continuing operations	**-3.270**	**-3.940**	**-6.086**	**-9.316**	**-9.040**
Result from discontinued operations before income taxes	474	-268	898	173	47
Income taxes on discontinued operations	0	0	0	0	0
Net profit or loss for the period	**-2.796**	**-4.208**	**-5.188**	**-9.143**	**-8.993**

	Q2/2010 €	Q2/2009 €	H1/2010 €	H1/2009 €	FY 2009 €
Average number of shares outstanding, in thousands	18.803	18.723	18.803	18.723	18.725
Earnings per share from continuing operations	-0,17	-0,21	-0,32	-0,50	-0,48
Earnings per share from discontinued operations	0,03	-0,01	0,05	0,01	0,00
Earnings per share (basic / diluted)	**-0,15**	**-0,22**	**-0,28**	**-0,49**	**-0,48**

The notes are an integral part of the interim consolidated financial statements.
At this time, the consolidated financial statements of Zapf Creation AG as of December 31, 2009, are available only in preliminary form and have not yet been published.
For more information, please see the management report and the notes.

Zapf Creation AG
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Consolidated statement of comprehensive income
for the period from January 1, 2009, to June 30, 2010

	Q2/2010 K€	Q2/2009 K€	H1/2010 K€	H1/2009 K€	FY 2009 K€
Net profit or loss for the period	**-2.796**	**-4.208**	**-5.188**	**-9.143**	**-8.993**
Adjustment from currency translation	523	1.287	108	1.497	1.151
Deferred taxes	-292	-326	-290	-443	-296
Derivative financial instruments	0	0	0	0	0
Other comprehensive income/loss	**231**	**961**	**-182**	**1.054**	**855**
Comprehensive income or loss	**-2.565**	**-3.247**	**-5.370**	**-8.089**	**-8.138**

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Consolidated balance sheet as of June 30, 2010

Assets	June 30, 2010 K€	Dec. 31, 2009 K€	June 30, 2009 K€
Current assets	**39.602**	**57.740**	**45.350**
Cash	9.841	8.093	9.937
Trade receivables	15.355	36.535	15.926
Inventories	7.856	5.947	11.373
Income tax receivables	129	610	631
Other assets	6.421	6.555	7.483
Non-current assets	**18.607**	**19.240**	**21.637**
Property, plant and equipment	12.469	13.419	14.501
Intangible assets	4.277	4.692	5.103
Other assets	0	0	0
Deferred tax assets	1.861	1.129	2.033
Total assets	**58.209**	**76.980**	**66.987**

Equity and liabilities	June 30, 2010 K€	Dec. 31, 2009 K€	June 30, 2009 K€
Current liabilities	**49.044**	**62.410**	**52.365**
Liabilities to banks	28.635	33.110	31.766
Trade payables	15.199	22.117	16.298
Income tax liabilities	1.741	2.135	1.351
Other liabilities	2.925	2.821	2.144
Provisions	544	2.227	806
Non-current liabilities	**44**	**18**	**38**
Liabilities to banks	0	0	0
Deferred tax liabilities	44	18	38
Equity	**9.121**	**14.552**	**14.584**
Subscribed capital	19.296	19.296	19.296
Capital reserve	31.698	31.759	33.329
Net profit or loss for the period and profit/loss brought forward	-30.328	-25.140	-25.290
Other recognized income and expense	-1.774	-1.592	-1.393
Treasury shares	-9.771	-9.771	-11.358
Total equity and liabilities	**58.209**	**76.980**	**66.987**

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For more information, please see the management report and the notes.

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Consolidated statement of changes in equity for the period from January 1, 2010, to June 30, 2010

	Shares outstanding thsds	Subscribed capital K€	Capital reserves K€	Net profit or loss for the period and profit/loss brought forward K€	Other recognized income and expense: Adjustment from currency translation K€	Other recognized income and expense: Derivative financial instruments K€	Treasury shares K€	Total equity K€
Balance at January 1, 2009	18.723	19.296	33.240	-16.147	-2.447	0	-11.358	22.584
Net profit or loss for the period				-9.143				-9.143
Change in other recognized income and expense					1.054	0		1.054
Comprehensive income or loss				-9.143	1.054	0		-8.089
Share-based payment			89					89
Balance at June 30, 2009:	18.723	19.296	33.329	-25.290	-1.393	0	-11.358	14.584
Balance at January 1, 2010	18.803	19.296	31.759	-25.140	-1.592	0	-9.771	14.552
Net profit or loss for the period				-5.188				-5.188
Change in other recognized income and expense					-182	0		-182
Comprehensive income or loss				-5.188	-182	0		-5.370
Share-based payment			-61					-61
Balance at June 30, 2010:	18.803	19.296	31.698	-30.328	-1.774	0	-9.771	9.121

The notes are an integral part of the interim consolidated financial statements.
At this time, the consolidated financial statements of Zapf Creation AG as of December 31, 2009, are available only in preliminary form and have not yet been published.
For more information, please see the management report and the notes.

Zapf Creation AG
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Consolidated cash flow statement
for the period from January 1, 2010, to June 30, 2010

	H1/2010 K€	H1/2009 K€
Cash flow from operating activities:		
Earnings before income taxes	-6.064	-10.488
Depreciation of non-current assets	1.732	1.867
Losses/gains from the disposal of non-current assets	-23	0
Finance cost/income	1.941	1.958
Share-based payment	-61	89
Other non-cash income/expenses	0	0
Increase/decrease in assets and liabilities:		
Trade receivables	21.140	31.773
Inventories	-1.909	962
Other assets	367	-2.274
Liabilities and provisions	-8.404	-14.940
Income tax payments	-33	-461
Cash flow from operating activities	**8.686**	**8.486**
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	92	11
Cash payments for investments in property, plant and equipment and intangible assets	-434	-685
Cash flow from investing activities	**-342**	**-674**
Cash flow from financing activities:		
Cash receipts from bank borrowings	0	0
Cash payments for bank borrowings and other fees	-537	-7
Cash payments for the repayment of bank borrowings	-2.000	-2.000
Change in liabilities due to current borrowings	-2.432	-1.806
Interest paid	-1.853	-1.867
Interest received	46	40
Issuance of treasury shares	0	0
Cash flow from financing activities	**-6.776**	**-5.640**
Effects of exchange rate changes	180	340
Net change in cash and cash equivalents	**1.748**	**2.512**
Cash and cash equivalents at the beginning of the period	8.093	7.425
Cash and cash equivalents at the end of the period	9.841	9.937

The notes are an integral part of the interim consolidated financial statements.
At this time, the consolidated financial statements of Zapf Creation AG as of December 31, 2009, are available only in preliminary form and have not yet been published.
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Consolidated segment reporting as of June 30, 2010

Segment reporting

H1/	Central Europe 2010 K€	Central Europe 2009 K€	Northern Europe 2010 K€	Northern Europe 2009 K€	Southern Europe 2010 K€	Southern Europe 2009 K€	Eastern Europe 2010 K€	Eastern Europe 2009 K€	The Americas 2010 K€	The Americas 2009 K€	Asia/Australia 2010 K€	Asia/Australia 2009 K€
External revenue	8.981	8.338	6.033	3.925	3.298	3.437	2.408	3.069	240	14	1.341	849
Internal revenue	85	992	728	270	107	747	279	42	0	0	0	0
Total segment revenue	9.066	9.330	6.761	4.195	3.405	4.184	2.687	3.111	240	14	1.341	849
Earnings before interest, income taxes, and intercompany settlement (EBIT before intercompany settlement)	-6.407	-7.353	491	-934	-416	-517	764	-96	1.012	173	433	197
Earnings before interest and income taxes (EBIT)	-3.805	-5.255	-1.106	-2.239	-814	-804	763	-242	1.012	173	-173	-163

H1/	Other 2010 K€	Other 2009 K€	Consolidation 2010 K€	Consolidation 2009 K€	Group total 2010 K€	Group total 2009 K€	Discontinued operations 2010 K€	Discontinued operations 2009 K€	Continuing operations 2010 K€	Continuing operations 2009 K€
External revenue	0	0	0	0	22.301	19.632	0	14	22.301	19.618
Internal revenue	0	0	-1.199	-2.051	0	0	0	0	0	0
Total segment revenue	0	0	-1.199	-2.051	22.301	19.632	0	14	22.301	19.618
Earnings before interest, income taxes, and intercompany settlement (EBIT before intercompany settlement)	0	0	0	0	-4.123	-8.530	898	173	-5.021	-8.703
Earnings before interest and income taxes (EBIT)	0	0	0	0	-4.123	-8.530	898	173	-5.021	-8.703

Segment reporting is part of the notes

Zapf Creation AG

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Notes to the
interim consolidated financial statements as of June 30, 2010

Contents:

1. General information

1.1. Information on the Company

Zapf Creation AG - hereinafter also referred to as "the Company" or "Zapf Creation" - is Europe's leading brand manufacturer of play and functional dolls including accessories.

The Company markets branded play concepts that consist of a doll and a world of matching accessories as well as themed play sets and collectible figures that are developed to a high standard of quality, design, safety and play value. The Company's most popular brands include BABY born®, Baby Annabell® and CHOU CHOU. These globally successful play concepts have been conceived particularly for the Company's core target group — girls between three and eight years of age.

Zapf Creation AG, as the Company is currently known, was originally established in 1932 by Max Zapf and his wife Rosa as "Max Zapf Puppen- und Spielwarenfabrik." The Company went public on April 26, 1999. Zapf Creation AG is listed on the Official Market of the Frankfurt Stock Exchange. Its shares are traded in the Prime Standard segment.

Zapf Creation AG is headquartered in Moenchroedener Strasse 13, 96472 Roedental, Germany.

1.2. Principles of preparation

The interim consolidated financial statements of Zapf Creation AG as of June 30, 2010 were prepared on the basis of IAS 34 ("Interim Financial Reporting"). They were not reviewed or audited in accordance with Section 317 German Commercial Code.

The interim consolidated financial statements do not include all notes and disclosures required for consolidated financial statements and must thus be read in connection with the consolidated financial statements as of December 31, 2009, which were prepared in accordance with Section 315a German Commercial Code ("Consolidated Financial Statements According to International Accounting Principles") and in compliance with both the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) — all of them as applicable within the European Union under Article 4 of EC Directive 1606/2002 dated July 19, 2002, of the European Parliament and the European Council. The provisions of

Section 315a para 1 German Commercial Code were also observed in preparing the consolidated financial statements. All IFRS, as well as all attendant Interpretations, applicable to the financial year were used in the preparation of the consolidated financial statements of Zapf Creation AG as of December 31, 2009, inasmuch as they were adopted by the EU.

At this time, the consolidated financial statements of Zapf Creation AG as of December 31, 2009, are available only in preliminary form and have not yet been published. Therefore, events within the meaning of IAS 10 ("Events after the Reporting Period") could occur which could affect the consolidated financial statements as of December 31, 2009. Any such changes would require adjustments to be made to the opening balances on which the interim consolidated financial statements as of June 30, 2010, are based.

1.3. Consolidation

The interim consolidated financial statements as of June 30, 2010 follow the same consolidation methods as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2009. Reference is also made to the existing consolidated financial statements as of December 31, 2008, which also used the same consolidation methods.

In addition to Zapf Creation AG, the Group's parent company, all direct and indirect subsidiaries of the Group are included in the basis of consolidation. The were no changes in the group of consolidated companies in the first six months of the 2010 financial year.

1.4. Accounting methods

The interim consolidated financial statements as of June 30, 2010 follow the same accounting methods as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2009. Reference is also made to the existing consolidated financial statements as of December 31, 2008, which also used the same accounting methods.

In addition to reporting its operating income, the Zapf Creation Group therefore also reports "adjusted operating income" in its consolidated income statement in the interim consolidated financial statements as of June 30, 2010. The adjusted operating income is based on the Group's internal key performance indicators and adjusts the Group's operating income by the restructuring costs and one-off items shown in the income statement. Showing this item in the presentation of the consolidated income statement serves to increase transparency with regard to the sustainability of the earnings generated by the company through its ongoing operating process. Any expenses incurred from the restructuring of the Zapf Creation Group, as well as other extraordinary one-off expenses, are shown in the income statement under the operational areas giving rise to such expenses. Restructuring costs in the first six months of 2010 amounted to K€ 1,115; there were no one-off items. Neither restructuring costs nor one-off items were recognized in the prior-year period.

The accounting and measurement in the preliminary, as yet unpublished 2009 consolidated financial statements and the interim consolidated financial statements as of June 30, 2010, was based on the assumption that the Zapf Creation Group will continue as a going concern. The Management Board assumes that the going concern requirement is met at this time.

1.5. Use of estimates

The preparation of interim consolidated financial statements requires management to make assumptions and perform estimates, which might affect the application of accounting standards in the Group, as well as both the amount and the disclosure of recognized assets, liabilities, income, expenses, and contingent liabilities.

The Company's management regularly reviews both the estimates and the underlying assumptions. Although the estimates are made to the best of management's knowledge based on current events and measures, actual amounts may deviate from these estimates. Adjustments related to the estimates relevant to the accounting are considered in the period in which the adjustment was made if it concerns only the period in question. If an adjustment concerns both the reporting period and later periods, then it is accounted for in both.

2. Explanation of items in the consolidated financial statements

2.1. General

The presentation of items in the interim consolidated financial statements as of June 30, 2010 follows the same structure as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2009. Reference is also made to the existing consolidated financial statements as of December 31, 2008, which also used the same structure.

The development of the individual items of the interim consolidated financial statements in the first six months of the 2010 financial year, specifically revenue, is characterized by the typical, seasonal nature of the Company's business. In this context, we also refer to the interim management report of the Group as of the end of the second quarter of 2010.

The segment report is attached to these notes as an ***appendix***.

2.2. Discontinued operations

As in the previous year, income and expenses that are attributable to the Group subsidiary Zapf Creation (U.S.) Inc. are reported separately under the result from discontinued operations in accordance with IFRS 5 ("Non-current Assets Held for Sale and Discontinued Operations").

The income and expenses attributable to discontinued operations are as follows:

	H1/2010	H1/2009
	K€	K€
Revenue	0	14
Administrative expenses	0	- 10
Other income	898	169
Result from discontinued operations	898	173

Essentially as in the same period the previous year, the result from discontinued operations in the first six months of the 2010 financial year exclusively resulted from exchange rate effects.

The cash flow from operating, investing and financing activities attributable to discontinued operations is as follows:

	H1/2010	H1/2009
	K€	K€
Cash flow from operating activities	0	- 19
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
Effects of exchange rate changes	1	1
Cash flow from discontinued operations	1	- 18

2.3. Other disclosures regarding the income statement

Staff costs included in the operating expenses of the Zapf Creation Group in the first six months of 2010 totaled K€ 6,092 (previous year: K€ 6,162).

Staff costs by functional areas are comprised as follows:

	H1/2010	H1/2009
	K€	K€
Sales and distribution	2,565	2,893
Marketing	265	512
Other administration	3,262	2,757
Staff costs	6,092	6,162

The increase in the "Other administration" item is essentially due to the termination benefit of € 550 thousand paid to the previous chairman of the Company's Management Board, Mr. Stephan F. Brune.

2.4. Liabilities to banks

A syndicated loan in the original amount of € 65 million was made available to Zapf Creation AG on December 7, 2007, based on a financing agreement dated November 30, 2007, for the purpose of financing its operating business in the short and medium term.

On October 1, 2009, the existing financing agreement dated November 30, 2007 was amended and replaced to the effect that the banking syndicate would continue to make sufficient credit available to Zapf Creation AG, subject to a temporary time limit until the end of April 2010 (waiver limited in time); the loan volume made available had decreased by € 8 million in this connection. But the participating banks did not retest the stipulated financial indicators as long as the waiver was in effect; the banks agreed with Zapf Creation to initially waive the fixing of new Covenants adjusted to the changed parameters until the end of April 2010. At that point in time, the participating banks once again conducted a review of the Company's overall situation, as agreed. From this point forward, the banks remaining in the consortium stated during the negotiations with the Zapf Creation Group on its long-term financing that they would be willing to waive compliance with the Covenants on a month-to-month basis ending June 30, 2010; the volume of lendings in this connection fell by € 17 million as of April 30, 2010, but has been adequate since then. Taking payments into account, the remaining bank borrowings as of June 30, 2010 (excluding interest liabilities and transaction costs) were € 29.1 million. While the banks did not extend the waiver, which expired as of June 30, 2010, the Group's negotiations with the banks have remained constructive nonetheless. Mr. Isaac Larian — who, along with his family, has a majority stake in Zapf Creation via various trusts — has indicated his willingness to take over a portion of the Company's loans from the banks subject to specific conditions yet to be finalized in negotiations. The Company remains confident that it will bring the negotiations on its funding to a successful conclusion.

Owing to the Company's non-compliance with Covenants stipulated as part of the aforementioned financing, as of June 30, 2010 - as in the previous year - the existing liabilities to banks were recognized in full as current liabilities to banks.

2.5. Equity

Capital measures

As in the comparative prior-year period, no capital measures were carried out in the first six months of the 2010 financial year.

Treasury shares

By resolution of the Annual Shareholders' Meeting dated December 15, 2009, the Company is authorized to purchase treasury shares in order to:

a) be able to offer such shares as consideration in connection with business combinations or the acquisition of companies, business units or participating interests in companies; or

b) issue such shares in return for the transfer to the Company of one or more loan and/or interest payables under loans granted to it; or

c) offer such shares as employee shares to employees of the Company or companies considered its affiliates under Sections 15 et seq. German Stock Corporation Act for purchase or, if employee shares were acquired by way of loans to purchase securities or loans of securities, for purposes of satisfying obligations thereunder; or

d) grant such shares to members of the Management Board as components of their compensation; or

e) use such shares to fulfill options issued under the authorization resolved by the Annual Shareholders' Meeting on December 15, 2009; or

f) sell repurchased treasury shares in ways other than on the stock exchange or by means of an offering to all shareholders in return for cash at a price that is not substantially lower than the exchange price of the Company's shares of the same class at the time of the disposal; or

g) retire the shares so acquired without another resolution of the Annual Shareholders' Meeting, subject to reduction of the share capital.

The authorization is limited to the purchase of treasury shares having a pro rata share of 10% in the Company's share capital existing on December 15, 2009, the day on which the Annual Shareholders' Meeting adopts the resolution (€ 19,295,853.00). The treasury shares so acquired — along with other treasury shares that are in the Company's possession or are allocable to it under Section 71a et seq. German Stock Corporation Act — may not, at any time, exceed 10% of the share capital. In addition, any such buyback shall be permitted only if, at the time of the purchase, the Company would be able to recognize reserves equivalent to the amount of the expenditure required for the buyback without reducing the share capital or any reserves that are required under the law or the Company's Articles of Incorporation and may not be used for payments to shareholders.

The authorization to acquire treasury shares shall remain in effect until December 14, 2014 (inclusive). The authorization adopted by the Company's Annual Shareholders' Meeting on May 27, 2008, to use the treasury shares that the Company is already holding at the time the Annual Shareholders' Meeting adopts its resolutions on May 27, 2008, expire at the time this new authorization takes effect. The authorizations regarding the utilization of shares bought back under the resolution dated May 27, 2008, shall apply to those treasury shares that the Company bought back pursuant to the treasury share buyback authorization dated May 27, 2008.

The buyback pursuant to the authorization granted by the resolution of the Annual Shareholders' Meeting on December 15, 2009, may also be executed by Group entities dependent on the Company within the meaning of Section 17 German Stock Corporation Act, or for the account of the Company or a Group entity dependent on it within the meaning of Section 17 German Stock Corporation Act.

Treasury shares held by the Company as of December 15, 2009, may already be utilized for the aims defined in foregoing authorizations a) through g) subject to both the respective requirements and the scope of the extant authorizations.

As of June 30, 2010 (inclusive), the authorization granted by the Annual Shareholders' Meeting on December 15, 2009, to acquire treasury shares or to utilize extant treasury shares was exercised as follows: 80,000 treasury shares were transferred to a member of the Management Board as part of his share-based compensation in December 2009.

The authorization granted by the Annual Shareholders' Meeting on May 27, 2008, to acquire treasury shares (for details please see the consolidated financial statements as of December 31, 2008) had not been exercised as of November 26, 2009 (inclusive) - which is the latest possible date.

Stock option plans

By resolution of the Annual Shareholders' Meeting dated December 15, 2009, the Company is authorized to issue one or several stock option plans pursuant to which options with a term of up to 10 years on up to 500,000 no-par bearer shares ("shares") of Zapf Creation AG may be issued until December 14, 2014 (inclusive), once or repeatedly, to employees of Zapf Creation AG, as well as to executives employees of affiliated companies. The Company's shareholders shall have no right to subscribe to the options. Of the 500,000 options overall, up to 280,000 options may be issued to employees of Zapf Creation AG; up to 120,000 options to executives of affiliates; and up to 100,000 options to employees of affiliates. No options may be issued to members of the Management Board of Zapf Creation AG under this authorization.

Each option gives its owner the right to subscribe one share of Zapf Creation AG. Exercising the options granted is subject to compliance with predetermined restrictions thereon, specifically, waiting periods, exercise periods and holding periods. The option model is subject to a performance target of 20% expressed as an issue premium; it makes no sense for the optionee in financial terms to exercise their options prior to achievement of said target. Rules on the transferability, forfeiture and retirement of the options are also in place.

Please see the disclosures on the purchase and use of treasury shares of Zapf Creation AG, as well as the disclosures below on the Contingent Capital 2009, in regards to the alternatives available to the Company for fulfilling optionees' claims at the time they exercise their options by means of treasury shares. In the alternative, the Company may, at its discretion, pay the difference between the exercise price and the current share price on the day on which it receives the respective notice of exercise in money in lieu of delivering new shares (Contingent Capital 2009) or treasury shares that it is already holding.

As of June 30, 2010, the Company had not availed itself of this possibility of making share-based payments.

Contingent capital 2009

On December 15, 2009, the Annual Shareholders' Meeting resolved to create new contingent capital (Contingent Capital 2009) and amend Article 5 of the Articles of Incorporation (Amount and breakdown of share capital). According to this resolution, the Company's share capital is contingently increased by up to € 500,000.00 through the issue of up to 500,000 no par value bearer shares (Contingent Capital 2009). This contingent capital increase shall only be executed to the extent that holders of options issued until December 14, 2014, in accordance with the resolution of the Annual Shareholders' Meeting dated December 15, 2009, exercise their options and to the extent that new shares must be issued in accordance with the option conditions. The new shares in the Company resulting from the exercise of the options shall participate in the Company's profits from the start of the financial year for which the Annual Shareholders' Meeting has not yet adopted any resolution regarding the appropriation of profit at the time options are exercised.

3. Related party relationships

Disclosures of relationships and business transactions with related parties are made in accordance with IAS 24 ("Related Party Disclosures"), taking into account IAS 34 ("Interim Financial Reporting").

IAS 24 defines a related party as a person capable of controlling or significantly influencing another person, either alone or together with a third party, or as a person on whom such control or significant influence can be exercised. This definition of related parties covers companies and natural persons. In our case, the Company's Management Board and Supervisory Board and the companies of the MGA Group that are related parties of the Company have been identified as related parties.

All transactions involving deliveries and services from and to related parties that occur in the ordinary course of Zapf Creation's business are executed at market rates.

3.1. The Management Board

The following changes with regard to the composition of the Management Board occurred during the reporting period:

On January 29, 2010, the Company's Supervisory Board appointed Mr. Ron Oboler member and chairman of the Management Board effective February 1, 2010. Ron Oboler, Director of International Sales with MGA Entertainment, Inc., possesses broad toy industry experience and will lead the Company on an interim basis until the second half of 2010. The Supervisory Board plans to fill the position of Management Board chairman on a long-term basis in the course of the year. Mr. Stephan F. Brune, who has served as member and chairman of the Management Board of Zapf Creation AG since October 1, 2008, resigned from the Company effective January 31, 2010. In addition, Mr. Ron Brawer, member of the Company's Supervisory Board, on January 29, 2010, was delegated to its Management Board in accordance with Section 105 para 2 of the German Stock Corporation Act. Since then, Mr. Brawer has been primarily responsible for the continued streamlining of the Company's corporate structures and the realization of potential savings associated with this. The Supervisory Board of Zapf Creation AG had already resolved on September 16, 2009, to reappoint Mr. Jens U. Keil early as chief financial officer.

Effective June 30, 2010, the former Management Board member Jens U. Keil left the Company in order to pursue other professional opportunities. Mr. Keil had been responsible for finance, capital market, IT, logistics and risk management on Zapf Creation's Management Board since March 1, 2007.

In the prior-year period, the Supervisory Board of Zapf Creation AG had appointed Mr. José Antonio Santana Caparrós to the Management Board effective March 1, 2009, with responsibility for marketing, design and product development as well as quality management. Mr. Santana took over the responsibilities stated above from the CEO, Mr. Stephan F. Brune, who had managed them on an interim basis. As previously, the Management Board of Zapf Creation AG at that time consisted of Stephan F. Brune, Chief Executive Officer, and Jens U. Keil, Chief Financial Officer.

The total compensation of K€ 541 (previous year: K€ 482) paid to the Management Board comprises all cash compensation due, as well as all monetary benefits from in-kind compensation. It includes both fixed and variable components but excludes one-time consideration paid to former members of the Management Board. In addition to the monetary base compensation, the fixed compensation granted to the members of the Company's

Management Board also comprises benefits such as the use of company cars and allowances for accident insurance, and other insurance policies. The Company will also assume the cost of a German teacher for Mr. Santana, subject to conditions yet to be fixed.

The compensation system based on phantom shares that was launched in 2006 for the members of the Company's Management Board remained in place in the first six months of the 2010 financial year. Regarding details, please also see the consolidated financial statements as of December 31, 2008. A total of 27,000 additional phantom stock options at a base price of € 1.00 were allocated to Mr. Santana in the 2010 financial year under this plan; the exercise of these options is not linked to achievement of specific performance targets. In the prior-year period, 27,000 phantom stock options had been granted to Mr. Santanta at a base price of € 0.81 and 10,000 phantom stock options had been granted to Mr. Keil at a base price of € 0.87. As in the same period the previous year, no further phantom stock options were granted in the first six months of the 2010 financial year. At the time they exercise their phantom stock options, beneficiaries are paid the difference per exercised option between the closing price of the share on its issue date and on the date on which the phantom stock options are exercised. A total of K€ 12 (previous year: K€ 11) were expensed for provisions related to obligations under this phantom-share-based compensation system in the first six months of the 2010 financial year for the newly granted phantom stock options; due to the performance of the Company's shares, K€ 44 of these provisions (previous year: K€ 11) were reversed to profit and loss during the first six months of 2010. A total of K€ 51 (previous year: K€ 18) in provisions for liabilities under the aforementioned phantom stock options were recognized as of June 30, 2010. During the reporting period, a tranche of 30,000 phantom stock options granted to the former Management Board member, Thomas Pfau, at a base price of € 8.60 lapsed. The phantom stock options granted to the former Management Board member, Dr. Georg Kellinghusen, had lapsed in the prior-year period.

Mr. José Antonio Santana was promised a direct grant of shares as an additional element of his share-based payment; it is designed exclusively as a variable component of his salary, the amount of which is contingent on achievement of specific performance targets. The Company also had the option to pay a portion of Mr. Jens U. Keil's bonus in shares. A similar form of compensation was in place the previous year for Mr. Stephan F. Brune. Now that this element of compensation is designed to be completely variable, no share-based payments were made in the first six months of 2010 (previous year: K€ 89; fixed and variable).

On March 4, 2010, the Company entered into a severance and settlement agreement with Mr. Stephan F. Brune, formerly a member and the chairman of the Management Board of Zapf Creation AG, to fully offset and hence settle both parties' claims and obligations related to his employment with the Company. A one-time gross payment of K€ 550 was stipulated in this connection. The Company also waived K€ 25 in extant receivables from Mr. Brune and paid the income tax on this waiver of claims in full. No one-time payments were made to former members of the Company's corporate bodies in the same period the previous year.

One former member of the Management Board was granted a variable credit line in the maximum amount of K€ 625 until December 31, 2007, which was fully used as of December 31, 2007. The agreed interest rate was 4.25%. It was fixed until December 31, 2007, the loan's due date. Under a settlement reached in the 2008 financial year, Zapf Creation AG waived repayment of a loan in the amount of K€ 175 provided certain conditions are met; the Company will be responsible for any tax expense arising from non-cash advantages. The interest rate has been 5% per annum effective January 1, 2008; the parties agreed to a payment plan regarding the remaining residual liabilities including interest thereon. A payment of K€ 100 on this liability was made in the 2008 financial year; as in the previous year, no new loans were made in 2008. In 2008, the Company received K€ 49 in full payment of both K€ 46 in interest receivables outstanding as of December 31, 2007, and K€ 3 in interest on arrears that had been billed; the total of K€ 23 in interest for the 2008 interest period were also paid in full. In the 2009 financial year and in the first six months of the 2010 financial year, no repayment was made on the outstanding loan; interest was paid as agreed. The Company's overall claim as of the June 30, 2010, reporting date amounted to K€ 354 (previous year: K€ 354) due to the said waiver and the interest and loan payments received, and taking into account the interest receivables for the second quarter of 2010. However, the loan granted remains secured by a land charge in the amount of K€ 200 (previous year: K€ 200). The remaining liability has been written down in full, analogous to the previous year; the interest receivable for the second quarter of 2010 amounting to K€ 4 was paid in July 2010.

3.2. The Supervisory Board

The following changes with regard to the composition of the Supervisory Board occurred during the reporting period:

Referencing Article 11 para 4 of the Company's Articles of Incorporation, Mr. Nicolas Mathys, member and deputy chairman of the Supervisory Board, announced on January 11, 2010, that he would resign his office as member and deputy chairman of the Supervisory Board subject to a notice period of four weeks.

On January 29, 2010, the Supervisory Board of Zapf Creation AG delegated Mr. Ron Brawer, member of the Supervisory Board, to the Company's Management Board in accordance with Section 105 para 2 German Stock Corporation Act. Since then, Mr. Brawer has been primarily responsible for the continued streamlining of the Company's corporate structures and the realization of potential savings associated with this.

On December 15, 2009, the Annual Shareholders' Meeting elected Mr. Jaime Ferri Llorens, who is domiciled in Alicante, Spain, to the Company's Supervisory Board, specifically, for a term of office that starts with the end of the Annual Shareholders' Meeting on December 15, 2009, and ends with the conclusion of the Annual Shareholders' Meeting tasked with discharging board members in regards to the 2009 financial year. Effective 26 April 2010, the Company's Supervisory Board appointed Mr. Jaime Ferri Llorens as a consultant in all matters of business alignment, especially product development and marketing and for developing the Spanish market. Mr. Jaime Ferri Llorens has therefore resigned from the Supervisory Board of Zapf Creation AG in agreement with the Supervisory Board and in accordance with Article 11 para 4 of the Company's Articles of Incorporation.

There was no change with regard to the composition of the Supervisory Board during the prior-year period.

The compensation of the Supervisory Board is determined by the Annual Shareholders' Meeting, on recommendation of the Management Board and the Supervisory Board. It is regulated by Article 20 of the Articles of Incorporation of Zapf Creation AG. The cash compensation includes a fixed and a dividend-based component, as well as compensation linked to the long-term success of the Company.

According to the Articles of Incorporation, the fixed compensation component for the full financial year is K€ 35 net for the chairman of the Supervisory Board, K€ 26.25 net for the vice chairman of the Supervisory Board, and K€ 17.50 net each for all other members of the Supervisory Board. The compensation paid to Supervisory Board members who were not in office for a full financial year is pro rated in accordance with the duration of their membership on the Supervisory Board. As in the previous year, the addition to the provision for the fixed component of the Supervisory Board compensation as of June 30, 2010 was made pro rata temporis.

Also as in the previous year, in the financial year just ended no provisions for the variable component of the compensation were recognized because no payment obligation arises from the Company's performance. Regarding the details of the variable compensation component, please also see the consolidated financial statements as of December 31, 2008.

As in the previous year, there were no loans to members of the Supervisory Board as of the balance sheet date.

3.3. Related companies of the MGA Group

The inclusion of MGA Group companies into the group of related parties of Zapf Creation AG is due to the close partnership that has been implemented on an operational level in several areas since the beginning of the 2007 financial year. The details of this partnership are as follows:

Since the beginning of 2007, MGA Entertainment, Inc., Van Nuys, California, USA, has been solely responsible as a licensee for selling Zapf Creation's products in American markets; MGA guarantees that the sales volume exceeds the revenue generated by Zapf Creation's own subsidiaries in this region by more than 50% (Agreement 1: "Distribution Agreement"). In return, the parties agreed that the Zapf Creation Group will sell MGA products in particular European markets in exchange for payment of a distribution fee (Agreement 2: "Consignment and Services Agreement"). Zapf Creation Logistics GmbH & Co. KG provides logistics services for the MGA Group (Agreement 3: "Logistics Service Agreement"). Furthermore, in 2007 MGA took over the entire process of selecting and monitoring the Asian suppliers of Zapf Creation products, the coordination and handling of merchandise shipments to the sales units, and technical product development (Agreement 4: "Hong Kong / China Services Agreement"). Also, Zapf Creation AG granted MGA Entertainment Inc., Van Nuys, California, USA, against payment of a license fee, the exclusive right and the exclusive license to utilize and exploit both the products and the intellectual property of Zapf Creation AG, including the right to grant sublicenses (Agreement 5: "Merchandising License Agreement"). Effective April 1, 2008, the partnership was extended through another agreement (Agreement 6: "UK Services Agreement"). Since this date, MGA Entertainment UK Ltd. has been providing full sales services for Zapf

Creation (U.K.) Ltd. in that company's sales areas for an appropriate fee. In return, Zapf Creation (UK) Ltd. provides administrative services to MGA Entertainment UK Ltd. for an appropriate fee.

The following income and expenses resulted from this partnership in the first six months of the 2010 financial year:

Cooperation agreements	H1/2010	H1/2009
	K€	K€
Agreement 1: "Distribution Agreement"		
Income from Agreement 1	64	169
Agreement 2: "Consignment and Services Agreement"		
Income from Agreement 2	275	336
Agreement 3: "Logistics Service Agreement"		
Income from Agreement 3	108	271
Agreement 4: "Hong Kong / China Services Agreement"		
Expenses from Agreement 4	555	750
Agreement 5: "Merchandising License Agreement"		
Income from Agreement 5	0	32
Agreement 6: "UK Services Agreement"		
Income from Agreement 6	187	144
Expenses from Agreement 6	48	32

In addition to the business transactions resulting from the cooperation agreements mentioned above (in the narrow sense), the following services were provided between the companies of the Zapf Creation Group and the related parties belonging to the MGA Group:

Cross charges	H1/2010	H1/2009
	K€	K€
Income from cross charges	364	777
Expenses from cross charges	697	1,027

Cross charges are charges between the companies of the Zapf Creation Group and the related companies belonging to the MGA Group that arise from the mutual provision of services - above and beyond the cooperation agreements mentioned above (in the narrow sense); this essentially concerns income and expenses from shared company resources (staff, offices etc.).

Merchandise procurement	H1/2010	H1/2009
	K€	K€
Merchandise procurement in the reporting period	11,997	8,541

Merchandise procurement in the reporting period results from the purchase of goods at MGA Entertainment (HK) Ltd. made by the sales subsidiaries of the Zapf Creation Group.

Just as in the same period of the previous year, no other services were received directly from or delivered directly to the related companies of the MGA Group.

As in the previous year, there were no other business transactions in the first six months of the 2010 financial year.

The receivables and liabilities of the Zapf Creation Group that result from the partnership with related parties of the MGA Group as of June 30, 2010 are as follows:

Balances as of the balance sheet date	June 30, 2010	June 30, 2009
	K€	K€
Receivables from related parties	3,853	4,380
Liabilities to related parties	4,677	6,474

4. Events after the close of the reporting period

For information regarding significant events after the close of the reporting period, with the exception of directors' dealings disclosed below, please see the disclosures in the interim management report of the Group as of the end of the second quarter of 2010.

5. Directors' dealings

During the period from January 1 to August 13, 2010, the officers and directors of the Company reported the following securities dealings as defined by Section 15a of the German Securities Trading Act (WpHG):

Mr. Stephan F. Brune, at that time member and chairman of the Management Board, notified Zapf Creation AG on January 12, 2010, in accordance with Section 15a German Securities Trading Act that on January 11, 2010, he had sold a total of 80,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 1.15 per share for a total transaction volume of € 92,000. Mr. Brune stated that the shares promised under an employment contract and transferred by the Company were sold for private reasons.

All members of the Management Board and the Supervisory Board were informed in detail of the obligation to disclose reportable transactions made by members of the Management Board or the Supervisory Board, their spouses or immediate relatives.

Roedental, Germany, August 13, 2010

Ron Oboler	José Antonio Santana	Ron Brawer
Chairman of the	Member of the	Member of the
Management Board	Management Board	Management Board

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 Zapf Creation 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 material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

Roedental, Germany, August 13, 2010

Ron Oboler	José Antonio Santana	Ron Brawer
Chairman of the Management Board	Member of the Management Board	Member of the Management Board