Quarterly Report 3/2009

Zapf Creation®

Consolidated key figures (IFRS)

in € million	Q3/2009	Q3/2008	Q1–Q3/ 2009	Q1–Q3/ 2008	Q1–Q3 +/– in %	FY/2008
Adjusted earnings (without restructuring costs and one-off effects)						
Continuing operations						
EBITDA	7.4	8.6	0.5	6.2	–91	5.1
EBIT	6.4	7.6	–2.3	3.4	—	1.1
EBIT margin (in %)	22.9	22.0	–4.8	5.4	—	1.1
EBT	5.6	6.2	–5.1	–0.9	>–100	–4.9
Result from continuing operations	4.9	4.3	–4.5	–1.0	>–100	–6.5
Discontinued operations						
Result from discontinued operations	–0.2	0.5	0.0	–0.1	—	0.0
Group						
Net profit or loss for the period	4.7	4.8	–4.4	–1.0	>–100	–6.4
Earnings per share (in €) 1)	0.25	0.25	–0.24	–0.06	>–100	–0.38
Earnings according to the income statement (including restructuring costs and one-off effects)						
Continuing operations						
Revenue	28.0	34.6	47.7	63.0	–24	104.4
Gross margin (in %)	44.8	43.5	38.3	41.8	—	38.7
EBITDA	7.4	8.6	0.5	6.4	–92	5.3
EBIT	6.4	7.6	–2.3	3.5	—	1.3
EBIT margin (in %)	22.9	22.0	–4.8	5.6	—	1.2
EBT	5.6	6.2	–5.1	–0.8	>–100	–4.7
Result from continuing operations	4.9	4.3	–4.5	–0.8	>–100	–6.3
Included restructuring costs and one-off effects	0.0	0.0	0.0	–0.2	—	–0.2
Included depreciation and amortization	1.0	1.0	2.8	2.8	0	4.0
Discontinued operations						
Result from discontinued operations	–0.2	0.5	0.0	–0.1	—	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	4.7	4.8	–4.4	–0.9	>–100	–6.3
Earnings per share (in €) 1)	0.25	0.25	–0.24	–0.05	>–100	–0.37

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) undiluted = diluted

Consolidated key figures (IFRS)

in € million	Q3/2009	Q3/2008	Q1–Q3/ 2009	Q1–Q3/ 2008	Q1–Q3 +/– in %	FY/2008
Balance sheet						
Total assets	—	—	79.3	104.0	−24	94.4
Non-current assets	—	—	20.4	22.6	−10	21.9
Investments	0.2	3.6	0.8	5.0	−83	5.5
Current assets	—	—	58.9	81.4	−28	72.6
Equity	—	—	19.0	29.9	−36	22.6
Equity ratio (in %)	—	—	24.0	28.7	—	23.9
Liabilities to banks	—	—	32.0	35.3	−9	35.4
Net liabilities	—	—	25.4	21.9	16	28.0
Cash flow						
Cash flow from operating activities	−2.6	−4.3	5.9	4.5	31	1.1
Cash flow from operating activities per share (in €)	−0.14	−0.23	0.31	0.27	16	0.07
Net cash flow	−3.4	−8.7	−0.9	−10.0	91	−15.9
Employees						
Number as of the closing date [2)]	—	—	219	250	−12	242

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.
2) excluding Management Board and trainees

Interim management report of the Group as of September 30, 2009

- **Earnings continue to develop in line with expectations**
- **Weakness in regional demand impacts consolidated sales**
- **Positive third-quarter earnings at previous year's level**
- **Operating cash flow after nine months 31 % above the previous year**
- **Market environment expected to remain uncertain**

1. Summary

The earnings of the Zapf Creation Group in the first nine months of 2009 continued to develop as expected in a market environment that remains difficult for toys, especially play and functional dolls. At € 47.7 million, consolidated sales for the first three quarters of the year fell short of the previous year's figure (€ 63.0 million) as a result of weak demand, particularly in the Southern and Eastern European markets. Yet the decline in revenue slowed substantially in the third quarter. Consolidated sales from July to September 2009 were 18,9 % lower year on year, compared to the end of the second quarter when consolidated sales were down 30,9 % year on year.

Earnings in the first nine months of the year were supported by the ongoing reduction in operating and financing costs. Hence margins in the third quarter improved thanks to the decline in procurement costs, among other things, resulting from intensive negotiations with suppliers. Key cost items such as distribution costs (€ – 1.7 million) and administrative expenses (€ – 0.8 million) also continued to decrease year on year in the first nine months of 2009. The Company's ability to make consistent use of the falling prices for media and advertising production services pushed down marketing costs by € 1.3 million without compromising marketing efficiency. Nonetheless, these cost reductions were unable to fully offset the decline in revenue. The net loss for the first nine months of the year was € 4.4 million, which compares to a net loss of € 0.9 million in the same period the previous year. However the Group generated a net profit of € 4.7 million for the third quarter, which was in line with the previous year's result (€ 4.8 million).

The Zapf Creation Group continued to improve its working capital management during the reporting period, as reflected in the sharp reduction in receivables and in lower inventories. The cash flow from operating activities in the first nine months of 2009 was € 5.9 million, up from € 4.5 million the previous year (+31,1 %) – despite a loss that was higher than in the prior-year period.

The market environment for play and functional dolls is expected to remain difficult into 2010. It remains impossible to reliably estimate the development of core markets. The Group is well prepared for this year's Christmas business – generally the toy industry's critical season – due to its well-coordinated and streamlined structures as well as numerous innovative products. Nonetheless, the Management Board does expect consolidated sales for the 2009 financial year to fall short of the previous year's level.

2. Significant events during the reporting period

2.1. Chief financial officer reappointed early

The Supervisory Board of Zapf Creation AG resolved on September 16, 2009, to reappoint Mr. Jens U. Keil early as chief financial officer. Mr. Keil, who has been a member of the Management Board since March 1, 2007, will remain responsible for finance, IT, logistics, investor relations and risk management.

2.2. Entering the licensed products business

On September 23, 2009, Zapf Creation AG announced that it has entered the international licensed products business. After acquiring the worldwide marketing rights for girls' toys in connection with the popular children's book, "Lilly the Witch", Zapf Creation has been offering attractive products related to the bestseller since October 2009.

Roughly 30 % of all sales in the European toy market are generated by licensed products. The Zapf Creation Group has not been involved in this market in the past, Zapf Creation has entered the licensed business market in order to use its expertise in the development and worldwide marketing of innovative toys to selectively expand its product and brand portfolio through successful licenses. Negotiations are already underway with other licensors.

3. Economic conditions

3.1. Business environment

The global economy's slight recovery, which started in the early summer of 2009, continued in the year's second half. Extensive economic stimulus packages and government measures to support the financial sector effectively stabilized demand. Asian countries such as China and India have led the way as a result of their rapid success in returning to a growth trajectory. Eastern Europe countries, in contrast, were hit particularly hard by the economic and financial crisis and have remained weak. The gross domestic product (GDP) of the euro zone grew for the first time in a year during the reporting period even though economic recovery has yet to reach countries such as Spain and Italy.

Experts do not expect a rapid return to sustained growth because the global recession caused deep fissures. Their estimates of the decline in the global GDP during 2009 on the whole range from 0.5 % to 1.1 % year on year. The IMF expects the GDP in the euro zone to fall by 4.2 %. German GDP is even expected to drop by roughly 5 % in 2009 because demand for the country's exports remains weak. Although the economy will grow but moderately in 2010 according to forecasts, low inflation in the euro zone might generate some economic momentum since it encourages personal consumption. Additional adjustments in production capacities as well as the expected increase in unemployment, however, will have countervailing effects. Global GDP is expected to expand by about 3 % in 2010. Experts are predicting that the euro zone's GDP will grow slightly by 0.3 %. The German economy is expected to grow by up to 1.5 % in 2010.

Sources:
Association of German Banks, Monthly Report, October 2009
European Central Bank, Monthly Report, October 2009
International Monetary Fund, World Economic Outlook, October 2009
Fall opinion of Germany's leading economic research institutes, October 2009

3.2. Industry environment in Europe

The European toy markets that are key to the Zapf Creation Group developed unevenly in the first nine months of 2009 due to the ramifications of the weak economy. Relative to retail sales prices, the market volume for toys in both Germany and France rose by 4.2 % year on year, whereas the British toy market contracted substantially by 9.6 % during the first nine months of 2009.

Developments in the play and functional doll segment – where the Zapf Creation Group focuses its activity – were equally uneven. While the French market posted a slight gain of 1.6 % between January and September 2009, in Germany the market volume fell 4.0 % below the previous year's level. At 11.9 %, the decline in the British market volume was even greater.

Source:
NPD Retail Panel, September 2009

4. Performance of the Zapf Creation Group

4.1. Development of consolidated sales

The Zapf Creation Group posted sales of € 47.7 million for the first nine months of 2009, down 24.3 % year on year (Q1–Q3/2008: € 63.0 million), given weak demand, particularly in the core markets of Southern and Eastern Europe.

In the third quarter of 2009, however, business with some major clients in Germany and the United Kingdom helped to give revenue a substantial boost. The product innovations that were launched in spring of this year – among them the new play dolls, Little Sunshine and Jolina Ballerina, as well as the doll siblings, Sam & Sally – have also made their first contributions to sales, reducing the year-on-year shortfall in sales. Consolidated sales between July and September 2009 were € 28.0 million, down from € 34.6 million in the third quarter of 2008 (– 18.9 %).

4.2. Development of sales by region

The Group generated total sales of € 45.8 million in Europe during the first nine months of 2009, down 24.4 % compared to the same period the previous year.

At € 21.1 million, consolidated sales in the Central Europe sales region – which includes Germany, Austria, Switzerland, the Netherlands and Luxemburg – were just under the previous year's level (Q1–Q3/2008: € 21.3 million; – 1.1 %). In Northern Europe, however, which comprises the United Kingdom, Ireland and Scandinavia, revenue in the first nine months of 2009 was € 12.6 million and thus 16.5 % lower year on year (€ 15.1 million). Sales in Southern Europe (the region that includes Spain, France, Belgium and Italy) fell by 18.6 % to € 6.7 million (Q1–Q3/2008: € 8.2 million). Eastern Europe – the area that was particularly affected by the economic slump – generated revenue of € 5.4 million, down from € 15.9 million in the first nine months of 2008 (–66.2 %).

In Asia/Australia, sales during the reporting period fell by 22.3 % to € 1.8 million (Q1–Q3/2008: € 2.4 million).

Breakdown of sales (external sales) by region*

	Q1–Q3/ 2009 K€	Q1–Q3/ 2008 K€	+/– in %
Europe	**45,823**	**60,602**	**– 24**
Central Europe	21,114	21,341	– 1
Northern Europe	12,632	15,129	– 17
Southern Europe	6,716	8,249	– 19
Eastern Europe	5,361	15,883	– 66
Asia/Australia	**1,841**	**2,370**	**– 22**
Total sales	47,664	62,972	– 24

* In accordance with IFRS 5

4.3. Development of sales by product line

Sales of play and functional dolls – the Zapf Creation Group's core segment – declined by 24.8 % to € 42.9 million in the first nine months of 2009, down from € 57.1 million in the same period the previous year.

Revenue from the BABY born® play concept dropped by 39.6 % to € 23.1 million (Q1–Q3/2008: € 38.2 million), especially due to weak demand in Southern and Eastern Europe.

At € 10.7 million, in contrast, sales of Baby Annabell® during the first nine months of 2009 were largely level year on year (Q1–Q3/2008: € 10.8 million; – 0.9 %) due to the marketing success with key German and British trade customers in the third quarter.

Sales of the CHOU CHOU play doll series fell by 31.0 % to € 5.2 million (Q1–Q3/2008: € 7.6 million).

The substantial increase in sales from other play and functional dolls reflects retailers' positive response to our product innovations – mainly the new product lines, Jolina Ballerina and Little Sunshine. Sales in this segment for the first three quarters of 2009 were € 3.9 million, up from € 0.5 million year on year.

New mini dolls, primarily the my mini BABY born® series, generated revenue of € 1.5 million in the first nine months of 2009. This segment did not generate any revenue in 2008 after the Missy Milly® brand had been discontinued in the 2007 financial year.

The weakness of the Eastern Europe market caused sales from other products – which include the make-up heads of the My Model product line as well as the distribution business in Poland – to fall to € 3.3 million (Q1–Q3/2008: € 5.9 million; – 44.3 %).

Breakdown of sales by product line*

	Q1–Q3/ 2009 K€	Q1–Q3/ 2008 K€	+/– in %
Play and functional dolls	**42,887**	**57,050**	**– 25**
BABY born®	23,075	38,173	– 40
Baby Annabell®	10,667	10,762	– 1
CHOU CHOU	5,237	7,589	– 31
Other play and functional dolls	3,908	526	> 100
Mini dolls	**1,478**	**0**	**—**
Other products	**3,299**	**5,922**	**– 44**
Total sales	47,664	62,972	– 24

* In accordance with IFRS 5

5. Development of earnings

The Zapf Creation Group's gross profit margin for the first nine months of 2009 was 38.3 %, down from 41.8 % in the same period the previous year. After falling considerably during the year's first half, margins improved substantially during the third quarter thanks to countermeasures such as intensive negotiations with suppliers that were aimed at reducing procurement costs. The gross profit margin climbed to 44.8 % in the third quarter of 2009 (Q3/2008: 43.5 %).

Operating costs continued to decline in the first nine months of 2009. For example, selling and distribution expenses fell by 18.0 % to € 7.8 million (Q1–Q3/2008: € 9.5 million) while administrative expenses declined to € 9.8 million, down from € 10.6 million in the first three quarters of 2008 (–7.5 %). The Company's ability to make consistent use of the falling prices for media and advertising production services pushed down marketing costs by 25.5 % to € 3.8 million (Q1–Q3/2008: € 5.1 million).

Nonetheless, the improvement in margins and lower operating costs helped only in part to compensate the decline in revenue. The Zapf Creation Group posted negative earnings of € 2.3 million before interest and taxes (EBIT) for the first nine months of 2009, compared to positive EBIT of € 3.5 million in the same period the previous year. Earnings before interest and taxes in the third quarter of 2009 were € 6.4 million (Q3/2008: € 7.6 million).

Finance costs for the first nine months of 2009 were € 2.8 million, compared to € 4.9 million a year earlier. This figure contained the interest on the high-yield subordinated shareholder loans, which were fully converted into equity in the course of the 2008 financial year.

Consolidated earnings before taxes from continuing operations for the first three quarters of 2009 were € –5.1 million, compared to a loss of € 0.8 million in the same period the previous year.

Deferred tax assets from loss carryforwards generated tax income of € 0.6 million during the reporting period. The previous year's tax income and expenses related to continuing operations fully offset each other. Consolidated net income from continuing operations after taxes for the first nine months was € –4.5 million, compared to € –0.8 million in the same period the previous year.

In the first nine months of 2009, the Zapf Creation Group posted a net loss of € 4.4 million. This compares to a net loss of € 0.9 million in the prior-year period. Earnings per share were € –0.24 (Q1–Q3/2008: –0.05 €). The Group posted a net profit of € 4.7 million in the third quarter of 2009, which was in line with the previous year's result (Q3/2008: € 4.8 million). As in the previous year, this translates into earnings per share of € 0.25 for the quarter.

6. Assets

The Zapf Creation Group had total assets of € 79.3 million as of September 30, 2009, compared to € 94.4 million at the close of the 2008 financial year and € 104.0 million as of September 30, 2008. This decline reflects the contraction in business due to the industry's downturn on the whole as well as the improvement in our working capital management.

Non-current assets as of September 30, 2009, were € 20.4 million, just under the previous year's level (December 31, 2008: € 21.9 million; September 30, 2008: € 22.6 million). In contrast, current assets fell by € 13.7 million to € 58.9 million (December 31, 2008: € 72.6 million; September 30, 2008: € 81.4 million), mainly due to the continued streamlining of our working capital management and the lower business volume. As a result, trade receivables fell by € 19.0 million to € 28.0 million as of the reporting date (December 31, 2008: € 47.0 million; September 30, 2008: € 40.4 million). Thanks to improvements in inventory management, inventories were € 15.8 million, compared to € 12.4 million at the end of the previous year and € 21.1 million as of September 30, 2008.

The increase in other current assets by € 2.7 million to € 8.0 million (December 31, 2008: € 5.2 million; September 30, 2008: € 6.3 million) stemmed largely from one-time effects such as advances on marketing services.

7. Liabilities

Current liabilities fell as of the reporting date by € 11.5 million to € 60.3 million (December 31, 2008: € 71.8 million; September 30, 2008: € 42.5 million), among other things due to the reduction in trade payables by € 5.0 million to € 23.9 million (December 31, 2008: € 28.9 million; September 30, 2008: € 34.1 million). In addition, the Group discharged € 3.5 million in bank borrowings, reducing them to € 32.0 million (December 31, 2008: € 35.4 million; September 30, 2008: € 3.6 million).

The Zapf Creation Group did not have any non-current liabilities to banks as of the September 30, 2009, balance sheet date because all such liabilities were reassigned to current liabilities pursuant to IFRS requirements.

The Group's net liabilities as of September 30, 2009, amounted to € 25.4 million, down from € 28.0 million as of the close of the 2008 financial year and € 21.9 million as of September 30, 2008.

Group equity as of the reporting date was € 19.0 million, down from € 22.6 million as of December 31, 2008, and € 29.9 million as of September 30, 2008. This decline reflects the Group's loss for the first three quarters of the current year. Nonetheless, at 24.0% the equity ratio as of the reporting date remains sufficient (December 31, 2008: 23.9%; September 30, 2008: 28.7%).

8. Liquidity

The Zapf Creation Group generated cash inflows of € 5.9 million from operating activities during the first nine months of 2009 (Q1–Q3/2008: € 4.5 million), primarily due to its consistent working capital management, which reduced trade receivables by € 19.0 million.

A total of € 0.8 million were used for investments during the reporting period. This compares to € 4.9 million the previous year, which was mainly due to acquiring licenses and patents.

Funds of € 6.2 million were used for financing activities (Q1–Q3/2008: outflow of € 9.1 million), essentially due to payments on both interest and principal on bank borrowings.

Overall, cash and cash equivalents fell by € 0.9 million in the first three quarters of 2009. In the same period the previous year, the cash outflow amounted to € 10.0 million.

9. Employees

As of September 30, 2009, the Zapf Creation Group had a total of 219 employees worldwide (excluding the Management Board and trainees), compared to 250 employees at the prior-year reporting date. The decline is due to the difficult market environment and the industry's weak performance, which unfortunately made adjustments to personnel figures unavoidable. The number of employees working for the Zapf Creation Group at the close of the reporting period was appropriate to its business volume.

10. Events after the close of the reporting period

The Company announced on October 12, 2009, that its banks had agreed to continue the syndicated loan they had granted in 2007 to finance the Group. In the spring of 2010, the Company and the banks participating in the loan syndicate will jointly review the structure of the Group's long-term financing and determine any adjustments of the financial indicators (covenants). The banks have waived compliance with substantial covenants until that time.

As previously reported, these negotiations had become necessary because the Zapf Creation Group was unable to satisfy the initially stipulated covenants due to its weak performance in the fourth quarter of 2008. After agreement was reached, the Company was able to complete and publish its annual financial statements and consolidated financial statements for the 2008 financial year. The financial statements are prerequisite for convening the Company's regular Annual Shareholders' Meeting.

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:
Economic experts expect the global economy to return to stable growth only at a halting pace because uncertainty remains high, due among other things to the anticipated increase in unemployment, which could also affect the Zapf Creation Group's core European markets. We cannot rule out against this backdrop that demand for girls' toys, especially play and functional dolls, will continue to decline in the foreseeable future. The sales of the Zapf Creation Group would continue to shrink in this case, with the resulting negative impact on the profit or loss, financial position and cash flows of the Zapf Creation Group.

12. Outlook

The Christmas business is always key to the success of toy manufacturers and stores alike. Increasingly, the trade's ordering patterns worldwide are shifting to short-term order placement. This means that an ever-increasing number of orders for the Christmas season is being shifted from the third quarter to the fourth quarter, and reorders are not being placed at all until the very last weeks of the year. This trend will accelerate in 2009, given the impact of the financial and economic crisis. Indeed, the portion of toy manufacturers' Christmas sales that are not generated until November and December has also been rising this year.

Thanks to its powerful procurement and global distribution processes, the Zapf Creation Group will be able to ensure comprehensive deliveries to its international partners throughout the fourth quarter of 2009.

While numerous product innovations will help to spark demand for the play and functional dolls of Zapf Creation, the market environment for play and functional dolls is expected to remain difficult in 2010. As it remains impossible to reliably estimate the development of the Zapf Creation Group's core markets, the Management Board expects consolidated sales for the 2009 financial year to fall short of the previous year's level.

Roedental, Germany, November 6, 2009

The Management Board

Stephan F. Brune
Chairman of the Management Board

Jens U. Keil
Member of the Management Board

José Antonio Santana
Member of the Management Board

Interim consolidated financial statements as of September 30, 2009

Consolidated income statement	Q3/2009 K€	Q3/2008 K€	Q1–Q3/2009 K€	Q1–Q3/2008 K€	FY/2008 K€
Revenue	28,046	34,573	47,664	62,972	104,365
Cost of sales	–15,485	–19,525	–29,391	–36,643	–63,935
Gross profit	**12,561**	**15,048**	**18,273**	**26,329**	**40,430**
Selling and distribution expenses	–2,719	–2,915	–7,794	–9,505	–13,291
Marketing expenses	–1,114	–2,086	–3,799	–5,100	–13,220
Administrative expenses	–3,250	–3,572	–9,817	–10,616	–15,442
Other income	591	1,219	1,676	2,587	4,003
Other expenses	342	–102	–831	–146	–1,197
Operating result	**6,411**	**7,592**	**–2,292**	**3,549**	**1,283**
(Restructuring costs included therein	0	–1	0	159	159*)*
(One-off costs, mainly consultancy, included therein	0	0	0	0	0*)*
(Adjusted operating result derived therefrom	**6,411**	**7,593**	**–2,292**	**3,390**	**1,124*)***
Finance income	8	–178	58	594	591
Finance costs	–833	–1,214	–2,841	–4,914	–6,571
Result from continuing operations before income taxes	**5,586**	**6,200**	**–5,075**	**–771**	**–4,697**
Income taxes	–722	–1,929	623	–49	–1,628
Result from continuing operations	**4,864**	**4,271**	**–4,452**	**–820**	**–6,325**
Result from discontinued operations before income taxes	–167	467	6	–78	21
Income taxes on discontinued operations	0	19	0	14	14
Net profit or loss for the period	4,697	4,757	–4,446	–884	–6,290

Average number of shares outstanding (in thousands)	18,723	18,723	18,723	16,579	17,115
Earnings per share, continuing operations (in €)	0.26	0.23	–0.24	–0.05	–0.37
Earnings per share, discontinued operations (in €)	–0.01	0.03	0.00	0.00	0.00
Earnings per share (basic/diluted) (in €)	0.25	0.25	–0.24	–0.05	–0.37

The included notes are an integral part of the interim consolidated financial statements.

Consolidated statement of comprehensive income	Q3/2009 K€	Q3/2008 K€	Q1–Q3/2009 K€	Q1–Q3/2008 K€	FY/2008 K€
Net profit or loss for the period	**4,697**	**4,757**	**–4,446**	**–884**	**–6,290**
Adjustment from currency translation	–552	–618	945	–1,142	–4,270
Deferred taxes	226	0	–217	0	1,081
Derivative financial instruments	0	0	0	0	0
Other comprehensive income/loss	–326	–618	728	–1,142	–3,189
Comprehensive income or loss	4,371	4,139	–3,718	–2,026	–9,479

The included notes are an integral part of the interim consolidated financial statements.

Consolidated balance sheet	Sep. 30, 2009 K€	Dec. 31, 2008 K€	Sep. 30, 2008 K€
Assets			
Current assets	**58,914**	**72,573**	**81,423**
Cash	6,543	7,425	13,319
Trade receivables	28,028	47,024	40,354
Inventories	15,789	12,363	21,142
Income tax receivables	599	547	298
Other assets	7,955	5,214	6,310
Non-current assets	**20,395**	**21,861**	**22,587**
Property, plant and equipment	13,884	15,272	15,760
Intangible assets	4,907	5,517	5,729
Other assets	0	5	10
Deferred tax assets	1,604	1,067	1,088
Total assets	**79,309**	**94,434**	**104,010**

Equity and liabilities			
Current liabilities	**60,273**	**71,812**	**42,466**
Liabilities to banks	31,974	35,430	3,609
Trade payables	23,917	28,868	34,136
Income tax liabilities	1,433	1,663	1,100
Other liabilities	2,194	2,729	2,269
Provisions	755	3,122	1,352
Non-current liabilities	**36**	**38**	**31,665**
Liabilities to banks	0	0	31,642
Deferred tax liabilities	36	38	23
Equity	**19,000**	**22,584**	**29,879**
Subscribed capital	19,296	19,296	19,296
Capital reserve	33,374	33,240	33,082
Net profit or loss for the period and profit/loss brought forward	−20,593	−16,147	−10,741
Other recognized income and expense	−1,719	−2,447	−400
Treasury shares	−11,358	−11,358	−11,358
Total equity and liabilities	**79,309**	**94,434**	**104,010**

The included notes are an integral part of the interim consolidated financial statements.

Consolidated statement of changes in equity

	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, 2008:	12,627	13,200	21,703	−9,857	742	0	−11,358	14,430
Net loss for the period				−884				−884
Change in other recognized income and expense					−1,142	0		−1,142
Comprehensive income or loss				−884	−1,142	0		−2,026
Issuance of treasury shares	6,096	6,096	11,379					17,475
Balance at September 30, 2008:	18,723	19,296	33,082	−10,741	−400	0	−11,358	29,879
Balance at January 1, 2009:	18,723	19,296	33,240	−16,147	−2,447	0	−11,358	22,584
Net loss for the period				−4,446				−4,446
Change in other recognized income and expense					728	0		728
Comprehensive income or loss				−4,446	728	0		−3,718
Share-based payment			134					134
Balance at September 30, 2009:	18,723	19,296	33,374	−20,593	−1,719	0	−11,358	19,000

The included notes are an integral part of the interim consolidated financial statements.

Consolidated cash flow statement	Q1–Q3/2009 K€	Q1–Q3/2008 K€
Cash flow from operating activities:		
Earnings before income taxes	−5,069	−849
Depreciation of non-current assets	2,821	2,809
Losses/gains from the disposal of non-current assets	4	10
Finance costs/income	2,783	4,320
Share-based payment	134	0
Other non-cash income/expenses	0	3
Increase/decrease in assets and liabilities:		
Trade receivables	19,540	9,483
Inventories	−3,370	−7,529
Other assets	−2,793	2,142
Liabilities and provisions	−7,747	−5,344
Income tax payments	−415	−553
Cash flow from operating activities	5,888	4,492
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	19	97
Cash payments for investments in property, plant and equipment and intangible assets	−841	−4,983
Cash flow from investing activities	−822	−4,886
Cash flow from financing activities:		
Cash receipts from bank borrowings	0	0
Cash payments for bank borrowings	−22	−1,069
Cash payments for the repayment of bank borrowings	−2,000	−3,000
Change in liabilities due to current borrowings	−1,806	−989
Interest paid	−2,454	−3,882
Interest received	53	584
Issuance of treasury shares	0	−719
Cash flow from financing activities	−6,229	−9,075
Effects of exchange rate changes	281	−494
Net change in cash and cash equivalents	−882	−9,963
Cash and cash equivalents at the beginning of the period	7,425	23,282
Cash and cash equivalents at the end of the period	6,543	13,319

The included notes are an integral part of the interim consolidated financial statements.

Segment reporting

Q1–Q3/	Central Europe 2009 K€	Central Europe 2008 K€	Northern Europe 2009 K€	Northern Europe 2008 K€	Southern Europe 2009 K€	Southern Europe 2008 K€	Eastern Europe 2009 K€	Eastern Europe 2008 K€	The Americas 2009 K€	The Americas 2008 K€	Asia/Australia 2009 K€	Asia/Australia 2008 K€
External revenue	21,114	21,341	12,632	15,129	6,716	8,249	5,361	15,883	32	−15	1,841	2,370
Internal revenue	1,514	1,921	472	788	1,272	1,242	769	471	0	0	0	0
Segment revenue, total	22,628	23,262	13,104	15,917	7,988	9,491	6,130	16,354	32	−15	1,841	2,370
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	666	5,365	−167	−892	−305	276	458	2,575	6	−78	−123	−966

Q1–Q3/	Other 2009 K€	Other 2008 K€	Consolidation 2009 K€	Consolidation 2008 K€	Group total 2009 K€	Group total 2008 K€	Discontinued operations 2009 K€	Discontinued operations 2008 K€	Continuing operations 2009 K€	Continuing operations 2008 K€
External revenue	0	0	0	0	47,696	62,957	32	−15	47,664	62,972
Internal revenue	0	0	−4,027	−4,422	0	0	0	0	0	0
Segment revenue, total	0	0	−4,027	−4,422	47,696	62,957	32	−15	47,664	62,972
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	0	0	0	0	535	6,280	6	−78	529	6,358

The segment reporting is part of the notes.

Notes to the interim consolidated financial statements as of September 30, 2009

Notes to the interim consolidated financial statements as of September 30, 2009

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 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 September 30, 2009 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, 2008, 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, 2008, inasmuch as they were adopted by the EU.

1.3. Consolidation

The interim consolidated financial statements as of September 30, 2009 follow the same consolidation methods as the consolidated financial statements as of December 31, 2008. Reference is also made to the existing consolidated financial statements as of December 31, 2008.

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 nine months of the 2009 financial year.

1.4. Accounting methods

The interim consolidated financial statements as of September 30, 2009 follow the same accounting methods as the consolidated financial statements as of December 31, 2008. Reference is also made to the existing consolidated financial statements as of December 31, 2008.

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 September 30, 2009. 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. No restructuring costs and one-off items were recognized in the first nine months of the 2009 financial year (previous year: income of K€ 159).

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. Explanations of items in the consolidated financial statements

2.1. General

The presentation of items in the interim consolidated financial statements as of September 30, 2009 follows the same structure as the consolidated financial statements as of December 31, 2008.

The development of the individual items of the interim consolidated financial statements in the first nine months of the 2009 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 third quarter of 2009.

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:

	Q1–Q3/2009 K€	Q1–Q3/2008 K€
Revenue	32	–15
Selling and distribution expenses	0	–163
Administrative expenses	–11	4
Other income	0	96
Other expenses	–15	0
Income taxes on discontinued operations	0	14
Result from discontinued operations	6	–64

The result from discontinued operations in the first nine months of the 2009 financial year essentially resulted from exchange rate effects. In the same period of the previous year, the result from discontinued operations essentially comprised exchange rate effects as well as allowances for trade receivables.

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

	Q1–Q3/2009 K€	Q1–Q3/2008 K€
Cash flow from operating activities	–27	97
Cash flow from financing activities	0	0
Cash flow from financing activities	0	0
Effects of exchange rate changes	1	10
Cash flow from discontinued operations	–26	107

2.3. Other disclosures regarding the income statement

Staff costs included in the operating expenses of the Zapf Creation Group in the first nine months of 2009 totaled K€ 9,221 (previous year: K€ 10,796).

Staff costs by functional areas are comprised as follows:

	Q1–Q3/2009 K€	Q1–Q3/2008 K€
Selling and disposition	4,401	6,129
Marketing	743	813
Other administration	4,077	3,854
Staff costs	9,221	10,796

2.4. Equity

Capital measures

No capital measures were carried out in the first nine months of the 2009 financial year.

In the comparative prior-year period, Zapf Creation AG had announced on February 28, 2008, that the Management Board had resolved on February 22, 2008, with the approval of the Supervisory Board on February 27, 2008, to convert € 12.9 million of the subordinated shareholder loans including accrued interest into equity by means of a non-cash capital increase, as planned and previously announced. The Company issued 4.8 million new shares to this end, fully utilizing the authorized capital existing at that time. For more details, please see the consolidated financial statements as of December 31, 2008. The amount in shareholder loans contributed per new share was € 2.69. This non-cash capital increase further enhanced the Company's equity base. As a result, the share capital of Zapf Creation AG rose from € 13.2 million by € 4.8 million to € 18.0 million; it was recorded in the commercial register on March 19, 2008.

On June 5, 2008, Zapf Creation AG announced that its Management Board, as planned and previously announced, resolved to convert into equity all outstanding subordinate shareholder loans, including accrued interest, amounting to € 5.0 million by way of a capital increase against in-kind contributions. The Management Board's decision was made on May 29, 2008, and approved by the Supervisory Board on June 5, 2008. For this purpose, a total of 1,295,853 new shares were issued by utilizing part of the new authorized capital (Authorized Capital 2008) created at the Annual Shareholders' Meeting on May 27, 2008. Reference is also made to the existing consolidated financial statements as of December 31, 2008. The amount in shareholder loans contributed per new share was € 3.86. The non-cash capital increase lifted the share capital of Zapf Creation AG by € 1,295,853, from € 18.0 million to approximately € 19.3 million. The capital increase was recorded in the commercial register on June 11, 2008. The amendment of Article 5 of the Articles of Incorporation (Amount and breakdown of share capital) became effective through the resolution of the Supervisory Board on June 10, 2008. The full conversion of the shareholder loans into equity completed the implementation of the Group's long-term financing concept that was agreed between Zapf Creation, its major shareholders and an international consortium of banks on July 20, 2007. This measure significantly reduces the Group's future interest expense. After partial utilization, the remaining authorized capital from May 27, 2008 (Authorized Capital 2008) is € 7,704,147.00.

As a result of the conversion, the percentage of the share capital held by the Group's major shareholders MGA Entertainment, Inc. or its shareholders ("Trusts") and Mr. Nicolas Mathys increased to 44.44 % and 19.45 %, respectively. As a result of additional share purchases made in 2008, their share has increased to 44.79 % and 20.50 %, respectively, by September 30, 2009.

Treasury shares

In the comparative prior-year period, the Company was authorized by resolution of the Annual Shareholders' Meeting dated May 27, 2008 to purchase treasury shares. Regarding the details of the authorization, please also see the consolidated financial statements as of December 31, 2008. As of September 30, 2009, the new authorization granted by the Annual Shareholders' Meeting on May 27, 2008, to acquire treasury shares had not been 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 change with regard to the composition of the Management Board occurred during the period under review:

Effective March 1, 2009, the Supervisory Board of Zapf Creation AG appointed Mr. José Antonio Santana to the Company's Management Board, announcing that he would be responsible 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 also consists of Stephan F. Brune, Chief Executive Officer, and Jens U. Keil, Chief Financial Officer.

The Supervisory Board of Zapf Creation AG resolved on September 16, 2009, to reappoint Mr. Jens U. Keil early as chief financial officer. Mr. Keil will remain responsible for finance, investor relations, IT, logistics and risk management.

The total compensation of K€ 745 (previous year: K€ 422) 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, individual pension plan, and other insurance policies. Mr. Stephan F. Brune was reimbursed for flights home, in the scope stipulated; additionally, the Company will also reimburse Mr. Brune on the basis of documented costs for relocation expenses, realtor fees as well as matriculation fees. The Company has promised Mr. Brune that it will purchase life and accident insurance for him. It 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 nine months of the 2009 financial year. Regarding details, please also see the consolidated financial statements as of December 31, 2008. Under this plan, 27,000 phantom stock options at a base price of € 0.81 were allocated to Mr. José Antonio Santana and 10,000 phantom stock options at a base price of € 0.87 were allocated to Mr. Jens U. Keil in 2009; the exercise of these options is not linked to achievement of specific performance targets. In the comparative prior-year period, Mr. Jens U. Keil was granted 10,000 phantom options at a base price of € 3.59 and 15,000 phantom options at a base price of € 3.50; a total of 34,000 phantom options were granted to the previous member of the Management Board, Mr. Thomas Pfau, at a base price of € 2.99. 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€ 15 (previous year: K€ 41) were expensed for provisions related to obligations under this phantom-share-based compensation system in the first nine months of the 2009 financial year for the newly granted phantom stock options; due to the performance of the Company's shares, K€ 8 of these provisions (previous year: K€ 52) were reversed to profit and loss during the first nine months of 2009. A total of K€ 25 (previous year: K€ 54) in provisions for liabilities under the aforementioned phantom stock options were recognized as of September 30, 2009. The phantom stock options granted to the former Management Board member, Dr. Georg Kellinghusen, lapsed on February 15, 2009; a tranche of 33,000 phantom options that were granted to the previous member of the Management Board, Mr. Thomas Pfau, at a base price of € 7.29 lapsed on September 1, 2009.

During the 2008 financial year, Mr. Stephan F. Brune was also granted additional share-based compensation above and beyond the aforementioned compensation system entailing phantom stock options. Mr. Brune is granted Zapf Creation AG shares as part of both his fixed and his variable compensation; the variable component of his compensation is contingent on the achievement of specific performance targets. While Mr. José Antonio Santana was granted similar share-based compensation in the 2009 reporting period, it is solely designed to be his variable compensation, the amount of which is contingent on the achievement of specific performance targets. In the first nine months of 2009, both components (fixed and variable) gave rise to expenses of K€ 134 (previous year: K€ 0) from share-based compensation).

Regarding further information on the programs, please also see the consolidated financial statements as of December 31, 2008.

As in the same period the previous year, no one-off compensation was paid to former Board members in the first nine months of the 2009 financial 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 (previous year: K€ 0) 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. The Company's overall claim as of the September 30, 2009, reporting date has been reduced to K€ 354 (previous year: K€ 705) due to the waiver of its claim, the interest and loan payments received in the 2008 financial year, interest payment made in the first two quarters of 2009, and taking into account the interest receivables for the third quarter of 2009. 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.

3.2. The Supervisory Board

The following change with regard to the composition of the Supervisory Board occurred during the period under review:

The Coburg Local Court removed Mr. Gustavo Perez from the Supervisory Board of Zapf Creation AG on July 30, 2009. Mr. Perez had been a regular member and vice chairman of the Supervisory Board until July 28, 2006, and a member of the Supervisory Board since May 11, 2005.

In the comparative prior-year period, Mr. Francesc Robert, who had been vice chairman of the Supervisory Board since July 28, 2006, and a member of the Supervisory Board since May 11, 2005, resigned from the Supervisory Board effective at the end of the Company's Annual Shareholders' Meeting on May 27, 2008. For the remainder of Mr. Robert's term of office, Mr. Nicolas Mathys, Baar, Switzerland, was elected to the Supervisory Board. Mr. Mathys has also been serving as vice chairman of the Supervisory Board since May 27, 2008.

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 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 September 30, 2009 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. The subordinate shareholder loans included in the Company's financing concept, including pro rated interest owed, were fully converted into equity upon entry in the commercial register on March 19, 2008 and June 11, 2008; insofar please also see Section 2.4.

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 the Americas (North, Central and South); 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 nine months of the 2009 financial year:

Cooperation agreements	Q1–Q3/2009 K€	Q1–Q3/2008 K€
Agreement 1: "Distribution Agreement" Income from Agreement 1	452	875
Agreement 2: "Consignment and Services Agreement" Income from Agreement 2	501	968
Agreement 3: "Logistics Service Agreement" Income from Agreement 3	523	1,262
Agreement 4: "Hong Kong/China Services Agreement" Expenses from Agreement 4	1,138	1,512
Agreement 5: "Merchandising License Agreement" Income from Agreement 5	32	0
Agreement 6: "UK Services Agreement" Income from Agreement 6	232	421
Expenses from Agreement 6	103	130

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	Q1–Q3/2009 K€	Q1–Q3/2008 K€
Income from cross charges	1,046	1,467
Expenses from cross charges	1,194	2,338

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	Q1–Q3/2009 K€	Q1–Q3/2008 K€
Merchandise procurement in the reporting period	24,297	30,546

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.

There were no other business transactions in the first nine months of the 2009 financial year. In the comparative prior-year period, the subordinate shareholder loans included in the Company's financing concept, including pro rated interest owed, were fully converted into equity upon entry in the commercial register on March 19, 2008 and June 11, 2008; insofar please also see Section 2.4.

The receivables and liabilities of the Zapf Creation Group that result from the partnership with related parties of the MGA Group as of September 30, 2009 are as follows:

Balances as of the balance sheet date	Sep. 30, 2009 K€	Sep. 30, 2008 K€
Receivables from related parties	4,129	4,566
Liabilities to related parties	11,998	16,283

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 the directors' dealings disclosed below, please see the disclosures in the interim management report of the Group as of the end of the third quarter of 2009.

5. Directors' dealings

During the period from January 1 to November 6, 2009, the officers and directors of the Company reported the following securities dealings that require disclosure under Section 15a of the German Securities Trading Act (WpHG):

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on November 4, 2009, in accordance with Section 15a German Securities Trading Act that on September 26, 2008, it had purchased a total of 20,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.42 per share for a total transaction volume of € 48,460.00.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on November 4, 2009, in accordance with Section 15a German Securities Trading Act that on October 9, 2008, it had purchased a total of 6,126 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.03 per share for a total transaction volume of € 12,441.91.

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, November 6, 2009

Stephan F. Brune
Chairman of the Management Board

Jens U. Keil
Member of the Management Board

José Antonio Santana
Member of the 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 principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.”

Roedental, Germany, November 6, 2009

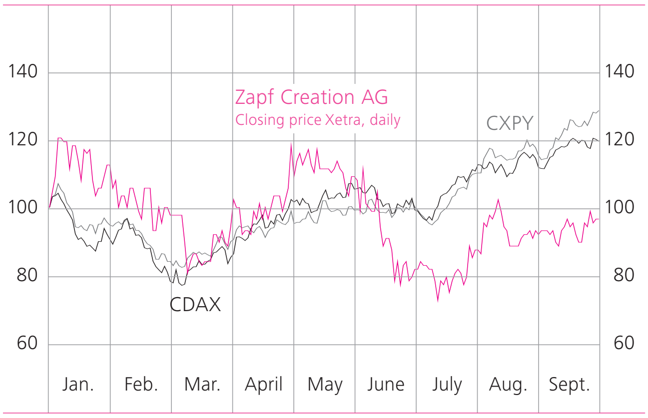
Stephan F. Brune
Chairman of the Management Board

Jens U. Keil
Member of the Management Board

José Antonio Santana
Member of the Management Board

The share

Indexed share price performance, December 30, 2008 = 100



After starting the year at a price of € 0.85 per share in XETRA trading, the share of Zapf Creation AG rose to € 1.03 per share on January 6, 2009, its high for the first half of 2009. While the price of Zapf Creation's share largely paralleled the two performance indices, CDAX and CXPY until mid-June 2009 during a period of high volatility, it dropped substantially starting on June 15, 2009, thus diverging from both performance indices' stable trend. By the end of the year's first half, the share had fallen to € 0.66, down 22.4 % as of June 30, 2009. It continued its fall, having come under massive pressure to sell, and reached a new low of € 0.61 for the year on July 14, 2009. But the share recovered slightly thereafter, closing at € 0.87 on August 12, 2009 – its high for the third quarter of 2009 and up approximately 2 % on its opening price at the start of the year. It declined yet again on the next two days, closing at € 0.80 on August 14, 2009. While the CDAX and the CXPY once again managed as of September 30, 2009, to gain almost 20 % and even close to 30 %, respectively, on their opening prices for the year, Zapf Creation's share fluctuated between € 0.74 and € 0.84 during the remainder of August and all of September 2009. It closed at € 0.82 as of September 30, 2009 (the end of the third quarter), down 3.5 % from the year's opening price.

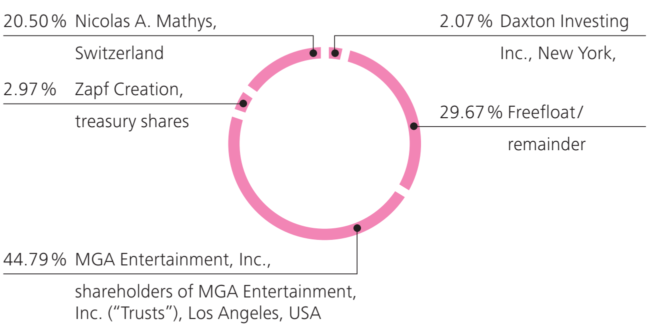
In the view of Zapf Creation AG, the price of its share does not appropriately reflect the Company's intrinsic value, as well as its performance, and thus does not provide a true and fair picture of the enterprise value.

Financial calendar

Date	Event	Place
Nov. 6, 2009	Publication of the Q3/nine-month results 2009	Roedental
Nov. 09–11, 2009	German Equity Forum 2009	Frankfurt/Main
Dec. 15, 2009	10th Annual Shareholders' Meeting of Zapf Creation AG	Roedental

Shareholder structure*

Share capital (no-par shares): 19,295,853



* The figures are primarily based on the notifications under Sections 15a and 21 German Securities Trading Act received by Zapf Creation AG until November 6, 2009.

Directors' dealings

During the period from January 1 to November 6, 2009, the officers and directors of the Company reported the following securities dealings that require disclosure under Section 15a of the German Securities Trading Act (WpHG):

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on November 4, 2009, in accordance with Section 15a German Securities Trading Act that on September 26, 2008, it had purchased a total of 20,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.42 per share for a total transaction volume of € 48,460.00.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on November 4, 2009, in accordance with Section 15a German Securities Trading Act that on October 9, 2008, it had purchased a total of 6,126 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.03 per share for a total transaction volume of € 12,441.91.

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