Quarterly Report 1/2009

Consolidated key figures (IFRS)

in € million	Q1/2009	Q1/2008	+/– in %
Adjusted earnings situation (without restructuring costs and one-off effects)			
Continuing operations			
EBITDA	– 4,0	– 2,5	– 56
EBIT	– 4,9	– 3,5	– 42
EBIT margin (in %)	– 46,5	– 24,2	–
EBT	– 6,0	– 5,4	– 9
Result from continuing operations	– 5,4	– 4,2	– 29
Discontinued operations			
Result from discontinued operations	0,4	– 0,1	—
Group			
Net profit or loss for the period	– 4,9	– 4,3	– 16
Earnings per share (in €) 1)	– 0,26	– 0,32	18
Earnings situation according to the income statement (including restructuring costs and one-off effects)			
Continuing operations			
Net sales	10,6	14,3	– 26
Gross margin (in %)	29,7	40,5	—
EBITDA	– 4,0	– 2,5	– 56
EBIT	– 4,9	– 3,5	– 42
EBIT margin (in %)	– 46,5	– 24,2	—
EBT	– 6,0	– 5,4	– 9
Result from continuing operations	– 5,4	– 4,2	– 29
Included restructuring costs and one-off effects	0,0	0,0	—
Included depreciation and amortization	1,0	0,9	4
Discontinued operations			
Result from discontinued operations	0,4	– 0,1	—
Included restructuring costs and one-off effects	0,0	0,0	—
Included depreciation and amortization	0,0	0,0	—
Group			
Net profit or loss for the period	– 4,9	– 4,3	– 16
Earnings per share (in €) 1)	– 0,26	– 0,32	18

The information for Q1/2009 is presented under the premise that the Company will continue as a going concern. 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) undiluted = diluted

Consolidated key figures (IFRS)

in € million	Q1/2009	Q1/2008	+/– in %
Balance sheet			
Total assets	73,3	96,0	– 24
Non-current assets	21,7	20,0	9
Investments	0,3	0,2	84
Current assets	51,7	76,0	– 32
Equity	18,3	23,5	– 22
Equity ratio (in %)	24,9	24,4	—
Liabilities to banks and loans granted by shareholders	34,1	43,3	– 21
Net debt (including shareholder loans)	22,3	12,4	80
Cash flow			
Cash flow from operating activities	6,8	10,6	– 36
Cash flow from operating activities per share (in €)	0,36	0,80	– 54
Net cash flow	4,4	7,6	– 42
Employees			
Number as at the closing date [2)]	241	230	5

The information for Q1/2009 is presented under the premise that the Company will continue as a going concern. 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.
2) excluding Management Board and trainees

Report on the first three months of 2009

- **Operational development in line with Company's expectations**
- **Sales impacted by economic downturn**
- **Renewed reductions in key cost items**
- **Uncertain market environment expected to continue**

1. Summary

The Zapf Creation Group's performance in the first quarter of 2009 is in line with the Company's expectations. Consolidated sales in the first quarter – which is the industry's weakest due to its seasonal nature – were € 10.6 million and thus below the previous year's level (Q1/2008: € 14.3 million) due to the substantial economic downturn in all important markets.

A variety of factors, over which the Group has no direct control, had a negative impact on earnings in the first three months of 2009. This included, in particular, currency translation effects that pushed up cost of materials significantly, among other things, and a volume-related decline in income from logistics services for third parties. In contrast, declining costs through additional efficiency gains, for instance, in both sales and administration, had positive effects yet again. Declining finance costs also had a positive impact on the development of earnings. The net loss for the period was € 4.9 million, compared to € 4.3 million in the prior-year period.

Thanks to its streamlined corporate structures, well-coordinated processes, and innovative product pipeline, on the whole, the Zapf Creation Group is well positioned in the difficult market environment. However, it is almost impossible at present to gauge how customer demand in the Group's core markets will develop. It is for this reason that the Management Board cannot announce any sales or earnings targets for the 2009 financial year at this time.

2. Significant events during the reporting period

2.1. New Management Board member

On February 17, 2009, Zapf Creation AG announced that the Supervisory Board had appointed Mr. José Antonio Santana Caparrós (42) to the Management Board effective March 1, 2009, and that he will be responsible for marketing, design and product development as well as quality management. Mr. Santana took over these responsibilities from the CEO, who had been managing them on an interim basis until then. Mr. Santana has held several executive positions with international toy companies since 1995. Most recently, he served as Vice President Marketing and Brand Development at MEGA Brands, a global toy company based in Montreal, Canada. In this capacity, he was responsible for marketing, licensing and girls' products.

2.2. Successful trade show participation and innovation award

The Zapf Creation Group presented its product innovations to the international trade at the Nuremberg Toy Fair, the world's most important of its kind, from February 5 to 10, 2009. Besides new dolls, expanded functions, and additional accessories for the Group's classical brands – BABY born®, Baby Annabell®, and CHOU CHOU – the Group's new toy concepts garnered much attention among visitors of the trade fair: the doll series, Jolina Ballerina, which simulates the world of ballet using appropriate accessories, as well as the play doll, My little Sunshine, whose numerous interactive functions mimic a real toddler. The latter was awarded the ToyAward 2009 in the category, Emotion & Experience at the trade fair. The trade's positive response to the Group's new products confirms the Management Board's strategy, which entails pushing the development and marketing of innovative toy concepts for new target groups based on the Group's established brand dolls.

3. Economic conditions

3.1. Business environment

The global economy continued its downward slide in the first three months of 2009 due to the ongoing financial crisis. While all major countries enacted comprehensive economic stimulus packages, as well as political measures designed to support the international financial system, none of these interventions succeeded in preventing the downturn in both industrial production and global trade. Investors in the capital markets remained uncertain. The economy of the entire euro zone experienced a steep decline despite falling commodities prices and the lowest prime rates in its history. The German economy plunged into a deep economic crisis in the first quarter of 2009.

Forecasts concerning economic developments in 2009 remain pessimistic across the board even though experts differ in their assessments of the depth of the recession. The global economy on the whole is expected to shrink by 1.3 % while the GDP of the euro zone is expected to decline by up to 4.2 %. According to the estimates of the leading German economic research institutes, in 2009 Germany's GDP is expected to remain 6 % below the previous year's level. The experts do not expect the economy to recover until the middle of 2010.

Sources:
European Central Bank, Monthly Report, March 2009
Association of German Banks, Economic Report, April 2009
International Monetary Fund, World Economic Outlook, April 2009
Spring opinion of Germany's leading economic research institutes, April 23, 2009

3.2. Industry environment in Europe

The economic downturn had an unmistakable impact on the most important European toy markets in the first quarter of 2009. Sales of toy to end consumers in the industry's seasonally weakest quarter declined year on year, as did sales of play and functional dolls.

In Germany, for instance, the market volume for toys in terms of retail sales prices dropped 8.7 % from the previous year's first quarter. In the UK, the toy market even contracted by 17.7 % during the reporting period.

Sales in the play and functional doll segment, which is key to the Zapf Creation Group, also dropped substantially. In Germany, the sales volume was down 13.9 % in the first quarter of 2009. In the UK, the market segment declined by 13.2 %.

4. Performance of the Zapf Creation Group

4.1. Preliminary remark

The consolidated financial statements of Zapf Creation AG as of December 31, 2008, had not yet been audited at the time this quarterly report was prepared. This is due to the ongoing negotiations with the banking syndicate that funds the Company on adjusting the terms governing the Group's long-term financing. These negotiations were triggered by a breach of the Covenants stipulated with the consortium as a result of the development of business in the fourth quarter of 2008. The 2008 consolidated financial statements of Zapf Creation AG cannot be audited until these negotiations have been brought to a successful conclusion. The Management Board of Zapf Creation AG is very confident that the talks will yield a positive outcome.

The following disclosures on the performance indicators for the 2008 financial year – which were prepared on the assumption that the Company will remain a going concern – are published here with the proviso that they will be retroactively confirmed by the auditors.

4.2. Development of sales

The Zapf Creation Group posted sales of € 10.6 million in the first three months of 2009, a decline of 26.0 % from the previous year (Q1/2008: € 14.3 million).

4.3. Development of sales by region

At € 10.4 million, first-quarter consolidated sales in Europe remained 25.9 % below the previous year's level (€ 14.0 million).

Sales in the Central Europe sales region (Germany, Austria, Switzerland, The Netherlands, Luxembourg) were € 5.3 million, down from € 6.1 million the previous year. In Northern Europe (UK, Ireland, and Scandinavia), sales in the first quarter of 2009 were € 2.4 million (Q1/2008: € 3.0 million). At € 1.6 million, sales in the Southern European markets (Spain, France, Italy, and Belgium) slightly missed the previous year's level of € 1.7 million. The Zapf Creation Group's sales in Eastern Europe dropped from € 3.2 million the previous year to € 1.0 million; besides the weak economy, this also reflects negative currency translation effects.

Consolidated sales in the Asia/Australia region in the first three months of 2009 were € 0.2 million, down from € 0.3 million in the same period the previous year.

Breakdown of sales (external sales) by region*

	Q1/2009 K€	Q1/2008 K€	+/– in %
Europe	**10,348**	**13,967**	**–26**
Central Europe	5,289	6,098	– 13
Northern Europe	2,423	2,967	– 18
Southern Europe	1,608	1,688	– 5
Eastern Europe	1,028	3,214	– 68
Asia/Australia	**222**	**319**	**– 30**
Total sales	10,570	14,286	– 26

* In accordance with IFRS 5

4.4. Development of sales by product line

In its core segment of play and functional dolls, the Zapf Creation Group posted sales of € 9.8 million (Q1/2008: € 12.7 million) as of the first three months of the year.

Sales of the BABY born® doll concept were € 6.2 million. The year-on-year decline from € 9.0 million was due, in particular, to the weak development of play doll markets in important countries such as Germany and the UK.

Sales of the Baby Annabell® series, in contrast, rose to € 2.2 million (Q1/2008: 2.0 million) in the first quarter of 2009. What was decisive to this result was the successful introduction of the new Baby Annabell® Tender Kisses – especially in the UK, this doll's main market.

The Zapf Creation Group's CHOU CHOU doll series accounted for € 1.2 million in sales, down from € 1.5 million the previous year.

Sales of other products in the first three months of the year were € 0.8 million, which is below the previous year's level of (€ 1.6 million), substantially due to negative currency translation effects from distribution services for third parties in Poland.

Breakdown of sales by product line*

	Q1/2009 K€	Q1/2008 K€	+/– in %
Play and functional dolls	**9,791**	**12,726**	**– 23**
BABY born®	6,232	8,993	– 31
Baby Annabell®	2,233	2,035	10
CHOU CHOU	1,195	1,533	– 22
Other play and functional dolls	131	165	– 20
Other products	**779**	**1,560**	**– 50**
Total sales	**10,570**	**14,286**	**– 26**

* In accordance with IFRS 5

5. Development of earnings

The gross profit margin at the close of the first three months of 2009 was 29.7 % of consolidated sales. The substantial year-on-year decline (40.5 %) essentially resulted from external factors over which the Zapf Creation Group has no direct control. This includes negative currency translation effects from the gains of the US dollar, which sparked a significant increase in the cost of materials compared to the previous year. The income from the Zapf Creation Group's logistics services for third parties, which is not offset by any cost of goods sold, also did not reach the previous year's level due to the economy's weakness.

However, key cost items continued to shrink year on year yet again as a result of our efficient corporate structures and processes. For example, selling and distribution expenses decreased by 15.7 % to € 2.9 million (Q1/2008: € 3.4 million). Administrative expenses fell by 10.8 % to € 3.5 million, down from € 3.9 million the previous year.

Other expenses at the close of the first three months of 2009 were € 0.8 million. A non-cash loss on foreign currency translation related to the closing-date measurement of a working capital loan that Zapf Creation AG made to its subsidiary in the UK significantly affected the comparative figure for the previous year (€ 1.4 million). This loss on foreign currency translation was offset against Group equity in the first quarter of 2009.

The Zapf Creation Group posted earnings before interest and taxes (EBIT) of € –4.9 million in the first quarter of 2009, compared to € –3.5 million in the same period the previous year.

Finance costs, which in the previous year still contained interest for the high-interest subordinated shareholder loans, fell to € 1.1 million (Q1/2008: € 2.2 million) in the first three months of 2009. The loans had been fully converted into equity during 2008.

The Zapf Creation Group posted a loss of € 6.0 million from continuing operations before taxes for the first quarter of 2009, up from a loss of € 5.5 million in the comparative period the previous year.

Tax income declined to € 0.6 million (Q1/2008: € 1.3 million) primarily due to tax effects resulting from the measurement of the loan to the Group's UK subsidiary.

Consolidated net income from continuing operations in the first three months of 2009 was € –5.4 million, after € –4.2 million in the same period the previous year.

Income resulting from the closing-date measurement of a loan that Zapf Creation AG made to its US subsidiary, which is no longer operational, generated earnings of € 0.4 million from discontinued operations (Q1/2008: € –0.1 million).

The Zapf Creation Group posted a net loss of € 4.9 million in the first quarter of 2009, up from a loss of € 4.3 million in the same period the previous year. Earnings per share were € –0.26 based on a total of 18.7 million shares outstanding. In the previous year, EPS were € –0.32 based on 13.3 million shares outstanding.

6. Assets

The Zapf Creation Group had total assets of € 73.3 million as of the March 31, 2009, reporting date. The decline by € 20.7 million from the level at the close of the year just ended (€ 94.0 million) mainly reflects the lower business volume due to both seasonal and economic grounds.

Current assets as of the reporting date were € 51.7 million, down from € 72.2 million as of December 31, 2008, mainly due to the decrease in trade receivables by € 24.3 million to 22.7 million.

The year-on-year reduction in inventories by € 1.3 million to € 11.1 million reflects the ongoing improvement of the Zapf Creation Group's working capital management.

Cash and cash equivalents as of the reporting date were € 11.8 million, up from € 7.4 million at the close of the 2008 financial year.

7. Liabilities

In terms of liabilities and equity, current liabilities fell by € 15.9 million to € 55.0 million as of March 31, 2009 (December 31, 2008: € 70.9 million). This was essentially due to declining trade payables, which dropped € 13.0 million to € 15.9 million due to the seasonally weaker business.

The Zapf Creation Group did not recognize non-current bank liabilities as of the reporting date because non-current liabilities to banks were reclassified to current liabilities in accordance with IFRS requirements.

Net debt, which had been € 28.0 million as of the close of the year just ended, declined by € 5.7 million to € 22.3 million as of the March 31, 2009, reporting date.

The equity of the Zapf Creation Group as of March 31, 2009, was € 18.3 million. The decline by € 4.8 million from the equity as of December 31, 2008 (€ 23.0 million) was due to the net loss for the reporting quarter.

The equity ratio of the Zapf Creation Group as of the reporting date was 24.9 %, thus remaining on the solid level that was achieved by the end of the previous year (December 31, 2008: 24.5 %).

8. Liquidity

In the first three months of 2009, the Zapf Creation Group generated cash inflows of € 6.8 million from operating activities (Q1/2008: 10.6 million), mainly due to the reduction in receivables by € 24.4 million.

Investing activities led to outflows of € 0.3 million (Q1/2008: 0.1 million). A total of € 2.2 million were used for financing activities, up from € 2.0 million in the same period the previous year.

Overall, the cash and cash equivalents of the Zapf Creation Group rose by € 4.4 million during the reporting period.

9. Employees

The Zapf Creation Group had a total of 241 employees (excluding both the Management Board and trainees) as of the March 31, 2009, reporting date, compared to 242 at the close of the 2008 financial year. The Zapf Creation Group thus possesses the depth of personnel it needs to tap into growth opportunities in the global toy markets.

10. Events after the close of the reporting period

There were no events of particular significance to the Zapf Creation Group after the March 31, 2009, reporting date.

11. Opportunities and risks

There has been no substantial change in the opportunities profile of the Zapf Creation Group for the next six months compared to the management report for both Zapf Creation AG and the Group in the 2007 annual report. The basic risk profile that was provided at the same place in the 2007 annual report also continues to apply.

We do wish to address the following additional risks, however:

At the present time, the Company is negotiating with the banking syndicate 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 Management Board of Zapf Creation AG is very confident that the talks will yield a positive outcome. However, we cannot preclude that the participating banks might exercise their right to call their credit lines in the event of a negative outcome. In this case, the solvency of both the Zapf Creation Group and Zapf Creation AG would be at risk in the short term, threatening the Company's existence as a going concern.

In addition, there is the possibility that consumer demand for toys, particularly play and functional dolls, might continue to decline given the ongoing weakness of the economy. In turn, this would further aggravate the sales risk in regards to the Zapf Creation Group's products. This would hamper the profit or loss, financial position and cash flows of both Zapf Creation AG and the Zapf Creation Group.

12. Outlook

The Zapf Creation Group is well positioned as an international provider of high quality toys. The Group's corporate structures are streamlined, its operating processes are efficient and reliable, and its costs are competitive. As planned, the Group has also greatly accelerated the speed with which it innovates. Numerous product innovations have already been presented to the trade in the current financial year and met with a positive response. Additional innovations will be brought to market in the year's second half. The positive response of many trade customers encourages the Management Board to continue pushing the development and worldwide marketing of innovative branded play concepts for new target groups. Hence the Zapf Creation Group fulfills all the prerequisites required to compete internationally in the long term and grow profitably.

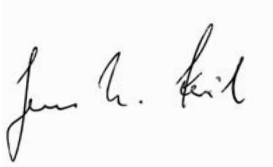
However, the difficult market climate will also affect the development of business in 2009. The Management Board does not expect this situation to change any time soon. Given the continued uncertainty surrounding economic developments, it is difficult at the present time to provide a reliable assessment of how consumer demand in the Zapf Creation Group's core markets will develop.

It is for this reason that the Management Board at this time cannot announce any specific sales or earnings targets for the 2009 financial year.

Roedental, Germany, May 14, 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 March 31, 2009

Consolidated income statement	Q1/2009 K€	Q1/2008 K€
Revenue	10,570	14,286
Cost of sales	−7,428	− 8,501
Gross profit	**3,142**	**5,785**
Selling and distribution expenses	−2,855	− 3,387
Marketing expenses	−1,398	− 1,279
Administrative expenses	−3,453	− 3,871
Other income	404	722
Other expenses	−753	− 1,425
Operating result	**−4,913**	**− 3,455**
(Restructuring costs included therein	*0*	*0)*
(One-off costs, mainly consultancy, included therein	*0*	*0)*
(Adjusted operating result derived therefrom	***−4,913***	***− 3,455)***
Finance income	21	198
Finance costs	− 1,072	− 2,191
Result from continuing operations before income taxes	− 5,964	**− 5,448**
Taxes on income	588	1,291
Result from continuing operations	**− 5,376**	**− 4,157**
Result from discontinued operations before income taxes	441	− 96
Income taxes on discontinued operations	0	0
Net profit or loss for the period	− 4,935	− 4,253
Average number of shares outstanding (in thousands)	18,723	13,298
Earnings per share, continuing operations	− 0.29	− 0.31
Earnings per share, discontinued operations	0.02	− 0.01
Earnings per share (basic/diluted)	− 0.26	− 0.32

Consolidated statement of comprehensive income	Q1/2009 K€	Q1/2008 K€
Net profit or loss for the period	− 4,935	− 4,253
Adjustment from currency translation	210	365
Deferred taxes	− 117	0
Derivative financial instruments	0	131
Other comprehensive income	**93**	**496**
Comprehensive loss	− 4,842	− 3,757

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

Consolidated balance sheet	March 31, 2009 K€	Dec. 31, 2008 K€	March 31, 2008 K€
Assets			
Current assets	**51,662**	**72,160**	**76,015**
Cash	11,815	7,425	30,912
Trade receivables	22,703	47,024	25,077
Inventories	11,108	12,363	14,010
Income tax receivables	567	547	303
Other assets	5,469	4,801	5,713
Non-current assets	**21,670**	**21,861**	**19,955**
Property, plant and equipment	14,820	15,272	15,348
Intangible assets	5,300	5,517	3,244
Other assets	0	5	10
Deferred tax assets	1,550	1,067	1,353
Total assets	**73,332**	**94,021**	**95,970**
Equity and liabilities			
Current liabilities	**55,033**	**70,941**	**38,961**
Liabilities to banks	34,139	35,430	5,035
Trade payables	15,878	28,868	23,514
Income tax liabilities	851	981	463
Other liabilities	2,363	2,540	7,393
Provisions	1,802	3,122	2,556
Non-current liabilities	**39**	**38**	**33,546**
Liabilities to banks	0	0	33,469
Deferred tax liabilities	39	38	77
Equity	**18,260**	**23,042**	**23,463**
Issued capital	19,296	19,296	18,000
Capital reserve	33,300	33,240	29,693
Net profit or loss for the period and retained earnings brought forward	– 20,640	– 15,705	– 14,110
Other recognized income and expense	– 2,338	– 2,431	1,238
Treasury shares	– 11,358	– 11,358	– 11,358
Total equity and liabilities	**73,332**	**94,021**	**95,970**

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

Consolidated statement of changes in equity

	Shares outstanding	Issued capital	Capital reserves	Net profit/loss for the period and retained earnings brought forward	Other recognized income and expense: Adjustment from currency translation	Other recognized income and expense: Derivative financial instruments	Treasury shares	Total equity
	(thsds.)	K€	K€	K€	K€	K€	K€	K€
Balance at January 1, 2008:	12,627	13,200	21,703	– 9,857	742	0	– 11,358	14,430
Net profit or loss for the period				– 4,253				– 4,253
Change in other recognized income and expense					365	131		496
Comprehensive income or loss				– 4,253	365	131		– 3,757
Issuance of treasury shares	4,800	4,800	7,990					12,790
Balance at March 31, 2008:	17,427	18,000	29,693	– 14,110	1,107	131	– 11,358	23,463
Balance at January 1, 2009:	18,723	19,296	33,240	– 13,705	– 2,431	0	– 11,358	23,042
Net profit or loss for the period				– 4,935				– 4,935
Change in other recognized income and expense					93	0		93
Comprehensive income or loss				– 4,935	93	0		– 4,842
Share-based payment			60					60
Balance at March 31, 2009:	18,723	19,296	33,300	– 20,640	– 2,338	0	– 11,358	18,260

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

Consolidated cash flow statement	Q1/2009 K€	Q1/2008 K€
Cash flow from operating activities:		
Earnings before income taxes	– 5,523	– 5,544
Depreciation of non-current assets	958	919
Losses/gains from the disposal of non-current assets	– 1	– 1
Finance costs/income	1,051	1,993
Share-based payment	60	0
Other non-cash income/expenses	0	0
Increase/decrease in assets and liabilities:		
Trade receivables	24,355	25,657
Inventories	1,254	– 511
Other assets	– 727	3,005
Liabilities and reserves	– 14,450	– 14,809
Income tax payments	– 161	– 119
Cash flow from operating activities	6,816	10,590
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	6	41
Cash payments for investments in property, plant and equipment and intangible assets	– 289	– 157
Cash flow from investing activities	– 283	– 116
Cash flow from financing activities:		
Cash receipts from non-current bank borrowings	0	0
Cash payments for non-current bank borrowings	– 7	– 1,035
Cash payments for the repayment of non-current bank borrowings	0	– 1,000
Change in liabilities due to current borrowings	– 1,396	168
Interest paid	– 842	– 58
Interest received	7	178
Cash payments for the issuance of treasury shares	0	– 285
Cash flow from financing activities	– 2,238	– 2,032
Effects of exchange rate changes	95	– 812
Net change in cash and cash equivalents	4,390	7,630
Cash and cash equivalents at the beginning of the period	7,425	23,282
Cash and cash equivalents at the end of the period	11,815	30,912

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

Segment reporting

	Central Europe		Northern Europe		Southern Europe		Eastern Europe		The Americas		Asia/ Australia	
Q1/	2009 K€	2008 K€	2009 K€	2008 K€	2009 K€	2008 K€	2009 K€	2008 K€	2009 K€	2008 K€	2009 K€	2008 K€
External sales	5,289	6,098	2,423	2,967	1,608	1,688	1,028	3,214	– 5	– 10	222	319
Internal sales	68	1,612	123	186	391	239	25	235	0	0	0	0
Segment sales, total	5,357	7,710	2,546	3,153	1,999	1,927	1,053	3,449	– 5	– 10	222	319
Earnings before interest, taxes, depreciation and amortization (EBITDA)	– 1,705	1,934	– 789	– 2,962	– 523	– 412	– 818	– 830	441	– 96	– 120	– 266

	Other		Consolidation		Group total		Discontinued operations		Continuing operations	
Q1/	2009 K€	2008 K€	2009 K€	2008 K€	2009 K€	2008 K€	2009 K€	2008 K€	2009 K€	2008 K€
External sales	0	0	0	0	10,565	14,276	– 5	– 10	10,570	14,286
Internal sales	0	0	– 607	– 2,272	0	0	0	0	0	0
Segment sales, total	0	0	– 607	– 2,272	10,565	14,276	– 5	– 10	10,570	14,286
Earnings before interest, taxes, depreciation and amortization (EBITDA)	0	0	0	0	– 3,514	– 2,632	441	– 96	– 3,955	– 2,536

The segment reporting is part of the notes.

Notes to the interim consolidated financial statements as of March 31, 2009

Notes to the interim consolidated financial statements as of March 31, 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 March 31, 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.

At this time, the consolidated financial statements of Zapf Creation AG as of December 31, 2008, are available only in preliminary form and have not yet been published. Therefore, events within the meaning of IAS 10 ("Events after the Balance Sheet Date") could occur which could affect the consolidated financial statements as of December 31, 2008. Any such changes would require adjustments to be made to the opening balances on which the interim consolidated financial statements as of March 31, 2009, are based.

1.3. Consolidation

The interim consolidated financial statements as of March 31, 2009 follow the same consolidation methods as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2008. Reference is also made to the existing consolidated financial statements as of December 31, 2007, 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 three months of the 2009 financial year.

1.4. Accounting methods

The interim consolidated financial statements as of March 31, 2009 follow the same accounting methods as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2008; Reference is also made to the existing consolidated financial statements as of December 31, 2007, 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 March 31, 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. Expenses 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. As in the same period the previous year, no restructuring costs and one-off items were recognized in the first quarter of the 2009 financial year.

The accounting and measurement in the preliminary, as yet unpublished 2008 consolidated financial statements and the interim consolidated financial statements as of March 31, 2009, 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. Explanations of items in the consolidated financial statements

2.1. General

The presentation of items in the interim consolidated financial statements as of March 31, 2009 follows the same structure as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2008. Reference is also made to the existing consolidated financial statements as of December 31, 2007.

The development of the individual items of the interim consolidated financial statements in the first three 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 first quarter of 2009.

The segment report is attached to these notes as 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:

	Q1/2009 K€	Q1/2008 K€
Revenue	– 5	– 10
Other income	446	0
Other expenses	0	– 86
Result from discontinued operations	441	– 96

As in the same period the previous year, the result from discontinued operations in the first three months of the 2009 financial year exclusively resulted from exchange rate effects.

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

	Q1/2009 K€	Q1/2008 K€
Cash flow from operating activities	– 6	– 146
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
Effects of exchange rate changes	2	– 5
Cash flow from discontinued operations	– 4	– 151

2.3. Other disclosures regarding the income statement

Staff costs included in the operating expenses of the Zapf Creation Group in the first three months of 2009 totaled K€ 3,272 (previous year: K€ 3,502).

Staff costs by functional areas are comprised as follows:

	Q1/2009 K€	Q1/2008 K€
Selling and disposition	1,676	2,009
Marketing	277	282
Other administration	1,319	1,211
Staff costs	3,272	3,502

2.4. Equity

Capital measures

No capital measures were carried out in the first three months of the 2009 financial year. In the 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, 2007. 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.

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. 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. His term of office ends on February 28, 2011. Mr. Santana's employment contract will be extended until February 28, 2013 unless he or the Company until December 1, 2010 announces that the contract will not be extended. Mr. Santana takes 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 total compensation of K€ 244 (previous year: K€ 126) 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 will be reimbursed for flights home, in the scope stipulated; additionally, should he relocate, the Company will also reimburse Mr. Brune on the basis of documented costs for relocation expenses, broker 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 three months of the

2009 financial year. Regarding details, please also see the consolidated financial statements as of December 31, 2007. A total of 12,000 additional phantom stock options at a base price of € 0.81 were allocated to Mr. Santana in 2009 under this plan; the exercise of these options is not linked to achievement of specific performance targets. No phantom stock options were granted to members of the Management Board in the prior-year period. 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: 0) were expensed for provisions related to obligations under this phantom-share-based compensation system in the first three months of the 2009 financial year for the newly granted phantom stock options; due to the performance of the Company's shares, K€ 4 of these provisions (previous year: K€ 3) were reversed to profit and loss during the first three months of 2009. A total of K€ 26 (previous year: K€ 62) in provisions for liabilities under the aforementioned phantom stock options were recognized as of March 31, 2009. The phantom stock options granted to the former Management Board member, Dr. Georg Kellinghusen, lapsed on February 15, 2009.

During the 2008 financial year, Mr. Stephan F. Brune was also granted additional share-based compensation above and beyond the 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 first quarter of 2009, 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 three months of 2009, both components (fixed and variable) gave rise to expenses of K€ 60 (previous year: 0) from share-based compensation.

Regarding further information on the programs, please also see the consolidated financial statements as of December 31, 2007.

As in the same period the previous year, no one-off compensation was paid to former Board members in the first three 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: 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 March 31, 2009, reporting date has been reduced by a total of K€ 354 (previous year: K€ 678) due to the waiver of its claim, the interest and loan payments received in the 2008 financial year, as well as the interest payments received for the first three months of the 2009 financial year. 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. Supervisory Board

As in the prior-year period, no changes with regard to the composition of the Supervisory Board occurred during the period under review.

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 March 31, 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, 2007.

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 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 three months of the 2009 financial year:

Cooperation agreements	**Q1/2009 K€**	**Q1/2008 K€**
Agreement 1: "Distribution Agreement"		
Income from Agreement 1	108	179
Agreement 2: "Consignment and Services Agreement"		
Income from Agreement 2	170	373
Agreement 3: "Logistics Service Agreement"		
Income from Agreement 3	146	582
Agreement 4: " Hong Kong/China Services Agreement"		
Expenses from Agreement 4	345	516
Agreement 5: "Merchandising License Agreement"		
Income from Agreement 5	32	0
Agreement 6: "UK Services Agreement"		
Income from Agreement 6	53	0
Expenses from Agreement 6	18	0

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	**Q1/2009 K€**	**Q1/2008 K€**
Income from cross charges	376	633
Expenses from cross charges	514	1,249

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	**Q1/2009 K€**	**Q1/2008 K€**
Merchandise procurement in the reporting period	3,858	5,805

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 three months of the 2009 financial year. A portion of the subordinated shareholder loan (including pro rata interest thereon), which was an integral part of the Company's funding concept, was converted into equity in the prior-year period by means of a non-cash capital increase that was recorded in the Commercial Register on March 19, 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 March 31, 2009 are as follows:

Balances as of the balance sheet date	March 31, 2009 K€	March 31, 2008 K€
Receivables from related parties	3,543	3,855
Liabilities to related parties	3,868	10,158

Total liabilities to related parties in the amount of K€ 10,158 as of March 31, 2008 contained a loan of € 3.2 million including outstanding interest utilized by the Company.

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 first quarter of 2009.

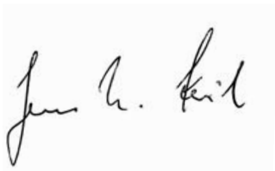
5. Directors' dealings

During the period from January 1 to May 14, 2009, the officers and directors of the Company did not report any securities dealings that require disclosure under Section 15a of the German Securities Trading Act (WpHG).

All member 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, May 14, 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."

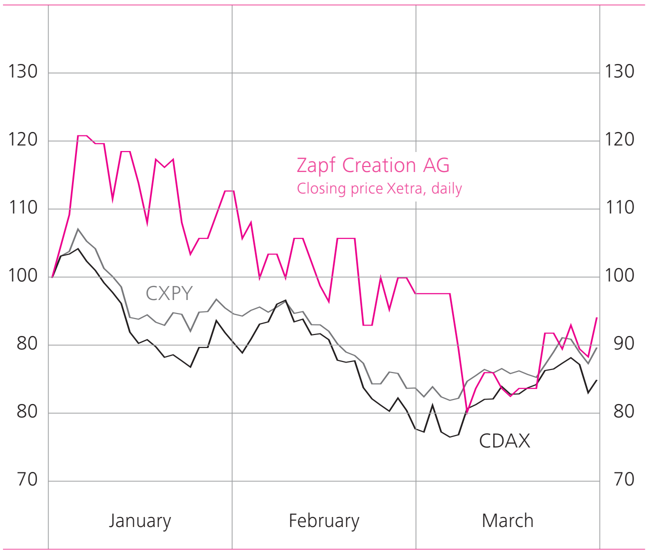
Roedental, Germany, May 14, 2009

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



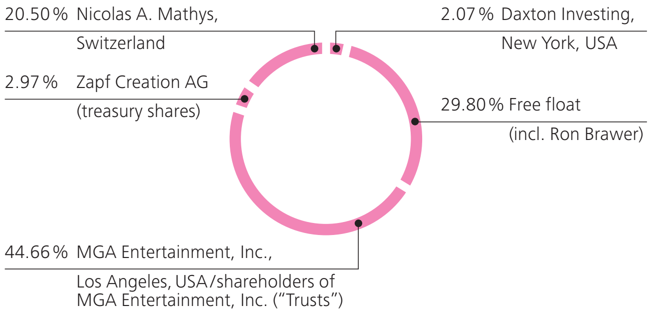
After starting the year at a price of € 0.85 per share in XETRA trading, the share of Zapf Creation AG rose to € 1.03 per share on January 6, 2009, its high for the first quarter of 2009. The share price hovered around € 1.00 for the rest of January, closing at € 0.96 as of January 31, 2009 – a gain of almost 13 % – and thus substantially outperforming the two performance indices, CDAX and CXPY. In early February 2009, the share price slid back down to the opening price of € 0.85, where it remained more or less until the end of February 2009. As of February 27, 2009, the CDAX had already fallen by close to 20 % compared to the beginning of the year and the CXPY had also lost more than 16 %. Given the share's ongoing low liquidity, the sale of only a few thousand shares caused the price to drop again in March 2009. It fell to € 0.68 as of March 10, 2009, its lowest ever, but climbed back to € 0.80 as of March 31, 2009, down about 5.8 % from the opening price at the start of the year. In the view of Zapf Creation AG, the price of its share as of the end of the first quarter 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
May 14, 2009	Publication of the Q1/three-month results 2009	Roedental
According to notice	10th Annual General Meeting	Roedental
Aug. 14, 2009	Publication of the Q2/half-year results 2009	Roedental
Aug. 31 – Sep. 02, 2009	SCC Small Cap Conference of DVFA	Frankfurt/Main
Nov. 06, 2009	Publication of the Q3/nine-month results 2009	Roedental
Nov. 09 – 11, 2009	German Equity Forum 2009	Frankfurt/Main

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 April 1, 2009.

Directors' dealings

During the period from January 1 to March 31, 2009, the officers and directors of the Company did not report any securities dealings that require disclosure under Section 15a of the German Securities Trading Act (WpHG).

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