Quarterly Report 3/2006

Consolidated key figures (IFRS)	Q3/2006 € million	Q3/2005 € million	Q1–Q3/2006 € million	Q1–Q3/2005 € million	Q1–Q3 +/– %	FY/2005 € million
Adjusted earnings situation						
(without restructuring costs and one-off effects)						
EBITDA	*9.7*	*9.9*	*8.1*	*9.2*	*–12*	*–1.6*
EBIT	*8.3*	*8.2*	*4.0*	*4.1*	*–2*	*–8.5*
EBIT margin (in %)	*19.2*	*16.4*	*5.1*	*4.6*	—	*–6.0*
EBT	*6.9*	*5.0*	*–0.1*	*–0.9*	*+89*	*–15.3*
Net profit or loss for the period	*7.3*	*3.3*	*–0.7*	*–2.8*	*+73*	*–19.9*
Earnings per share (in €)[1)]	*0.98*	*0.44*	*–0.10*	*–0.37*	*+73*	*–2.68*
Earnings situation according to the income statement						
(including restructuring costs and one-off effects)						
Net sales	43.3	49.9	78.3	89.3	–12	140.7
Gross margin (in %)	44.0	45.7	43.7	46.0	—	38.0
EBITDA	8.2	10.3	3.7	4.1	–10	–9.3
EBIT	6.8	8.6	–0.4	–1.0	+60	–16.3
EBIT margin (in %)	15.7	17.2	–0.5	–1.1	—	–11.6
EBT	5.4	5.4	–4.5	–6.0	+25	–23.1
Net profit or loss for the period	5.8	3.7	–5.1	–7.9	+36	–27.7
Earnings per share (in €)[1)]	0.79	0.50	–0.68	–1.06	+36	–3.73
Included restructuring costs and one-off effects	1.5	–0.4	4.4	5.1	–14	7.8
Included depreciation and amortization	1.4	1.7	4.1	5.1	–20	7.0
Balance sheet						
Total assets	—	—	115.3	152.8	–25	133.1
Non-current assets	—	—	25.3	34.4	–26	28.9
Investments	—	—	1.1	1.8	–39	2.7
Current assets	—	—	90.0	118.4	–24	104.2
Equity	—	—	5.5	29.4	–81	10.2
Equity ratio (in %)	—	—	4.8	19.2	—	7.7
Liabilities to banks	—	—	72.3	83.8	–14	82.3
Net debt	—	—	63.0	77.6	–19	73.0
Cash flow						
Cash flow from operating activities	–0.4	–13.3	15.0	–15.6	—	–8.4
Cash flow from operating activities per share (in €)	–0.05	–1.79	2.02	–2.10	—	–1.14
Net cash flow	–2.6	–1.4	0.0	–10.8	—	–7.7
Employees						
Number as of the closing date[2)]	—	—	334	428	–22	408

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 quarterly financial statements.
1) undiluted = diluted; 2) excluding the Management Board and trainees

Report on the first nine months of 2006

- **Zapf Creation reports considerable consolidated profit in Q3**
- **EBIT from July to September at € 6.8 million**
- **Considerable progress made in achieving cost reductions and improving the gross profit margin**
- **Important strategic milestones reached**
- **Earnings guidance for full 2006 financial year confirmed, sales target adjusted**

Summary

Zapf Creation AG continued to make good progress in its restructuring and realignment efforts in the third quarter of 2006. Thanks primarily to a significant reduction in its cost base, Europe's leading manufacturer of play and functional dolls managed to return to profitability in the third quarter both in terms of its consolidated operating result and consolidated after-tax profit. The consolidated operating result (EBIT) for the first nine months almost broke even at € – 0.4 million. This figure includes restructuring costs and one-off charges totaling € 4.4 million. As expected, consolidated sales in the third quarter declined versus the same period of last year (– 13 %), continuing a trend witnessed in the first two quarters of the year.

The Management Board confirms its previous earnings guidance and adjusts its sales forecast for the full 2006 financial year.

Restructuring and realignment

In the third quarter, Zapf Creation implemented several key strategic measures aimed at restoring profitability quickly and sustainably.

Zapf Creation pushed ahead with the realization of eight Group-wide restructuring projects that were adopted in the spring of 2006; these projects were implemented to a large extent by the end of the third quarter.

On August 11, 2006, Zapf Creation signed a long-term sales cooperation agreement with the US toy manufacturer and Zapf Creation shareholder MGA Entertainment Inc. According to the agreement, MGA is granted the exclusive right to sell Zapf Creation products in the Americas. In exchange, MGA Entertainment will sell its products in key continental European markets through the sales channels of Zapf Creation.

On September 5, 2006, Zapf Creation and MGA Entertainment announced their collaboration in procurement and technical product development. MGA Entertainment takes 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. In turn, the subsidiary Zapf Creation (H.K.) Ltd. in Hong Kong will transfer its activities in this connection to MGA Entertainment.

On September 28, 2006, the Management Board and Supervisory Board resolved to increase the share capital of Zapf Creation AG from € 8 million (divided into eight million no-par shares) by just under 10 % in order to strengthen the company's equity base.

For this purpose, a total of 799,998 new shares were issued pursuant to § 186 para 3 sentence 4 German Stock Corporation Act at € 7.45 per share, which was close to the stock market price. The shareholders' subscription right was excluded. The new shares were acquired by Isaac Larian and Ron Brawer, who represent MGA Entertainment Inc. on the Supervisory Board of Zapf Creation AG, and by Gustavo Perez, who is also a member of the Supervisory Board of Zapf Creation AG. The issued generated proceeds of approximately € 6.0 million for the company. The capital increase was concluded in October 2006.

Takeover bid by Bandai GmbH

On June 28, 2006, Bandai GmbH, a member of the Tokyo-based Namco Bandai Group, submitted a public takeover bid for all outstanding shares of Zapf Creation AG based on a price of € 10.50 per share of Zapf Creation stock. On August 4, 2006, Bandai GmbH announced that its public bid had failed to reach the approval rate of 75 % of the share capital, which rendered the bid null and void.

Development of sales by operating business unit

The most important European markets for play and functional dolls ("large dolls") developed in various ways in the first nine months of the current financial year: While market volumes in Germany (– 17 %) and Great Britain (– 11 %) showed a considerable decline compared to the same period of 2005, Spain registered significant growth (+22 %). In France, the market for large dolls shrank by 1 % (source: NPD Eurotoys).

In Europe, the Zapf Creation Group recorded sales of € 67.8 million in the first nine months of 2006. This compares to sales of € 77.0 million in the same period of last year (– 12 %). In the Central Europe sales region, sales declined by 14 % to € 25.0 million versus the previous year (Q1–Q3/ 2005: € 29.0 million), due mainly to the weak German market. In this context, the company chose to refrain from pursuing sales with insufficient margins (clearance sales). Despite the decrease in sales, Zapf Creation maintained its position as market leader in Germany in the play and functional doll segment in the first three quarters by holding a market share of just under 60 % (source: NPD Eurotoys).

Nine-month sales in Northern Europe declined by 28 % to € 20.7 million due to the weak demand in Great Britain and the reduction of clearance sales (Q1–Q3/2005: € 28.7 million).

In Southern Europe, sales were € 12.6 million after nine months, down 5 % from the previous year (Q1–Q3/2005: € 13.2 million). In contrast, Zapf Creation's business in Spain continued to develop strongly. In Eastern Europe, the Group continued on its growth trajectory. Sales in the first nine months in this business unit grew 57 % to € 9.5 million (Q1–Q3/2005: € 6.1 million), mainly due to momentum generated in Russia, the Czech Republic and Poland.

In the Americas, nine-month sales were down 21 % to € 8.2 million (Q1–Q3/2005: € 10.4 million), which was to a large extent due to a lack of available merchandise.

In Asia/Australia, nine-month sales were up 22 % compared the previous year, from € 2.0 million to € 2.4 million.

Breakdown of sales by operating business unit

	Q1–Q3/ 2006 K€	Q1–Q3/ 2005 K€	Q1–Q3/ +/– % 1)	Q1–Q3/ +/– K€
Europe	**67,770**	**76,959**	**– 12**	**– 9,189**
Central Europe	24,980	29,023	– 14	– 4,043
Northern Europe	20,695	28,653	– 28	– 7,958
Southern Europe	12,603	13,225	– 5	– 622
Eastern Europe	9,492	6,058	57	3,434
The Americas	**8,164**	**10,353**	**– 21**	**– 2,189**
Asia /Australia	**2,414**	**1,984**	**22**	**430**
Total sales	78,348	89,296	– 12	– 10,948

1) rounded

Development of sales by product line

In the first three quarters of 2006, sales in the play and functional doll segment, which represents the core business of the Zapf Creation Group, were € 73.3 million, down 13 % versus the same period of 2005 (€ 84.7 million).

Breakdown of sales by product line

	Q1–Q3/ 2006 K€	Q1–Q3/ 2005 K€	Q1–Q3/ +/– % 1)	Q1–Q3/ +/– K€
Play and functional dolls	**73,255**	**84,653**	**– 13**	**– 11,398**
BABY born®	36,436	38,403	– 5	– 1,967
Baby Annabell®	21,645	28,764	– 25	– 7,119
CHOU CHOU	13,984	15,407	– 9	– 1,423
Others	1,190	2,079	– 43	– 889
Mini dolls	**2,409**	**1,950**	**24**	**459**
All others	**2,684**	**2,693**	**0**	**– 9**
Total sales	78,348	89,296	– 12	– 10,948

1) rounded

The BABY born®concept managed to generate nine-month sales of € 36.4 million, down just 5 % from the previous year (€ 38.4 million) after lagging behind previous year's figures by 14 % after the first six months. As announced, the launch of the new BABY born® Magic Eyes functional doll did have a positive effect in the third quarter.

Baby Annabell® recorded sales of € 21.6 million in the first nine months, which was 25 % below last year's figure (Q1–Q3/2005: € 28.8 million). Previous year's period had been impacted positively by the market launch of Baby Annabell® in Great Britain.

CHOU CHOU recorded nine-month sales of € 14.0 million (Q1–Q3/2005: € 15.4 million), down 9 % versus the previous year. However, initial positive momentum generated by the market launch of Talking CHOU CHOU in late June was felt in the third quarter.

In the mini doll segment, Zapf Creation recorded nine-month growth of 24 % to € 2.4 million (Q1–Q3/2005: € 2.0 million), which was primarily due to the new Missy Milly® concept in Germany.

All other products generated total sales of € 2.7 million, which was on par with last year's figure.

As expected, the consolidated sales of the Zapf Creation Group in the first nine months of the year decreased to € 78.3 million (– 12 % versus Q1–Q3/2005: € 89.3 million). Third-quarter sales were € 43.4 million (– 12 % versus Q3/2005: € 49.9 million).

Development of earnings

The Zapf Creation Group improved its gross profit margin to 43.7 % in the first nine months of 2006. This compares to a gross profit margin of 38.0 % for the full 2005 financial year and 43.4 % for the first six months of 2006. The gross profit margin thus is fully on target. The significant improvement shows the impact of the restructuring measures aimed at boosting margins, for instance by refraining from low-margin clearance sales.

The adjusted consolidated EBIT (earnings before interest and taxes) before restructuring costs and one-off charges for the first nine months came in at € 4.0 million (Q1–Q3/2005: € 4.1 million). Some of the most important cost items showed a substantial decline compared to the same period of last year.

Taking into account restructuring costs (€ 1.6 million) and one-off charges (€ 2.8 million), EBIT almost broke even at € – 0.4 million (Q1– Q3/2005: € – 1.0 million including restructuring costs of € 5.1 million).

Some of the restructuring costs are related to the sales and procurement collaboration agreed with MGA Entertainment. The one-off charges are primarily due to consultancy services provided in connection with M&A projects (failed takeover bid of Bandai GmbH).

The financial result in the first nine months improved to € – 4.0 million (Q1–Q3/2005: € – 5.1 million) as debts declined compared to last year and one-off charges incurred in the previous year no longer applied.

For the period from January to September 2006, the Group reports a net result after taxes of € – 5.1 million (Q3/2005: € – 7.9 million). This corresponds to earnings per share of € – 0.68 compared to earnings per share of € – 1.06 in the first nine months of 2005.

The Group's gross profit margin in the third quarter of this year was 44.0 % (Q3/2005: 45.7 %).

Despite declining sales, the adjusted consolidated EBIT for the third quarter came in at € 8.3 million, which is on par with last year's figure. Including restructuring costs and one-off charges of € 1.5 million, EBIT was € 6.8 million (Q3/2005: € 8.6 million).

The quarterly profit after taxes increased from € 3.7 million (Q3/2005) by 57 % to € 5.8 million. This corresponds to earnings per share of € 0.79 (Q3/2005: € 0.50).

Balance sheet development and cash flow

The total assets of the Zapf Creation Group were € 115.3 million as of September 30, 2006, which was € 17.8 million less than at the end of 2005. Compared to the end of the second quarter of 2006, total assets grew by € 26.0 million, which is due to the seasonal expansion of business in the second half of the year. This resulted in an increase in trade receivables from € 26.9 million as of June 30, 2006 to € 50.7 million. Compared to the end of 2005, however, receivables declined by € 17.8 million.

On the liabilities side of the balance sheet, current and non-current financial liabilities totaled € 72.3 million at the end of the third quarter, down € 10.0 million compared to December 31, 2005 (€ 82.3 million). Net debt was reduced from € 73.0 million at the end of 2005 to € 63.0 million as of September 30, 2006. Despite seasonally higher working capital financing, net debt was only slightly higher than on June 30, 2006 (€ 61.1 million).

Consolidated equity as of September 30, 2006 totaled € 5.5 million, which is an equity ratio of 4.8 %. Taking into account the capital increase carried out in October, the pro forma equity ratio based on the balance sheet data as of September 30, 2006 was 9.5 %.

The Zapf Creation Group reports a cash flow from operating activities of € 15.0 million for the first nine months of 2006. This compares to an outflow of cash of € 15.6 million reported for the same period of last year. The improvement reflects substantial progress achieved in managing working capital. The cash flow from operating activities was sufficient to compensate for the outflow of cash from investment and financing activities in the first nine months.

Employees

As of September 30, 2006, the Group had 334 employees. This is 6 employees less than at the end of the second quarter of this year and 94 employees less than on the same date in 2005. The declining workforce is the result of restructuring measures implemented in 2005 and 2006.

Changes on the Management Board and the Supervisory Board

On July 24, 2006, Mr. Martin Gruschka announced his resignation as both member and chairman of the Supervisory Board of Zapf Creation AG in accordance with the provisions of the company's Articles of Incorporation. On July 27, 2006, the Supervisory Board elected Mr. Miguel Perez-Carballo Villar chairman and Mr. Francesc Robert deputy chairman of the Supervisory Board.

On August 24, 2006, the Coburg Local Court appointed Messrs. Isaac Larian and Ron Brawer to the Supervisory Board of Zapf Creation AG upon the request of the company's Management Board and Supervisory Board chairman. Isaac Larian is the CEO and Ron Brawer is the executive vice president Sales & Marketing of MGA Entertainment Inc.

At its meeting on August 28, 2006, the Supervisory Board resolved to appoint Mr. Thomas Pfau to the Management Board effective immediately. Mr. Pfau is responsible for marketing and sales. He is also managing director of MGA Entertainment GmbH.

Events after the close of the reporting period

The capital increase of Zapf Creation AG by just under 10 % of the company's share capital, which was resolved on September 28, 2006, was entered in the commercial register on October 19, 2006.

On November 2, 2006, Ms. Angelika Marr, the member of the Management Board of Zapf Creation AG responsible for design and product development, resigned from her office effective immediately. Her responsibilities were assumed by Mr. Thomas Pfau, the Management Board member responsible for marketing and sales.

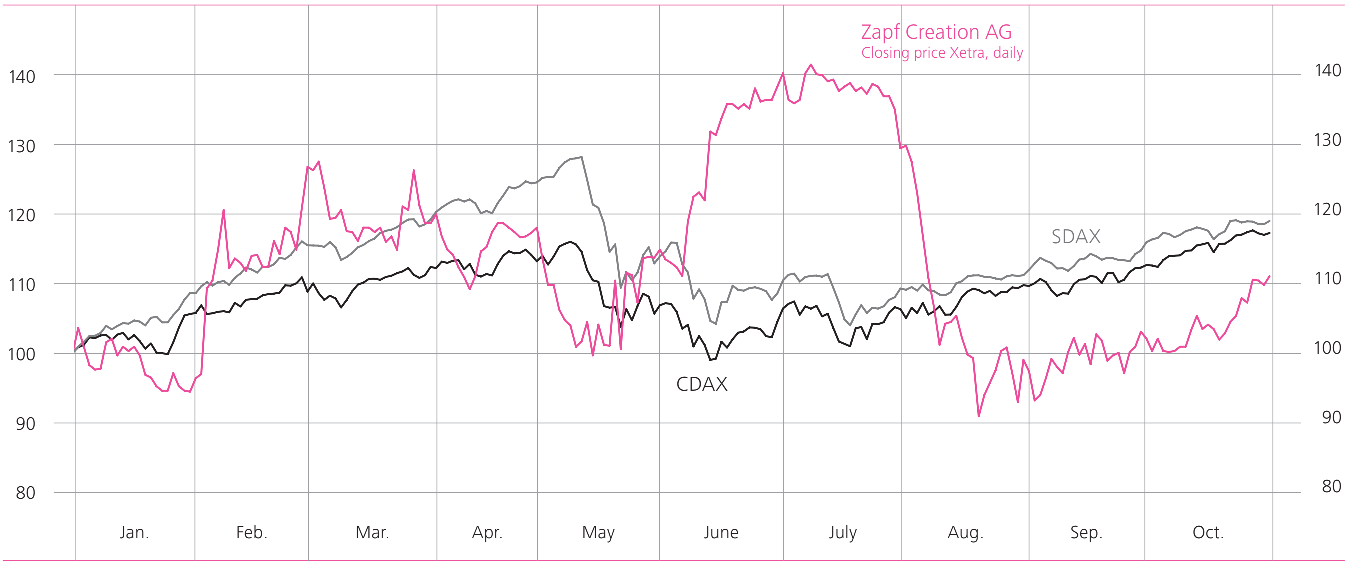
Outlook on the full 2006 financial year

The Management Board confirms its previous earnings guidance and adjusts its sales forecast for the full 2006 financial year. The Group's target is to improve its consolidated EBIT by at least € 15 million compared to 2005 (€ –16.3 million). As announced, this forecast does not include one-off charges of about € 2 million that were incurred in the first six months, nor does it include integration expenses for cooperation projects with MGA Entertainment, the amount of which cannot be fully determined yet.

Consolidated sales (2005: € 140.7 million) are expected to decline in the high single digits or low double digits in 2006. It has to be noted that, due to the seasonal nature of Zapf Creation's business, the fourth quarter is usually the strongest of the year.

The share

ISIN: DE 000 780 6002; Reuters code: ZPF.ETR; Bloomberg code: ZPF GR



Share	Q3/2006	Q3/2005	Q1–Q3/2006	Q1–Q3/2005	FY/2005
Share price, high (Xetra, in €)	11.10	10.40	11.10	18.03	18.24
	(July 7)	(June 1)	(July 7)	(Feb. 1)	(Feb. 1)
Share price, low (Xetra, in €)	7.11	8.50	7.11	8.50	7.05
	(Aug. 18)	(Sep. 13)	(Aug. 18)	(Feb. 29)	(Dec. 15)
Share price, end of period (Xetra, in €)	7.99	9.60	7.99	9.60	7.83
Average daily trading volume (Xetra, number of shares)	87.206	31.593	59.828	51.758	49.918
Number of shares at end of period	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Market capitalization (base: end of period, Xetra, in € million)	64	77	64	77	63

The value of the Zapf Creation share initially dropped significantly in the third quarter of 2006. After its previous annual high of € 11.20 (Xetra) on July 10, the price fell substantially, especially after the failure of the takeover bid of Bandai GmbH for all outstanding shares of Zapf Creation AG began to become apparent. On August 18, the share hit its annual low of € 7.11. Then a slight recovery began, which resulted in a share price of € 7.99 at the end of the third quarter. The upward trend continued in the fourth quarter.

After the share initially clearly underperformed the CDAX in the third quarter, it has performed roughly in line with the index since the beginning of its recovery.

The share’s average daily trading volume in the period from July to September was 87,206 shares, which was higher than the volume recorded in the second quarter (83,435) and significantly above the trading volume of the third quarter of 2005 (31,593).

Research Coverage

Analyst	Date	Recommendation
HypoVereinsbank	September 2006	Outperform
AC Research	September 2006	Hold
Bankhaus Lampe	August 2006	Hold
Berenberg Bank	July 2006	Hold
Deutsche Bank	July 2006	Hold

Financial calendar

Date	Event	Place
November 13, 2006	Results Q3/2006	Roedental
November 13, 2006	Conference Call Q3/2006	
November 16, 2006	Dresdner Kleinwort Small & Mid Cap Day	London
November 21, 2006	HSBC Retail and Consumer Conference	London
November 27, 2006	German Equity Forum	Frankfurt

Treasury shares

Zapf Creation AG owns two separate securities deposit accounts, which are used in different ways:

Account No. 1 exclusively serves to back the stock option plan. Account No. 2 serves to grant shares to employees based on special performance or based on a positive development of the company's business.

Both accounts remained unchanged as of September 30, 2006.

	Number Shares	Carrying amount K€	Capital share in %
Account No. 1	569,593	11,262	7.12
Account No. 2	3,085	96	0.04
Total	572,678	11,358	7.16

Directors' dealings

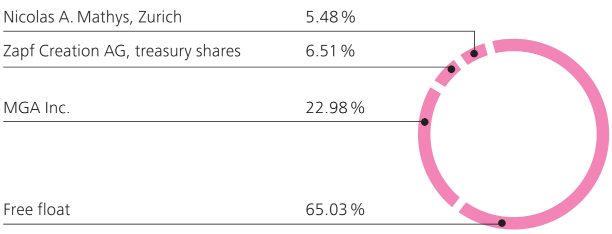
During the period from July 1 to September 30, the officers and directors of the company reported securities dealings as defined by § 15a of the German Securities Trading Act (WpHG).

Dealings requiring disclosure
Isaac Larian, Member of the Supervisory Board Purchase of 10,000 shares at a price of € 8.08 through Xetra on September 28, 2006

In addition, the following directors' dealings in connection with the capital increase were reported after the close of the quarterly financial statements.

Dealings requiring disclosure
Ron Brawer, Member of the Supervisory Board Subscription of 25,000 new shares from the capital increase at a price of € 7.45 through OTC on October 9, 2006
Isaac Larian, Member of the Supervisory Board Subscription of 374,999 new shares from the capital increase at a price of € 7.45 through OTC on October 9, 2006
Gustavo Perez, Member of the Supervisory Board Subscription of 399,999 new shares from the capital increase at a price of € 7.45 through OTC on October 9, 2006

Shareholder structure after the capital increase



Consolidated income statement	Q3/2006 K€	Q3/2005 K€	Q1–Q3/2006 K€	Q1–Q3/2005 K€	FY/2005 K€
Revenue	43,353	49,880	78,348	89,296	140,717
Cost of sales	–24,289	–27,101	–44,100	–48,186	–87,198
Gross profit	**19,064**	**22,779**	**34,248**	**41,110**	**53,519**
Selling and distribution expenses	–4,785	–4,755	–10,755	–12,965	–20,545
Marketing expenses	–1,927	–6,287	–6,370	–11,787	–21,258
Administrative expenses	–6,386	–3,302	–17,405	–18,622	–28,464
Other income	530	326	822	1,766	2,581
Other expenses	266	–110	–966	–472	–2,150
Adjusted operating result	***8,227***	***8,219***	***3,934***	***4,141***	***–8,564***
Restructuring costs	*–610*	*432*	*–1,573* [1]	*–5,111* [2]	*–7,753* [3]
One-off effects	*–855*	*0*	*–2,787* [1]	*0*	*0*
Earnings before interest and taxes	**6,762**	**8,651**	**–426**	**–970**	**–16,317**
Finance income	68	29	172	187	230
Finance costs	–1,398	–3,320	–4,219	–5,292	–7,031
Earnings before income taxes	**5,432**	**5,360**	**–4,473**	**–6,075**	**–23,118**
Taxes on income	422	–1,695	–593	–1,818	–4,602
Net profit or loss for the period	5,854	3,665	–5,066	–7,893	–27,720
Earnings per share (in €)	**0.79**	**0.50**	**–0.68**	**–1.06**	**–3.73**

Please see the next page for an explanation to footnotes 1 to 3.

Breakdown of staff costs [4]	Q3/2006 K€	Q3/2005 K€	Q1–Q3/2006 K€	Q1–Q3/2005 K€	FY/2005 K€
Sales & distribution	1,837	2,025	5,023	7,102	9,827
Marketing	500	575	1,402	1,996	2,885
Other administration	2,644	2,469	6,001	7,526	10,565
Total	4,981	5,069	12,426	16,624	23,277

4) already included in operating expenses

Notes regarding the distribution of restructuring costs and one-off effects among the respective functional areas:

1) Restructuring costs and one-off effects Q1–Q3 / 2006:

Restructuring costs are fully attributable to administrative expenses. As of September 2006, staff costs totaling K€ 723 are included. The restructuring costs reported in the adjusted operating result include income from the reversal of unneeded provisions from 2005 totaling K€ 491, which is included in other operating income as of September 2006. A total of K€ 420 of the one-off effects as of September 2006 are attributable to cost of sales. K€ 2,367 relate to administrative expenses.

	Staff costs K€	Other K€	Total K€
2) Restructuring costs Q1–Q3 / 2005:			
Cost of sales	0	–313	–313
Selling and distribution expenses	–839	–382	–1,221
Marketing expenses	–260	0	–260
Administrative expenses	–448	–2,869	–3,317
Total	**–1,547**	**–3,564**	**–5,111**
3) Restructuring costs FY / 2005:			
Cost of sales	0	–913	–913
Selling and distribution expenses	–1,367	–586	–1,953
Marketing expenses	–408	0	–408
Administrative expenses	–1,222	–3,257	–4,479
Total	**–2,997**	**–4,756**	**–7,753**

Consolidated balance sheet	Sep. 30, 2006 K€	Dec. 31, 2005 K€	Sep. 30, 2005 K€
Assets			
Current assets	**89,965**	**104,202**	**118,411**
Cash	9,347	9,353	6,197
Trade receivables	50,723	68,496	68,187
Inventories	20,386	16,956	32,170
Income tax receivables	3,836	4,411	7,052
Other current assets	5,673	4,986	4,805
Non-current assets	**25,324**	**28,934**	**34,379**
Property, plant and equipment	18,057	20,194	21,328
Intangible assets	5,339	6,523	7,228
Other non-current assets	107	217	1,309
Deferred tax assets	1,821	2,000	4,514
Total assets	**115,289**	**133,136**	**152,790**
Equity and liabilities			
Current liabilities	**93,870**	**101,337**	**100,524**
Liabilities to banks	56,668	61,266	61,096
Trade payables	27,840	30,388	32,855
Income tax liabilities	1,200	732	1,225
Other liabilities	6,500	5,341	5,342
Provisions	1,662	3,610	6
Non-current liabilities	**15,921**	**21,560**	**22,898**
Liabilities to banks	15,660	21,060	22,660
Deferred tax liabilities	261	500	238
Equity	**5,498**	**10,239**	**29,368**
Issued capital	8,000	8,000	8,000
Capital reserves	8,052	8,052	8,052
Net profit or loss for the period and profit brought forward	498	5,564	25,391
Other recognized income and expense	306	–19	–717
Treasury shares	–11,358	–11,358	–11,358
Total equity and liabilities	**115,289**	**133,136**	**152,790**

Consolidated statement of changes in equity

	Shares outstanding (thsds.)	Issued capital K€	Capital reserves K€	Net profit / loss for the period and profit brought forward K€	Other recognized income and expense: Adjustments from currency translation K€	Other recognized income and expense: Derivative financial instruments K€	Treasury shares K€	Total equity K€
Balance at Dec. 31, 2004:	7,427	8,000	8,052	33,284	77	– 168	– 11,358	37,887
Net profit or loss for the period				– 7,893				– 7,893
Change in other recognized income and expense					– 549	– 77		– 626
Total net income or loss for the period				**– 7,893**	**– 549**	**– 77**		**– 8,519**
Balance at Sep. 30, 2005:	7,427	8,000	8,052	25,391	– 472	– 245	– 11,358	29,368
Net profit or loss for the period				– 19,827				– 19,827
Change in other recognized income and expense					406	292		698
Total net income or loss for the period				**– 19,827**	**406**	**292**		**– 19,129**
Balance at Dec. 31, 2005:	7,427	8,000	8,052	5,564	– 66	47	– 11,358	10,239
Net profit or loss for the period				– 5,066				– 5,066
Change in other recognized income and expense					75	250		325
Total net income or loss for the period				**– 5,066**	**75**	**250**		**– 4,741**
Balance at Sep. 30, 2006:	7,427	8,000	8,052	498	9	297	– 11,358	5,498

Consolidated statement of cash flows	Q1–Q3/2006 K€	Q1–Q3/2005 K€
Cash flow from operating activities:		
Earnings before income taxes	–4,473	–6,075
Depreciation of non-current assets	4,073	5,096
Losses/gains from the disposal of non-current assets	28	–19
Finance costs/income	4,047	5,105
Other non-cash income/expenses	110	80
Increase/decrease in assets and liabilities:		
Trade receivables	18,321	–18,710
Inventories	–3,291	–3,362
Other assets	–430	–2,230
Liabilities and reserves	–3,795	8,043
Income tax payments	389	–3,533
Cash flow from operating activities	14,979	–15,605
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	200	583
Cash payments for investments in property, plant and equipment and intangible assets	–1,131	–1,782
Cash flow from investing activities	–931	–1,199
Cash flow from financing activities:		
Cash receipts from non-current bank borrowings	600	24,926
Cash payments for the repayment of non-current bank borrowings	–5,400	–12,204
Change in liabilities due to current borrowings	–5,198	–2,259
Interest paid	–4,005	–5,150
Interest received	165	184
Cash flow from financing activities	–13,838	5,497
Effects of exchange rate changes	–216	463
Net change in cash and cash equivalents	–6	–10,844
Cash and cash equivalents at the beginning of the period	9,353	17,041
Cash and cash equivalents at the end of the period	9,347	6,197

Notes

The consolidated financial statements of Zapf Creation AG and its subsidiaries for the financial year from January 1 to December 31, 2005 were prepared in accordance with International Financial Reporting Standards (IFRS) for the first time.

The consolidated interim report of Zapf Creation AG for the period ending September 30, 2006 was prepared on the basis of IAS 34 (Interim Financial Reporting) in compliance with the applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and their interpretation by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union.

The interim financial statements do not include all notes and disclosures required for annual financial statements and should thus be read in connection with the annual financial statements as of December 31, 2005.

In addition to Zapf Creation AG, the Group's parent company, all subsidiaries of the Group are included in the consolidated financial statements. With the exception of Zapf Creation (U.K.) Ltd., Corby, Northants, Great Britain, and Zapf Creation (España) S.L., Alicante, Spain, Zapf Creation AG directly holds a 100% stake in all of its subsidiaries. Since September 2006, Zapf Creation AG has held its shares in these two subsidiaries in Great Britain and Spain through its subsidiary Zapf Creation Auslandsholding GmbH, Roedental, Germany. Zapf Creation AG holds a 100% stake in Zapf Creation Auslandsholding GmbH, which in turn holds a 100% stake in each of the two sales subsidiaries mentioned above.

In the same period of the 2005 financial year, the subsidiary Zapf Creation (Australia) Pty. Ltd., Melbourne, Australia, was sold and deconsolidated effective July 1, 2005. The company is still included in the comparative figures for 2005 until the date of deconsolidation.

In June 2006, the elimination of Zapf Creation (CZ) s.r.o., Prague, Czech Republic, from the commercial register became effective. The company was therefore deconsolidated in the consolidated financial statements as of June 2006 and, in contrast to the previous year's period, is no longer included in the scope of consolidation.

In September 2006, Zapf Creation AG initiated the increase in its subscribed capital by issuing 799,998 new shares from the capital authorized for this purpose. The capital increase was entered in the commercial register in October 2006. The proceeds received by the company until the balance sheet date of September 30, 2006 are reported under other liabilities in the consolidated financial statements as of September 30, 2006. The increase in subscribed capital became effective on October 19, 2006, which was the date of entry in the commercial register.

As in the half-year financial statements 2006, in the interim financial statements as of September 30, 2006 the company's extraordinary and one-off expenses have been attributed to the respective functional areas which caused the expenses to be incurred. They are reported separately in connection with the presentation of the adjusted operating result.

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