



AT A GLANCE

Zapf Creation AG

Consolidated Key Figures	Q1 / 2006	Q1 / 2005	Q1 +/- in % ¹⁾
Income statement			
Net sales in K€	17,257	19,806	- 13
EBITDA in K€	-2,565	- 501	—
EBIT in K€	-3,928	-2,174	- 81
Net income (loss) in K€	-5,285	-2,928	- 81
Earnings per share ²⁾ in €	-0.72	-0.40	- 81
Balance sheet			
Total assets (as of March 31) in K€	88,968	120,888	- 26
Equity (as of March 31) in K€	4,989	35,014	- 86
Investments in K€	261	822	- 68
Cash flow			
Net cash flow per share in €	3.10	0.53	485
Stock			
Stock price, high (Xetra) in €	10.00 (Mar. 2)	18.03 (Feb. 1)	- 45
Stock price, low (Xetra) in €	7.39 (Jan. 30)	10.18 (Mar. 24)	- 27
Stock price, end of period (Xetra) in €	9.40	10.80	- 13
Stock price, average (Xetra) in €	8.67	14.71	- 41
Average daily trading volume (Xetra, number of shares)	35,453	78,679	- 55
Market capitalization (base: end of period, Xetra) in € million	75,20	86,40	- 13
Mitarbeiter			
Number of employees at the closing date (as of March 31) ³⁾	374	494	- 25

1) rounded

2) basic = diluted

3) not including Management Board and trainees

Financial Calendar

Date	Event	Ort
June 2006	Financial statements press conference	Munich
	Analyst Conference	Frankfurt/Main
	Roadshow	Europe
August 2006	Annual Shareholders' Meeting	Roedental
	Results Q2/half-year 2006	Roedental

Report on the First Quarter

- **Business Performance in the First Quarter in Line with Expectations**
- **Improvement of Working Capital by Cutting Inventories and Receivables**
- **Net Debt Reduced**

Zapf Creation AG recorded sales of about € 17.3 million in the first quarter of 2006, down 13% compared to the same period last year (Q1 / 2005: € 19.8 million). This expected decline in sales is primarily due to a postponement of revenues to the second quarter because of the late Easter business.

The development of the Group's earnings in the first quarter of 2006 reflects the restructuring program's initial positive effects on costs, which has led to savings of € 1.5 million, mainly in connection with staff costs. The number of employees was reduced to 374 as of March 31, 2006 (March 31, 2005: 494). However, the Group has not yet been able to compensate for the decline in sales and gross profit. The gross profit margin decreased to 40.7 % (Q1 / 2005: 45.8 %).

Earnings before interest and taxes (EBIT) were € – 3.9 million (Q1 / 2005: € – 2.2 million). This figure includes restructuring costs of € 0.5 million (Q1 / 2005: € 0.3 million). Earnings before taxes (EBT), which came in at € – 5.1 million (Q1 / 2005: € – 2.8 million) in the first quarter of 2006, were considerably impacted by interest expenses of € 1.2 million (Q1 / 2005: € 0.7 million). The Zapf Creation Group reports an after-tax result of € – 5.3 million for the quarter (Q1 / 2005: € – 2.9 million). Earnings per share were € – 0.72 (Q1 / 2005: € – 0.40).

Despite the higher loss, the Group was able to reduce its net debt in the first quarter from € 53.7 million to € 51.5 million compared to the same period of last year.

Late Easter Business Results in Postponement of Sales in Germany and the UK

At € 7.2 million, sales in Central Europe were down compared to the previous year (Q1 / 2005: € 7.8 million), which can be attributed primarily to the late Easter business. Especially in Germany, in contrast to the previous year a portion of Easter sales were not generated until the second quarter of 2006. Nevertheless, Zapf Creation managed to maintain its leading position in the play and functional doll segment including accessories by holding a market share of approximately 60 % (NPD / Eurotoys 4 / 2006)

In Northern Europe, the late Easter business also resulted in a weaker development of business. Sales in this region were € 3.2 million (Q1 / 2005: € 4.3 million). Furthermore, figures for the first quarter of 2005 included sales to a customer who discontinued his operations in mid-2005.

In Italy, Zapf Creation handed over its operating business to a sales partner in February 2006. This move is the main reason for the slight decline in sales to € 2.1 million in Southern Europe (Q1 / 2005: € 2.2 million) because the change in the distribution strategy led to a slight delay in revenues.

At € 2.6 million, Zapf Creation recorded strong sales growth of 45 % in Eastern Europe (Q1 / 2005: € 1.8 million). The positive performance in Russia and increased sales in Poland and the Czech Republic had a positive impact in the quarter.

Sales in the Americas were € 1.9 million, which is considerably below last year's figure (Q1 / 2005: € 3.4 million). In this region, the adoption of a new business model resulted in an expected decline of revenues.

Breakdown of Sales by Business Unit

	Q1/2006	Q1/2005	+/-	+/-
	K€	K€	% ¹⁾	K€
Europe	15,167	16,195	-6	-1,028
Central Europe	7,187	7,817	-8	-630
Northern Europe	3,229	4,326	-25	-1,097
Southern Europe	2,116	2,240	-6	-124
Eastern Europe	2,635	1,812	45	823
The Americas	1,877	3,451	-46	-1,574
Asia/Australia	213	160	33	53
Total sales	17,257	19,806	-13	-2,549

1) rounded

Weaker BABY born® Sales Due to the Launch of BABY born® Magic Eyes in the Second Half of the Year

Sales of the BABY born® concept declined to € 7.4 million in the first quarter (Q1 / 2005: € 10.2 million) due to the upcoming market launch of BABY born® Magic Eyes, a new functional doll. The so-called dry-out phase led to an expected decrease in sales because of the trade's reluctance to order the existing BABY born® model. However, by year's end this will be offset by the launch of the new product.

Sales of the Baby Annabell® concept were € 5.3 million, which is considerably above last year's figure (Q1 / 2005: € 3.9 million). At that time, the pending launch of the new Baby Annabell® in the second half of 2005, which can shed tears, had a negative impact on sales in the first quarter of 2005.

CHOU CHOU sales were impacted by a similar effect in the first quarter. The introduction of the new Talking CHOU CHOU in the second quarter of 2006 has caused a delay in revenues. As a result, sales in the first quarter of 2006 declined to € 2.2 million, (Q1 / 2005: € 4.3 million).

The decrease in sales of other play and functional dolls can be attributed to the streamlining of our product portfolio and the related discontinuation of marginal brands.

Good Start for the Missy Milly® Mini Doll Product Line in Germany

The German launch of Missy Milly®, our new mini doll concept, boosted sales of the mini doll product line to € 1.4 million (Q1 / 2005: € 0.4 million). The good start of Missy Milly® enabled Zapf Creation to capture a market share of 7 % in the mini doll segment in Germany, a key market, as early as April 2006 (NPD / Eurotoys 4 / 2006).

The increase in sales from € 0.3 million (Q1/2005) to € 0.7 million in the "All others" segment is mainly due to the positive performance of the My Model styling heads.

Breakdown of Sales by Product Line

	Q1/2006	Q1/2005	+/-	+/-
	K€	K€	% ¹⁾	K€
Play and functional dolls	15,147	19,105	-21	-3,958
BABY born®	7,435	10,228	-27	-2,793
Baby Annabell®	5,256	3,920	34	1,336
CHOU CHOU	2,191	4,320	-49	-2,129
Others	265	637	-58	-372
Mini dolls	1,407	443	217	964
All others	703	258	173	445
Total sales	17,257	19,806	-13	-2,549

¹⁾ rounded

Outlook 2006

Zapf Creation anticipates a downturn in consolidated sales in the single-digit range for 2006, due both to the difficult market climate in Germany, which remains unchanged, and the Group's recently adjusted sales strategy in the United States. The Management Board expects earnings to improve significantly nonetheless as a result of the measures aimed at optimizing the quality of sales (improvement of margins) and by reducing extraordinary expenses. Additionally, the Group has initiated measures aimed at reducing costs by € 7 million, for example, by cutting 80 jobs worldwide. Overall, the Management Board expects EBIT to improve by at least € 15 million in 2006. Further reductions of net debt by roughly € 5 million are also planned for the current year.

With its new play concepts, Zapf Creation is generating new innovation momentum in the segment of girls' toys in 2006. Based on the new Missy Milly® cartoon series, which premiered on Super RTL on German TV in December 2005, Zapf Creation fills a strategic gap with its Missy Milly® mini doll concept. The concept was launched in Germany in early 2006 and will be introduced in the UK in the second half of the year.

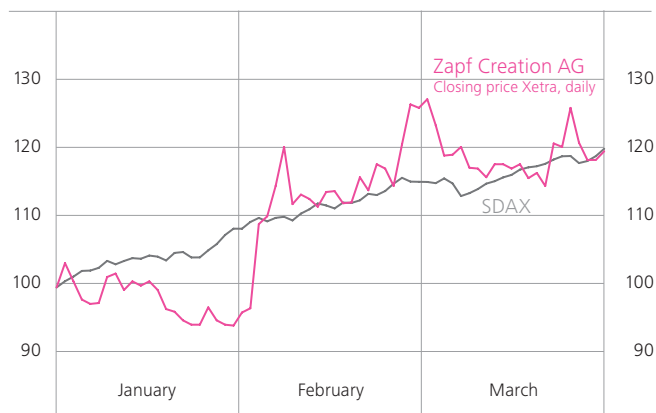
The trendy "Girls – best friends" line represents a new generation of functional dolls for girls aged four to eight, who prefer to recreate in their play what they would like to experience themselves. This is why the new "Girls – best friends" functional dolls look just like regular girls. The girls wear trendy and glitzy clothes and own the latest accessories. The new dolls will be first launched in Germany in the second half of 2006.

The Share

The Zapf Creation share remained on its low level of December 2005 until the end of January and reached its first-quarter low of € 7.39 on January 30, 2006. On February 1, Zapf Creation AG announced that Dr. Georg Kellinghusen was appointed the new chief financial officer effective February 15, 2006. The announcement of the preliminary results of the special audit on February 27 was received positively by the market. The stock recovered and reached its high of € 10.00 on March 2. Zapf Creation stock ended the first quarter of 2006 at € 9.40.

Share Performance

January 1 to March 31, 2006 (index)



ISIN	DE 000 780 6002
Reuters code	ZPF.ETR
Bloomberg code	ZPF GR
Number of shares	8 million

Directors' Dealings

During the period from January 1 to March 31, 2006, the officers and directors of the company did not report any dealings as defined by § 15a of the German Securities Trading Act (WpHG).

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.

	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

Notes

The consolidated financial statements of Zapf Creation AG and its subsidiaries for the financial year from January 1 to December 31, 2005, have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The accounting was converted from United States Generally Accepted Accounting Principles (US GAAP) to IFRS. IFRS have also been adopted for the preparation of quarterly reports.

In addition to Zapf Creation AG, the Group's parent company, all subsidiaries of the Group were included in the consolidated financial statements. All subsidiaries are wholly owned by the parent company. In the 2005 financial year, the subsidiary Zapf Creation (Australia) Pty. Ltd. was sold and deconsolidated effective July 1, 2005. The company is still included in the comparative figures for Q1 / 2005.

FINANCIAL STATEMENTS Q1 / 2006

Zapf Creation AG

Consolidated income statement	Q1/2006 K€	Q1/2005 K€
Revenue	17,257	19,806
Cost of goods sold	-10,234	-10,743
Gross profit	7,023	9,063
Selling and distribution expenses	-3,168	-3,427
Marketing expenses	-2,344	-2,972
Administrative expenses	-4,585	-5,167
Other income	79	605
Other expenses	-405	-19
Restructuring costs	-528	-257
Earnings before interest and taxes	-3,928	-2,174
Finance income	46	100
Finance costs	-1,187	-704
Earnings before income taxes	-5,069	-2,778
Taxes on income	-216	-150
Net profit or loss for the period	-5,285	-2,928
Earnings per share (in €)	-0.72	-0.40

Breakdown of staff costs ¹⁾	Q1/2006 K€	Q1/2005 K€
Sales and distribution	1,683	2,166
Marketing	501	607
Other administration	1,846	2,377
Total	4,030	5,150

1) already included in operating expenses

FINANCIAL STATEMENTS Q1 / 2006

Zapf Creation AG

Consolidated balance sheet	Mar. 31, 2006	Dec. 31, 2005	Mar. 31, 2005
	K€	K€	K€
Assets			
Current assets	61,229	104,202	83,065
Cash	10,297	9,353	13,727
Trade receivables	26,626	68,496	30,990
Inventories	15,935	16,956	27,178
Income tax receivables	4,282	4,411	4,276
Other current assets	4,089	4,986	6,894
Non-current assets	27,739	28,934	37,023
Property, plant and equipment	19,399	20,194	22,896
Intangible assets	6,122	6,523	8,450
Other non-current assets	2,000	217	4,288
Deferred tax assets	218	2,000	1,389
Total assets	88,968	133,136	120,088
Equity and liabilities			
Current liabilities	64,156	101,337	75,897
Liabilities to banks	42,548	61,266	58,528
Trade payables	16,518	30,388	13,077
Income tax liabilities	716	732	1,464
Other liabilities	2,881	5,341	1,515
Provisions	1,493	3,610	1,313
Non-current liabilities	19,823	21,560	9,177
Liabilities to banks	19,260	21,060	8,935
Deferred tax liabilities	563	500	242
Equity	4,989	10,239	35,014
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	279	5,564	30,356
Other recognized income and expense	16	-19	-36
Treasury shares	-11,358	-11,358	-11,358
Total equity and liabilities	88,968	133,136	120,088

FINANCIAL STATEMENTS Q1 / 2006

Zapf Creation AG

Consolidated statement of changes in equity

					Other recognized income and expense			
	Shares outstanding	Issued capital	Capital reserves	Net profit/ loss for the period and retained earnings	Adjust- ments from currency translation	Derivative financial instruments	Treasury shares	Total equity
	(thsd.)	K€	K€	K€	K€	K€	K€	K€
Balance at December 31, 2004:	7,427	8,000	8,052	33,284	77	-168	-11,358	37,887
Net profit or loss for the period				-2,928				-2,928
Change in other recognized income and expense					-7	62		55
Total net income or loss for the period				-2,928	-7	62		-2,873
Balance at March 31, 2005:	7,427	8,000	8,052	30,356	70	-106	-11,358	35,014
Net profit or loss for the period				-24,792				-24,792
Change in other recognized income and expense					-136	153		17
Total net income or loss for the period				-24,792	-136	153		-24,775
Balance at December 31, 2005:	7,427	8,000	8,052	5,564	-66	47	-11,358	10,239
Net profit or loss for the period				-5,285				-5,285
Change in other recognized income and expense					-102	137		35
Total net income or loss for the period				-5,285	-102	137		-5,250
Balance at March 31, 2006:	7,427	8,000	8,052	279	-168	184	-11,358	4,989

FINANCIAL STATEMENTS Q1 / 2006

Zapf Creation AG

Consolidated Statement of Cash Flows	Q1/2006 K€	Q1/2005 K€
Cash flow from operating activities:		
Earnings before income taxes	-5,069	-2,778
Depreciation of non-current assets	1,363	1,674
Losses/gains from the disposal of non-current assets	-3	-29
Finance costs/income	1,141	604
Other non-cash income/expenses	75	20
Increase/decrease in assets and liabilities:		
Trade receivables	41,943	18,668
Inventories	1,025	1,497
Other assets	955	-4,194
Liabilities and reserves	-18,358	-12,966
Income tax payments	-41	1,404
Cash flow from operating activities	23,031	3,900
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	49	113
Cash payments for investments in property, plant and equipment and intangible assets	-261	-822
Cash flow from investing activities	-212	-709
Cash flow from financing activities:		
Cash receipts from non-current bank borrowings	200	7,014
Cash payments for the repayment of non-current bank borrowings	-1,800	-8,857
Change in liabilities due to current borrowings	-18,918	-3,987
Interest paid	-1,310	-995
Interest received	46	106
Cash flow from financing activities	-21,782	-6,719
Effects of exchange rate changes	-93	214
Net change in cash and cash equivalents	944	-3,314
Cash and cash equivalents at the beginning of the period	9,353	17,041
Cash and cash equivalents at the end of the period	10,297	13,727

Zapf Creation AG Mönchrödener Straße 13 D-96472 Rödental

Telefon: +49 (0) 9563/72 51 -0 Telefax: +49 (0) 9563/72 51 -100 E-Mail: info@zapf-creation.de www.zapf-creation.de