Quarterly Report 1 / 2011

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Key Figures for the Group (IFRS)	Q1/2011 € million	Q1/2010 € million	+ / - %
Adjusted financial performance (excluding restructuring costs and one-off items)			
Continuing operations			
EBITDA	-0.6	-0.2	> -100
EBIT	-1.3	-1.1	-20
EBIT margin (%)	-15.5	-8.9	-
EBT	-2.1	-2.0	-6
Net profit (loss) from continuing operations	-2.0	-1.6	-28
Discontinued operations			
Net profit (loss) from discontinued operations	-0.3	0.4	-
Group			
Net profit (loss) for the period	-2.3	-1.1	> -100
Earnings per share (€) 1)	-0.12	-0.06	> -100
Financial performance as reported in the income statement (including restructuring costs and one-off items)			
Continuing operations			
Sales revenue	8.2	11.9	-31
Gross margin (%)	40.3	46.3	-
EBITDA	-0.6	-1.1	43
EBIT	-1.3	-2.0	33
EBIT margin (%)	-16.0	-16.5	-
EBT	-2.2	-2.9	25
Net profit (loss) from continuing operations	-2.0	-2.5	17
Restructuring costs and one-off items included	0.0	0.9	-96
Depreciation and amortization expense included	0.7	0.9	-22
Discontinued operations			
Net profit (loss) from discontinued operations	-0.3	0.4	-
Restructuring costs and one-off items included	0.0	0.0	-
Depreciation and amortization expense included	0.0	0.0	-
Group			
Net profit (loss) for the period	-2.3	-2.0	-14
Earnings per share (€) 1)	-0.12	-0.11	-14
Balance sheet			
Total assets	42.7	63.0	-32
Non-current assets	15.5	18.5	-17
Capital expenditure	0.3	0.1	> 100
Current assets	27.3	44.4	-39
Equity	5.8	9.9	-42
Equity ratio (%)	13.6	15.8	-
Liabilities to creditors	20.2	30.9	-35
Net debt	14.6	18.7	-22
Cash flow			
Cash flow from operating activities	0.0	7.8	-100
Cash flow from operating activities per share (€)	0.00	0.42	-100
Net cash flow	-7.9	4.2	-
Employees			
Number of employees as at the balance sheet date 2)	151	211	-28

The Key Figures have been rounded and are shown in millions of euros. This may result in some discrepancies in totals and ratios compared with the Consolidated Financial Statements.
1) Basic = diluted; 2) Excluding Management Board and trainees

Interim management report of the Group as of March 31, 2011

1. Summary

With expected lower sales revenues in the first three months of 2011 as compared to the same quarter in the prior year, the Zapf Creation Group achieved an improvement in the operating result. The liquidity position ensures the financing of the Group at a sufficient level, even after the repayment of bank liabilities.

2. Significant events during the reporting period

A significant event in the first three months of 2011 pertained to the conclusion of the Group financing realignment, within the framework of which the financing agreements signed in December 2010 were implemented in January 2011 through the loan disbursements. In this connection, the remaining loans with the syndicated banks were also replaced at the same time and, in return, the existing land charges were released. Accordingly, these are no longer a part of the now existing security documents. The Management Board assumes that the future payments of principle and interest are assured and therefore the financing of Zapf Creation AG and the Zapf Creation Group is guaranteed in a sufficient amount. Furthermore, the possibility for factoring was introduced in the reporting quarter.

In addition, there were several changes to the Management Board of Zapf Creation AG in the reporting period, which are described in the notes under Section 3.1. and referred to in this connection.

3. Business development of Zapf Creation Group

3.1. Development of Group sales revenues

Sales of the Zapf Creation Group amounted to € 8.2 million in the first three months of 2011. Compared to sales in the same period in the prior year (€ 11.9 million), this represents a decline of 31%.

3.2. Development of earnings

Gross profit on sales declined in the reporting period by 40.1% to € 3.3 million (prior year: € 5.5 million). This resulted in a decrease in the gross profit margin of the Zapf Creation Group to 40.3%, from 46.3% in the first three months of 2010.

Overall, operating expenses were able to be reduced disproportionally to gross profit in the first quarter of 2011. Savings were realized particularly in connection with sales and distribution expenses, and also in the case of marketing expenses. General administrative expenses were also reduced significantly.

Against this background, the operating result before interest and taxes (EBIT) improved in the months of January through March, 2011, by € 0.7 million to € -1.3 million (prior year: € -2.0 million). Adjusted for one-off expenses, which relate entirely to restructuring costs, the Group EBIT was € -1.3 million (prior year: € -1.1 million).

The financial result improved slightly in the reporting period to € -0.9 million (prior year: € -1.0 million) compared to the same period in the prior year. With this, the Group result before taxes of the continuing operations in the first three months of 2011 amounts to € -2.2 million (prior year: € -2.9 million). The Zapf Creation Group achieved a result from continuing activities, after taxes, of € -2.0 million (prior year: € -2.5 million); the result in the prior year benefited from a large tax credit.

The result of discontinued activities in the first quarter of the current year amounted to € -0.3 million (prior year: € 0.4 million). This results from the valuation at the balance sheet date of a loan from Zapf Creation AG to the US subsidiary, which discontinued its operations as of December 31, 2006, as well as exchange rate effects that are associated with the US subsidiary.

The result for the period decreased in the first quarter of 2011 to € -2.3 million (prior year: € -2.0 million). The result per share for the first three months of 2011 amounts to € -0.12 (prior year: € -0.11).

3.3. Net assets and financial position

The balance sheet total of the Zapf Creation Group declined as of the March 31, 2011 balance sheet date to € 42.7 million (December 31, 2010: € 67.1 million; March 31, 2010: € 63.0 million). Noncurrent assets of € 15.5 million remained largely unchanged compared to December 31, 2010 (€ 15.8 million); at the same reporting date in the prior year the balance was € 18.5 million.

The change in current assets, which decreased in total to € 27.3 million (December 31, 2010: € 51.3 million; March 31, 2010: € 44.4 million), was affected by trade receivables, which declined due lower sales, with better receivables management at the same time, to € 11.0 million (December 31, 2010: € 26.3 million; March 31, 2010: € 17.1 million). Due to the repayment of loans, liquid assets decreased to € 5.6 million from € 13.5 million as of December 31, 2010 and € 12.2 million as of March 31, 2010.

Current liabilities decreased as of March 31, 2011 to € 16.9 million (December 31, 2010: € 59.1 million; March 31, 2010: € 53.0 million). This is due primarily to the presentation of liabilities to creditors, which are included in current liabilities in the amount € 0.2 million (December 31, 2010: € 27.1 million; March 31, 2010: € 30.9 million). The decrease was caused on the one hand by the reduction of existing bank liabilities in connection with the new financing and, on the other hand, by the reclassification in the balance sheet of the remaining transferred liabilities to creditors in the noncurrent section. Trade payables amounted to € 12.4 million (December 31, 2010: € 25.5 million; March 31, 2010: € 15.8 million).

Noncurrent liabilities consist almost entirely of liabilities to creditors in the amount of € 19.9 million (December 31, 2010: € 0 million: March 31, 2010: € 0 million). This amount results from the mentioned reclassification. Net indebtedness at March 31, 2011 amounted to € 14.6 million (December 31, 2010: € 13.6 million; March 31, 2010: € 18.7 million).

Equity decreased as of March 31, 2011 to € 5.8 million (December 31, 2010: € 8.0 million; March 31, 2010: € 9.9 million). The equity ratio as of the reporting date amounts to 13.6%, compared to 11.9% as of December 31, 2010 and 15.8% as of the same date in the prior period.

Despite the negative operating result, the Zapf Creation Group was able to generate a positive cash flow from continuing operations of € 0.04 million in the first quarter of 2011. In the prior year, a positive cash flow of € 7.8 million was reported. Cash flows used in investment activities increased slightly to € -0.2 million (prior year: € -0.1 million). The liquidity situation was significantly affected by the repayment of liabilities to creditors. This led to an increased cash outflow from financing activities of € -7.7 million (prior year: € -3.6 million).

4. Significant events after the close of the reporting period

In the litigation between MGA and Mattel there has been a judgment with a positive outcome from MGA's point of view in April 2011.

On May 10, 2011 the Management Board and the Supervisory Board of Zapf Creation AG resolved to prepare for the switch from the Prime Standard market segment (regulated market) to the Entry Standard market segment (over-the-counter market) on the Frankfurt Stock Exchange.

In addition, there were no significant events after the close of the reporting period.

5. Opportunities and risks

The Zapf Creation Group provided detailed information regarding opportunities and risks in the combined management report of Zapf Creation AG and the Group for the 2010 financial year. There has been no material change in the Group's opportunities and risk profile compared to the disclosures made in that report. Accordingly, reference is made here to those disclosures.

6. Outlook

The Management Board continues to expect that sales revenues for the entire year of 2011 will be below the level of the prior year. Due to the continuing strict cost management, an improvement in the result for the entire year is again anticipated.

Rödental, May 12, 2011

Hannelore Schalast	Thomas Eichhorn
Member of the Management Board	Member of the Management Board

Zapf Creation AG
Rödental

Consolidated Income Statement
for the Period January 1, 2011 to March 31, 2011

	Q1/2011 €'000	Q1/2010 €'000
Sales revenue	8,194	11,882
Cost of sales	-4,893	-6,375
Gross profit	**3,301**	**5,507**
Sales and distribution expenses	-1,673	-2,812
Marketing expenses	-543	-1,456
Administrative expenses	-2,830	-3,803
Other income	458	626
Other expenses	-20	-22
Profit (loss) from operations	**-1,307**	**-1,960**
(of which restructuring costs	*-36*	*-901)*
(of which one-off costs, mainly consultancy	*0*	*0)*
(resulting adjusted profit (loss) from operations	*-1,271*	*-1,059)*
Financial income	16	21
Finance costs	-889	-987
Profit (loss) before tax from continuing operations	**-2,180**	**-2,926**
Income taxes	149	470
Profit (loss) after tax from continuing operations	**-2,031**	**-2,456**
Profit (loss) before tax from discontinued operations	-285	424
Income taxes on discontinued operations	0	0
Net profit (loss) for the period	**-2,316**	**-2,032**

	Q1/2011 €	Q1/2010 €
Average number of shares outstanding (thousands)	18,803	18,803
Earnings per share from continuing operations	-0.11	-0.13
Earnings per share from discontinued operations	-0.02	0.02
Earnings per share (basic/diluted)	**-0.12**	**-0.11**

The Notes form an integral part of the Consolidated Financial Statements.

Zapf Creation AG
Rödental

Consolidated Statement of Comprehensive Income
for the Period January 1, 2011 to March 31, 2011

	Q1/2011 €'000	Q1/2010 €'000
Net profit (loss) for the period	**-2,316**	**-2,032**
Adjustment from currency translation	22	-415
Deferred taxes	82	2
Derivative financial instruments	0	0
Other comprehensive income (loss)	**104**	**-413**
Comprehensive income (loss) for the period	**-2,212**	**-2,445**

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Consolidated Balance Sheet as of March 31, 2011

Assets	March 31, 2011 €'000	Dec. 31, 2010 €'000	March 31, 2010 €'000
Current assets	**27,264**	**51,343**	**44,447**
Cash and cash equivalents	5,607	13,532	12,182
Trade receivables	11,020	26,315	17,062
Inventories	4,412	4,817	7,346
Income tax receivables	129	121	362
Other assets	6,096	6,558	7,495
Non-current assets	**15,474**	**15,800**	**18,544**
Property, plant and equipment	11,121	11,372	12,740
Intangible assets	3,615	3,839	4,488
Other assets	0	0	0
Deferred tax assets	738	589	1,316
Total assets	**42,738**	**67,143**	**62,991**

Equity and liabilities	March 31, 2011 €'000	Dec. 31, 2010 €'000	March 31, 2010 €'000
Current liabilities	**16,946**	**59,076**	**53,026**
Liabilities to creditors	228	27,144	30,883
Trade payables	12,405	25,528	15,843
Income tax liabilities	433	1,390	1,965
Other liabilities	2,795	3,449	3,331
Provisions	1,085	1,565	1,004
Non-current liabilities	**19,989**	**52**	**18**
Liabilities to creditors	19,932	0	0
Deferred tax liabilities	57	52	18
Equity	**5,803**	**8,015**	**9,947**
Subscribed capital	19,296	19,296	19,296
Capital reserve	31,698	31,698	31,698
Profit (loss) for the period and profit (loss) brought forward	-33,734	-31,418	-29,245
Accumulated other comprehensive income (loss)	-1,686	-1,790	-2,031
Treasury shares	-9,771	-9,771	-9,771
Total equity and liabilities	**42,738**	**67,143**	**62,991**

The Notes form an integral part of the Consolidated Financial Statements

Zapf Creation AG
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Consolidated Statement of Changes in Equity for the Period January 1, 2011 to March 31, 2011

	Outstanding shares (thousands)	Subscribed capital €'000	Capital reserves €'000	Net profit (loss) for the period and profit (loss) brought forward €'000	Accumulated other comprehensive income (loss): Adjustment from currency translation €'000	Accumulated other comprehensive income (loss): Derivative financial instruments €'000	Treasury shares €'000	Total equity €'000
Balance as at January 1, 2010	**18,803**	**19,296**	**31,759**	**-27,213**	**-1,618**	**0**	**-9,771**	**12,453**
Net profit (loss) for the period				-2,032				-2,032
Change in other comprehensive income					-413	0		-413
Comprehensive income (loss) for the period				**-2,032**	**-413**	**0**		**-2,445**
Share-based payment			-61					-61
Balance as at March 31, 2010	**18,803**	**19,296**	**31,698**	**-29,245**	**-2,031**	**0**	**-9,771**	**9,947**
Balance as at January 1, 2011	**18,803**	**19,296**	**31,698**	**-31,418**	**-1,790**	**0**	**-9,771**	**8,015**
Net profit (loss) for the period				-2,316				-2,316
Change in other comprehensive income					104	0		104
Comprehensive income (loss) for the period				**-2,316**	**104**	**0**		**-2,212**
Share-based payment			0					0
Balance as at March 31, 2011	**18,803**	**19,296**	**31,698**	**-33,734**	**-1,686**	**0**	**-9,771**	**5,803**

The Notes form an integral part of the Consolidated Financial Statements.

Zapf Creation AG
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Consolidated Cash Flow Statement
for the Period January 1, 2011 to March 31, 2011

	Q1/2011 €'000	Q1/2010 €'000
Cash flow from operating activities:		
Operating loss before tax	-2,465	-2,502
Depreciation and amortization expense	702	896
Gains/losses from the disposal of non-current assets	-2	-16
Net finance costs	873	966
Share-based payment	0	-61
Other non-cash income and expenses	0	0
Increase/decrease in assets and liabilities:		
Trade receivables	15,350	18,096
Inventories	405	-1,454
Other assets	-94	-559
Liabilities and provisions	-13,853	-7,250
Income taxes paid	-878	-282
Cash flow from operating activities	**38**	**7,834**
Cash flow from investing activities:		
Proceeds from the disposal of property, plant and equipment, and intangible assets	59	28
Payments to acquire property, plant and equipment, and intangible assets	-284	-127
Cash flow from investing activities	**-225**	**-99**
Cash flow from financing activities:		
Proceeds from borrowings from creditors	0	0
Payments in connection with liabilities to creditors and other fees	-129	-180
Repayments of liabilities to creditors	-6,781	0
Changes in liabilities related to drawdowns under short-term borrowing facilities	0	-2,432
Interest paid	-842	-982
Interest received	11	24
Issuance of treasury shares	0	0
Cash flow from financing activities	**-7,741**	**-3,570**
Effects of changes in exchange rates	3	46
Net change in cash and cash equivalents	**-7,925**	**4,211**
Cash and cash equivalents at the beginning of the period	13,532	7,971
Cash and cash equivalents at the end of the period	5,607	12,182

The Notes form an integral part of the Consolidated Financial Statements.

Zapf Creation AG

Rödental

Notes to the interim consolidated financial statements as of March 31, 2011

Contents:

1. General information

1.1. Information on the Company

Zapf Creation AG – hereinafter also referred to as “the Company” or “Zapf Creation” – is Europe’s leading brand manufacturer of play and functional dolls, including accessories.

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

Zapf Creation AG, as the Company is currently known, was originally established in 1932 by Max Zapf and his wife Rosa as “Max Zapf Puppen- und Spielwarenfabrik” in Rödental. 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 Mönchrödener Strasse 13, 96472 Rödental, Germany.

1.2. Principles of preparation

The interim consolidated financial statements of Zapf Creation AG as of March 31, 2011 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 therefore be read in connection with the consolidated financial statements as of December 31, 2010, 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 associated interpretations, applicable to the financial year were applied in the preparation of the consolidated financial statements of Zapf Creation AG as of December 31, 2010, so far as they were adopted by the EU.

At the time of publication of the interim consolidated financial statements as of March 31 in the prior year, the consolidated financial statements of Zapf Creation AG as of December 31, 2009, on which those interim financial statements were based, were only available in preliminary form. Events within the meaning of IAS 10 ("Events after the Reporting Period") that affected the consolidated financial statements as of December 31, 2009 led in turn to necessary changes of the underlying opening balances in the interim consolidated financial statements as of March 31, 2010 and changes in the results figures in the prior year's comparative period.

1.3. Consolidation

The interim consolidated financial statements as of March 31, 2011 follow the same consolidation methods as the consolidated financial statements as of December 31, 2010. Accordingly, reference is also made to the consolidated financial statements as December 31, 2010.

With respect to the group of consolidated companies, reference is made to the consolidated financial statements as of December 31, 2010. In addition to Zapf Creation AG, the Group's parent company, all direct and indirect subsidiaries of the Group are included in the consolidation. There were no changes in the group of consolidated companies in the first three months of the 2011 financial year.

1.4. Accounting policies

The interim consolidated financial statements as of March 31, 2011 follow the same accounting policies as those applied in the consolidated financial statements as of December 31, 2010. Accordingly, reference is also made to the consolidated financial statements as of December 31, 2010.

In addition to operating income, the Zapf Creation Group also reports "adjusted operating income" in its consolidated income statement in the interim consolidated financial statements as of March 31, 2011. The adjusted operating income is oriented toward the Group's internal key performance indicators and adjusts the Group's operating income for restructuring costs and one-off items in the income statement. Showing this item in the presentation of the consolidated income statement serves to increase transparency with regard to the sustainability of the earnings generated by the company through its ongoing operating process. Any expenses incurred from the restructuring of the Zapf Creation Group, as well as other extraordinary one-off expenses, are shown in the income statement under the operational areas giving rise to such expenses. Restructuring costs in the first quarter of 2011 amounted to K€ 36 (prior year: K€ 901). As in the prior year, there were no one-off items to be reported.

1.5. Use of estimates

The preparation of interim consolidated financial statements requires management to make assumptions and estimates which might affect the application of accounting standards in the Group, as well as both the amount and 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 differ 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 considered 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, 2011 follow the same structure as in the consolidated financial statements as of December 31, 2010. Accordingly, reference is also made to the consolidated financial statements as of December 31, 2010.

The development of the individual items of the interim consolidated financial statements in the first three months of the 2011 financial year, especially revenue, is characterized by the typical seasonal nature of the Company's business. In this regard, reference is also made to the interim management report of the Group as the end of the first quarter of 2011.

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

2.2. Discontinued operations

As in the prior year, income and expenses that are attributable to the Group subsidiary Zapf Creation (U.S.) 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:

	Q1/2011	Q1/2010
	K€	K€
Other income	0	424
Other expenses	- 285	0
Result from discontinued operations	- 285	424

As in the comparative period in the prior year, the result from discontinued operations in the first three months of the 2011 financial year results solely from exchange rate effects.

Cash flows from operating, investing and financing activities attributable to discontinued operations are as follows:

	Q1/2011 K€	Q1/2010 K€
Cash flow from operating activities	0	0
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
Effects of exchange rate changes	- 1	1
Cash flow from discontinued operations	- 1	1

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 2011 totaled K€ 2,221 (prior year: K€ 3,085).

Staff costs by functional areas are comprised as follows:

	Q1/2011 K€	Q1/2010 K€
Selling and disposition	1,006	1,289
Marketing	85	168
Other administration	1,130	1,628
Staff costs	2,221	3,085

2.4. Equity

As in the comparative prior-year period, no capital measures were carried out in the first three months of the 2011 financial year.

With respect to the existing authorization to acquire and to use treasury shares, as well as to establish one or more stock option plans, and also with respect to the conditional capital by resolution of the Annual Shareholders' Meeting on December 15, 2009 (Conditional Capital 2009), reference is made to the consolidated financial statements as of December 31, 2010. Until March 31, 2011, the Company had not made use of the existing authorizations.

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 consideration 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, as well as the companies of the MGA Group that are related parties of the Company, have been identified as related parties.

All transactions transaction involving deliveries and services from and to related parties that occur in the ordinary course of the Zapf Creation Group's business are carried out at customary market conditions.

3.1. Management Board

The following changes regarding the composition of the Management Board occurred in the reporting period:

Zapf Creation AG already announced on August 6, 2010, that the Supervisory Board has appointed Hannelore Schalast, at that time head of corporate finance & controlling, to the Management Board as Chief Financial Officer of the Company, effective February 1, 2011. Until then, Ms. Schalast acted as chief representative in the general area of finance. Also as of February 1, 2011, Josef Lukas, who previously acted in an advisory function in sales for Germany/Austria/Switzerland, took over as Management Board member for sales. Ron Oboler, Chairman of the Management Board, and Ron Brawer, the Supervisory Board member delegated to the Management Board, relinquished their temporally assumed Management Board responsibilities. Mr. Oboler retired from the Management Board as of February 15, 2011; the appointment of Mr. Brawer to Management Board ended on December 31, 2010. Mr. Brawer resigned from his post as member of the Supervisory Board effective December 31, 2010.

On November 2, 2010 Zapf Creation AG announced that the Supervisory Board of the Company appointed Jaime Ferri Llorens as a member of the Management Board, effective January 1, 2011, and as Chairman of the Management Board, effective February 16, 2011. Jaime Ferri Llorens replaced Ron Oboler, who led the Company on a temporary basis since February 2010. On February 28, 2011 Zapf Creation announced that Jaime Ferri Llorens, member and Chairman of the Management Board of Zapf Creation will resign from his post for health reasons.

As of the close of February 28, 2011, the contract with José Antonio Santana, member of Management Board of Zapf Creation AG, ended. Since this time, Mr. Santana is no longer a member of the Management Board of the Company.

On March 14, 2011, the Supervisory Board of Zapf Creation AG appointed Thomas Eichhorn as member of the Management Board, with effect from April 1, 2011.

On March 29, 2011, Josef Lukas resigned his post as member of the Company’s Management Board with immediate effect. The duties he performed were taken over by Thomas Eichhorn.

In the prior year’s comparative period, the Supervisory Board of Zapf Creation AG, on January 29, 2010, appointed Ron Obeler member and Chairman of the Management Board. In addition, Ron Brawer, at that time a member of the Supervisory Board, was delegated to the Management Board in accordance with Section 105 (2) of the German Stock Corporation Act. Stephan F. Brune, member and Chairman of the Management Board of Zapf Creation AG since October 1, 2008, left the Company as of January 31, 2010.

The total compensation of K€ 178 (prior year: K€ 263) paid to the Management Board comprises all cash compensation due, as well as all non-cash benefits. 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 allowances for accident insurance and other insurance coverage. In addition to the total compensation, in the first three months of 2011 expenses were recognized in the total amount of K€ 119 for consulting fees or compensation to employees for services that were rendered in the first quarter of 2011 in the run-up to or following the respective Management Board activities of individuals who in this period were at times members of the Company's Management Board.

The compensation system based on phantom shares that was launched in 2006 for the members of Zapf Creation AG's Management Board remained in place in the first three months of 2011. With respect to the structure of this system reference is made to the consolidated financial statements as of December 31, 2010. There were no new allocations made to members of the Management Board in the first three months of the 2011 financial year. In the prior year's comparative period a further 27,000 phantom stock options were issued entirely to José Antonio Santana at a base price of € 1.00, the exercise of which is not dependent on the achievement of specific performance targets. There were no further allocations to members of the Management Board. 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. No increase was made to the provision for obligations in connection with phantom share-based compensation system for Management Board members in the first three months of 2011 (prior year: K€ 14). Due to the development of the share price, the provision was reduced in the first three months of 2011 by an amount of K€ 13 (prior year: K€ 40) and recognized in the income statement. The provision for liabilities under the aforementioned phantom options for current or previous members of the Management Board as of March 31, 2011, was K€ 121 (prior year: K€ 57);

As an additional form of share-based compensation, Mr. José Antonio Santana was promised a direct grant of shares; this is strictly arranged as a variable compensation component, the amount of which is dependent upon achievement of specific performance targets. A similar form of compensation existed in the prior year for the previous Management Board member Jens U. Keil. As a result of this solely variable compensation element, there was no share-based compensation in the first three months of 2011, which was also the case in prior year's comparative period.

In the prior year's comparative period, on March 4, 2010, the Company entered into a compensatory arrangement with the former member and Chairman of the Management Board of Zapf Creation AG, Stephan F. Brune, under which all claims and obligations of both parties resulting from the employee relationship were discharged and thereby finally settled. In this connection, a one-time compensation payment in the amount of K€ 550 (gross) was concluded. In addition, existing receivables due from Mr. Brune in the amount of K€ 25 were waived; the payroll tax resulting from this waiver of the receivables was completely taken over by the Company.

One 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 were met; the Company was responsible for any tax expense arising from non-cash benefits. 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 repayment of K€ 100 on this loan 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 was also paid in full. In the 2009 financial year there was no repayment of the outstanding loans; in the 2010 reporting period a principal amount of K€ 15 was repaid. Interest was paid in the agreed-upon amount. The Company’s total claim as of the March 31, 2011 reporting date amounted to K€ 339 (prior year: K€ 350) as a result of the waiver of its claim, the interest and loan payments and considering accrued interest for the first quarter of 2011. The loan granted remains secured by a land charge in the amount of K€ 200 (prior year: K€ 200); a write-down of K€ 335 (prior year: K€ 350) has been recognized on the remaining balance. The interest receivable for the first quarter of 2011 in the amount of K€ 4 was paid in April 2011.

3.2. Supervisory Board

There were no changes to the composition of the Supervisory Board of Zapf Creation AG in the reporting period.

In connection with the Annual Shareholders’ Meeting on April 6, 2011, Manfred Schneider, who was already appointed to the Supervisory Board of Zapf Creation AG with a resolution of September 13, 2010 by the local court of Coburg in accordance with Section 104 German Stock Corporation Act, was elected to the Supervisory Board. It was also resolved that from now on the Company’s Supervisory Board would be composed of three members.

In the prior year’s comparative period the following changes occurred with respect to the Supervisory Board:

On January 11, 2010, Nicolas Mathys, at that time member and Vice-Chairman of the Supervisory Board, by reference to Article 11(4) of the Articles of Incorporation of the Company, announced that he was resigning from his position as a member and Vice-Chairman in accordance with the four-week notification period. In addition, on January 29, 2010, the Supervisory Board of Zapf Creation AG delegated Mr. Ron Brawer, member of the Supervisory Board, to the Management Board in accordance with Section 105 (2) Stock Corporations Act. His appointment to the Management Board ended on December 31, 2010. Ron Brawer resigned from his post on the Supervisory Board, effective December 31, 2010.

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 prorated in accordance with the duration of their membership on the Supervisory Board. As in the prior year, the addition to the provision for the fixed component of the Supervisory Board compensation as of March 31, 2011 was made pro rata temporis.

As in the prior year, no provision was recognized for the variable component of the compensation, since no payment obligation arises from the Company’s performance. Regarding the details of the variable compensation component, reference is made to the consolidated financial statements as of December 31, 2010.

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 most recent 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. In the 2009 financial year the strategic cooperation was expanded through an additional agreement (Agreement 7: “Inventions License Agreement”). The contract, which is effective as of January 1, 2009 and was initially subject to approval by the Company’s banks, contains the right of Zapf Creation AG for the payment of license fee to use and exploit defined intellectual property of MGA Entertainment, Inc., Van Nuys, California, USA.

The following income and expenses resulted from this partnership in the first three months of the 2011 financial year.

Cooperation agreements	Q1/2011	Q1/2010
	K€	K€
Agreement 1: "Distribution Agreement"		
Income from Agreement 1	49	18
Agreement 2: "Consignment and Services Agreement"		
Income from Agreement 2	156	157
Agreement 3: "Logistics Service Agreement"		
Income from Agreement 3	89	78
Agreement 4: "Hong Kong / China Services Agreement"		
Expenses from Agreement 4	324	268
Agreement 5: "Merchandising License Agreement"		
Income from Agreement 5	0	0
Agreement 6: "UK Services Agreement"		
Income from Agreement 6	113	73
Expenses from Agreement 6	17	18
Agreement 7: „Inventions License Agreement”		
Expenses from Agreement 7	0	0

In connection with the distribution agreement, interest income so far in the 2011 financial year amounted to K€ 2 (prior year: K€ 0) on the outstanding payment of existing receivables from the MGA Group.

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	Q1/2011	Q1/2010
	K€	K€
Income from cross charges	136	208
Expenses from cross charges	418	362

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	Q1/2011	Q1/2010
	K€	K€
Merchandise procurement in the reporting period	3,430	6,229

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. In connection with the merchandise procurement, interest expense was incurred by the Zapf Creation Group in the first three months of the 2011 financial year in the amount of K€ 25 (prior year: K€ 0), which was payable to the MGA Group.

Similar to the prior year, there were no other direct service transactions with the related companies of the MGA Group.

There were no other business transactions in the first three months of the 2011 financial year, as was the case in the prior year.

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, 2011 are as follows:

Balances as of the balance sheet date	31.03.2011	31.03.2010
	K€	K€
Receivables from related parties	4,179	5,633
Liabilities to related parties	3,820	4,843

4. Events after the balance sheet date

Regarding significant events subsequent to the balance sheet date, with the exception of the following presentation of Directors' dealings, reference is made to the comments in the Interim Group Management Report as of the end of the first quarter 2011.

5. Directors' Dealings

In the period from January 1 to May 12, 2011 no securities dealings required to be reported under Section 15a of the German Securities Trading Act (WpHG) were reported by the Company's bodies.

In the prior year's comparative period, Stephan F. Brune, at that time member and Chairman of the Management Board, notified Zapf Creation AG on January 12, 2010 pursuant to Section 15a of the German Securities Trading Act (WpHG) that on January 11, 2010 he sold a total of 80,000 shares of Zapf Creation AG – ISIN DE 0007806002 – at a price of € 1.15 per share (transaction volume: € 92,000). The sale of the shares, which were guaranteed in his employment contract and transferred to the Company, was purportedly made for personal reasons.

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

Rödental, May 12, 2011

Thomas Eichhorn	Hannelore Schalast
Member of the Management Board	Member of the Management Board

Zapf Creation AG
Rödental

Group Segment Reporting as of March 31, 2011

Geographical segments

	Central Europe		Northern Europe		Southern Europe		Eastern Europe		America		Asia/Australia		Other		Consolidation		Consolidated Group		Discontinued operations		Continuing operations	
Q1	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€	2011 K€	2010 K€
External sales revenues	3,295	5,629	2,071	2,766	767	1,651	1,679	1,503	3	0	379	333	0	0	0	0	8,194	11,882	0	0	8,194	11,882
Intercompany sales revenues	209	42	184	424	16	215	-1	360	0	0	0	0	0	0	-408	-1,041	0	0	0	0	0	0
Total sales revenues	3,504	5,671	2,255	3,190	783	1,866	1,678	1,863	3	0	379	333	0	0	-408	-1,041	8,194	11,882	0	0	8,194	11,882
Result before interest, income taxes, and intercompany clearing (EBIT before intercompany clearing)	-2,344	-3,211	628	541	-243	-51	589	675	-282	424	60	86	0	0	0	0	-1,592	-1,536	-285	424	-1,307	-1,960
Result before interest and income taxes (EBIT)	-1,625	-1,474	62	-384	-318	-344	589	447	-282	424	-18	-205	0	0	0	0	-1,592	-1,536	-285	424	-1,307	-1,960

The Segment Reporting is part of the Notes.

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“.

Rödental, May 12, 2011

Thomas Eichhorn	Hannelore Schalast
Member of the Management Board	Member of the Management Board