Quarterly Report 1/2010

Zapf Creation®

Consolidated key figures (IFRS)

in € million	Q1/2010	Q1/2009	+/– in %
Adjusted earnings (without restructuring costs and one-off effects)			
Continuing operations			
EBITDA	−0.5	−4.0	87
EBIT	−1.4	−4.9	71
EBIT margin (in %)	−11.9	−46.5	—
EBT	−2.4	−6.0	60
Result from continuing operations	−1.9	−5.4	64
Discontinued operations			
Result from discontinued operations	0.4	0.4	4
Group			
Net profit or loss for the period	−1.5	−4.9	70
Earnings per share (in €) 1)	−0.08	−0.26	70
Earnings according to the income statement (including restructuring costs and one-off effects)			
Continuing operations			
Revenue	11.9	10.6	12
Gross margin (in %)	46.3	29.7	—
EBITDA	−1.4	−4.0	64
EBIT	−2.3	−4.9	53
EBIT margin (in %)	−19.5	−46.5	—
EBT	−3.3	−6.0	45
Result from continuing operations	−2.8	−5.4	48
Included restructuring costs and one-off effects	0.9	0.0	—
Included depreciation and amortization	0.9	1.0	−6
Discontinued operations			
Result from discontinued operations	0.4	0.4	4
Included restructuring costs and one-off effects	0.0	0.0	—
Included depreciation and amortization	0.0	0.0	—
Group			
Net profit or loss for the period	−2.4	−4.9	52
Earnings per share (in €) 1)	−0.13	−0.26	52

The information for Q1/2010 is presented under the premise that the Company will continue as a going concern. For more information, please see the management report and the notes.

The key figures are based on rounded values in € million. The calculation of sums and ratios can therefore result in differences when compared to the interim consolidated financial statements.

1) basic = diluted

Consolidated key figures (IFRS)

in € million	Q1/2010	Q1/2009	+/– in %
Balance sheet			
Total assets	64.3	73.7	–13
Non-current assets	19.0	21.7	–12
Investments	0.1	0.3	–56
Current assets	45.3	52.1	–13
Equity	11.7	17.8	–34
Equity ratio (in %)	18.2	24.1	—
Liabilities to banks	30.7	34.1	–10
Net liabilities	18.4	22.3	–18
Cash flow			
Cash flow from operating activities	7.8	6.8	15
Cash flow from operating activities per share (in €)	0.42	0.36	14
Net cash flow	4.2	4.4	–4
Employees			
Number as of the closing date [2)]	211	241	–12

The information for Q1/2010 is presented under the premise that the Company will continue as a going concern. For more information, please see the management report and the notes.

The key figures are based on rounded values in € million. The calculation of sums and ratios can therefore result in differences when compared to the interim consolidated financial statements.

2) excluding Management Board and trainees

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Interim management report of the Group as of March 31, 2010

- **Consolidated revenue up 12 % year on year**
- **Gross profit margin up 17 percentage points**
- **Group EBIT improved**
- **Cash flows from operations up 15 %**
- **Net liabilities reduced considerably**
- **Constructive negotiations with banking consortium regarding adjustment of long-term Group financing**

1. Summary

The business performance of the Zapf Creation in the first three months of 2010 was positive. In what is traditionally the weakest quarter for the toy industry, consolidated revenue increased compared to the same period last year. The Group's earnings and cash position also improved.

2. Significant events during the reporting period

Zapf Creation AG announced on January 29, 2010, that the Supervisory Board had appointed Mr. Ron Oboler Chief Executive Officer effective February 1, 2010. Mr. Oboler will head the Management Board on an interim basis. The Supervisory Board plans to fill the position of Management Board chairman on a permanent basis in the course of the year.

Mr. Oboler is taking the place of Mr. Stephan F. Brune, who left the Company effective January 31, 2010.

In addition, Mr. Ron Brawer, member of the Company's Supervisory Board, will be temporarily delegated to its Management Board.

These personnel decisions are aimed at further enhancing the Management Board's industry expertise and thus accelerating the development of the Zapf Creation Group into an international provider of girls' toys.

3. Economic conditions

3.1. Business environment

The global economy continued to recover in the first few months of 2010. Both manufacturing and international trade have gained new momentum thanks to comprehensive governmental economic stimulus packages, the measures enacted by the public sector to stabilize the financial industry and the gradual return of consumers' and investors' confidence. The economies of Asian emerging countries such as India and China are already showing initial signs of overheating. The gradual increase in consumer spending and accelerating housing construction have helped to stabilize the US economy. The economy of the euro zone has continued to recover - although at a slower rate than other regions. Experts believe that this is due to economic imbalances, particularly the structural difficulties of Southern and Eastern European countries. While the German economy regained its footing in the first quarter of 2010, it only expanded at a restrained pace due to both low capacity utilization and limited demand for its exports from the euro zone.

The growth differential between the emerging countries and key industrial countries is expected to widen in the course of the year. According to the experts of the International Monetary Fund (IMF), the global economy will expand by 4.2 % in 2010 — driven primarily by emerging countries' demand for goods. China's gross domestic product (GDP) is expected to grow in 2010 by 10.0 % year on year and that of India by 8.8 %. The economic momentum in industrialized countries will be much weaker, for several reasons. The economic stimulus packages are set to expire, consumer spending remains low overall and underutilized capacities as well as the continued uncertainty over large public deficits have dampened capital spending in the industrial sector. The US is expected to generate a GDP of 3.1 %. The euro zone will lag behind it in economic terms and grow by a mere 1.0% in the current year. German GDP is also expected to expand at a lower rate of between 1.2 % and 1.5 %.

Sources:
Association of German Banks, Monthly Report, April 2010
European Central Bank, Monthly Report, April 2010
International Monetary Fund, World Economic Outlook, April 2010
Spring opinion of Germany's leading economic research institutes, April 2010

3.2. Industry environment in Europe

The recovery of key European toy markets in the first three months of 2010 was substantial thanks to the renewed economic momentum. Relative to end consumer prices, in Germany the market volume grew by 15 % in the year's first quarter — traditionally its weakest — while the important Spanish toy market expanded by 20 % year on year. Positive effects from the Easter business, which, in contrast to 2009, was included in the first quarter figures in 2010, have to be noted here.

The positive trend also continued in the segment of play and functional dolls, which is relevant to the Zapf Creation Group. In Germany, total sales in this segment rose by 13 % in the first quarter of 2010. In Spain, sales of play and functional dolls grew by 25 %.

Source:
NPD EPoS Summary Report, March 2010

4. Performance of the Zapf Creation Group

4.1. Preliminary remark

The consolidated financial statements of Zapf Creation AG as of December 31, 2009, had not yet been audited at the time this quarterly report was prepared. This is due to the ongoing negotiations with the banking consortium regarding the adjustment of the Group's long-term financing. These negotiations are taking place because the Group's performance in the fourth quarter of 2008 caused it to breach the Covenants stipulated with the banks. The banking syndicate had agreed in the fall of 2009 to waive compliance with the Covenants until April 30, 2010. This period was extended until May 31, 2010, given the ongoing intensive negotiations with the banks.

No auditor's opinion will be issued for the Company's 2009 annual financial statements unless these negotiations are brought to a successful conclusion. The Management Board of Zapf Creation AG is very confident that the talks will be brought to a successful conclusion.

The following disclosures on the performance indicators for the 2009 financial year — which were prepared on the assumption that the Group will remain a going concern — are published here with the proviso that they will be retroactively confirmed by the auditors.

4.2. Development of consolidated sales

In the first quarter of 2010, the Zapf Creation Group's sales rose by 12.4 % to € 11.9 million (Q1/2009: € 10.6 million). Aside from the general easing of conditions in the market and reinvigorated consumption, this was also due to Zapf Creation's new products, which triggered a positive response from wholesale customers and consumers alike.

4.3. Development of sales by region

In Europe, consolidated sales rose to € 11.5 million in the first three months of 2010, up from € 10.3 million in the first quarter of the previous year (+ 11.6 %).

In Central Europe (Germany, Austria, Switzerland, The Netherlands and Luxemburg) consolidated revenue was € 5.6 million, up 6.4 % year on year (Q1/2009: € 5.3 million). While sales in Northern Europe (Great Britain, Ireland, Scandinavia) rose to € 2.8 million (Q1/2009: € 2.4 million), at € 1.7 million, sales in Southern Europe (Belgium, France, Italy and Spain) were comparable to the previous year (Q1/2009: € 1.6 million). Zapf Creation discontinued the operating activities of its French subsidiary in the first quarter and will use a capable distributor to serve the French market in the future. Consolidated revenue in Eastern Europe rose to € 1.5 million in the first three months of 2010, up from € 1.0 million in the first quarter of 2009.

Breakdown of sales (external sales) by region*

	Q1/ 2010 K€	Q1/ 2009 K€	+/– in %
Europe	**11,549**	**10,348**	**12**
Central Europe	5,629	5,289	6
Northern Europe	2,766	2,423	14
Southern Europe	1,651	1,608	3
Eastern Europe	1,503	1,028	46
Asia/Australia	**333**	**222**	**50**
Total sales	**11,882**	**10,570**	**12**

* In accordance with IFRS 5

4.4. Development of sales by product line

The Zapf Creation Group posted sales of € 8.6 million in its core segment — play and functional dolls — as of the close of the year's first three months, compared to € 9.8 million in the same quarter the previous year (– 12.2%).

The BABY born® toy concept generated € 5.9 million in consolidated revenue in the first quarter of 2010, down from € 6.2 million in the same period the previous year. This decline by 5.9 % was basically due to a weaker performance of the "my little BABY born®" product line. Sales of Baby Annabell® were € 1.6 million, down by 28.6 % year on year (Q1/2009: € 2.2 million). This decline was primarily due to contracting demand for accessories of this series. The CHOU CHOU toy concept generated sales of € 0.9 million, a decline of 26.4 % (Q1/2009: € 1.2 million). Consolidated sales of the Group's other play dolls — Lilli the Witch and Little Sunshine — were € 0.3 million, up from € 0.1 million in the first quarter of the previous year.

The mini doll segment generated revenue of € 0.7 million in the first three months of 2010. No products were marketed in this segment the previous year.

Consolidated sales of other products not classified as play and functional dolls rose substantially during the reporting period to € 2.6 million (Q1/2009: € 0.8 million). At sales of € 1.4 million, the Chiqui product group, which was launched in the spring of 2010, made a substantial contribution to that result. Magic Krysalix, the new play set concept, generated sales of € 0.8 million while other products such as the My Model make-up head series generated revenue of € 0.4 million (Q1/2009: € 0.8 million).

Breakdown of sales by product line*

	Q1/ 2010 K€	Q1/ 2009 K€	+/– in %
Play and functional dolls	**8,593**	**9,791**	**– 12**
BABY born®	5,865	6,232	– 6
Baby Annabell®	1,595	2,233	– 29
CHOU CHOU	879	1,195	– 26
Other play and functional dolls	254	131	93
Mini dolls	**676**	**0**	**—**
Other products	**2,613**	**779**	**> + 100**
Chiqui	1,377	0	—
Magic Krysalix	845	0	—
Other Products	391	779	– 50
Total sales	11,882	10,570	12

* In accordance with IFRS 5

5. Development of earnings

The Zapf Creation Group substantially its gross profit margin in the first quarter of 2010 to 46.3 % (Q1/2009: 29.7 %). This increase by 16.6 % basically stems from the positive effects of the new product lines as well as substantially lower sell-offs of obsolete products. The continued reduction in procurement costs that the Group succeeded in obtaining from its vendors after intense negotiations was another factor.

Significant cost accounts remained more or less at the previous year's level despite the increase in consolidated sales. At € 2.8 million, distribution expenses declined in the first three months of 2010 by 1.5 % year on year (Q1/2009: € 2.9 million). Marketing expenses rose to € 1.5 million, up from € 1.4 million in the first quarter of 2009 (+4.1 %). Administrative expenses of € 4.2 million (Q1/2009: € 3.5 million) contain one-time expenses arising from changes in the Management Board.

Other expenses fell to € 0.02 million in the reporting period (Q1/2009: € 0.8 million), due mainly to currency differences.

The Zapf Creation Group improved its earnings before interest and taxes (EBIT) in the first quarter to € –2.3 million (Q1/2009: € –4.9 million). This amount contains one-time charges of € 0.9 million arising from the ongoing optimization of corporate structures, as previously announced. Hence the majority of the restructuring costs planned for the year on the whole have already been recognized in profit or loss after a mere three months. Adjusted for one-time charges and restructuring effects, adjusted consolidated EBIT improved to € – 1.4 million.

Finance costs were € 1.0 million in the first quarter of 2010, down from € 1.1 million in the same period the previous year.

As of the close of the first quarter of 2010, the Zapf Creation Group posted a consolidated loss before taxes from continuing operations of € –3.3 million, up from € –6.0 million in the same quarter the previous year.

At € 0.5 million, tax income was comparable to the previous year's level (Q1/2009: € 0.6 million).

Zapf Creation posted a net after-tax loss of € 2.8 million from continuing operations for the period, compared to € –5.4 million in the first three months of 2009.

Earnings from discontinued operations were € 0.4 million — as in the previous year — due to the closing-date measurement of a loan from Zapf Creation AG to its US subsidiary, whose operations were discontinued as of December 31, 2006.

The Group posted a net loss of € 2.4 million as of the first three months of 2010, compared to a loss of € 4.9 million for the same period the previous year. Earnings per share were € –0.13 based on a total of 18.8 million shares outstanding. This compares to earnings per share of € –0.26 for the first quarter of 2009 based on a total of 18.7 million shares outstanding.

6. Assets

The total assets of the Zapf Creation Group as of the March 31, 2010, reporting date were € 64.3 million. The decline by € 12.7 million from € 77.0 million as of the end of December 2009 (March 31, 2009: € 73.7 million) largely reflects the lower business volume for seasonal reasons.

At € 19.0 million, non-current assets remained largely at the level recorded on December 31, 2009 (€ 19.2 million; March 31, 2009: € 21.7 million), current assets fell by € 12.4 million to € 45.3 million (December 31, 2009: € 57.7 million; March 31, 2009: € 52.1 million). This was mainly due to the robust reduction in receivables by € 18.7 million to € 17.9 million (December 31, 2009: € 36.5 million; March 31, 2009: € 22.7 million), which reflects effective working capital management besides seasonal effects. The increase in inventories by € 1.7 million to € 7.6 million (December 31, 2009: € 5.9 million, March 31, 2009: € 11.1 million) in contrast reflects the market launch of the Group's new products.

Cash and cash equivalents rose to € 12.3 million as of the end of March 2010, up from € 8.1 million at the close of 2009 (March 31, 2009: € 11.8 million). The inflow of € 4.2 million stems primarily from the reduction in the commitment of funds thanks to our streamlined working capital management.

7. Liabilities

The current liabilities of the Zapf Creation Group fell substantially by € 9.8 million to € 52.6 million as of March 31, 2010 (December 31, 2009: € 62.4 million; March 31, 2009: € 55.9 million. Besides the decrease in liabilities to banks by € 2.4 million to € 30.7 million (December 31, 2009: € 33.1 million; March 31, 2009: € 34.1 million), the lower amount also reflects the reduction in trade payables by € 6.0 million to € 16.2 million for seasonal reasons (December 31, 2009: € 22.1 million; March 31, 2009: € 15.9 million).

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

The Group's net liabilities as of March 31, 2010, fell substantially by € 6.6 million to € 18.4 million, down from € 25.0 million as of December 31, 2009 (March 31, 2009: € 22.3 million).

Equity as of the end of the reporting period was € 11.7 million, down from € 14.6 million at the close of 2009 (March 31, 2009: € 17.8 million). This decline by € 2.9 million basically reflects the Group's loss for the first quarter of 2010. At 18.2 %, the equity ratio was more or less the same as at the close of 2009 (18.9 %; March 31, 2009: 24.1 %).

8. Liquidity

The Zapf Creation Group generated € 7.8 million in cash flows from operating activities in the first quarter of 2010. This corresponds to an increase of 14.9% over the level (€ 6.8 million) a year ago, thanks mainly to the improvement in operating income.

A total of € 0.1 million in cash was used for investing activities, down from € 0.3 million in the first three months of 2009. Financing activities resulted in a cash outflow of € 3.6 million, especially due to € 2.4 million in loan payments (Q1/2009: € 2.2 million).

As of the end of the reporting period, cash and cash equivalents were € 12.3 million groupwide, up from € 11.8 million at the close of the same quarter the previous year.

9. Employees

The Zapf Creation Group had a total of 211 employees worldwide as of March 31, 2010, (excluding the Management Board and trainees), compared to 224 at the close of 2009. This reduction in personnel is due to the continued streamlining of our corporate structures, as previously announced. In this connection, Zapf Creation discontinued the operations of its French subsidiary in the first quarter of 2010 and handed over the business to a distributor. The marketing department has been consolidated at the Company's headquarters in Roedental. The Management Board aims to bring about further structural improvements in the course of the current year, which might entail yet more selective cuts in personnel.

10. Events after the close of the reporting period

The banking consortium extended its waiver of compliance with the Covenants — from the initial date (April 30, 2010) to May 31, 2010, as part of the ongoing negotiations on the Group's funding in the long term.

Effective 26 April 2010, the Company's Supervisory Board appointed Mr. Jaime Ferri as a consultant in all matters of business alignment, especially product development and marketing and for developing the Spanish market. Mr. Ferri therefore resigned from the Supervisory Board with the Supervisory Board's approval.

11. Opportunities and risks

The Zapf Creation Group provided detailed information regarding opportunities and risks in the combined management report of Zapf Creation AG and the Group for the 2008 financial year. There has been no material change in the Group's opportunities and risk profile compared to the disclosures made in that report. Therefore, please see these disclosures for more information.

We do wish to address the following additional risk:
At the present time, the Company is negotiating with the banking consortium on adjusting the terms governing the Group's long-term financing. This development was sparked by noncompliance with the Covenants due to business developments in the fourth quarter of 2008. The banking consortium agreed in the fall of 2009 to waive compliance with the Covenants until April 30, 2010. This period has been extended until May 31, 2010, against the backdrop of our ongoing intensive negotiations with the banks. Given the constructive nature of these talks, the Management Board is confident that these negotiations will be brought to a successful conclusion. Yet we cannot preclude that the banking consortium might exercise its right to call the loans to the Company. In this case, the solvency of both the Zapf Creation Group and Zapf Creation AG would be at risk in the short term, threatening the Company's existence as a going concern.

12. Anticipated developments

By realigning itself as a global provider of girls' toys, Zapf Creation has paved the way for a return to sustainable growth. The great acceptance of the new products among customers as well as promising partnerships, particularly with the Disney Group, give reason for optimism in the current financial year. In light of this, the Management Board expects that consolidated revenue and earnings in 2010 will be significantly improved compared to the previous year.

Roedental, Germany, May 12, 2010

The Management Board

Ron Oboler
Chairman of the Management Board

Ron Brawer
Member of the Management Board

Jens U. Keil
Member of the Management Board

José Antonio Santana
Member of the Management Board

Interim consolidated financial statements as of March 31, 2010

Consolidated income statement	Q1/2010 K€	Q1/2009 K€
Revenue	11,882	10,570
Cost of sales	−6,375	−7,428
Gross profit	**5,507**	**3,142**
Selling and distribution expenses	−2,812	−2,855
Marketing expenses	−1,456	−1,398
Administrative expenses	−4,163	−3,453
Other income	626	404
Other expenses	−22	−753
Operating result	**−2,320**	**−4,913**
(Restructuring costs included therein	*−901*	*0)*
(One-off costs, mainly consultancy, included therein	*0*	*0)*
(Adjusted operating result derived therefrom	***−1,419***	***−4,913)***
Finance income	21	21
Finance costs	−987	−1,072
Result from continuing operations before income taxes	**−3,286**	**−5,964**
Income taxes	470	588
Result from continuing operations	**−2,816**	**−5,376**
Result from discontinued operations before income taxes	424	441
Income taxes on discontinued operations	0	0
Net profit or loss for the period	−2,392	−4,935

Average number of shares outstanding (in thousands)	18,803	18,723
Earnings per share, continuing operations (in €)	−0,15	−0,29
Earnings per share, discontinued operations (in €)	0,02	0,02
Earnings per share (basic/diluted) (in €)	−0,13	−0,26

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

Consolidated statement of comprehensive income	Q1/2010 K€	Q1/2009 K€
Net profit or loss for the period	**−2,392**	**−4,935**
Adjustment from currency translation	−415	210
Deferred taxes	2	−117
Derivative financial instruments	0	0
Other comprehensive income/loss	−413	93
Comprehensive income or loss	−2,805	−4,842

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

Consolidated balance sheet	March 31, 2010 K€	Dec. 31, 2009 K€	March 31, 2009 K€
Assets			
Current assets	**45,310**	**57,740**	**52,075**
Cash	12,304	8,093	11,815
Trade receivables	17,851	36,535	22,703
Inventories	7,625	5,947	11,108
Income tax receivables	345	610	567
Other assets	7,185	6,555	5,882
Non-current assets	**18,981**	**19,240**	**21,670**
Property, plant and equipment	12,844	13,419	14,820
Intangible assets	4,488	4,692	5,300
Other assets	0	0	0
Deferred tax assets	1,649	1,129	1,550
Total assets	64,291	76,980	73,745
Equity and liabilities			
Current liabilities	**52,587**	**62,410**	**55,904**
Liabilities to banks	30,682	33,110	34,139
Trade payables	16,154	22,117	15,878
Income tax liabilities	1,636	2,135	1,533
Other liabilities	3,308	2,821	2,552
Provisions	807	2,227	1,802
Non-current liabilities	**18**	**18**	**39**
Liabilities to banks	0	0	0
Deferred tax liabilities	18	18	39
Equity	**11,686**	**14,552**	**17,802**
Subscribed capital	19,296	19,296	19,296
Capital reserve	31,698	31,759	33,300
Net profit or loss for the period and profit/loss brought forward	−27,532	−25,140	−21,082
Other recognized income and expense	−2,005	−1,592	−2,354
Treasury shares	−9,771	−9,771	−11,358
Total equity and liabilities	64,291	76,980	73,745

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

Consolidated statement of changes in equity

	Shares outstanding (thsds.)	Subscribed capital K€	Capital reserves K€	Net profit or loss for the period and profit/loss brought forward K€	Other recognized income and expense: Adjustment from currency translation K€	Other recognized income and expense: Derivative financial instruments K€	Treasury shares K€	Total equity K€
Balance at January 1, 2009:	18,723	19,296	33,240	−16,147	−2,447	0	−11,358	22,584
Net loss for the period	—	—	—	−4,935	—	—	—	−4,935
Change in other recognized income and expense	—	—	—	—	93	0	—	93
Comprehensive income or loss	—	—	—	−4,935	93	0	—	−4,842
Share-based payment	—	—	60		—	—	—	60
Balance at March 31, 2009:	18,723	19,296	33,300	−21,082	−2,354	0	−11,358	17,802
Balance at January 1, 2010:	18,803	19,296	31,759	−25,140	−1,592	0	−9,771	14,552
Net loss for the period	—	—	—	−2,392	—	—	—	−2,392
Change in other recognized income and expense	—	—	—	—	−413	0	—	−413
Comprehensive income or loss	—	—	—	−2,392	−413	0	—	−2,805
Share-based payment	—	—	−61	—	—	—	—	−61
Balance at March 31, 2010:	18,803	19,296	31,698	−27,532	−2,005	0	−9,771	11,686

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

Consolidated cash flow statement	Q1/2010 K€	Q1/2009 K€
Cash flow from operating activities:		
Earnings before income taxes	−2,862	−5,523
Depreciation of non-current assets	896	958
Losses/gains from the disposal of non-current assets	−16	−1
Finance costs/income	966	1,051
Share-based payment	−61	60
Other non-cash income/expenses	0	0
Increase/decrease in assets and liabilities:		
Trade receivables	18,096	24,355
Inventories	−1,454	1,254
Other assets	−559	−727
Liabilities and provisions	−6,890	−14,450
Income tax payments	−282	−161
Cash flow from operating activities	7,834	6,816
Cash flow from investing activities:		
Cash receipts from sales of property, plant and equipment and intangible assets	28	6
Cash payments for investments in property, plant and equipment and intangible assets	−127	−289
Cash flow from investing activities	−99	−283
Cash flow from financing activities:		
Cash receipts from bank borrowings	0	0
Cash payments for bank borrowings and other fees	−180	−7
Cash payments for the repayment of bank borrowings	0	0
Change in liabilities due to current borrowings	−2,432	−1,396
Interest paid	−982	−842
Interest received	24	7
Issuance of treasury shares	0	0
Cash flow from financing activities	−3,570	−2,238
Effects of exchange rate changes	46	95
Net change in cash and cash equivalents	4,211	4,390
Cash and cash equivalents at the beginning of the period	8,093	7,425
Cash and cash equivalents at the end of the period	12,304	11,815

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

Segment reporting

Q1	Central Europe 2010 K€	Central Europe 2009 K€	Northern Europe 2010 K€	Northern Europe 2009 K€	Southern Europe 2010 K€	Southern Europe 2009 K€	Eastern Europe 2010 K€	Eastern Europe 2009 K€	The Americas 2010 K€	The Americas 2009 K€	Asia/Australia 2010 K€	Asia/Australia 2009 K€
External revenue	5,629	5,289	2,766	2,423	1,651	1,608	1,503	1,028	0	−5	333	222
Internal revenue	42	68	424	123	215	391	360	25	0	0	0	0
Segment revenue, total	5,671	5,357	3,190	2,546	1,866	1,999	1,863	1,053	0	−5	333	222
Earnings before interest, income taxes and inter-company settlement (EBIT before intercompany settlement)	−3,571	−3,800	541	−22	−51	−246	675	−733	424	441	86	−112
Earnings before interest, and income taxes (EBIT)	−1,834	−2,568	−384	−795	−344	−538	447	−827	424	441	−205	−185

Q1	Other 2010 K€	Other 2009 K€	Consolidation 2010 K€	Consolidation 2009 K€	Group total 2010 K€	Group total 2009 K€	Discontinued operations 2010 K€	Discontinued operations 2009 K€	Continuing operations 2010 K€	Continuing operations 2009 K€
External revenue	0	0	0	0	11,882	10,565	0	−5	11,882	10,570
Internal revenue	0	0	−1,041	−607	0	0	0	0	0	0
Segment revenue, total	0	0	−1,041	−607	11,882	10,565	0	−5	11,882	10,570
Earnings before interest, income taxes and inter-company settlement (EBIT before intercompany settlement)	0	0	0	0	−1,896	−4,472	424	441	−2,320	−4,913
Earnings before interest, and income taxes (EBIT)	0	0	0	0	−1,896	−4,472	424	441	−2,320	−4,913

The segment reporting is part of the notes.

Interim consolidated financial statements as of March 31, 2010

Notes to the interim consolidated financial statements as of March 31, 2010

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." The Company went public on April 26, 1999. Zapf Creation AG is listed on the Official Market of the Frankfurt Stock Exchange. Its shares are traded in the Prime Standard segment.

Zapf Creation AG is headquartered in Moenchroedener Strasse 13, 96472 Roedental, Germany.

1.2. Principles of preparation

The interim consolidated financial statements of Zapf Creation AG as of March 31, 2010 were prepared on the basis of IAS 34 ("Interim Financial Reporting"). They were not reviewed or audited in accordance with Section 317 German Commercial Code.

The interim consolidated financial statements do not include all notes and disclosures required for consolidated financial statements and must thus be read in connection with the consolidated financial statements as of December 31, 2009, which were prepared in accordance with Section 315a German Commercial Code ("Consolidated Financial Statements According to International Accounting Principles") and in compliance with both the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) — all of them as applicable within the European Union under Article 4 of EC Directive 1606/2002 dated July 19, 2002, of the European Parliament and the European Council. The provisions of Section 315a para 1 German Commercial Code were also observed in preparing the consolidated financial statements. All IFRS, as well as all attendant Interpretations, applicable to the financial year were used in the preparation of the consolidated financial statements of Zapf Creation AG as of December 31, 2009, inasmuch as they were adopted by the EU.

At this time, the consolidated financial statements of Zapf Creation AG as of December 31, 2009, are available only in preliminary form and have not yet been published. Therefore, events within the meaning of IAS 10 ("Events after the Reporting Period") could occur which could affect the consolidated financial statements as of December 31, 2009. Any such changes would require adjustments to be made to the opening balances on which the interim consolidated financial statements as of March 31, 2010, are based.

1.3. Consolidation

The interim consolidated financial statements as of March 31, 2010 follow the same consolidation methods as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2009. Reference is also made to the existing consolidated financial statements as of December 31, 2008, which also used the same consolidation methods.

In addition to Zapf Creation AG, the Group's parent company, all direct and indirect subsidiaries of the Group are included in the basis of consolidation. The were no changes in the group of consolidated companies in the first three months of the 2010 financial year.

1.4. Accounting methods

The interim consolidated financial statements as of March 31, 2010 follow the same accounting methods as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2009; Reference is also made to the existing consolidated financial statements as of December 31, 2008, which also used the same accounting methods.

In addition to reporting its operating income, the Zapf Creation Group therefore also reports "adjusted operating income" in its consolidated income statement in the interim consolidated financial statements as of March 31, 2010. The adjusted operating income is based on the Group's internal key performance indicators and adjusts the Group's operating income by the restructuring costs and one-off items shown in the income statement. Showing this item in the presentation of the consolidated income statement serves to increase transparency with regard to the sustainability of the earnings generated by the company through its ongoing operating process. Any expenses incurred from the restructuring of the Zapf Creation Group, as well as other extraordinary one-off expenses, are shown in the income statement under the operational areas giving rise to such expenses. Restructuring costs in the first quarter of 2010 amounted to K€ 901; there were no one-off items. Neither restructuring costs nor one-off items were recognized in the prior-year period.

The accounting and measurement in the preliminary, as yet unpublished 2009 consolidated financial statements and the interim consolidated financial statements as of March 31, 2010, was based on the assumption that the Zapf Creation Group will continue as a going concern. The Management Board assumes that the going concern requirement is met at this time.

1.5. Use of estimates

The preparation of interim consolidated financial statements requires management to make assumptions and perform estimates, which might affect the application of accounting standards in the Group, as well as both the amount and the disclosure of recognized assets, liabilities, income, expenses, and contingent liabilities.

The Company's management regularly reviews both the estimates and the underlying assumptions. Although the estimates are made to the best of management's knowledge based on current events and measures, actual amounts may deviate from these estimates. Adjustments related to the estimates relevant to the accounting are considered in the period in which the adjustment was made if it concerns only the period in question. If an adjustment concerns both the reporting period and later periods, then it is accounted for in both.

2. Explanations of items in the consolidated financial statements

2.1. General

The presentation of items in the interim consolidated financial statements as of March 31, 2010 follows the same structure as the preliminary, as yet unpublished consolidated financial statements as of December 31, 2009. Reference is also made to the existing consolidated financial statements as of December 31, 2008, which also used the same structure.

The development of the individual items of the interim consolidated financial statements in the first three months of the 2010 financial year, specifically revenue, is characterized by the typical, seasonal nature of the Company's business. In this context, we also refer to the interim management report of the Group as of the end of the first quarter of 2010.

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

2.2. Discontinued operations

As in the previous year, income and expenses that are attributable to the Group subsidiary Zapf Creation (U.S.) Inc. are reported separately under the result from discontinued operations in accordance with IFRS 5 ("Non-current Assets Held for Sale and Discontinued Operations").

The income and expenses attributable to discontinued operations are as follows:

	Q1/2010 K€	Q1/2009 K€
Revenue	0	−5
Other income	424	446
Result from discontinued operations	424	441

As in the same period the previous year, the result from discontinued operations in the first three months of the 2010 financial year exclusively resulted from exchange rate effects.

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

	Q1/2010 K€	Q1/2009 K€
Cash flow from operating activities	0	−6
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
Effects of exchange rate changes	1	2
Cash flow from discontinued operations	1	−4

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 2010 totaled K€ 3,445 (previous year: K€ 3,272).

Staff costs by functional areas are comprised as follows:

	Q1/2010 K€	Q1/2009 K€
Selling and disposition	1,289	1,676
Marketing	168	277
Other administration	1,988	1,319
Staff costs	3,445	3,272

The increase in the "Other administration" item is essentially due to the termination benefit of € 550 thousand paid to the previous chairman of the Company's Management Board, Mr. Stephan F. Brune.

2.4. Equity

Capital measures

As in the comparative prior-year period, no capital measures were carried out in the first three months of the 2010 financial year.

Treasury shares

By resolution of the Annual Shareholders' Meeting dated December 15, 2009, the Company is authorized to purchase treasury shares in order to:

a) be able to offer such shares as consideration in connection with business combinations or the acquisition of companies, business units or participating interests in companies; or

b) issue such shares in return for the transfer to the Company of one or more loan and/or interest payables under loans granted to it; or

c) offer such shares as employee shares to employees of the Company or companies considered its affiliates under Sections 15 et seq. German Stock Corporation Act for purchase or, if employee shares were acquired by way of loans to purchase securities or loans of securities, for purposes of satisfying obligations thereunder; or

d) grant such shares to members of the Management Board as components of their compensation; or

e) use such shares to fulfill options issued under the authorization resolved by the Annual Shareholders' Meeting on December 15, 2009,

f) sell repurchased treasury shares in ways other than on the stock exchange or by means of an offering to all shareholders in return for cash at a price that is not substantially lower than the exchange price of the Company's shares of the same class at the time of the disposal; or

g) retire the shares so acquired without another resolution of the Annual Shareholders' Meeting, subject to reduction of the share capital.

The authorization is limited to the purchase of treasury shares having a pro rata share of 10% in the Company's share capital existing on December 15, 2009, the day on which the Annual Shareholders' Meeting adopts the resolution (€ 19,295,853.00). The treasury shares so acquired — along with other treasury shares that are in the Company's possession or are allocable to it under Section 71a et seq. German Stock Corporation Act — may not, at any time, exceed 10% of the share capital. In addition, any such buyback shall be permitted only if, at the time of the purchase, the Company would be able to recognize reserves equivalent to the amount of the expenditure required for the buyback without reducing the share capital or any reserves that are required under the law or the Company's Articles of Incorporation and may not be used for payments to shareholders.

The authorization to acquire treasury shares shall remain in effect until December 14, 2014 (inclusive). The authorization adopted by the Company's Annual Shareholders' Meeting on May 27, 2008, to use the treasury shares that the Company is already holding at the time the Annual Shareholders' Meeting adopts its resolutions on May 27, 2008, expire at the time this new authorization takes effect. The authorizations regarding the utilization of shares bought back under the resolution dated May 27, 2008, shall apply to those treasury shares that the Company bought back pursuant to the treasury share buyback authorization dated May 27, 2008.

The buyback pursuant to the authorization granted by the resolution of the Annual Shareholders' Meeting on December 15, 2009, may also be executed by Group entities dependent on the Company within the meaning of Section 17 German Stock Corporation

Act, or for the account of the Company or a Group entity dependent on it within the meaning of Section 17 German Stock Corporation Act.

Treasury shares held by the Company as of December 15, 2009, may already be utilized for the aims defined in foregoing authorizations a) through g) subject to both the respective requirements and the scope of the extant authorizations.

As of March 31, 2010 (inclusive), the authorization granted by the Annual Shareholders' Meeting on December 15, 2009, to acquire treasury shares or to utilize extant treasury shares was exercised as follows: 80,000 treasury shares were transferred to a member of the Management Board as part of his share-based compensation in December 2009.

The authorization granted by the Annual Shareholders' Meeting on May 27, 2008, to acquire treasury shares (for details please see the consolidated financial statements as of December 31, 2008) had not been exercised as of November 26, 2009 (inclusive) — which is the latest possible date.

Stock option plans

By resolution of the Annual Shareholders' Meeting dated December 15, 2009, the Company is authorized to: issue one or several stock option plans pursuant to which options with a term of up to 10 years on up to 500,000 no-par bearer shares ("shares") of Zapf Creation AG may be issued until December 14, 2014 (inclusive), once or repeatedly, to employees of Zapf Creation AG, as well as to executives and employees of affiliated companies. The Company's shareholders shall have no right to subscribe to the options. Of the 500,000 options overall, up to 280,000 options may be issued to employees of Zapf Creation AG; up to 120,000 options to executives of affiliates; and up to 100,000 options to employees of affiliates. No options may be issued to members of the Management Board of Zapf Creation AG under this authorization.

Each option gives its owner the right to subscribe one share of Zapf Creation AG. Exercising the options granted is subject to compliance with predetermined restrictions thereon, specifically, waiting periods, exercise periods and holding periods. The option model is subject to a performance target of 20% expressed as an issue premium; it makes no sense for the optionee in financial terms to exercise their options prior to achievement of said target. Rules on the transferability, forfeiture and retirement of the options are also in place.

Please see the disclosures on the purchase and use of treasury shares of Zapf Creation AG, as well as the disclosures below on the Contingent Capital 2009, in regards to the alternatives available to the Company for fulfilling optionees' claims at the time they exercise their options by means of treasury shares. In the alternative, the Company may, at its discretion, pay the difference between the exercise price and the current share price on the day on which it receives the respective notice of exercise in money in lieu of delivering new shares (Contingent Capital 2009) or treasury shares that it is already holding.

As of March 31, 2010, the Company had not availed itself of this possibility of making share-based payments.

Contingent capital 2009

On December 15, 2009, the Annual Shareholders' Meeting resolved to create new contingent capital (Contingent Capital 2009) and amend Article 5 of the Articles of Incorporation (Amount and breakdown of share capital). According to this resolution, the Company's share capital is contingently increased by up to € 500,000.00 through the issue of up to 500,000 no par value bearer shares (Contingent Capital 2009). This contingent capital increase shall only be executed to the extent that holders of options issued until December 14, 2014, in accordance with the resolution of the Annual Shareholders' Meeting dated December 15, 2009, exercise their options and to the extent that new shares must be issued in accordance with the option conditions. The new shares in the Company resulting from the exercise of the options shall participate in the Company's profits from the start of the financial year for which the Annual Shareholders' Meeting has not yet adopted any resolution regarding the appropriation of profit at the time options are exercised.

3. Related party relationships

Disclosures of relationships and business transactions with related parties are made in accordance with IAS 24 ("Related Party Disclosures"), taking into account IAS 34 ("Interim Financial Reporting").

IAS 24 defines a related party as a person capable of controlling or significantly influencing another person, either alone or together with a third party, or as a person on whom such control or significant influence can be exercised. This definition of related parties covers companies and natural persons. In our case, the Company's Management Board and Supervisory Board and the companies of the MGA Group that are related parties of the Company have been identified as related parties.

All transactions involving deliveries and services from and to related parties that occur in the ordinary course of Zapf Creation's business are executed at market rates.

3.1. The Management Board

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

On January 29, 2010, the Company's Supervisory Board appointed Mr. Ron Oboler member and chairman of the Management Board effective February 1, 2010. Ron Oboler, Director of International Sales with MGA Entertainment, Inc., possesses broad toy industry experience and will lead the Company on an interim basis until the second half of 2010. The Supervisory Board plans to fill the position of Management Board chairman on a long-term basis in the course of the year. Mr. Stephan F. Brune, who has served as member and chairman of the Management Board of Zapf Creation AG since October 1, 2008, resigned from the Company effective January 31, 2010. In addition, Mr. Ron Brawer, member of the Company's Supervisory Board, on January 29, 2010, was delegated to its Management Board in accordance with Section 105 para 2 of the German Stock Corporation Act. Since then, Mr. Brawer has been primarily responsible for the continued streamlining of the Company's corporate structures and the realization of potential savings associated with this. The Supervisory Board of Zapf Creation AG had already resolved on September 16, 2009, to reappoint Mr. Jens U. Keil early as chief financial officer.

In the prior-year period, the Supervisory Board of Zapf Creation AG had appointed Mr. José Antonio Santana Caparrós to the Management Board effective March 1, 2009, with responsibility for marketing, design and product development as well as quality management. Mr. Santana took over the responsibilities stated above from the CEO, Mr. Stephan F. Brune, who had managed them on an interim basis. As previously, the Management Board of Zapf Creation AG at that time consisted of Stephan F. Brune, Chief Executive Officer, and Jens U. Keil, Chief Financial Officer.

The total compensation of K€ 263 (previous year: K€ 244) paid to the Management Board comprises all cash compensation due, as well as all monetary benefits from in-kind compensation. It includes both fixed and variable components but excludes one-time consideration paid to former members of the Management Board. In addition to the monetary base compensation, the fixed compensation granted to the members of the Company's Management Board also comprises benefits such as the use of company cars and allowances for accident insurance, and other insurance policies. The Company will also assume the cost of a German teacher for Mr. Santana, subject to conditions yet to be fixed.

The compensation system based on phantom shares that was launched in 2006 for the members of the Company's Management Board remained in place in the first three months of the 2010 financial year. Regarding details, please also see the consolidated financial statements as of December 31, 2008. A total of 27,000 additional phantom stock options at a base price of € 1.00 were allocated to Mr. Santana in the 2010 financial year under this plan; the exercise of these options is not linked to achievement of specific performance targets. In the prior-year period, 27,000 phantom stock options also had been granted to Mr. Santanta, at a base price of € 0.81. As in the same period the previous year, no further phantom stock options were granted in the first three months of the 2010 financial year. At the time they exercise their phantom stock options, beneficiaries are paid the difference per exercised option between the closing price of the share on its issue date and on the date on which the phantom stock options are exercised. A total of K€ 14 (previous year: K€ 12) were expensed for provisions related to obligations under this phantom-share-based compensation system in the first three months of the 2010 financial year for the newly granted phantom stock options; due to the performance of the Company's shares, K€ 40 of these provisions (previous year: K€ 4) were reversed to profit and loss during the first three months of 2010. A total of K€ 57 (previous year: K€ 26) in provisions for liabilities under the aforementioned phantom stock options were recognized as of March 31, 2010. The phantom stock options granted to the former Management Board member, Dr. Georg Kellinghusen, in the prior-year period lapsed on February 15, 2009.

Mr. José Antonio Santana was promised a direct grant of shares as an additional element of his share-based payment; it is designed exclusively as a variable component of his salary, the amount of which is contingent on achievement of specific performance targets. The Company also has the option to pay a portion of Mr. Jens U. Keil's bonus in shares. A similar form of compensation was in place the previous year for Mr. Stephan F. Brune. Now that this element of compensation is designed to be completely variable, no share-based payments were made in the first three months of 2010 (previous year: K€ 60; fixed and variable).

On March 4, 2010, the Company entered into a severance and settlement agreement with Mr. Stephan F. Brune, formerly a member and the chairman of the Management Board of Zapf Creation AG, to fully offset and hence settle both parties' claims and obligations related to his employment with the Company. A one-time gross payment of K€ 550 was stipulated in this connection. The Company also waived K€ 25 in extant receivables from Mr. Brune and paid the income tax on this waiver of claims in full. No one-time payments were made to former members of the Company's corporate bodies in the same period the previous year.

One former member of the Management Board was granted a variable credit line in the maximum amount of K€ 625 until December 31, 2007, which was fully used as of December 31, 2007. The agreed interest rate was 4.25 %. It was fixed until December 31, 2007, the loan's due date. Under a settlement reached in the 2008 financial year, Zapf Creation AG waived repayment of a loan in the amount of K€ 175 provided certain conditions are met; the Company will be responsible for any tax expense arising from non-cash advantages. The interest rate has been 5% per annum effective January 1, 2008; the parties agreed to a payment plan regarding the remaining residual liabilities including interest thereon. A payment of K€ 100 on this liability was made in the 2008 financial year; as in the previous year, no new loans were made in 2008. In 2008, the Company received K€ 49 in full payment of both K€ 46 in interest receivables outstanding as of December 31, 2007, and K€ 3 in interest on arrears that had been billed; the total of K€ 23 in interest for the 2008 interest period were also paid in full. In the 2009 financial year, no repayment was made on the outstanding loan; interest was paid as agreed. The Company's overall claim as of the March 31, 2010, reporting date amounted to K€ 350 (previous year: K€ 354) due to the said waiver of its claim, the interest and loan payments received in the 2008 financial year, the interest payments concerning the 2009 financial year as well as the interest payments concerning the first quarter of 2010. However, the loan granted remains secured by a land charge in the amount of K€ 200 (previous year: K€ 200); a writedown of K€ 350 has been recognized on the remaining liability, analogous to the previous year.

3.2. The Supervisory Board

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

Referencing Article 11 para 4 of the Company's Articles of Incorporation, Mr. Nicolas Mathys, member and deputy chairman of the Supervisory Board, announced on January 11, 2010, that he would resign his office as member and deputy chairman of the Supervisory Board subject to a notice period of four weeks.

On January 29, 2010, the Supervisory Board of Zapf Creation AG delegated Mr. Ron Brawer, member of the Supervisory Board, to the Company's Management Board in accordance with Section 105 para 2 German Stock Corporation Act. Since then, Mr. Brawer has been primarily responsible for the continued streamlining of the Company's corporate structures and the realization of potential savings associated with this.

On December 15, 2009, the Annual Shareholders' Meeting elected Mr. Jaime Ferri Llorens, who is domiciled in Alicante, Spain, to the Company's Supervisory Board, specifically, for a term of office that starts with the end of the Annual Shareholders' Meeting on December 15, 2009, and ends with the conclusion of the Annual Shareholders' Meeting tasked with discharging board members in regards to the 2009 financial year.

There was no change with regard to the composition of the Supervisory Board during the prior-year period.

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 net for the vice chairman of the Supervisory Board, and K€ 17.50 net each for all other members of the Supervisory Board. The compensation paid to Supervisory Board members who were not in office for a full financial year is pro rated in accordance with the duration of their membership on the Supervisory Board. As in the previous year, the addition to the provision for the fixed component of the Supervisory Board compensation as of March 31, 2010 was made pro rata temporis.

Also as in the previous year, in the financial year just ended no provisions for the variable component of the compensation were recognized because no payment obligation arises from the Company's performance. Regarding the details of the variable compensation component, please also see the consolidated financial statements as of December 31, 2008.

As in the previous year, there were no loans to members of the Supervisory Board as of the balance sheet date.

3.3. Related companies of the MGA Group

The inclusion of MGA Group companies into the group of related parties of Zapf Creation AG is due to the close partnership that has been implemented on an operational level in several areas since the beginning of the 2007 financial year. The details of this partnership are as follows:

Since the beginning of 2007, MGA Entertainment, Inc., Van Nuys, California, USA, has been solely responsible as a licensee for selling Zapf Creation's products in the Americas (North, Central and South); MGA guarantees that the sales volume exceeds the revenue generated by Zapf Creation's own subsidiaries in this region by more than 50% (Agreement 1: "Distribution Agreement"). In return, the parties agreed that the Zapf Creation Group will sell MGA products in particular European markets in exchange for payment of a distribution fee (Agreement 2: "Consignment and Services Agreement"). Zapf Creation Logistics GmbH & Co. KG provides logistics services for the MGA Group (Agreement 3: "Logistics Service Agreement"). Furthermore, in 2007 MGA took over the entire process of selecting and monitoring the Asian suppliers of Zapf Creation products, the coordination and handling of merchandise shipments to the sales units, and technical product development (Agreement 4: "Hong Kong / China Services Agreement"). Also, Zapf Creation AG granted MGA Entertainment Inc., Van Nuys, California, USA, against payment of a license fee, the exclusive right and the exclusive license to utilize and exploit both the products and the intellectual property of Zapf Creation AG, including the right to grant sublicenses (Agreement 5: "Merchandising License Agreement"). Effective April 1, 2008, the partnership was extended through another agreement (Agreement 6: "UK Services Agreement"). Since this date, MGA Entertainment UK Ltd. has been providing full sales services for Zapf Creation (U.K.) Ltd. in that company's sales areas for an appropriate fee. In return, Zapf Creation (UK) Ltd. provides administrative services to MGA Entertainment UK Ltd. for an appropriate fee.

The following income and expenses resulted from this partnership in the first three months of the 2010 financial year:

Cooperation agreements	**Q1/2010 K€**	**Q1/2009 K€**
Agreement 1: "Distribution Agreement" Income from Agreement 1	18	108
Agreement 2: „Consignment and Services Agreement" Income from Agreement 2	157	170
Agreement 3: „Logistics Service Agreement" Income from Agreement 3	78	146
Agreement 4: „Hong Kong/China Services Agreement" Expenses from Agreement 4	268	345
Agreement 5: „Merchandising License Agreement" Income from Agreement 5	0	32
Agreement 6: „UK Services Agreement" Income from Agreement 6	73	53
Expenses from Agreement 6	18	18

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	**Q1/2010 K€**	**Q1/2009 K€**
Income from cross charges	208	376
Expenses from cross charges	362	514

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	Q1/2010 K€	Q1/2009 K€
Merchandise procurement in the reporting period	6,229	3,858

Merchandise procurement in the reporting period results from the purchase of goods at MGA Entertainment (HK) Ltd. made by the sales subsidiaries of the Zapf Creation Group.

Just as in the same period of the previous year, no other services were received directly from or delivered directly to the related companies of the MGA Group.

As in the previous year, there were no other business transactions in the first three months of the 2010 financial 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, 2010 are as follows:

Balances as of the balance sheet date	March 31, 2010 K€	March 31, 2009 K€
Receivables from related parties	5,633	3,543
Liabilities to related parties	4,843	3,868

4. Events after the close of the reporting period

For information regarding significant events after the close of the reporting period, with the exception of directors' dealings disclosed below, please see the disclosures in the interim management report of the Group as of the end of the first quarter of 2010.

5. Directors' dealings

During the period from January 1 to May 12, 2010, the officers and directors of the Company reported the following securities dealings as defined by Section 15a of the German Securities Trading Act (WpHG):

Mr. Stephan F. Brune, member and chairman of the Management Board, notified Zapf Creation AG on January 12, 2010, in accordance with Section 15a German Securities Trading Act that on January 11, 2010, he had sold a total of 80,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 1.15 per share for a total transaction volume of € 92,000. Mr. Brune stated that the shares promised under an employment contract and transferred by the Company were sold for private 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.

Roedental, Germany, May 12, 2010

The Management Board

Ron Oboler
Chairman of the Management Board

Ron Brawer
Member of the Management Board

Jens U. Keil
Member of the Management Board

José Antonio Santana
Member of the Management Board

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Zapf Creation Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

Roedental, Germany, May 12, 2010

Ron Oboler
Chairman of the Management Board

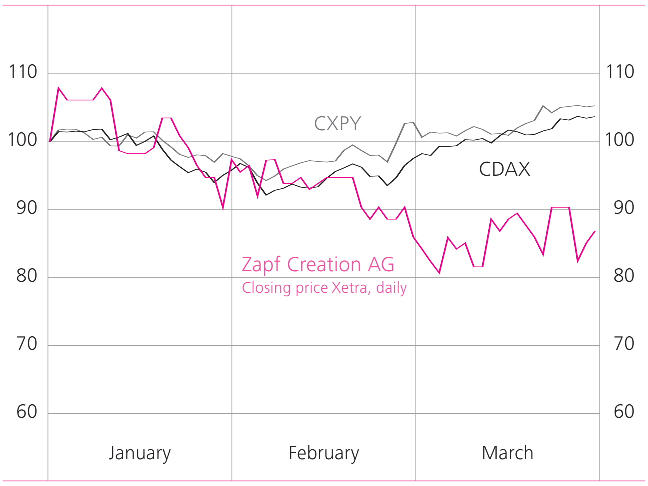
Ron Brawer
Member of the Management Board

Jens U. Keil
Member of the Management Board

José Antonio Santana
Member of the Management Board

The share

Indexed share price performance, December 30, 2008 = 100



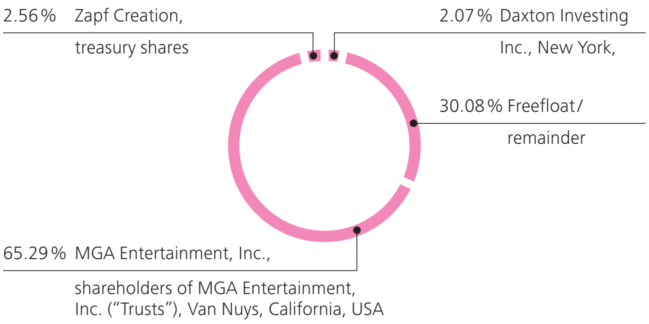
After starting 2010 at a price of € 1.11 per share in XETRA trading, the share of Zapf Creation AG immediately rose to € 1.20 per share, its high for the quarter. It held on to its gains through January 12, 2010 (rising to € 1.20 yet again a day earlier) but fell substantially to € 1.00 thereafter. It remained at this level throughout February, falling to € 0.89 in early March 2010, its low for the quarter. In contrast to the performance indices that managed to make slight gains in March 2010, Zapf Creation's share hovered around a low level of € 1.00 and even less. The Company's share closed at € 0.96 as of March 31, 2010 (the end of the first quarter), down 13.5 % on its opening price for the year. As a result, its market capitalization has dropped to € 18.5 million.

Financial calendar

Date	Event	Place
February 19, 2010	Publication of initial, unaudited figures for the 2009 financial year	Roedental
2010	Publication of the 2009 figures, 2009 annual report as PDF	Roedental
May 12, 2010	Publication of the Q1/three-month results 2010	Roedental
August 13, 2010	Publication of the Q2/half-year results 2010	Roedental
Nov. 10, 2010	Publication of the Q3/nine-month results 2010	Roedental
Nov. 22–24, 2010	German Equity Forum 2010	Frankfurt

Shareholder structure*

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



* Based on the notifications under Sections 15a and 21 German Securities Trading Act received by Zapf Creation AG

Directors' Dealings

During the period from January 1 to March 31, 2010, the officers and directors of the Company reported the following securities dealings as defined by Section 15a of the German Securities Trading Act (WpHG):

Name, Function	Date	Transaction
Stephan F. Brune, chairman of the Management Board	Jan. 01, 2010	Sale

Stock exchange	No. of shares	Price in euros
XETRA	80.000	1,15

Zapf Creation AG
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