

Corporate Governance Report

A. Corporate Governance

1. Preliminary Remark

The Management Board and the Supervisory Board of Zapf Creation AG attach great importance to compliance with and implementation of the principles enshrined in the German Corporate Governance Code with regard to good and responsible management within the Zapf Creation Group.

These principles determine corporate communications and efforts to maintain transparency in corporate affairs in the interest of shareholders, business partners, and employees. It is in this sense that both the Management Board and the Supervisory Board of the Company regularly review the management principles with the goal of exercising and developing the Company's corporate governance in the long term.

Important facts related to corporate governance in the 2008 financial year are listed below. We also refer to the report of the Supervisory Board for the 2008 financial year.

2. Shareholders and Annual Shareholders' Meeting

As a result of the resolution at the Company's 9th Annual Shareholders' Meeting on May 27, 2008, regarding the creation of new authorized capital in return for contributions in cash and/or in kind with the option to exclude shareholders' subscription right (Authorized Capital 2008) as well as corresponding amendment of the Articles of Incorporation, Article 5 of the Articles of Incorporation was amended and revised as follows (Articles of Incorporation of Zapf Creation AG as amended as of June 10, 2008):

Article 5 of the Articles of Incorporation ("Amount and Breakdown of Share Capital")

"1. The share capital is € 19,295,853.00 (nineteen million two hundred and ninety-five thousand eight hundred and fifty-three euros).

It is divided into 19,295,853 no-par shares.

2. The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital until May 26, 2013, once or repeatedly, by up to € 9,000,000.00 in return for cash or in-kind contributions by issuing new no-par bearer shares (Authorized Capital 2008). The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude shareholders' statutory subscription right in the following cases:

- In connection with fractional shares;
- If the capital increase is executed in return for cash contributions and if the pro rata amount of the share capital allocable to the new shares in regards to which shareholders' subscription right has been excluded does not exceed the lesser of € 1,800,000.00 or 10% of the Company's share capital extant at the time the new shares are issued and if the issue price for the new shares is not substantially lower — in the sense of Section 203 para 1 and 2 and Section 186 para 3 sentence 4 German Stock Corporation Act — than the exchange price of previously listed shares of the same class at the time the Management Board finally fixes the issue price; the authorized volume is reduced by the pro rata interest in the share capital allocable to those shares that are issued or sold starting on May 27, 2008, subject to the exclusion of shareholders' subscription right, in connection with the direct or analogous application of Section 186 para 3 sentence 4 German Stock Corporation Act;
- In the event of capital increases in return for in-kind contributions that are executed for the purpose of issuing shares in connection with the acquisition of companies, business units, or stakes in companies;

- In the event of capital increases in return for in-kind contributions that are executed for the purpose of issuing shares in return for the transfer to the Company of loan and/or interest payables under loans granted to it.

The Management Board is authorized, subject to the approval of the Supervisory Board, to determine additional details pertaining to the execution of the capital increases under Authorized Capital 2008. The Supervisory Board is authorized to amend the Articles of Incorporation subsequent to the full or partial execution of such capital increase under Authorized Capital 2008 or following the expiration of the authorization deadline in accordance with the scope of the capital increase under Authorized Capital. After the execution of a capital increase from Authorized Capital 2008, the extant Authorized Capital 2008 amounts to € 7,704,147.00.

3. Participation of new shares in the Company's profit may be determined in derogation of Section 60 para 2 German Stock Corporation Act."

Voting Right Notifications

The following voting right notifications were disclosed as a result of the capital measures executed in the 2008 reporting period:

On March 31, 2008, Zapf Creation AG made the following announcement regarding the total number of voting shares in accordance with Section 26a German Securities Trading Act:

"Zapf Creation AG is disclosing hereby that the total number of voting shares as of the end of March 2008 is 18,000,000. The change in the total number of voting shares is effective as of March 19, 2008."

On June 12, 2008, Zapf Creation AG made the following announcement regarding the total number of treasury shares in accordance with Section 26 para 1 sentence 2 German Securities Trading Act:

"Zapf Creation AG, Roedental, Germany, is hereby disclosing that the percentage of treasury shares in Zapf Creation AG, Roedental, Germany, in its possession as of June 11, 2008, has fallen below the threshold of 3% and as of this day is 2.97% (572,678 voting shares)."

On June 30, 2008, Zapf Creation AG made the following announcement regarding the total number of voting shares in accordance with Section 26a German Securities Trading Act:

"Zapf Creation AG is disclosing hereby that the total number of voting shares as of the end of June 2008 is 19,295,853. The change in the total number of voting shares is effective as of June 11, 2008."

Voting right notifications attributable to the members of the Management Board or Supervisory Board as of December 31, 2008, are disclosed in Section A under items 4 and 5.

3. Collaboration of the Management Board and the Supervisory Board

The Zapf Creation Group uses the dual management system under German corporate law that assigns responsibility for managing the Company to its Management Board and for monitoring the Company's management to its Supervisory Board. These two boards jointly coordinate the Company's strategic orientation and the Supervisory Board regularly reviews its implementation by the Management Board. The Management Board provides comprehensive and timely information to the Supervisory Board on all issues relevant to the Company in terms of planning, development of the business, as well as risks and risk management. Both corporate bodies work closely with each other in the Company's interest but are strictly separated from each other in terms of both their personnel composition and the responsibilities assigned to the relevant board members.

If there are conflicts of interest with regard to pending decisions due to overlapping membership on the corporate bodies of Zapf Creation AG and its shareholder MGA Entertainment, Inc., Van Nuys, California, USA, including its affiliates, the relevant boards are immediately notified thereof on a case-by-case basis by means of a formal statement, and the relevant board members are asked to recuse themselves from the discussion and decision. In this regard, please also see the Company's Report on Dependent Companies and Relations with Affiliates.

4. Management Board

Composition

The Company's Management Board comprises Mr. Stephan F. Brune, chairman, Mr. Jens U. Keil, regular member, and Mr. José Antonio Santana, regular member.

In compliance with Section 77 German Stock Corporation Act, each Management Board member's sphere of responsibility follows from the Company's schedule of responsibilities, which is an integral part of the Company's internal rules of procedure.

The members of the Company's Management Board have the following main responsibilities — notwithstanding their rights and duties under the law, the Articles of Incorporation and internal rules of procedure, as well as their overarching responsibility and their obligations to cooperate with each other, and notify and monitor each other:

Mr. Brune is responsible for Sales, Procurement, Budgeting, Human Resources, Legal Affairs, Strategy, Corporate Development and Public Relations besides assuming groupwide tasks in his capacity as chairman of the Management Board.

Mr. Keil is responsible for Finance, Investor Relations, IT, Logistics and Risk Management.

Mr. Santana is responsible for Marketing, Design & Product Development as well as Quality Assurance.

Article 1 para 3 of the Management Board's internal rules of procedure was amended in December 2008 and March 2009.

Changes

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

In September 2008, the Company's Supervisory Board appointed Mr. Stephan F. Brune member and chairman of the Management Board effective October 1, 2008. Mr. Thomas Pfau, who had been a member of the Company's Management Board since August 28, 2006, and as such had been responsible for Marketing and Sales, among other things, left Zapf Creation AG of his own volition effective November 30, 2008, in order to pursue new professional avenues outside of the toy industry. Mr. Jens U. Keil, the Company's chief financial officer, continues to be a member of the Management Board.

Effective March 1, 2009, the Supervisory Board of Zapf Creation AG appointed Mr. José Antonio Santana to the Company's Management Board, announcing that he would be responsible for Marketing, Design and Product Development as well as Quality Management. 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 also consists of Stephan F. Brune, chief executive officer, and Jens U. Keil, chief financial officer. The Supervisory Board of Zapf Creation AG resolved on September 16, 2009, to reappoint Mr. Jens U. Keil early as chief financial officer. Mr. Keil will remain responsible for Finance, Investor Relations, IT, Logistics and Risk Management.

Directors' Dealings

The Company was notified of the following transactions made by members of the Management Board, their spouses or immediate relatives requiring disclosure pursuant to Section 15a German Securities Trading Act:

Mr. Thomas Pfau, member of the Management Board, notified Zapf Creation AG on June 4, 2008, in accordance with Section 15a German Securities Trading Act that on May 29, 2008, he had purchased a total of 5,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.98 per share for a total transaction volume of € 19,900.00.

Mr. Thomas Pfau, member of the Management Board, notified Zapf Creation AG on June 25, 2008, in accordance with Section 15a German Securities Trading Act that on June 17, 2008, he had purchased a total of 4,600 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.95 per share for a total transaction volume of € 18,170.00.

Mr. Jens U. Keil, member of the Management Board, notified Zapf Creation AG on October 10, 2008, in accordance with Section 15a German Securities Trading Act that on October 8, 2008, he had purchased a total of 5,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 1.90 per share for a total transaction volume of € 9,500.00.

Mr. Thomas Pfau, member of the Management Board, notified Zapf Creation AG on October 23, 2008, in accordance with Section 15a German Securities Trading Act that on October 14, 2008, he had purchased a total of 775 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.00 per share for a total transaction volume of € 1,550.00.

Mr. Thomas Pfau, member of the Management Board, notified Zapf Creation AG on October 23, 2008, in accordance with Section 15a German Securities Trading Act that on October 16, 2008, he had purchased a total of 10,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 1.80 per share for a total transaction volume of € 18,000.00.

The Company was not notified of any other transactions requiring disclosure made by members of the Management Board, their spouses or immediate relatives. All members of the Management Board have been informed in detail regarding the disclosure requirement.

Voting Right Notifications

No further information is available to the Company regarding the percentage of shares issued that are attributable to members of the Management Board as of December 31, 2008. All members of the Management Board have been informed in detail regarding the disclosure requirement.

5. The Supervisory Board*Composition*

The Company's Supervisory Board is comprised as follows: Dr. Harald Rieger, chairman of the Supervisory Board; Mr. Nicolas Mathys, member of the Supervisory Board; Mr. Miguel Perez-Carballo Villar, member of the Supervisory Board; Mr. Isaac Larian, member of the Supervisory Board; and Mr. Ron Brawer, member of the Supervisory Board.

Changes

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

Effective at the end of the Company's Annual Shareholders' Meeting on May 27, 2008, Mr. Francesc Robert, who had been vice chairman of the Supervisory Board since July 28, 2006, and a member of the Supervisory Board since May 11, 2005, resigned from the Supervisory Board. For the remainder of Mr. Robert's term of office, Mr. Nicolas Mathys, Baar, Switzerland, was elected to the Supervisory Board. Mr. Mathys has also been serving as vice chairman of the Supervisory Board since May 27, 2008.

The Coburg Local Court removed Mr. Gustavo Perez from the Supervisory Board of Zapf Creation AG on July 30, 2009. Mr. Perez had been a regular member and vice chairman of the Supervisory Board until July 28, 2006, and a member of the Supervisory Board since May 11, 2005.

Directors' Dealings

The Company was notified of the following transactions made by members of the Supervisory Board, their spouses or immediate relatives requiring disclosure pursuant to Section 15a German Securities Trading Act:

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on January 25, 2008, in accordance with Section 15a German Securities Trading Act that on January 21, 2008, it had purchased a total of 63,335 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.73 per share for a total transaction volume of € 172,619.54.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on January 25, 2008, in accordance with Section 15a German Securities Trading Act that on January 22, 2008, it had purchased a total of 29,938 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.59 per share for a total transaction volume of € 77,539.42.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on January 25, 2008, in accordance with Section 15a German Securities Trading Act that on January 23, 2008, it had purchased a total of 29,730 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.61 per share for a total transaction volume of € 77,654.76.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on January 28, 2008, in accordance with Section 15a German Securities Trading Act that on January 25, 2008, it had purchased a total of 3,568 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.70 per share for a total transaction volume of € 9,633.60.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act that on February 13, 2008, it had purchased a total of 10 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.65 per share for a total transaction volume of € 26.50.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act that on February 29, 2008, it had purchased a total of 891,583 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 2,398,358.27.

Attorneys for the Isaac Larian Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities

Trading Act that on February 29, 2008, it had purchased a total of 1,762,065 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 4,739,954.85.

Attorneys for the Jahangir Eli Makabi Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act that on February 29, 2008, it had purchased a total of 194,934 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 524,372.46.

Attorneys for the Shirin and Jahangir Eli Makabi Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act that on February 29, 2008, it had purchased a total of 156,484 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 420,941.96.

Attorneys for the Shirin Larian Makabi Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on March 6, 2008, in accordance with Section 15a German Securities Trading Act that on February 29, 2008, it had purchased a total of 194,934 shares of Zapf Creation AG stock (ISIN DE 000A0SLRM6) at a price of € 2.69 per share for a total transaction volume of € 524,372.46.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act that on June 10, 2008, it had purchased a total of 238,936 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 922,295.65.

Attorneys for the Isaac Larian Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act that on June 10, 2008, it had purchased a total of 472,217 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 1,822,760.08.

Attorneys for the Jahangir Eli Makabi Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act that on June 10, 2008, it had purchased a total of 52,240 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 201,649.96.

Attorneys for the Shirin and Jahangir Eli Makabi Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act that on June 10, 2008, it had purchased a total of 41,935 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 161,872.30.

Attorneys for the Shirin Larian Makabi Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act that on June 10, 2008, it had purchased a total of 52,240 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 201,649.96.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on June 10, 2008, in accordance with Section 15a German Securities Trading Act that on June 10, 2008, he had purchased a total of 438,285 shares of Zapf Creation AG stock (ISIN DE 000A0V9MG2) at a price of € 3.86 per share for a total transaction volume of € 1,691,780.65.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on June 13, 2008, in accordance with Section 15a German Securities Trading Act that on June 13, 2008, he had purchased a total of 50,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.98 per share for a total transaction volume of € 199,236.00.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on July 17, 2008, in accordance with Section 15a German Securities Trading Act that on July 15, 2008, it had purchased a total of 20,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.12 per share for a total transaction volume of € 62,400.00.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on July 23, 2008, in accordance with Section 15a German Securities Trading Act that on July 22, 2008, he had purchased a total of 50,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.37 per share for a total transaction volume of € 168,320.00.

Attorneys for the Isaac Larian Annuity Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on July 23, 2008, in accordance with Section 15a German Securities Trading Act that on July 22, 2008, it had purchased a total of 1,125 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.12 per share for a total transaction volume of € 3,510.00.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on July 28, 2008, in accordance with Section 15a German Securities Trading Act that on July 25, 2008, he had purchased a total of 15,000 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 3.20 per share for a total transaction volume of € 47,986.50.

Attorneys for the Isaac and Angela Larian Living Trust, a trust related to the Supervisory Board member Isaac Larian, notified Zapf Creation AG on September 22, 2008, in accordance with Section 15a German Securities Trading Act that on September 18, 2008, it had purchased a total of 21,500 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.50 per share for a total transaction volume of € 53,750.00.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on September 29, 2008, in accordance with Section 15a German Securities Trading Act that on September 26, 2008, he had purchased a total of 74,800 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.28 per share for a total transaction volume of € 170,454.24.

Mr. Nicolas Mathys, member and vice chairman of the Supervisory Board, notified Zapf Creation AG on September 30, 2008, in accordance with Section 15a German Securities Trading Act that on September 30, 2008, he had purchased a total of 13,054 shares of Zapf Creation AG stock (ISIN DE 0007806002) at a price of € 2.15 per share for a total transaction volume of € 28,107.87.

The Company was not notified of any other transactions made by members of the Supervisory Board, their spouses or immediate relatives requiring disclosure pursuant to Section 15a German Securities Trading Act.

Voting Right Notifications

The information available to the Company regarding the percentage of shares issued that are attributable to members of the Supervisory Board or to companies related to them as of December 31, 2008, is based on the following voting right notifications concerning members of the Supervisory Board or companies related to them, which the Company received in the year under review.

On March 28, 2008, Zapf Creation AG was notified of the existence of the following shareholding pursuant to Section 26 para 1 sentence 1 German Securities Trading Act. It was published by the Company as follows:

“Mr. Nicolas Mathys, Switzerland, notified us on March 28, 2008, pursuant to Section 21 para 1 German Securities Trading Act that his interest in Zapf Creation AG as of March 28, 2008, exceeded the threshold of 15% and was 18.41% (3,314,650 voting shares) as of said date.”

At the time of notification, Mr. Nicolas Mathys was not yet a member of the Company’s Supervisory Board.

On July 30, 2008, Zapf Creation AG was notified of the existence of the following shareholdings pursuant to Section 26 para 1 sentence 1 German Securities Trading Act. It was published by the Company as follows:

“Mr. Nicolas Mathys, Switzerland, notified us on July 30, 2008, pursuant to Section 21 para 1 German Securities Trading Act that his interest in Zapf Creation AG as of July 25, 2008, exceeded the threshold of 20% and was 20.05% (3,867,935 voting shares) as of said date.”

No further information is available to the Company regarding the percentage of shares issued that are attributable to members of the Supervisory Board as of December 31, 2008. All members of the Supervisory Board have been informed in detail regarding the disclosure requirement.

6. Transparency

Zapf Creation values active corporate communications. New and significant information is made available to shareholders, analysts, employees and the public immediately and comprehensively. In its corporate communications, the Management Board is guided by principles of transparency, timeliness, openness, comprehensibility, and equal treatment for all. All such information is transmitted via electronic media, in particular, the Internet, and is available in English as well.

7. Accounting and Audit of Financial Statements

Share-based Payment

The Zapf Creation Group employs compensation systems based on the performance of its shares, given its orientation toward activities designed to ensure that the enterprise value is increased in the long term in shareholders’ interests. In contrast to employee stock option plans (ESOPs), compensation based on phantom shares does not constitute real equity interests but rather salary and/or bonus payments that are contingent on the development of the Company’s stock. Cash compensation claims are granted to the beneficiaries during specific periods based on the difference between the underlying share’s current price and the base price of the stock appreciation rights assigned. In addition to its share-based compensation systems, in the 2008 financial year the Zapf Creation Group also started to use the option of issuing treasury shares as part of the share-based payment system with the aim of providing long-term incentives.

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 2008 financial year. Additional phantom stock options at defined base prices were allocated under this plan in 2008; the exercise of these options is not linked to achievement of specific performance targets. 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.

Direct grants of shares in Zapf Creation AG were employed in addition to the aforementioned compensation system involving phantom shares during the 2008 financial year as an additional means of providing share-based compensation. The Company's shares are granted as either fixed or variable share-based compensation contingent on the achievement of specific performance targets. Granting treasury shares in connection with share-based compensation creates long-term incentives.

Aside from the two aforementioned compensation systems for members of the Management Board of Zapf Creation AG, effective December 31, 2008, the 2003/2005 Bonus Plan (which was established in the 2003 financial year) became available to the Company as yet another share-based compensation system involving phantom options for the executives of Zapf Creation AG as well as for executives of the Company's associates. Phantom stock options were issued to the beneficiaries in several tranches under the aforementioned compensation system pursuant to individual agreements. Depending on the achievement of share price performance targets and following the expiration of waiting periods contingent on the relevant tranches, the beneficiaries are paid one-time cash consideration per phantom stock option that reflects a particular percentage (30% for the 2003/2005 Bonus Plan) of the performance target as an additional component of their cash compensation; the bonus units that had been granted lapsed in April 2009.

Extant rights under another compensation system based on phantom shares for the executives of Zapf Creation AG as well as the executives of Zapf Creation AG's associates, which was established in the 2001 financial year (2001/2003 Bonus Plan), lapsed in the 2008 financial year due to the expiration of the exercise periods and failure to achieve the stipulated respective exercise prices.

Audit of Financial Statements

As in the previous year, KPMG AG, Wirtschaftsprüfungsgesellschaft, Nuremberg, Germany, is the auditor of the annual and the consolidated financial statements as of December 31, 2008, of Zapf Creation AG.

B. Declaration of Compliance Regarding the German Corporate Governance Code

1. Preliminary Remark

The Company's 2008 Declaration of Compliance required under Section 161 German Stock Corporation Act regarding the recommendations of the Government Commission on the German Corporate Governance Code was jointly issued by the Management Board and the Supervisory Board and is permanently available to the Company's shareholders on its website.

The declaration follows below verbatim.

2. Declaration of Compliance 2008

(Beginning of the Declaration of Compliance)

Declaration of the Management Board and the Supervisory Board of Zapf Creation AG regarding the German Corporate Governance Code as amended on June 6, 2008, pursuant to Section 161 German Stock Corporation Act

Both the Management Board and the Supervisory Board of Zapf Creation AG declare pursuant to Section 161 German Stock Corporation Act that the Company, after having issued last year's declaration of compliance on December 12, 2007, has been and is in compliance with the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 6, 2008, and as published by the German Ministry of Justice on August 8, 2008, in the official Section of the electronic Federal Gazette, with the exception of the following:

- "If the company takes out a D&O (directors' and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed." (Item 3.8, para 2)

The D&O insurance purchased by Zapf Creation AG does not require the members of the Company's Management and Supervisory Boards to pay a deductible. Deductibles are usually unsuitable for preventing losses and thus are generally taken into account by the insurance industry only in the calculation of premiums.

- "Stock options and comparable instruments shall be related to demanding, relevant comparison parameters. Changing such performance targets or the comparison parameters retroactively shall be excluded. For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed for by the Supervisory Board." (Item 4.2.3, para 3, sentence 2 ff.)

The Company intends to follow these recommendations in future contractual agreements. However, a share-based compensation system involving phantom options which does not take into account these recommendations is in place for the current members of the Management Board of Zapf Creation AG. Exercising the phantom options is not tied to the fulfillment of specific performance targets. This did not seem necessary given the limited number of phantom options. Furthermore, demanding, relevant performance targets were defined in connection with the variable compensation of the Management Board members. 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 exercise date. There is no explicit regulation excluding the retroactive change of the comparison parameters. A cap for extraordinary, unforeseen developments is currently not in place.

- "Together with the Management Board it shall ensure that there is a long-term succession planning." (Item 5.1.2, para 1, sentence 2)

There is currently no long-term succession planning in place for the members of the Management Board. Given the size of the Company, internal succession planning for the Management Board is only possible to a limited extent.

- "The Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting." (Item 5.3.3)

Given the size of the Company and its Supervisory Board, the formation of a nomination committee is not appropriate.

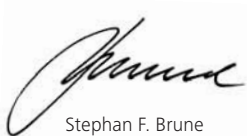
- "... an age limit to be specified for the members of the Supervisory Board shall be taken into account." (Item 5.4.1, sentence 2)

No age limit for members of the Supervisory Board has been set because we do not believe that the age of a Supervisory Board member is a key criterion for his or her qualification.

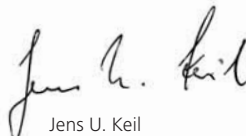
- "Proposed candidates for the Supervisory Board chair shall be announced to the shareholders." (Item 5.4.3, sentence 3)

The current chairman of the Supervisory Board was elected without having announced proposed candidates to the shareholders because the Supervisory Board's election of its chairman took place shortly after the members of the Supervisory Board were elected by the Annual Shareholders' Meeting on May 27, 2008, and the current chairman of the Supervisory Board had already held this position prior to his election to the Supervisory Board during the aforementioned Annual Shareholders' Meeting.

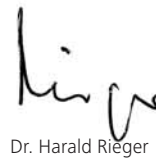
Zapf Creation AG,
Roedental, Germany, December 16, 2008



Stephan F. Brune
Chairman of the Management Board



Jens U. Keil
Member of the Management Board



Dr. Harald Rieger
Chairman of the Supervisory Board

(End of the Declaration of Compliance)

C. Compensation Report

1. Preliminary Remark

In accordance with the requirements of the German Commercial Code and the German Management Board Compensation Disclosure Act, this report contains disclosures that are an integral part of both the single-entity and consolidated financial statements of Zapf Creation AG.

Hence please also see all disclosures on the compensation paid to the members of the Management Board and the Supervisory Board in the single-entity and consolidated financial statements of Zapf Creation AG.

2. Management Board

The compensation paid to the members of the Company's Management Board in the 2008 financial year comprised both fixed and performance-based components. In particular, the responsibilities of the relevant Management Board members and their personal performance are the criteria that govern the suitability of the compensation paid.

With regard to its compensation components, the compensation system for the Company's Management Board was as follows in 2008:

	Short-term compensation		Share-based compensation
	Fixed compensation K€	Bonus K€	K€
Stephan F. Brune	Yes	Yes	Yes
Jens U. Keil	Yes	Yes	Yes
Thomas Pfau	Yes	Yes	Yes

The total compensation of K€ 756 (previous year: K€ 503) 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 the one-time consideration paid to former members of the Management Board.

Below is an overview of the compensation paid to each individual member of the Management Board in the 2008 financial year (IFRS):

	Short-term compensation		Share-based compensation	Total compensation
	Fixed compensation K€	Bonus K€	K€	K€
Stephan F. Brune	79	0	164	243
Jens U. Keil	204	62	3	269
Thomas Pfau	180	58	6	244
Total	463	120	173	756
Percentage in 2008		77.12%	22.88%	100.00%

	Short-term compensation K€	Share-based compensation K€	Total compensation K€
Total compensation in 2007	465	38	503

The expenditure for share-based payment to the members of the Management Board under the German Commercial Code in the 2008 financial year was K€ 36; the expenditure for the total compensation paid to the members of the Management Board in the 2008 financial year pursuant to the German Commercial Code was K€ 619.

In addition to the monetary base compensation, the fixed compensation granted to the members of the Company's Management Board also comprises benefits such as the use of company cars and allowances for accident insurance, individual pension plan, and other insurance policies. Mr. Stephan F. Brune was reimbursed for flights home in 2008; additionally, the Company will also reimburse Mr. Brune on the basis of documented costs for relocation expenses, realtor fees as well as matriculation fees. The Company has promised Mr. Brune that it will purchase life and accident insurance for him.

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 2008 financial year. A total of 84,000 (previous year: 78,000) phantom stock options at base prices of € 3.59, € 3.50, € 2.99 and € 2.15 (previous year: € 9.16, € 8.60 and € 4.67) were allocated to these board members in 2008 under this plan; the exercise of these options is not linked to the achievement of specific performance targets. 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. Mr. Stephan F. Brune was granted 25,000 phantom options at a base price of € 2.15; Mr. Jens U. Keil was granted 10,000 phantom options at a base price of € 3.59 and 15,000 phantom options at a base price of € 3.50; Mr. Thomas Pfau was granted 34,000 phantom options at a base price of € 2.99 in the 2008 financial year. A total of K€ 15 was expensed for options granted in the 2008 financial year in connection with provisions for liabilities under this compensation system based on phantom shares (previous year: K€ 38). K€ 62 (previous year: K€ 291) of the provision was reversed to profit and loss during the 2008 financial year. The provision for liabilities under the aforementioned phantom options as of December 31, 2008, was K€ 18 (previous year: K€ 65); of this amount, K€ 7 (previous year: K€ 0) is attributable to Mr. Stephan F. Brune, K€ 3 (previous year: K€ 2) to Mr. Jens U. Keil and K€ 8 (previous year: K€ 48) to Mr. Thomas Pfau. No provisions (previous year: K€ 15) were attributable to the former Management Board member, Dr. Georg Kellinghusen, as of December 31, 2008. The rights granted to Mr. Stephan F. Brune will lapse on October 1, 2011, if none of them are exercised by that date. The options granted to Mr. Jens U. Keil will lapse unless they are exercised by April 1, 2010, April 1, 2011, or July 1, 2011, respectively. The rights granted to Mr. Thomas Pfau will be void on September 1, 2009, September 1, 2010, September 1, 2011, or January 2, 2010, respectively, if none of them are exercised by that date with regard to the respective tranche. The phantom stock options granted to Dr. Georg Kellinghusen lapsed on February 15, 2009. The exercise periods regarding individual tranches were expanded during the 2008 financial year based on individual agreements.

During the 2008 financial year, Mr. Stephan F. Brune was also granted additional share-based compensation above and beyond the aforementioned compensation system entailing phantom stock options. Mr. Brune is granted 40,000 shares of Zapf Creation AG stock annually as part of his fixed share-based compensation. In addition, the variable compensation paid to Mr. Brune is structured as a share-based payment. In this regard, Mr. Brune is paid variable compensation comprising no more than 32,000 shares per annum contingent on the achievement of specific performance targets; a fixed number of 8,000 shares will be granted for the 2008 financial year. The total share-based payment to him in the 2008 financial year (fixed and variable component) was K€ 158.

A payment of K€ 15 was made to Mr. Thomas Pfau as one-time compensation in the 2008 financial year (previous year: K€ 0). Mr. Pfau was no longer a member of the Management Board effective as of the December 31, 2008, reporting date. In addition, a payment of K€ 18 was made to Mr. Stephan F. Brune for consulting services ahead of his appointment to the Management Board in the 2008 financial year (previous year: K€ 0).

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 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 payment of K€ 100 (previous year: K€ 0) on this liability was made in the 2008 financial year; as in the previous year, no new loans were made in 2008. In 2008, the Company received K€ 49 in full payment of both K€ 46 in interest receivables outstanding as of December 31, 2007, and K€ 3 in interest on arrears that had been billed; the total of K€ 23 in interest for the 2008 interest period were also paid in full. The Company's overall claim as of the December 31, 2008, reporting date has been reduced to a total of K€ 350 (previous year: K€ 671) due to the waiver of its claim and the interest and loan payments received in the 2008 financial year. However, the loan granted remains secured by a land charge in the amount of K€ 200 (previous year: K€ 200); the remaining liability has been written down in full, analogous to the previous year.

3. Supervisory Board

The compensation of the Supervisory Board is determined by the Annual Shareholders' Meeting, on recommendation of the Management Board and the Supervisory Board. It is regulated by Article 20 of the Articles of Incorporation of Zapf Creation AG. The cash compensation includes a fixed and a dividend-based component, as well as compensation linked to the long-term success of the Company.

According to the Articles of Incorporation, the fixed compensation component for the full financial year is K€ 35 net for the chairman of the Supervisory Board, K€ 26.25 for the vice chairman of the Supervisory Board, and K€ 17.50 net each for all other members of the Supervisory Board. The compensation paid to Supervisory Board members who were not in office for a full financial year is pro rated in accordance with the duration of their membership on the Supervisory Board. The most recent change to the fixed component of the compensation paid to the members of the Supervisory Board was made by resolution dated August 29, 2006. Any withholding taxes payable on compensation paid to members of the Supervisory Board domiciled abroad are incurred by the Company.

As before, under the resolution adopted May 7, 2003, the variable compensation paid to the Supervisory Board members will be € 100.00 for each € 0.01 in excess of € 0.50 in dividends per no-par value share distributed to the shareholders for the financial year just ended. In addition, the members of the Supervisory Board are entitled to annual compensation based on the Company's long-term performance. This compensation entails payment of K€ 1 per K€ 1,000 in consolidated net annual profit that exceeds an average consolidated annual profit of K€ 22,237 for the last three financial years. 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.

The total obligation for the compensation of the Supervisory Board in the 2008 financial year was K€ 149 excluding and K€ 201 including withholding taxes payable (previous year: K€ 112 excluding and K€ 149 including withholding taxes payable). This figure also includes the compensation paid to the Supervisory Board member, Mr. Isaac Larian, for his service in 2007.

As in the previous year, there were no loans to members of the Supervisory Board as of the balance sheet date. The subordinate shareholder loans included in the Company's financing concept, including pro rated interest owed, were fully converted into equity upon entry in the commercial register in the 2008 financial year.