

Ravensburger



People and Brands

2005 Annual Report
of the Ravensburger AG Group

The Ravensburger brand philosophy

Playing is more than just passing the time.
Reading is more than just acquiring information.
Enjoyment is more than just having fun.
Education is more than just gaining knowledge.
Being together is better than being alone.

Enjoyment, education and togetherness –
we believe in these values.
With passion and intellect.

So that children and adults
constantly

Discover what is really important.

Comparative of the Ravensburger AG Consolidated Group

| | 1996 TEUR | 1997 TEUR | 1998 TEUR | 1999 TEUR | 2000 TEUR | 2001 TEUR | 2002 TEUR | 2003* TEUR | 2004* TEUR | 2005* TEUR |
|--|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|--------------------|--------------------|--------------------|
| Sales without consolidated sales RTV Family Entertainment AG | 241,672 | 248,983 | 295,610 | 301,804 | 284,375 | 288,328 | 254,444 | 266,972 258,343 | 286,575 280,536 | 287,671 283,770 |
| Results from ordinary activities as a percentage of sales | 11,210 4.6 % | 10,987 4.4 % | 2,977 1.0 % | 3,083 1.0 % | -5,216 -1.8 % | 7,952 2.8 % | 23,234 9.1 % | 27,562 10.3 % | 32,173 11.2 % | 40,885 14.2 % |
| Net income/(loss) for the year as a percentage of sales | 5,358 2.2 % | 7,984 3.2 % | 1,714 0.6 % | -3,809 -1.3 % | -14,498 -5.1 % | 5,424 1.9 % | 9,589 3.8 % | 14,884 5.6 % | 26,271 9.2 % | 29,075 10.1 % |
| Cash flow** as a percentage of sales | 18,547 7.7 % | 23,215 9.3 % | 18,323 6.2 % | 12,579 4.2 % | 12,118 4.3 % | 17,900 6.2 % | 39,100 15.4 % | 28,900 10.8 % | 36,700 12.8 % | 40,200 14.0 % |
| Balance sheet total | 180,581 | 193,949 | 273,026 | 236,542 | 245,946 | 226,070 | 198,257 | 256,736 | 265,001 | 234,654 |
| Shareholder's equity as a percentage of balance sheet total | 46,944 26.0 % | 55,285 28.5 % | 53,899 19.7 % | 47,703 20.2 % | 25,673 10.4 % | 31,805 14.1 % | 34,422 17.4 % | 57,753 22.5 % | 83,237 31.4 % | 97,845 41.7 % |
| Number of employees (year end) | 1,823 | 1,730 | 2,012 | 2,020 | 1,834 | 1,700 | 1,409 | 1,396 | 1,448 | 1,438 |
| Investments in tangible fixed assets | 9,637 | 17,046 | 24,641 | 8,980 | 8,580 | 3,334 | 2,763 | 1,952 | 4,739 | 7,891 |
| Depreciation of tangible fixed assets | 11,241 | 11,436 | 15,321 | 14,995 | 11,846 | 15,877 | 8,048 | 7,203 | 6,137 | 6,211 |
| <p>* 2003 - 2005 consolidated financial participations RTV Family Entertainment AG included ** operating cash flow without working capital and accruals established from 2000 in accordance with DRS 2 (German Accounting Standards No. 2)</p> | | | | | | | | | | |



Annual Report

Supervisory Board

Otto Julius Maier

Ravensburg
(Chairman until 22.7.2005,
Member from 22.7.2005)

Dr Klaus P. Bleyer

Lindau
(Deputy
Chairman until 22.7.2005,
Chairman from 22.7.2005)

Rolf Allmendinger

Geislingen/Steige

Dr Manfred Antoni

Weinheim

Dr Wolfram Freudenberg

Stuttgart

Dorothee Hess-Maier

Ravensburg
(Member until 22.7.2005,
Deputy
Chairman from 22.7.2005)

Board of Management

Karsten Schmidt

Ravensburg
(CEO)

Frank Mallet

Ravensburg
(CFO)

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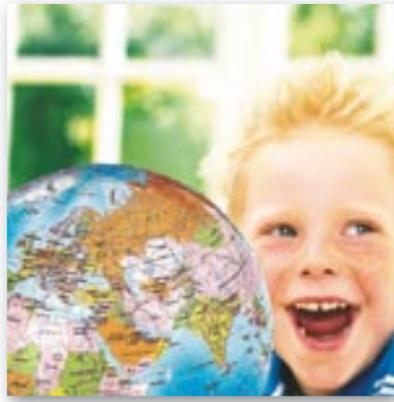
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A completed financial year does not just represent another stage in our corporate history. It also adds new facets to the Ravensburger brand and prepares the ground for our future steps.

2005 was an economically advantageous year. With consolidated sales of € 283.8 mill., revenues lie slightly above the level of € 280.5 mill. attained the previous year. Defying the market trend, we have been able to grow and improve our position on the market (figures do not encompass RTV Family Entertainment AG, which was sold in the autumn of 2005). Happily, the result after tax was maintained at a slightly higher level than the previous year at € 29.1 mill.

The Games, Puzzles and Arts/Crafts division attained sales of € 233.5 mill. in 2005. With almost identical development at home and abroad, this represents a plus of 0.5 % over 2004. Keeping in mind that we have slightly improved on the + 9 % jump in 2004 sales by + 0.5 %, this can be seen as a real success – even more so in light of the fact that among other factors, the expiration of sales licences for Playmobil in Italy and Matador in Austria meant that sales losses of € 6 mill. had to be compensated for. During the 2005 fiscal year, we also achieved convincing success in the English-speaking region, where we have traditionally only reached an inferior market position.

Thanks to a new market development strategy, we were able to increase sales in the USA by 21 %. In Britain, 2005 also saw an important milestone being reached: for the first time, a Ravensburger game was ranked in the top ten.

Highly gratifying results were attained by the Children's and Youth Books division. The division significantly boosted sales by 5.2 % to € 46.9 mill. It also set a new publishing volume record, with 16.8 million books delivered to retail stores. But not only in our primary market of Germany was the trading volume up at +4.9 %, we also exhibited growth in our two most important foreign markets, Austria (+20.2 %) and Switzerland (+3.2 %).

With 310,000 visitors, the theme park Ravensburger Spieleland nearly matched attendance levels from the previous year, despite the rainy 2005 summer. Revenues declined by 1.4 % to € 5.4 mill. – though it should be noted that when compared to many other amusement parks, this represents an acceptable result. Despite the difficult economic climate, our event agency, Ravensburger Leisure and Promotion Services, saw a 1.3 % increase in sales to € 2.7 mill.

The positive sales trend is also reflected in our market position. In three of our four most important fields of activity, we were ranked number 1 in 2005.

In the core market of Western Europe, the Games, Puzzles and Arts/Crafts division captured the number 1 position for the first time in the Arts/Crafts category, thanks to the successful product brands "Painting by Numbers®" and "Mandala-Designer®". In the Games sector, the division was ranked at number 3 and for Puzzles, it captured the number 1 position by a large margin. The Children's and Youth Books division clearly lies at the top market position in its core market of Germany, Austria and Switzerland.

Our prediction for the new fiscal year 2006 is cautiously optimistic. The positive resonance on retail markets to our 2006 range leads us to expect positive momentum, particularly from our focal topic for the year, the Football World Cup. Overall however, due to a continuing decline in markets projected for 2006, restraint must still be exercised. Additionally, it must be kept in mind that it will be difficult to make further gains on the high market positions we have already attained.

Important milestones were achieved in 2005 with our strategic projects for the umbrella brand Ravensburger as well as the product brands. For example, sales momentum during the reporting period was once again carried principally by our product brands "Wieso? Weshalb? Warum?®", "puzzleball®", "ministeps®", "Mandala-Designer®", "Painting by Numbers®" and "memory®". In terms of content positioning and a uniform brand image, all these games offer consumers a firm orientation. In 2005,

further important steps were also undertaken for the expansion of both existing and new product brands (e.g. "ScienceX®").

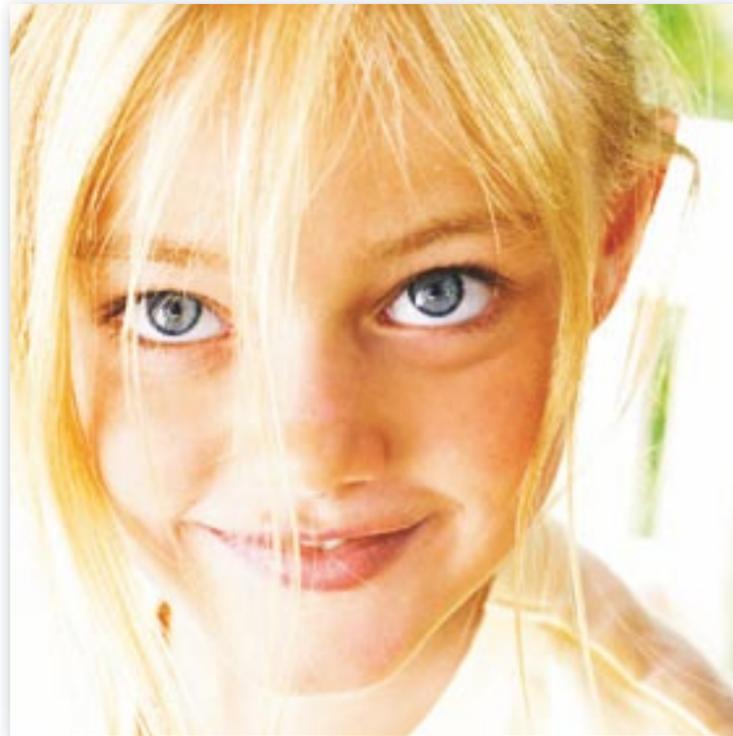
Initiated by the results of market research study on the Ravensburger umbrella brand – completed in 2003 in Germany and 2004 in France – we began overhauling our brand image in 2004. The new appearance will confer more presence, modernity and vitality to the Ravensburger brand. Initial elements have already been utilised in 2005. These included the photo concept for Magic Moments, which shows the emotional reaction of users to our products, as well as the brand promise "Discover what is really important", and the newly formulated brand philosophy, which has been communicated within influential retail and consumer media outlets. The conceptual overhaul of the umbrella brand identity will be completed by the spring of 2006.

The community feeling within a company develops both as a result of common values and spatial proximity. In terms of these factors, 2005 was a year of coalescence. The Ravensburger Group's Corporate Principles were updated, thus providing a reformulation of our self-conception and our framework for action. The relocation of the Children's and Youth Books division to the Ravensburger headquarters has led to a new level of quality in collaboration with the Games, Puzzles and Arts/Crafts division, producing multifaceted opportunities for formal and informal exchange.

In terms of content, the co-operation between these two divisions, which has intensified over the years – among other factors, as a result of the joint product brand "ministeps®" – will now be given new momentum.

At this point, we would like to thank all the employees of the Ravensburger Group. It is our employees who have fostered the success of our company through their performance and achievements, as well as their commitment and creativity. This has led not only to a greater brand appeal, but also increased the enjoyment of our customers and the satisfaction of our business partners. We would especially like to thank the employees on the works council, who have lobbied for the interests of the staff in a highly constructive and fair manner. Additionally, we would like to thank our retail partners for their successful collaboration and commitment to Ravensburger.

Last but not least, it should be noted that our efforts in building the Ravensburger brand have also affected the conceptual design of the annual report you are now holding. Unlike past years, we will no longer report on the separate divisions. Instead, we will present the annual financial statement in a separate section, initially placing editorial accents on topics that we have influenced and that have also influenced us over the past year: the people we are working for and the brands that we are working on.



“Enjoyment, education and togetherness – we believe in these values. With passion and intellect. So that children and adults constantly discover what is really important.”

With our brand philosophy, we have made a promise to our customers. In order to meet this expectation, two conditions must first be fulfilled: first, being familiar with the needs and desires of people and being responsive to them. Second, evaluating societal change and taking this into account in our development of the product range. We are highly committed to both of these aspects: we speak to children, teenagers and adults and really listen to what they have to say. Via forums and market research, we have delved into their interests, motives and expectations.

But we also understand that time passes – family structures are breaking down, educational problems exist, children are increasingly subjected to a flood of stimuli, etc. For this reason, we work closely with professionals from the health and education sciences fields. This has allowed us, for example, to appraise the latest results from pedagogic and educational research and make use of it for our work. We have formed a permanent dialogue with teachers and educators. With these insights, projects were developed and launched in 2005 that encourage enjoyment, education and togetherness, offering people important values in the process.



The most important factor is enjoyment

“Enjoyment is more than just having fun” is an integral part of our brand philosophy. But this in no way excludes fun as a lighter, more frolicsome variation of enjoyment. Rather, the idea “more” conveys the aim that Ravensburger associates with its concept of enjoyment. With enjoyment, the emphasis has been placed on a wider sustainability and depth. In this sense, our conception of enjoyment encompasses: enthusiasm, passion, pleasure, happiness, awareness and a sense of achievement. Moreover, our notion of enjoyment excludes any forms of violence and intolerance.

Fostering active engagement with creative products

The success of our arts and crafts products among children – and children are the largest user group by far – is based principally on the gratification that drawing and painting provide and the pride that children take in work they have completed themselves.

The societal relevance of these products lies not least in the fact that children and adults are offered an active, creative activity and thereby an alternative to passive consumption.

For the love of books

In 2005, the Children’s and Youth Books division increased sales for the fifth year in a row. The variety and quality of the Ravensburger book range is highly appreciated both by children and adults. It is also well documented by numerous awards.

The lasting success of the Children’s and Youth Books division lies not only in the relevance of our books’ contents but particularly in the fact that our books carefully respond to each age group, taking children’s needs and youth interests seriously. Only in this way can an important objective be attained, namely offering enjoyment through books. Children should have fun while reading and looking at books, make discoveries and let their fantasy run free.

Happy children’s faces in Spieleland

Fun in the Ravensburger Spieleland amusement park creates a further dimension to our core value enjoyment. The experience that children have with interactive games in our green park grounds makes the Ravensburger brand both tangible and experiential. In 2005, visitor questionnaires showed a highly positive resonance, reinforced by excellent ratings for the park’s attractions and design as well as employee friendliness.

A dialogue with the people

Times are changing and so too are people. Demographic development in Germany and across all of Western Europe indicates that there are an increasing number of senior citizens and fewer children. Furthermore, senior citizens are becoming ever younger in their outlook and searching for new offers. These changes also bring opportunities for companies such as Ravensburger that are primarily active in the children and family sector.

We seek out dialogue with the target groups, observe the changes taking place in all the relevant sectors and develop product concepts that will maintain their relevance for people in the future. The topic of learning, for example, traditionally a core area at Ravensburger, is now undergoing a fundamental change. The world’s increasing momentum and complexity, changing values and media oversupply are all factors which lead to new learning challenges for children. Ravensburger conducts basic research as well as market observation and collaborates with renowned institutes and specialists from the relevant fields, intensively testing products during the development phase amongst the target audience. In the process, we stay close to the people for whom we are developing our products. We therefore have the ability to think from a consumer perspective and recognise the consumer’s needs and wishes.

Education is more than just gaining knowledge

At Ravensburger, education represents a holistic, life-long learning process that brings pleasure. Our product range is pedagogically based, thus nurturing the intellectual, creative, social and emotional faculties. Our products and services encourage the development of an individual’s own personality and creativity. In addition, they communicate good taste and a feeling of quality. “Reading is more than just acquiring information” is also stated in our brand philosophy. Our vision for publishing is comprehensive: Ravensburger books open the world up to children and accompany them on their way to adulthood. They offer reading fun and the joy of discovery, entertainment and excitement. They foster comprehensive knowledge, but also tackle current issues and societal topics. In this way, our books encourage children’s differentiated thinking and empathy, a reflection on values and discovery of an individual mindset on the world. Ravensburger games stimulate the motor skills, the intellect and social capabilities. In particular, our new educational game range reflects changes taking place among individuals and the society at large.

Moreover, Ravensburger Spieleland offers numerous attractions for learning through play.

New in the educational range: “Spielend Neues lernen®”

The formation of a new educational game range, which will be brought to market at the beginning of 2006, is an example of Ravensburger’s conceptual approach to new products. The range is tailored to the needs of children and designed to promote lasting education. Given the changing overall conditions in the area of learning, Ravensburger decided two years ago to completely redesign its conceptual framework for educational games.

In collaboration with specialists from research, professional and educational institutes, including the Transfer Centre for Neurosciences and Learning in Ulm, important questions were examined, e.g. *what* should a child learn today and *how* should he or she learn?





The question of *what* aligns itself along the current orientation and educational plans in schools and pre-schools. A defining aspect of these plans is the switch from a culture based on requirements towards one of individual support and advancement. The question of *how* is connected to the increasing complexity and momentum of the world and the growing flood of stimuli that children are subject to. Brain research has done much to clarify how children perceive and learn – and what needs to be offered to kids in order to arouse their interest. The range will initially encompass 16 products, covering all the relevant educational subjects.

Versatile educational classics: children's and youth books

With the objective of accompanying a child from birth until adolescence, Ravensburger books cover all the important thematic areas of this sector.

The aim is not to chase after temporary trends but rather to offer children of specific age groups a selection which best covers their needs.

2005 was the 60th anniversary of the end of World War II. In the area of youth books, this represented the occasion for publishing special editions of our most important books on the topic of fascism and the Holocaust, as well as a new book on the history of the Third Reich. The goal of this book development was to ensure that young people achieve intellectual understanding and concern for this dark chapter of German history.

A suitcase full of learning: encouraging reading in schools

In addition to the development of the book range, the Children's and Youth Books division is committed to numerous projects which encourage the acquisition of reading skills. These take place in co-operation with schools, other publishing houses and the book trade.

Ravensburger produces campaigns, also providing books and accompanying material to schools and retail stores. The "Reading Suitcase" campaign for primary schools, begun in 2003 in co-operation with the Oetinger publishing house and through a Ravensburger-initiated collaboration with the book trade, experienced in 2005 a further boost in participation levels: 92 bookstores took part in the campaign during the reporting period. To date, over 100,000 pupils have been involved in the campaign, which has been supplemented with a diverse supporting programme plus accompanying materials. These include book presentations as well as performances in which pupils read their own poems, sing songs and present sketches during lessons, at various events and in bookstores. These activities are accompanied by reading journals, bookmarks and posters.

The "Reading Goes to School" campaign, conducted in co-operation with dtv, has existed since 2004. In 2005, it was expanded to the primary school level.

After approximately 100 bookstores took part in 2004, 2005 saw the number rise to 136. Due to the positive resonance, the campaign will be continued in 2006.

Being together is better than being alone

At a time of increasing individualisation, broken families and insecure relationship networks, collaborative experience is more important than ever. Ravensburger's traditional concern of bringing people together has thus taken on a current societal dimension. Ravensburger products and offers are much more than just a way of passing the time. They transmit a sense of community and family; they nurture a sense of togetherness. They help to counteract separation and isolation and offer children and youngsters an alternative to electronic games that are almost exclusively played alone. Bringing parents and children together, they allow adults to rediscover the notion of entertainment.

At the same time, collaborative playing teaches numerous skills which can only be developed while interacting with others.

Games bring families together

"memory®", "Lotti Karotti®", "ministeps®" – these are just three examples from the Ravensburger game range that focus on togetherness and collaborative efforts. Regardless of whether the entire family assembles to play "memory®", whether children play "Lotti Karotti®" together or whether a child, accompanied by his mother and "ministeps®", takes initial small steps into the big wide world – the added value always lies in the quality of togetherness.

Finding common ground with a picture book

Cloth books for leafing through and playing with, goodnight stories to read aloud, picture books to dip into with a companion – books are essential components in bringing children and parents together.

It is important for a child to hear the voice of his mother or father and experience their affection, to enjoy stories with them, to discover and discuss new things and adventures. The accompanying occupation with books thus fosters a deep and important sense of belonging.

Popular day trip for families: the Ravensburger Spieleland

Bringing families together over the course of an entire day is the objective of the Ravensburger Spieleland. Unlike other amusement parks, the Spieleland is also ideal for children who are only 2-3 years old. At the start of the 2006 season, the new rafting ride will open – an attraction designed to appeal to older children as well. In this way, the Ravensburger Spieleland now presents itself as a community-themed park for a much broader target audience.



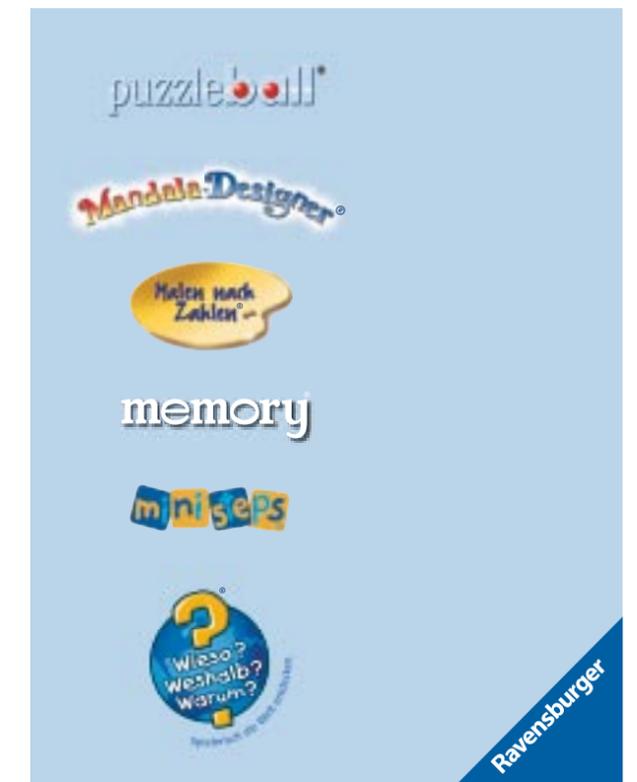


Brands stand for a mindset, make a promise and offer orientation. To ensure that the values of our umbrella brand Ravensburger can continue to be clearly experienced in a changing market, we have undertaken intensive work over the past year on the Ravensburger brand. The brand philosophy was reformulated, the brand strategy overhauled and the Ravensburger brand image has become more modern, striking and emotional.

However, our umbrella brand Ravensburger alone cannot guarantee consumer awareness for all Ravensburger products. The umbrella brand sets the core values, but it cannot transmit the concrete benefits and added values in terms of enjoyment, education and togetherness that a product offers. It makes sense to underline these factors clearly via additional communication.

For this reason, over the past years, we have intensified our product brand strategy. These product brands offer a contextual anchor which ensures consumer recognition of individual products and strengthens communication impulses via synergy effects.

Beyond this, product brand activities affect the umbrella brand retroactively; a dynamic interplay is set up between the two. Each new product brand profits from the image of the umbrella brand while contributing to its differentiation and renewal.



A single brand changes the puzzle market: “puzzleball®”

In the spring of 2004, Ravensburger launched the “puzzleball®” consistently across Western Europe – with the exception of Great Britain (where it will be launched in 2006) – as a clearly recognisable product brand. Not just the trademark “puzzleball®” or the promise “Beautiful all around”, but also a uniform visual presentation of the product attributes and advantages on every package have put their stamp on the brand character.

In autumn 2004, a seasonal variation, the “christmas puzzleball®” was launched, and in 2005 a junior line was introduced as an alternative for children. This expansion has created new target groups for the product brand and contributed to rising sales. Further momentum towards capturing new target groups is expected from the 2006 Football World Cup focus.

The football series was launched for the 2005 Christmas season and quickly gained significant media attention – not only for the product brand “puzzleball®”, but also for the Ravensburger umbrella brand.

Last year, both nationally and abroad, 3.2 million puzzleballs were sold, thus significantly improving on the 2004 launch year sales figures of 1.7 million units. In Germany, sales grew from € 10 mill. in 2004 to approximately € 15 mill. during the reporting year. The number one “puzzleball®” seller by a huge margin was the Christmas ornament version, which was produced in six different motifs and offered in a special sales cartridge.

Patented technology strengthens the brand: “Mandala-Designer®”

With the drawing machine, a new variation of “Mandala-Designer®” was launched in 2004. This led to a sales upturn for the entire Mandala product family. With its patented concept, the brand offers a unique product advantage – and with its distinctive logotype, an established trademark.

The success of sales in 2005 has highlighted the brand potential of “Mandala-Designer®”. The product, which is available in the alternatives drawing machine, standard and mini, sold around 1.1 million units in 2005.

A brand that promises success: “Painting by Numbers®”

In 2005, the classic “Painting by Numbers®” was brought to market with a thoroughly overhauled image, rigorously designed as a product brand. The new package design with the golden palette trademark and the promise “Anyone can paint” transmits a clear message and assures quick product recognition. During the reporting year, sales for the range were doubled in Germany and grew by 50 % in France. Overall, 1.7 million units were sold in 2005.

The bestsellers “Painting by Numbers®” and “Mandala-Designer®” have substantially contributed to the success of Ravensburger, allowing it to become the 2005 Western European market leader in the area of arts and crafts products for the first time.

A new target group for the traditional brand: “memory®”

“memory®”, the Ravensburger product brand with almost 50 years of tradition and over 50 million units sold in 70 countries, is the memory game much loved by families and children. In 2005, Ravensburger began a strategic expansion of the brand, targeted at adults with topics from the worlds of art, culture and travel. A defining factor of the new communication was the development of a promise that applies for the overall brand and is also uniformly relevant for all target groups: “Remember. Discover. Experience.”

Games and book brand for tots: “ministeps®”

As a joint project shared by the two divisions Games, Puzzles and Arts/ Crafts and Children’s and Youth Books, “ministeps®” was developed and launched in 2003 for the toddler segment. The product brand with the promise “Small steps into a big world” has a clearly communicated identity. Among other factors, the trademark blue-yellow cubes, the blue-yellow colour scheme and the five animal characters contribute to brand recognition for all “ministeps®” products.

In numerous “ministeps®” products, the characters appear in various forms and materials as figures for games, cuddling or just observing, which has led to the popularity of the brand amongst both children and parents.

Already in 2004, just two years after the market launch, “ministeps®” had fulfilled its objective of reaching the top 5 in the German toddler market. In 2005, the product was able to build on this positive development by a two digit growth rate. The 2005 market launch of “ministeps®” in the USA was also a resounding success.

“Wieso? Weshalb? Warum?®” The brand for children’s questions

“Wieso? Weshalb? Warum?®” was conceived in 1998 with the goal of answering questions as children pose them. The brand’s success has confirmed the need for a specialised book range for pre-school-aged children.

The strategic line-up as a product brand with an independent identity, a defined brand essence and the brand promise “Discover the world through play” has had a considerable influence in firmly establishing “Wieso? Weshalb? Warum?®” within all the German-speaking countries, with 8 million units sold. This has also made it one of the most successful games in the Ravensburger range.





Meanwhile, the series has been supplemented with puzzles, games, experiments and audio books, expanding it into a comprehensive product brand for learning through play for pre-school children. As in previous years, the line also attained a two digit growth rate in 2005.

So many countries, so many cultures: the challenge of managing product brands

Multifaceted cultural differences can be found in our core market in Western Europe. Far away from the notions of Europeanisation and globalisation, our markets continue to show distinct differences – in short, there is no typical European consumer.

Particularly in the children and youth markets, divergent concepts of upbringing and educational systems are noticeable within the individual countries. Even among children who are less than six years of age, different development characteristics can be observed.

In the market for Games, Puzzles and Arts/Crafts products, various motives and preferences exist for specific segments, topics, image motifs and materials. For example, in Germany, creative products are used more frequently for interior decoration, whereas in southern Europe, the same products are often used to adorn one's outfit. While the majority of our national sales markets are strongly licence-oriented, the focus in Germany, Austria and Switzerland lies much more on content and quality.

While in the adult amusement sector in Germany, the trend is toward complex, strategic and sophisticated games, in England the same sector calls for uncomplicated, communicative fun.

In order to be able to meet the conditions and requirements of individual markets and countries in the best possible manner, already in 2003 we started reorganising our processes and structures while overhauling the design of our entire range. At a process level, an international product management tier has been established for the co-ordination of country-specific concerns. Our programme strategy reads: "As national as necessary and as international as possible". In the process, we are constantly striving to strike a balance between an ubiquitously consistent brand identity and the requirements of specific markets. In 2005 we once again achieved such a balance, as the positive development of our range of product brands impressively shows.

Business development and situation in 2005

The general business environment for the Ravensburger Group in the fiscal year 2005 was once again characterised by the unsatisfactory economic situation in Europe and the USA, a persistent slowdown in consumer spending and a further concentration of the market environment. In these difficult conditions, the Ravensburger Group was able to play to its strengths in terms of content, quality and service, maintaining and in some divisions actually expanding its sales volume and market position. The business stability and financial solidity of the Group were reinforced by a further rise in the Group's net income for the year.

Overview of Ravensburger AG and Group

Ravensburger AG is the managing holding company of the Ravensburger group of companies. The operative business of the Ravensburger group is conducted by the subsidiaries of Ravensburger AG, which are basically organised into three business divisions. Ravensburger AG is linked to the main operative subsidiaries in Germany via profit transfer agreements.

Various, largely commercial, functions of the German subsidiaries are performed centrally by specialised divisions of Ravensburger AG. This applies to the functions of finance, central marketing, press and public relations, personnel, IT and legal issues.

Besides the holding function, Ravensburger AG also leases the land and buildings in Ravensburg to the operative subsidiaries, as well as licensing the use of the Ravensburger brand to the companies of the group.

Business development of operative divisions

Games, Puzzles and Arts/Crafts division

The traditional toy market in Europe and the USA in 2005 was once again characterised by the absence of any outstanding trend themes, and by a further aggravation of the aggressive pricing policies of large international trade organisations. The continuing lull in consumer spending produced a further slight decline in toy markets in Germany, most other European countries and the USA. The only markets to remain stable were France, Spain and Italy. There was a noticeable reinforcement of the seasonal shift in sales towards the Christmas shopping period, which is also beginning increasingly late.

In this difficult market environment, the Games, Puzzles and Arts/Crafts division managed to increase its sales revenue again slightly in 2005 by 0.5 % to € 233.5 mill. as against € 232.3 mill. the prior year, enabling it to continue expanding its European market position. Already a long-standing European market leader in the puzzles sector, Ravensburger has now managed for the first time to become European market leader in the arts/crafts sector as well.

In specific terms, this was largely due to a successful relaunch of "Painting by Numbers®" and the "Mandala-Designer®" series. A further strong increase in sales of the "puzzleball®" effectively compensated for a slight decline in the 2D puzzle sector. Growth was also achieved with the product series "ministeps®" introduced in 2003 for children aged 0 - 3 years. On the games front, the most popular products were "Verflixxt", "Make 'n' Break" and "Die Insel".

Children's and Youth Books division

The German book market overall did slightly better in 2005 than in the prior year. Within this market, the most successful sectors were learning/educational and children's/youth books. The German children's/youth book market saw an increase of approx. 15 % in 2005 – mainly due to the publication of the sixth volume of Harry Potter.

The Children's and Youth Books division achieved a marked increase in sales on the prior year, and – with due allowance for the Harry Potter effect – managed to effectively maintain its market share.

This success derives from all major product segments. Sales of the popular non-fiction series "Wieso? Weshalb? Warum?®" for nursery and pre-school children were once again significantly up on the prior year, for example. A highly positive trend was also seen in the "ministeps®" range for infants, the learning range for pre-school and primary school children and the book series for learner readers with the popular raven figure, which, though only in its second year of publication, already managed to secure a market share of almost 10 % (figure according to Media Control). Excellent sales were also achieved with the launch package of the re-released children's detective series "Die Knickerbockerbande", which sold 400,000 copies.

Leisure and Promotion division

Ravensburger Spieleland AG

The 2005 season was not easy for Ravensburger Spieleland, largely due to the cool, rainy summer months. The number of paying guests was 253,200, approx. 8.5 % fewer than in the prior year. The total volume of visitors (including season ticket and loyalty card holders, etc.) was approx. 310,000, only 3.1 % below that of the prior year. Despite the fall in visitor numbers, sales remained almost the same as in the prior year at € 5.4 mill. (-1.4 % below 2004 figure). This was due in part to higher per capita income, mainly from entrance and parking fees. Incidental income from catering and shop sales also saw a further increase. The vast majority of visitors in 2005 were once again highly satisfied with the attractions and level of cleanliness of the theme park.

With regards to the ongoing lawsuit filed by REAL Fonds GmbH & Co Freizeitpark KG (REAL Fonds) against Ravensburger Spieleland AG and other Ravensburger companies, the parties have agreed to settle the dispute amicably via a conciliation agreement of 21./30.12.2005. Under this agreement, REAL Fonds expressly declares that an inspection of the documents requested by the Ravensburger Group did not yield any justification for the allegation of deliberate damage to investors or misconduct on the part of staff or committees of the Ravensburger Group, and that it therefore retracts these allegations.

Under the terms of the conciliation agreement, Ravensburger Spieleland AG has agreed – with joint liability on the part of Ravensburger AG – to pay a sum of € 3.75 mill. to REAL Fonds in addition to terminating the atypically silent partnership. The book value of the silent partnership holding as at the end of 2005 amounts to approx. € 2.4 mill. The conciliation agreement is subject to the suspensory condition of approval by at least 75 % of the REAL Fonds shareholders' assembly and the securing of an approval quota on the part of all limited partners representing at least 90 % of the invested capital. The REAL Fonds shareholders' assembly has now approved the settlement with the backing of 98.9 % of the represented capital. In the annual accounts of the Ravensburger Group, provisions of € 1.5 mill. were made under extraordinary expenditure for the impending loss plus legal costs.

Ravensburger Freizeit- und Promotion-Service GmbH

The company Ravensburger Freizeit- und Promotion-Service GmbH acts as a service provider for third parties in the business unit marketing communication (fixed and mobile brands, children's corners and events). In 2005, it achieved sales of € 2.7 mill., representing an increase of 1.3 % on 2004.

Other

Ravensburger AG's long efforts to find a competent, financially strong investor for its equity investment in the listed company RTV Family Entertainment AG (RTV) finally met with success in 2005. As part of a comprehensive and successful restructuring of RTV, Ravensburger AG sold all of its almost 90% stake in RTV to the Austrian F&M Film und Medien Beteiligung GmbH in autumn 2005. In addition to

the contributions to the restructuring by the new investor, the financing banks and other business partners of RTV, Ravensburger AG made up the final contribution of € 1.2 mill. to the capital reserves of RTV and fulfilled the guarantee obligation already assumed in 2002 for bank loans to the value of € 2.5 mill. At the same time, Ravensburger AG waived virtually all accounts receivable from RTV up to the end of 2005.

From the fiscal year 2003 onwards, RTV has been included in full in the consolidated financial accounts of the Ravensburger Group. Regardless of this, Ravensburger AG has continued to hold RTV Family Entertainment AG as a pure financial holding, i.e. its operations have not been managed by the Ravensburger group of companies and have not been included in its strategic core business.

Rather, RTV has been (and still is) managed exclusively by its own executive board which is not accountable to the Ravensburger Group in accordance with stock corporations law.

Following the sale of the holding to a third party in the autumn of last year, RTV no longer has to be included in the Ravensburger Group's consolidated financial statement for 2005. In the fiscal year only RTV's consolidated sales revenues, costs etc. accruing up until sale are still included in consolidated statement of income of the Ravensburger Group. The Group's balance therefore still shows a loss (over the year) of € 0.2 mill. for RTV in 2005. In addition, the consolidated financial statement of the Ravensburger Group naturally includes the above described expenses in connection with the sale of the RTV holding.

Situation of the Ravensburger AG Group

Income situation

In the fiscal year 2005, the Ravensburger Group generated consolidated sales revenue of € 287.7 mill. (thereof 49.4 % abroad), representing an increase of 0.4 % to the prior year (€ 286.6 mill.). Once these values are adjusted by the proportionately consolidated income from the sale of the RTV Family Entertainment AG holding in autumn 2005, the resulting sales increase is 1.2 % (€ 283.8 mill. in 2005 as against € 280.5 mill. in 2004). This increase is primarily attributable to the improved sales revenues of the Games, Puzzles and Arts/Crafts and Children's and Youth Books divisions.

With the rise in sales came corresponding cost increases, some of them disproportionately high. There was a slightly disproportionate increase in material costs for example due to the steadily increasing share of externally purchased merchandise and semifinished products (particularly in the Games, Puzzles and Arts/Crafts division). The same applies to sales royalties, due to the further growth in sales of products produced under licence. On the other hand, costs were held down by the clear reduction in expenditure on miscellaneous reserves.

The result from ordinary activities rose to € 40.9 mill. (prior year € 32.2 mill.). In addition to the reduction in reserves, the principal contributor was the Children's and Youth Books division, which was able to maintain an impressive course of growth in 2005 following on from prior years.

The Group's extraordinary result for 2005 is encumbered by a reserve of € 1.5 mill. allocated for the anticipated loss from the conciliation agreement negotiated with REAL Fonds KG.

The tax expenditure of the Ravensburger Group in the past year was significantly higher than in the prior year at € 9.8 mill. as against € 5.7 mill. This increase is partly due to the fact that the losses carried forward from earlier years – already greatly reduced in the prior year and completely used up by the end of 2005 – were no longer able to offset tax expenditure to the same extent as in prior years.

Overall, however, the Group succeeded in increasing its net income once again following an already positive development in 2004. At € 29.1 mill., the consolidated overall result was 10.7 % higher than the prior year figure (€ 26.3 mill.), representing a sales revenue of 10.1 % (prior year 9.2 %).

Assets

At € 234.7 mill., the Group's total assets as of 31 December 2005 are noticeably down on the prior year (€ 265.0 mill.). This is chiefly due to the 2005 sale of RTV Family Entertainment AG, which had been included in full in the Group's consolidated financial statement in the prior year.

Fixed assets fell overall by € 32.2 mill. to € 50.1 mill. Intangible assets in particular, which had mainly consisted of the film rights of RTV in the prior year, decreased considerably in the fiscal year.

Investment in property, plant and equipment amounted to € 7.9 mill. in 2005. Depreciation of property, plant and equipment totalled € 6.2 mill. in the fiscal year.

The capital tied up in current assets (without cash and cash equivalents) rose disproportionately to sales as at the accounting date. Accounts receivable from supplies and services, particularly in the Games, Puzzles and Arts/Crafts and Children's and Youth Books divisions due to higher and further delayed sales in the Christmas period, rose by a total of € 12.5 mill. Inventories were up € 5.6 mill. on the prior year as at the accounting date, chiefly due to larger stocks of externally purchased merchandise and semifinished products from the Far East. This increased stockkeeping is necessary due to the longer delivery times in order to guarantee our customary high delivery availability in the Christmas period and first quarter.

Liquidity / cash flow

The cash flow from current business activities of the Ravensburger AG Group in the fiscal year was € 11.5 mill., and was thus well below the prior year figure (€ 33.1 mill.) as at the accounting date. This was not because operative business was any less lucrative, but because, as noted above, more capital was tied up in current assets. Finally, the above mentioned expenditure by Ravensburger AG in connection with the sale of the RTV holding also contributed to the deterioration of the cash flow from business activities.

Cash and cash equivalents fell to € 72.7 mill. as at end of 2005 by comparison with € 88.2 mill. in the prior year. Beside the fact that more funds were tied up in working capital, other contributory factors were a further repayment of shareholder loans, extensive investment in the Ravensburg site and higher tax pre-payments.

The Ravensburger Group has no liabilities to banks as at the end of the year.

Financing structure

The Ravensburger Group was able to raise its equity from € 83.2 mill. to € 97.8 mill. in the fiscal year. This is attributable to the Group's net income of € 29.1 mill., along with positive influences from currency conversions to the value of € 1.4 mill., offset by contrary effects from dividend payments and the de-consolidation of the RTV holding. This caused the equity ratio to rise to 41.7 % (prior year 31.4 %). Pension provisions rose in 2005 by € 1.9 mill. Included in this figure are € 0.4 mill. for the ongoing increase in the Group's pension obligations. A further € 1.5 mill. stem from a change in the valuation of pension provisions. In view of the significant fall in average interest rates on long-term investments in the capital market observable in recent years, the managing board feels that the previously applicable interest rate of 5.5 % p.a. may not be sustainable in future. In the interests of commercial caution, the valuation of pension provisions will therefore be based on a reduced interest rate of 5.0 % p.a. after the fiscal year 2005.

Miscellaneous provisions were reduced in the fiscal year by € 13.9 mill. These consisted partly of provisions of RTV, which no longer had to be included in the consolidated financial statement as in the prior year. Also, provisions allocated for various risks in previous years were completely used up in 2005 (e.g. in connection with necessary maintenance and renovation work on buildings and operating facilities at the Ravensburg site) or were able to be fully or partially liquidated (e.g. for various legal disputes) without generating new ones on a comparable scale.

The reduction in liabilities is essentially due to the above described repayment of shareholder loans and again to the fact that the bank liabilities of RTV no longer had to be included in the consolidated financial statement following the sale of the RTV holding.

The Ravensburger Group employed a total of 1438 staff (prior year 1448) as at the end of the fiscal year 2005 (not including seasonal workers at Ravensburger Spieleland AG and Ravensburger Freizeit- und Promotion-Service GmbH). The slight reduction is essentially due to the omission of the 8 RTV employees included in the prior year's statement.

Outlook for the beginning of the fiscal year 2006

Games, Puzzles and Arts/Crafts division

For the Games, Puzzles and Arts/Crafts division, the fiscal year 2006 will continue to be dominated by the implementation of the strategic realignment:

- Targeted investments to improve the market position in specific European countries, accompanied by an optimisation of the relevant marketing and distribution tools;
- Definition and establishment of pan-European product markets under the Ravensburger® label;
- Implementation of the new processes relating to marketing, product development, quality and supply chain with a much closer collaboration between product range/marketing and supply chain management.

In operative terms, approx. 40 new products relating to the football World Cup will provide additional sales opportunities. These products – along with the other novelties presented at the Nuremberg Toy Fair – have already been very well received in the retail sector. Together with the division's broad backlist, this should ensure the further satisfactory development of sales in 2006.

The main risks facing the division's future business development are posed by a continuing reluctance to buy on the part of consumers, particularly in the German-speaking region, which is part of the general economic climate. There are also risks associated with the increasing concentration of trade and the dwindling of the specialist retail base which is so important for us. This brings with it the risk of customer losses and margin deterioration.

Children's and Youth Books division

2006 got off to a good start, with the new products from the 2006 spring range being very well received by retailers and consumers.

Strategically, a major objective for 2006 is to continue the work on high-quality, innovative product ranges for the division.

A general risk facing business development is, once again, the persistent reluctance to buy on the part of consumers in Germany, Austria and Switzerland. The continuing concentration of trade and the resulting fall in the number of small to medium-sized book shops along with the medium-term decline in the children's and youth books market will also tend to limit the potential for growth in this and subsequent years. Despite these general conditions, we feel that, given the quality of our product portfolio, there are opportunities for further growth in terms of sales.

Leisure and Promotion division

For **Ravensburger Spieleland AG**, the 2006 season is dominated by the new major attraction of "Alpine rafting". At a cost of around € 2 mill., this will represent by far the biggest single investment in the park's history.

The measures for creating overnight accommodation facilities and the consequent enlargement of the catchment area will be stepped up in 2006. As things stand, a partial opening of the accommodation facilities is planned for summer 2007, with final completion due in 2008.

The general risks for the future business development of Spieleland are once again the general economic trend and the continuing restraint on the part of German consumers in particular.

For **Ravensburger Freizeit- und Promotion-Service GmbH**, the main aim in 2006 will be to generate new growth potential from the individual design and implementation of projects for branded goods manufacturers. In operative terms, the projects initiated in 2005 and the already established tours will be continued as a priority along with new projects.

Ravensburger Group

In summary, the Managing Board of Ravensburger AG anticipates an essentially stable business development for the fiscal year 2006. Difficult external conditions in terms of the market environment will be balanced by the good positioning and quality of our Ravensburger products and brands, together with the creativity and commitment of our staff.

That said, the net income for the past fiscal year was exceptionally high, and was moreover influenced not only by operative, but also various erratic effects. We cannot therefore automatically assume a repetition of the excellent prior year result. Needless to say, it remains our goal here too to maintain and improve the level achieved.

Ravensburg, 24 March 2006

Managing Board

Consolidated Balance Sheet of Ravensburger AG Group, Ravensburg
Balance Sheet as of December 31, 2005

| ASSETS | EUR | EUR | EUR | TEUR | LIABILITIES AND SHAREHOLDERS EQUITY | EUR | EUR | TEUR |
|---|---------------|---------------|----------------|------------|--|---------------|----------------|------------|
| | | | | 12/31/2004 | | | | 12/31/2004 |
| A FIXED ASSETS | | | | | A EQUITY | | | |
| <i>I. Intangible Assets</i> | | | | | <i>I. Subscribed capital</i> | 12,480,000.00 | | 12,480 |
| Film rights, software, licences and similar rights | | 634,639.24 | | 34,730 | | | | |
| <i>II. Tangible Assets</i> | | | | | <i>II. Capital reserves</i> | 39,050,000.00 | | 37,075 |
| 1. Land and buildings | 35,455,569.27 | | | 35,756 | | | | |
| 2. Technical equipment and machinery | 2,002,761.40 | | | 897 | <i>III. Earnings reserves</i> | 7,536,247.80 | | 0 |
| 3. Other equipment, factory and office equipment | 7,851,989.89 | | | 8,398 | <i>IV. Retained earnings</i> | 38,779,215.73 | | 33,302 |
| 4. Payments on account and assets under construction | 2,692,880.57 | | | 1,124 | <i>V. Shares of other shareholders</i> | 0.00 | | 380 |
| | | 48,003,201.13 | | 46,175 | | | 97,845,463.53 | 83,237 |
| <i>III. Financial Assets</i> | | | | | | | | |
| 1. Shares in affiliated enterprises | 881,979.51 | | | 909 | | | | |
| 2. Participations in affiliates | 500,923.26 | | | 426 | | | | |
| 3. Participations | 46,022.96 | | | 60 | | | | |
| 4. Long-term investments | 24,376.06 | | | 33 | | | | |
| | | 1,453,301.79 | | 1,428 | | | | |
| | | | 50,091,142.16 | 82,333 | | | | |
| B CURRENT ASSETS | | | | | B ACCRUALS | | | |
| <i>I. Inventories</i> | | | | | 1. Accruals for pensions | 23,488,281.71 | | 21,626 |
| 1. Raw materials and supplies | 6,108,464.22 | | | 4,964 | 2. Tax accruals | 4,386,372.17 | | 2,870 |
| 2. Work in process | 2,549,657.23 | | | 2,293 | 3. Other accruals | 47,963,590.24 | | 61,844 |
| 3. Finished goods and merchandise | 17,051,424.65 | | | 13,204 | | | 75,838,244.12 | 86,340 |
| 4. Payments on account | 693,538.89 | | | 324 | | | | |
| | | 26,403,084.99 | | 20,785 | C LIABILITIES | | | |
| <i>II. Receivables and other Assets</i> | | | | | 1. Liabilities due to loans made by partners | 9,745,809.19 | | 22,546 |
| 1. Trade account receivables | 74,914,041.84 | | | 62,447 | 2. Liabilities due to banks | 0.00 | | 17,140 |
| 2. Receivables due from affiliated enterprises | 1,097,186.43 | | | 566 | 3. Payments received on account of orders | 51,749.56 | | 554 |
| 3. Receivables due from enterprises in which participations are held | 409,565.05 | | | 987 | 4. Trade accounts payable | 29,495,267.19 | | 32,205 |
| 4. Other assets | 5,751,028.57 | | | 7,648 | 5. Liabilities due to affiliated companies | 12,912,700.57 | | 11,008 |
| | | 82,171,821.89 | | 71,648 | 6. Other liabilities | 8,757,832.35 | | 11,968 |
| <i>III. Cash on hand, central bank balances and bank balances</i> | | 72,673,259.59 | | 88,168 | | | 60,963,358.86 | 95,421 |
| | | | 181,248,166.47 | 180,601 | | | 6,765.90 | 3 |
| C PREPAID EXPENSES | | | 453,147.95 | 504 | D DEFERRED INCOME | | | |
| D DEFERRED TAXES | | | 2,861,375.83 | 1,563 | | | 234,653,832.41 | 265,001 |
| | | | 234,653,832.41 | 265,001 | | | | |

28 Consolidated Income Statement of Ravensburger AG Group, Ravensburg
for the Period January 1, 2005 through December 31, 2005

| | EUR | EUR | EUR | 2004 TEUR |
|--|---------------|----------------|----------------|--------------|
| 1. Sales | | 287,671,431.87 | | 286,575 |
| 2. Decrease in finished goods, inventories and work in progress | | -940,733.76 | | -2,307 |
| 3. Own work capitalized | | 0.00 | | 272 |
| 4. Other operating income | | 12,523,139.67 | | 10,203 |
| | | | 299,253,837.78 | 294,743 |
| 5. Cost of materials | | | | |
| a) Cost of raw materials, consumables and supplies and of purchased merchandise | | 77,111,543.55 | | 73,367 |
| b) Cost of purchased services | | 12,164,856.64 | | 12,114 |
| | | | 89,276,400.19 | 85,481 |
| | | | 209,977,437.59 | 209,262 |
| 6. Personnel expenses | | | | |
| a) Wages and salaries | 52,075,469.58 | | | 51,711 |
| b) Social security and employee benefits | 10,734,990.79 | | | 10,546 |
| c) Other operating expenses | 4,087,316.65 | | | 2,059 |
| | | 66,897,777.02 | | |
| 7. Depreciation of intangible fixed assets and tangible assets | | 8,752,724.43 | | 10,981 |
| 8. Other operating expenses | | 94,184,057.51 | | 101,438 |
| | | | 169,834,558.96 | |
| | | | 40,142,878.63 | 32,527 |
| 9. Income from participations | 800,214.63 | | | 600 |
| 10. Income from associated enterprises | 70,311.11 | | | 33 |
| 11. Income from other investment | 51,568.11 | | | 2 |
| 12. Other interest and similar income | 1,388,765.00 | | | 1,311 |
| | | 2,310,858.85 | | |
| 13. Write downs of financial assets | 11,850.00 | | | 11 |
| 14. Interest and similar expenses | 1,556,967.13 | | | 2,289 |
| | | 1,568,817.13 | | |
| | | | 742,041.72 | -354 |
| 15. Results from ordinary operation | | | 40,884,920.35 | 32,173 |
| 16. Extraordinary results | | | -1,990,286.00 | -229 |
| 17. Taxes on income | | 9,162,130.63 | | 5,794 |
| 18. Other taxes | | 657,612.01 | | + 121 |
| | | | 9,819,742.64 | 5,673 |
| 19. Consolidated net income for the year | | | 29,074,891.71 | 26,271 |
| 20. Portion of net loss attributable to minority interests | | | 16,936.55 | 438 |
| 21. Portion of net income Group share | | | 29,091,828.26 | 26,709 |
| 22. Prior period unappropriated retained earnings brought forward | | | 26,101,850.54 | 4,479 |
| 23. Transfer from capital reserves | | | 0.00 | 2,114 |
| 24. Transfer to capital reserves | | | -1,975,348.55 | 0 |
| 25. Transfer to profit reserves | | | -14,439,114.52 | 0 |
| 26. Retained earnings | | | 38,779,215.73 | 33,302 |

Structure of Ravensburger AG Group



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