

9-MONTHS' REPORT 2006

UNITEDLABELS AG



Nach Waldemar Bonsels „Die Biene Maja“
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Letter to Shareholders



Peter M. Boder
Chairman of the Management Board

Dear Shareholders and Business Associates of **UNITEDLABELS AG**,

The 2006 financial year continues to progress very favourably indeed for **UNITEDLABELS AG**. In the first nine months, revenue generated by the **UNITEDLABELS** Group grew by 7.2% to €29.9 million (prev. year: €27.9 million). Within this context, EBIT amounted to €0.3 million (prev. year: €0.1 million). Due to the reversal of deferred taxes, our post-tax result was minus €0.2 million (prev. year: minus €0.2 million). Cash flow from operating activities grew to €5.2 million (prev. year: €1.9 million). In the third quarter, we recorded a rise in the level of incoming orders to €10.6 million (prev. year: €9.7 million). Thus, order backlog at the end of the quarter under review stood at €15.0 million (prev. year: €14.9 million).

The Key Account segment increased revenue by 4.2% to €22.1 million in the first nine months (prev. year: €21.2 million) and posted a segment result of €475 thousand (prev. year: €727 thousand). The Special Retail segment recorded a significant increase in revenue of 16.4% to €7.8 million (prev. year: EUR 6.7 million). As a result of mid-year restructuring measures implemented in this division, which in future will focus on high-revenue customers, the segment result improved noticeably to minus €188 thousand (prev. year: minus €672 thousand).

Results posted by **UNITEDLABELS AG** Germany were particularly favourable. This entity's consolidated earnings before interest and taxes (EBIT) rose to €0.8 million (prev. year: €0.1 million). The British subsidiary **UNITEDLABELS Ltd.** is expected to post an above-par result in the coming year, as UK market entry has proved to be more challenging and more protracted than originally anticipated. **UNITEDLABELS Ltd.** has focused its operations on the Key Account segment. Within this area, the Belgian subsidiary **UNITEDLABELS Belgium N.V.** has already managed to exceed expectations after the first nine months of 2006. Currently focusing on the specialist retail sector, **UNITEDLABELS Italia Srl.** is planning its market entry into the Italian key account business from 2007. In November, **UNITEDLABELS Ibérica** will be opening a **UNITEDLABELS Comicware Shop** at Barcelona Airport. The airport shop is seen as a flagship store and may form the basis for similar **UNITEDLABELS** outlets in other countries. Furthermore, the last few months saw the launch of multimedia-based marketing activities for our product range. Initial mobile prize competitions have already been launched to support marketing efforts centred around "The Wild Soccer Bunch" and "Sesame Street". The next stage in multimedia-based marketing will be implemented in the first quarter of 2007 and involves the launch of special DVDs.

We further strengthened our licence portfolio in the third quarter through the inclusion of "Bob the Builder". This popular character will feature on merchandise ranging from socks and underwear to accessories and gift items. Launched at the beginning of September, "Best of Donald" is the latest high-quality chinaware series within the **UNITEDLABELS AG** portfolio. It is seen as another key element of our game plan to establish the "Best of" brand within the premium retail sector.

Overall, we are looking forward with confidence to the fourth quarter and the significant level of sales revenue generally associated with this period.

Thank you for placing your trust in our company.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "P. M. Boder". The signature is fluid and cursive, written on a white background.

Peter M. Boder, Chairman of the Management Board

Key Financials

	Q3 2006 (€ '000)	Q3 2005 (€ '000)
Revenue	29,861	27,905
EBITDA	725	480
EBIT	286	55
Profit from ordinary activities	113	(145)
Net loss	(164)	(244)
Cashflow from operating activities	5,167	1,882
Earnings per share (€)	(0,04)	(0,06)
Number of employees	126	129

Sales and Earnings

Consolidated revenue for the Group as a whole rose by 7.2% to €29.9 million in the first nine months, up from €27.9 million in the same period a year ago. Revenue growth for the third quarter amounted to 3.2%. Within this context, the increase in revenue was driven in equal parts by the Key Account segment and business with selected specialist retailers. Both segments thus contributed to growth within the Group. Moreover, the first nine months produced positive EBIT of €0.3 million. In the same period a year ago, EBIT had amounted to just €0.1 million. **UNITEDLABELS AG** subsidiaries contributed to the result to various degrees. One of the highlights was consolidated EBIT posted by the German parent company, which grew substantially from €0.1 million at September 30, 2005, to €0.8 million at the end of September 2006. In contrast, the British subsidiary recorded a loss before interest and taxes of €0.5 million (prev. year: loss of €0.3 million), which was attributable mainly to the fact that UK market entry has proved to be more challenging and more protracted than originally anticipated. As was the case in the second quarter, the positive result in Germany prompted a reversal of deferred taxes in the amount of €0.3 million. As a result, the consolidated net loss for the first nine months was €0.2 million (prev. year: loss of €0.2 million). At September 30, 2006, order backlog stood at €15.0 million, which was comparable to last year's figure (prev. year: €14.9 million).

Segments

Revenue generated in the Special Retail segment amounted to €7,773 thousand in the first nine months (prev. year: €6,656 thousand), a year-on-year rise of 16.8%. Growth within this area was driven predominantly by restructuring of business activities in the German specialist retail category. Within this segment, the main focus was redirected at high-revenue customers. Segment expenses for the same period amounted to €7,961 thousand (prev. year: €7,328 thousand), while the segment result stood at minus €188 thousand (prev. year: minus €672 thousand). Thus, the loss attributable to the Special Retail segment was reined back substantially in the period under review. In view of the significant level of sales revenue associated with the fourth quarter, this business segment is expected to make a positive contribution to results by the end of the financial year. The Key Account segment recorded revenues of €22,089 thousand (prev. year: €21,248 thousand), with segment expenses totalling €21,614 thousand (prev. year: €20,521 thousand). The latter include net administrative expenses of €3,080 thousand (prev. year: €3,124 thousand). Overall, the Key Account segment result was €475 thousand (prev. year: €727 thousand).

9-Months' Report



UNITEDLABELS – Germany



UNITEDLABELS – Spain



UNITEDLABELS – Belgium



UNITEDLABELS – France



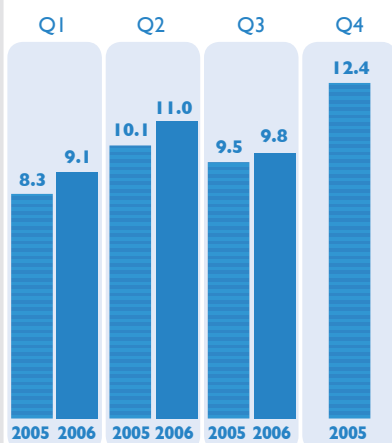
UNITEDLABELS – UK



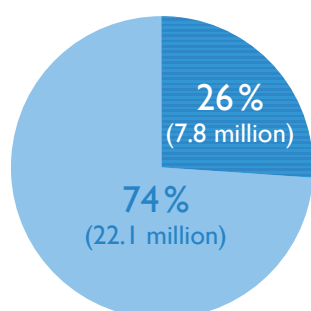
UNITEDLABELS – Hong Kong

9-Months' Report

Revenue performance in €m



Revenue breakdown for the first 9 months 2006 Key Account and Special Retail in % (€)



■ Key Account
■ Special Retail

Balance sheet

UNITEDLABELS AG is currently investing in a new logistics centre in Germany. It is to be inaugurated at the end of this year. At September 30, 2006, investments for this project amounted to €3.2 million. In total, capital expenditure of €4.0 million has been planned.

Inventories increased by €0.9 million to €10.2 million compared with the year-end of 2005. Of this total, merchandise valued at €2.5 million has already been sold. Therefore, the net amount of inventories was €7.7 million (December 31, 2005: €7.6 million). Trade receivables decreased markedly in the period under review. While receivables had been €11.5 million at the year-end of 2005, this figure was reduced to €6.6 million at September 30, 2006. Short-term bank borrowings were reined back by €2.8 million to €1.0 million.

At September 30, 2006, the equity ratio of the **UNITEDLABELS** Group was a solid 73.1%. In total, cash inflow from operating activities rose by €3.3 million, from €1.9 million at September 30, 2005, to €5.2 million at September 30, 2006.

Basis of preparation (IFRS/IAS) and statement of compliance

The financial statements for the quarter have been prepared in accordance with internationally accepted accounting standards, on the basis of the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB). Uniform accounting policies have been applied to the quarterly financial statements.

The financial statements are presented in euros.

Employees

At the end of September 2006, the **UNITEDLABELS** Group employed 126 (prev. year: 129) members of staff. Of these, 66 were employed in Germany, 33 in Spain, 7 in France, 7 in Belgium, 11 in England and 2 in Italy.

Licences

As at September 30, 2006, the licence portfolio of **UNITEDLABELS AG** included approx. 68 licence agreements for the Group as a whole (December 31, 2005: 65 licence agreements), covering a range of product categories and various countries. The licence portfolio is regularly extended to incorporate new themes with significant growth potential. In the third quarter, the Company acquired "Bob the Builder" as a new licence.

Share performance

At September 29, 2006, **UNITEDLABELS'** share price stood at €5.57, thus gaining 39% compared with the end of the second quarter (June 30, 2006: €4.01). Since the beginning of the year, the Company's share price has contracted by 11% (January 2, 2006: €6.29) (Xetra closing price). Over the course of the previous year, **UNITEDLABELS** shares had recorded growth of 67%.

The main focus of the Company's Investor Relations work is on providing shareholders with information on a regular, transparent and timely basis. On November 27, 2006, **UNITEDLABELS AG** will be presenting its investment case to analysts at the German Equity Forum (Deutsches Eigenkapitalforum) in Frankfurt am Main.

Director's holdings

As at September 30, 2006, **UNITEDLABELS AG** had a total of 4.2 million shares. At September 30, 2006, the Management Board as well as the Members of the Supervisory Board of **UNITEDLABELS AG** held the following shares and options: Peter M. Boder held 2.63 million shares. The Chairman of the Supervisory Board Dr. Jens Hausmann held no shares; the members of the Supervisory Board Prof. Dr. Helmut Roland and Michael Dehler held 5,728 and 441 shares respectively. At September 30, 2006, there were no options and no valid share option plan.

Outlook

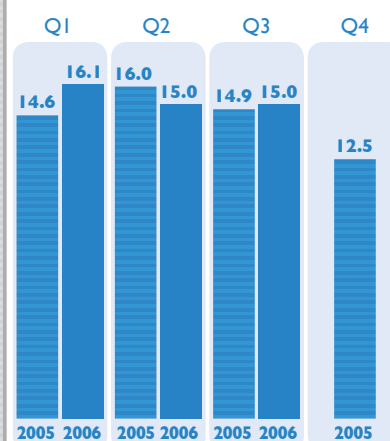
Restructuring of the Special Retail segment is considered an important step forward in terms of improving the Group's bottom-line results. By focusing on high-revenue customers, **UNITEDLABELSAG** has generated higher sales in recent months, as well as strengthening its earnings by a significant margin. In view of the substantial sales revenue generally associated with the fourth quarter, the Company anticipates that the result posted by the Special Retail segment will be above par by the end of the year.

The German parent company continues to be the principal growth driver. In terms of sales revenue, the subsidiaries are expected to gain further momentum within the Key Account segment in particular. It is with this in mind that the Italian subsidiary plans to enter the market dominated by large-scale retailers from 2007 onwards. Until recently, its focus had been on smaller, specialist retailers, who also play a prominent role within the Southern European trading environment. Owing to the substantially longer lead time required before gaining shelf space, market entry by the British subsidiary **UNITEDLABELS Ltd.** remains challenging. The UK subsidiary is expected to achieve an above-par result in the coming year.

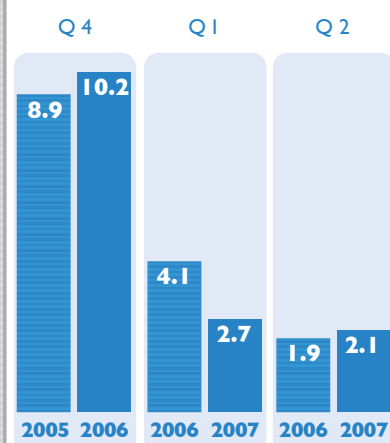
In both areas, Key Account and Special Retail, **UNITEDLABELS AG** remains committed to enhancing its concept solutions for customers. Following the launch of multimedia-based marketing concepts at the end of 2006, the platforms Mobile, Home Entertainment, Internet and TV Advertising will be fully integrated into the overall marketing mix from 2007 onwards.

9-Months' Report

Order backlog in €m



Breakdown of order backlog by delivery quarters in €m



Results

Income Statement

	2006-01-01 2006-09-30 €'000	in % of revenue	2006-07-01 2006-09-30 €'000	2005-01-01 2005-09-30 €'000	in % of revenue	2005-07-01 2005-09-30 €'000
Revenue	29,861	100	9,756	27,905	100	9,452
Other operating income	239	0.8	31	153	0.6	88
Material costs	(19,572)	(65.5)	(6,457)	(18,240)	(65.4)	(6,279)
Staff costs	(4,428)	(14.8)	(1,438)	(4,175)	(14.9)	(1,472)
Depreciation	(439)	(1.5)	(147)	(425)	(1.5)	(142)
Other operating expenses	(5,374)	(18.0)	(1,822)	(5,163)	(18.5)	(1,872)
Operating profit/(loss)	286	1.0	(78)	55	0.2	(224)
Income from investments	0	0	0	0	0	0
Interest income/(expense)	(174)	(0.6)	(86)	(200)	(0.7)	(61)
Write-down of financial assets	0	0	0	0	0	0
Profit/(loss) before tax (and minority interests)	113	0.4	(163)	(145)	0.5	(285)
Income tax expense	(277)	(0.9)	106	(99)	(0.4)	(78)
Extraordinary items	0	0	0	0	0	0
Profit before minority interests	(164)	(0.6)	(57)	(244)	(0.9)	(363)
Net loss for the period	(164)	(0.6)	(57)	(244)	(0.9)	(363)

Consolidated earnings per share

basic	(0.04)	(0.06)
diluted	(0.04)	(0.06)
Weighted average number of shares outstanding		
basic	4,200,000 pcs.	4,000,000 pcs.
diluted	4,200,000 pcs.	4,000,000 pcs.

Consolidated Statement of Changes in Equity

	Issued Capital	Capital reserves	Revenue reserves	Translation reserve	Consoli- dated unappro- priated surplus	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 31.12.2003	4,000	23,151	1,841	0	0	28,992
Consolidated net profit/(loss) 2004	0	0	539	0	246	785
Balance at 31.12.2004	4,000	23,151	2,380	0	246	29,777
Consolidated net profit/(loss) Q III 2005	0	0	0	0	(244)	(244)
Capital increase on Oct. 14, 2005	200	1,280	0	0	0	1,480
Share issuance costs of capital increase	0	(78)	0	0	0	(78)
Tax effect on share issuance costs of capital increase	0	31	0	0	0	31
Currency translation	0	0	0	(16)	0	(16)
Consolidated net profit 2005	0	0	503	0	267	770
Balance at 31.12.2005	4,200	24,384	2,883	(16)	513	31,964
Consolidated net profit Q III 2006	0	0	0	4	(164)	(160)
Balance at 30.09.2006	4,200	24,384	2,883	(12)	349	31,804

Consolidated Balance Sheet

Consolidated Balance Sheet as at 30 September 2006

ASSETS

	2006-09-30 €'000	2005-12-31 €'000
Current assets		
Cash and bank deposits	3,684,870.37	3,458,234.83
Trade receivables	6,562,253.29	11,528,411.90
Inventories	9,795,063.75	9,030,885.26
Prepayments for inventories	372,962.64	239,235.70
Tax receivables	868,194.98	608,884.29
Prepaid expenses	3,247,944.87	2,539,223.01
Other current assets	2,095,981.62	1,767,885.61
Total current assets	26,627,271.52	29,172,760.60
Non-current assets		
Property, plant and equipment	5,828,060.35	4,118,683.09
Intangible assets	373,669.96	296,344.78
Goodwill	7,583,216.45	7,583,216.45
Deferred tax assets	3,110,520.86	3,362,792.54
Total non-current assets	16,895,467.62	15,361,036.86
Total assets	43,522,739.14	44,533,797.46

Consolidated Balance Sheet as at 30 September 2006

Consolidated Balance Sheet

EQUITY AND LIABILITIES

	2006-09-30 €'000	2005-12-31 €'000
Current liabilities		
Short-term payables to banks	987,262.58	3,810,914.33
Trade payables	4,371,969.99	4,706,541.91
Current provisions	414,159.75	79,276.13
Tax liabilities	850,840.35	599,501.33
Other current liabilities	3,291,545.36	1,672,648.69
Total current liabilities	9,915,778.03	10,868,882.39
Non-current liabilities		
Provisions for pensions	391,067.68	292,867.68
Long-term payables to banks	1,411,747.07	1,407,775.42
Other non-current liabilities	0.00	0.00
Total non-current liabilities	1,802,814.75	1,700,643.10
Capital and reserves		
Issued capital	4,200,000.00	4,200,000.00
Capital reserves	24,384,570.63	24,384,570.63
Revenue reserves	2,883,209.63	2,883,209.63
Currency translation	(12,651.12)	(16,612.11)
Consolidated unappropriated surplus	349,017.22	513,103.82
Total capital and reserves	31,804,146.36	31,964,271.97
Total liabilities and equity	43,522,739.14	44,533,797.46

Cash Flows

Consolidated Statement of Cash Flows

	2006-01-01 2006-09-30 €'000	2005-01-01 2005-09-30 €'000
Profit/(loss) before tax	113	(145)
Net loss for the period	(164)	(244)
Depreciation and amortisation of non-current assets	439	425
Change in long-term provisions	98	82
Other non-cash income	(101)	(139)
Cashflow	272	124
Change in mid- and short-term provisions	335	(219)
Changes in inventories, trade receivables and other assets	3,024	885
Changes in trade payables and other liabilities	1,536	1,092
Net cash from/(used in) operating activities	5,167	1,882
Proceeds from the disposal of non-current assets	0	0
Payments for investments in property, plant and equipment	(2,212)	(654)
Net cash from/(used in) investing activities	(2,212)	(654)
Repayment of loans	(128)	(128)
Net cash from/(used in) financing activities	(128)	(128)
Net increase/(decrease) in cash and cash equivalents	2,827	1,001
Currency adjustment	4	0
Cash and cash equivalents at beginning of period	(133)	(513)
Cash and cash equivalents at end of period	2,698	587

UNITEDLABELS AG

Gildenstraße 6
 48157 Münster
 Germany
 Tel.: +49 (0) 251- 32 21- 0
 Fax: +49 (0) 251- 32 21- 999
 info@unitedlabels.com

UNITEDLABELS Ibérica S.A.

Av. de la Généralitat, 29E
 Pol. Ind. Fontana
 08970 Sant Joan Despi
 Barcelona
 Spain
 Tel.: +34 (0) 93 - 4 77 13 63
 Fax: +34 (0) 93 - 4 77 32 60
 unitedlabelsiberica@unitedlabels.es

UNITEDLABELS France SAS

ZAC du Moulin
 Rue de Marquette
 Batiment C n 10
 59118 Wambrechies
 France
 Tel.: +33 (0) 328 - 33 44 01
 Fax: +33 (0) 328 - 33 44 02
 unitedlabelsfrance@unitedlabels.fr

UNITEDLABELS Ltd.

Innovate Office
 Lake View Drive
 Sherwood Park/Nottingham
 NG15 0DA
 United Kingdom
 Tel.: +44 (0) 16 23 - 72 61 00
 Fax: +44 (0) 16 23 - 72 93 60
 unitedlabelsltd@unitedlabels.com

9-Months' Report-English version

The original version of this 9-Months' Report is in German. In the event that there are differences between the two versions, the German version shall prevail.

Our annual report, quarterly reports, etc. can be downloaded from our corporate website (**www.unitedlabels.com**) at "Investor Relations – Financial Reports". Our press releases can be accessed at "Press – Press Releases".

UNITEDLABELS Belgium N.V.

Pathoekeweg 48
 8000 Bruges
 Belgium
 Tel.: +32 (0) 50- 45 69 60
 Fax: +32 (0) 50- 31 28 22
 info@unitedlabels.be

UNITEDLABELS Comicware Ltd.

Unit 1501-2,
 Valley Centre,
 80-82 Morrison Hill Road,
 Wanchai
 Hong Kong
 Tel.: +85 (0) 225 - 44 29 59
 Fax: +85 (0) 225 - 44 22 52
 jkam@unitedlabels.com

UNITEDLABELS Italia Srl.

Via Fratelli Bronzetti 12
 50137 Florence
 Italy
 Tel.: +39 (0) 55 - 61 20 35 0
 Fax: +39 (0) 55 - 61 20 57 9
 info@unitedlabels.com

Addresses**Financial Calender 2006****7 November 2006**

Publication of Interim Report
 for the First Nine Months

27 November 2006

German Equity Forum,
 Frankfurt am Main,
 Analyst Conference

Financial Calender 2007**March 2007**

Financial Results,
 Press Conference

May 2007

Publication of Interim Report
 for the First Three Months

22 May 2007

7th General Meeting of
 Shareholders

UNITEDLABELS AG

Investor Relations – Contacts:

For further information on
UNITEDLABELS and financial
 communication, please feel free to
 contact Ms. Stefanie Frey:

Tel.: +49 (0) 2 51 - 32 21 - 406

Fax: +49 (0) 2 51 - 32 21 - 960

sfrey@unitedlabels.com
 investorrelations@unitedlabels.com
 info@unitedlabels.com