

Letter to shareholders

Vienna, May 2008

Dear Shareholders,
Dear Ladies and Gentlemen,

On the following pages you will find the complete documentation to our financial year 2007 including the "Consolidated Financial Statements 2007", "Notes to the financial statements 2007", "Management Report 2007" as well as the "Auditor's report 2007".

It is our objective to deliver transparent, reliable and prompt information to our shareholders. To prove this commitment the management of UCP Chemicals AG decided to publish a quarterly "Letter to shareholders" starting with this edition. The next "Letter to shareholders" will be published end of May and will inform you about the results of the first quarter 2008. You may find it on our internet page at www.ucpchemicals.com.

2007 was a successful year for UCP Chemicals AG

The Group has increased profits by some 20 percent and we reached all major strategic goals. We were able to achieve strategic progress in all divisions and/or affiliated companies.

A major focus of the development work was the optimization of production facilities with the aim of stabilizing and increasing quality, reducing consumption of raw materials and maximizing occupational safety and environmental protection.

Major projects comprise the entry into the gas chemistry through the erection of a 600.000 to p.a. methanol production facility, the entry into the oil- and gas service industry with our new products Inhibitors and Resin Coated Proppants as well as improving our existing facilities, mainly our powder bakelite and Novolak production.

Another important project is the conversion of our formaldehyde production from a silver-based catalyst technology to the Formox technology. The construction of a new formaldehyde plant at Nizhniy Tagil has already started.

In the context of corporate social responsibility and good corporate governance UCP Chemicals AG made significant progress last year. Environmental protection is an important component in the corporate philosophy of any company operating in a responsible manner. UCP Chemicals AG has set up a separate department to deal with environmental issues, which regularly informs employees about all relevant environmental matters and also carries out an annual environmental compatibility inspection of the entire facility in cooperation with an environmental engineer. The results of the inspection are recorded in a "check-up certificate", which includes specific recommendations and deadlines to implement the required measures.

Of course UCP Chemicals AG has obtained all the required licenses and permits for its production activities. All waste gas emission limits are strictly adhered to. More than 70 dust filters and gas filters have been installed on the production grounds of UCP Chemicals AG in Nizhniy Tagil. Dust recycling plants have been built for all manufacturing facilities which produce gas and dust. UCP Chemicals Group operates its own wastewater treatment plant in the east of Nizhniy Tagil. Moreover, UCP Chemicals has developed an environmental protection program, which has been approved by the Ministry of Natural Resources of the Swerdlowsk Region.

Corporate Governance is not only a phrase for UCP Chemicals AG. Therefore we do not only comply with all legal requirements relevant for non-listed companies, but have also fully implemented the Austrian Corporate Governance Codex.

Group sales exceeding EUR 120 million

All our key performance indicators show a significant growth in comparison to the previous year. UCP Chemicals AG generated sales of EUR 120.9 million, this equates to an increase of 23.8% compared to the financial year 2006. Our gross profit amounts to EUR 24.1 million, which is an increase of about 13.2% compared to the financial year 2006. EBITDA amounted to EUR 10.5 million; this represents an increase of about 19.1% compared to 2006. By increasing efficiency we were able to decrease labour force from 2,406 (2006) to 2,280 employees in 2007. Profit for the year amounts to EUR 3.5 million, which is a slight decrease of EUR 0.3 million caused by higher income taxes and higher minority interests.

As in the past the main contributors to Group sales were urea resins and phenolic resins with about 60% of our sales revenue. PVC is the third largest sales driver with 15% of total sales.

IPO process on hold for the time being

In 2007 UCP Chemicals AG decided to start with the preparation for an Initial Public Offer. Preparation work was well under way and in time. In January 2008 the management board decided to stop this process due to the difficult situation in the international financial markets. Raising equity through an IPO is still on the table, but we are also conducting close negotiations to provide alternative financing solutions to avoid any delay with regard to the initiated methanol plant project.

Outlook for the financial year 2008: Sustained growth in sales and EBITDA

It is our objective for the year 2008 to increase sales and EBITDA to the same percentage as in recent years. We expect the company to grow above Russian GDP growth, as most of our products are consumed by very dynamic sectors, like the construction industry. We expect high growth potential especially from our new products for the oil- and gas industry.

We are also optimistic that our methanol project will reach the next project phase. An Engineering & Procurement contract with Lurgi AG has been concluded. The necessary financial resources, both equity and debt, shall be made available.

Outlook first Quarter 2008


For the first quarter 2008 we are optimistic to develop UCP Chemicals even further and generate an appealing result. Detailed information will be made public end of May 2008.

Open and active dialog

We have put a lot of effort into developing our strategy becoming an even more efficient, innovative and diversified group. We are in a healthy position to improve our operational performance and to strengthen our position in key markets.

I am looking forward to an open and active dialog with you. Please do not hesitate to contact me directly or Mr. Dominic Köfner, our Director Investor Relations, who joined the group in February 2008.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'H. Kaiser', with a stylized flourish at the end.

Heinz G. Kaiser, MBA
Chief Executive Officer