





Uralita Group

Annual Financial
Statements

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Uralita, S.A.:

1. We have audited the consolidated financial statements of the URALITA GROUP (comprising Uralita, S.A. and subsidiaries) which consist of the consolidated balance sheet at 31 December 2005, and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. The accompanying consolidated financial statements for 2005 are the first that the Group has prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRSs), which require, in general, that financial statements present comparative information. In this regard, as required by corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the consolidated figures for 2005 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, the figures for 2004, which were obtained by applying the EU-IFRSs in force at 31 December 2005. Accordingly, the figures for 2004 differ from those contained in the approved consolidated financial statements for 2004, which were prepared in accordance with the accounting principles and standards in force in that year. The differences arising from the application of EU-IFRSs to the consolidated equity at 1 January and 31 December 2004, and to the Group's consolidated profit for 2004 are detailed in Note 2.1 to the accompanying consolidated financial statements. Our opinion refers only to the consolidated financial statements for 2005. On 11 March 2005, we issued our auditors' report on the 2004 consolidated financial statements, prepared in accordance with the accounting principles and standards in force in that year, in which we expressed an unqualified opinion.
3. In our opinion, the accompanying consolidated financial statements for 2005 present fairly, in all material respects, the consolidated equity and consolidated financial position of the Uralita Group at 31 December 2005, and the consolidated results of its operations, the changes in the consolidated equity and its consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards, as adopted by the European Union, applied on a basis consistent with that used in the preparation of the financial statements for the preceding year, which were included in the consolidated financial statements for 2005 for comparison purposes.

4. The accompanying consolidated directors' report for 2005 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2005. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the consolidated companies' accounting records.

DELOITTE, S.L.

Registered in ROAC under no. S0692

A handwritten signature in blue ink, appearing to read 'Miguel Fiandor Román', with a horizontal line underneath.

Miguel Fiandor Román

28 March 2006

Uralita Group

Consolidated Annual Financial Statements for the year ended 31 december 2005

Consolidated Balance Sheets at 31 december

Thousands of euros	2005	2004
NON-CURRENT ASSETS	634,221	760,660
Goodwill	43,894	43,894
Intangible assets	16,468	11,785
Property, plant and equipment	433,051	584,188
Deferred tax assets	138,985	117,092
Other non-current assets	1,823	3,701
CURRENT ASSETS	334,093	483,920
Inventories	92,869	145,621
Trade and other receivables	99,549	151,472
Other current financial assets	129,975	173,839
Cash and cash equivalents	10,957	12,022
Other current assets	743	966
NON-CURRENT ASSETS HELD FOR SALE	57,014	7,854
TOTAL ASSETS	1,025,328	1,252,434
EQUITY	472,517	464,887
Issued capital	142,200	142,200
Share premium	59,518	112,027
Reserves attributable to equity holders of the parent	28,205	(31,603)
Reserves in consolidated companies	114,239	130,510
Profit for the year attributable to equity holders of the parent	35,184	45,231
Translation differences	(4,443)	(31,712)
Equity attributable to equity holders of the parent	374,903	366,653
Minority interests	97,614	98,234
NON-CURRENT LIABILITIES	176,416	309,339
Interest-bearing loans and borrowings	122,789	263,507
Provisions	15,607	18,563
Deferred income	11,488	14,063
Deferred tax liabilities	13,181	-
Other non-current liabilities	13,351	13,206
CURRENT LIABILITIES	376,395	478,208
Interest-bearing loans and borrowings	22,740	31,874
Other current financial liabilities	110,024	147,463
Trade payables	108,152	159,321
Other current liabilities	135,479	139,550
TOTAL EQUITY AND LIABILITIES	1,025,328	1,252,434

The accompanying Notes 1 to 24 are an integral part of the consolidated balance sheet at 31 December 2005.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails

Consolidated income statement for the years ended 31 december 2005 and 2004

Thousands of euros	2005	2004
Revenue	1,104,610	1,314,087
Other operating income	8,023	7,922
Increase in inventories of finished products and work in process	1,541	10,639
Supplies	(446,833)	(560,227)
Employee benefits expense	(206,432)	(247,995)
Depreciation and amortisation	(63,240)	(77,996)
Other operating expenses	(316,789)	(347,636)
OPERATING PROFIT	80,880	98,794
Finance costs	(13,509)	(23,190)
Finance revenues	4,048	2,764
Net exchange gains (losses)	1,193	(83)
Share of profit (loss) of companies accounted for by the equity method	305	(180)
Gain on disposal and measurement of non-current assets	4,561	16,777
Net impairment losses (reversal)	4,085	(27,438)
Other gains and losses	(5,680)	23,431
PROFIT BEFORE TAXES	75,883	90,875
Income tax expense	(22,307)	(30,078)
PROFIT FOR THE YEAR	53,576	60,797
Attributable to:		
Equity holders of the parent	35,184	45,231
Minority interests	18,392	15,566
	53,576	60,797
EARNINGS PER SHARE (euros)		
Basic and diluted	0.18	0.23

The accompanying Notes 1 to 24 are an integral part of the consolidated income statement for the year ended 31 December 2005.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails

Uralita Group

Consolidated statement of changes in equity for the years ended 31 december 2005 and 2004

	Issued capital	Share premium	Reserves attributable to equity holders of the parent	Reserves in consolidated companies	Profit (loss) for the year attributable to equity holders of the parent	Translation differences	Equity attributable to equity holders of the parent	Minority interests	EQUITY
Thousands of euros									
Balance at 1 January 2004	142,200	112,027	40,853	90,618	(41,931)	(31,786)	311,981	92,593	404,574
Distribution of 2003 profit			(80,733)	38,802	41,931			(7,770)	(7,770)
Sale of treasury shares			8,277				8,277		8,277
Foreign currency translation						194	194	(174)	20
Changes in consolidation scope and investments								(1,854)	(1,854)
Other				1,090		(120)	970	(127)	843
Profit for the year 2004					45,231		45,231	15,566	60,797
Balance at 31 December 2004	142,200	112,027	(31,603)	130,510	45,231	(31,712)	366,653	98,234	464,887
Distribution of 2004 profit			7,299	4,357	(45,231)		(33,575)	(14,409)	(47,984)(*)
Foreign currency translation						7,598	7,598	272	7,870
Changes in consolidation scope and investments				(18,635)		19,669	1,034	(4,503)	(3,469)
Other				(460)		2	(458)	(372)	(830)
Offset		(52,509)	52,509						
Remeasurement of financial instruments classified as hedges				(1,533)			(1,533)		(1,533)
Profit for the year 2005					35,184		35,184	18,392	53,576
Balance at 31 December 2005	142,200	59,518	28,205	114,239	35,184	(4,443)	374,903	97,614	472,517

(*) Dividends paid by the parent company and by subsidiaries to minority interests

The accompanying Notes 1 to 24 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2005.

Uralita Group

Consolidated cash flow statement for the years ended 31 december 2005 and 2004

Thousands of euros	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxes	75,883	90,875
Adjustments:		
Government grants used	(1,669)	(2,887)
Depreciation of property, plant and equipment and amortisation of intangible assets	63,240	77,996
Deferred expenses recognised in income	776	5,571
Allocation / (Reversal) of current provisions, net	3,894	2,453
Net finance costs	7,492	20,509
Share of profit (loss) of companies accounted for by the equity method	(305)	180
Loss on disposal and measurement of non-current assets	(4,561)	(16,777)
Net impairment loss/ (reversal) on assets	(4,085)	27,438
Other gains and losses	(9,735)	(33,489)
Net cash flows from operating activities before changes in working capital	130,930	171,869
Increase / (Decrease) in inventories	2,297	(18,842)
Increase / (Decrease) in receivables and other financial assets	46,407	(14,434)
Increase / (Decrease) in payables	(30,988)	13,385
Cash flows from operations	148,646	151,978
Income tax paid	(28,821)	(25,325)
NET CASH FLOWS FROM OPERATING ACTIVITIES	119,825	126,653
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	328	82
Investments:		
· Property, plant and equipment and intangible assets	(98,898)	(94,960)
· Financial assets:	(910)	(785)
Disposals:		
· Property, plant and equipment and intangible assets	26,774	42,157
· Financial assets	194,915	7,559
· Treasury shares	-	8,277
· Other non-current assets	441	3,918
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES	122,650	(33,752)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(47,984)	(7,770)
Interest paid	(7,999)	(18,811)
Repayment of borrowings	(187,557)	(431,987)
Proceeds from bank loans	-	233,232
Proceeds from bond and other debt issues	-	123,483
NET CASH USED IN FINANCING ACTIVITIES	(243,540)	(101,853)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,065)	(8,952)
Cash and cash equivalents at 1 January	12,022	20,974
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10,957	12,022

The accompanying Notes 1 to 24 are an integral part of the consolidated cash flow statement for the year ended 31 December 2005.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

1. Corporate information

Uralita, S. A. ("the Company" or "the parent company") is parent company to a Group of companies which, taken as a whole, engages in the manufacture and sale of construction industry products in the broadest sense.

The Company was incorporated in Spain on 6 August 1920 in accordance with Spanish Corporation Law. Its registered office is located at Mejía Lequerica nº 10.

Uralita, S.A. is required to prepare its own annual accounts and the consolidated annual accounts of the Group.

The Group carries out its business through the companies detailed in Appendix I. Its main businesses, which in accordance with IAS 14 the Group has determined to be its primary segment reporting format, are the following:

- Insulation
- Gypsum
- Roofing
- Pipes

2. Basis of presentation and accounting principles

2.1. Basis of presentation

The consolidated annual accounts of the Uralita Group for 2005 have been prepared by the Directors of the parent company at a meeting of its Board of Directors held 27 March 2006 from the Company's accounting records and those of the rest of the companies comprising the Group to give a true and fair view of the Group's net worth and financial situation at 31 December 2005 and the consolidated results of its operations, changes in equity and cash flows for the year then ended.

The financial statements have been prepared applying the accounting principles included in the International Financial Reporting Standards (IFRS) adopted by the European Union in accordance with the provisions of Regulation (CE) no. 1606/2002 of the European Parliament and of the Council of 19 July. In Spain, the obligation to present consolidated annual financial statements under EU-approved IFRS was established in the Final Disposition No 11 of Law 62/2003, of December 30, on Fiscal, Administrative

and Social Measures. Note 4 sets out obligatory accounting principles and policies and measurement bases applied and the alternatives legally permitted in this respect.

The Group's annual consolidated accounts and the accounts of the companies comprising the Group for 2005 are pending approval at their respective General Shareholders' Meetings. The parent company's Board of Directors expects the annual accounts to be approved without significant changes. The consolidated annual accounts for 2004, prepared in accordance with Spanish generally accepted accounting principles (Spanish GAAP), were approved at the General Shareholders' Meeting of Uralita, S.A. held 19 May 2005.

First-time adoption of IFRS

The consolidated annual accounts of the Group for the year ended 31 December 2005 are its first prepared in accordance with IFRS.

Among the alternatives provided for by IFRS 1 on the transition process and the remaining IFRSs endorsed, the Uralita Group has elected to apply the following:

- Business combinations. Acquisitions of companies made prior to the transition date (1 January 2004) are stated at the carrying amounts at the acquisition date in accordance with Spanish GAAP.
- The Group measures property, plant and equipment at the lower of cost or market. The Group maintains the revaluations made in Spain as an element of the acquisition cost of assets at the transition date.
- Financial instruments: The Group has decided to apply IAS 32 and 39 at the 1 January 2004 transition date.

The financial information for 2004, included for comparative purposes, has been prepared from the Group's consolidated annual accounts approved at the General Shareholders' Meeting and adapted to IFRS bearing in mind the foregoing. Accordingly, the IFRS transition date is 1 January 2004.

In compliance with IAS 1 the information on 2004 contained in these notes is presented purely for the purpose of comparison with 2005 and does not constitute the consolidated annual accounts of the Group for 2004.

The principle effects of the transition to IFRS on equity at 1 January 2004 and 31 December 2004, as well as profit for 2004 are explained below.

Equity at 1 January 2004

Thousands of euros	Attributable to equity holders of the parent	Minority interests	Equity
Equity at 1 January 2004 under Spanish GAAP in force at that date (*)	339,708	95,508	435,216
· Elimination of deferred expenses and other intangible assets	(5,683)	(454)	(6,137)
· Provisions recorded for impairment of assets	(39,188)	(2,461)	(41,649)
· Capitalisation of tax credits	22,302	-	22,302
· Recognition in reserves of negative goodwill	870	-	870
· Adjustment to reserves for shares in the parent company held as treasury shares	(6,028)	-	(6,028)
Total impact on equity	(27,727)	(2,915)	(30,642)
Equity at 1 January 2004 under IFRS	311,981	92,593	404,574

(*) Obtained from the consolidated annual accounts at 31 December 2003 prepared in accordance with Spanish GAAP at that date

Income statement for the year ended 31 December 2004

Thousands of euros	Attributable to equity holders of the parent	Minority interests	Equity
Profit for 2004 under Spanish GAAP in force at that date (*)	43,291	15,339	58,630
· Elimination of the amortisation of goodwill	2,384	-	2,384
· Elimination of deferred expenses and the amortisation of other intangible assets	2,675	227	2,902
· Cancellation of recognition of negative goodwill in income	(870)	-	(870)
· Cancellation of proceeds from disposal of treasury shares	(2,249)	-	(2,249)
Total impact on profit for the year	1,940	227	2,167
Profit for the year 2004 under IFRS	45,231	15,566	60,797

(*) Obtained from the consolidated annual accounts at 31 December 2004 prepared in accordance with Spanish GAAP at that date

Equity at 31 December 2004

Thousands of euros	Attributable to equity holders of the parent	Minority interests	Equity
Equity at 31 December 2004 under Spanish GAAP in force at that date (*)	384,163	100,923	485,086
· Elimination of deferred expenses and other intangible assets	(3,008)	(228)	(3,236)
· Provisions recorded for impairment of assets	(39,188)	(2,461)	(41,649)
· Capitalisation of tax credits	22,302	-	22,302
· Goodwill	2,384	-	2,384
Total impact on equity	(17,510)	(2,689)	(20,199)
Equity at 31 December 2004 under IFRS	366,653	98,234	464,887

(*) Obtained from the consolidated annual accounts at 31 December 2004 prepared in accordance with Spanish GAAP at that date

The main adjustments resulting from the conversion to IFRS are the following:

- Elimination of capitalised start-up expenses and deferred expenses for R&D, projects and other.
- Recording of provisions to recognise the impairment in value of certain Group businesses.
- Elimination of the amortisation of goodwill in 2004 carried out under Spanish GAAP.
- Capitalisation of tax assets from tax loss carryforwards and unused tax credits.
- Adjustment against reserves for shares in the parent company held as treasury shares at the transition date and elimination of process from 2004 profit on the sale of treasury shares.

Functional currency

The Group's consolidated financial statements are presented in euros. Foreign operations are recorded applying the policies established in Note 4.18.

2.2. Consolidation principles

a. Subsidiaries

Subsidiaries are defined as any company included in the consolidation scope over which the Parent Company, directly or indirectly, manages by virtue of ownership of a majority of the voting rights in their representation and decision-making bodies or has the capacity to exercise control over. Under IAS 27, control is understood as the ability to govern the financial and operating policy of an investee so as to obtain benefits from its activities.

The annual accounts of subsidiaries are consolidated using the full consolidation method. Therefore, all material balances and results of transactions carried out between consolidated companies have been eliminated on consolidation.

If necessary, adjustments are made to the financial statements of subsidiaries to unify the accounting policies used with those of the Group, one of the main ones being the capitalization of recoverable tax credits not recorded in the subsidiaries.

Third party interests in Group equity and profit are presented in "Minority interests" on the consolidated balance sheet and income statement, respectively.

Results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or until the effective date of disposal, as appropriate.

Appendix I details the subsidiaries and related information (name, country of incorporation, percentage ownership by the parent company).

b. Associates

Associates are entities over which the Company has significant influence and which are neither a subsidiary nor a joint venture. Usually, this influence is evidenced by a direct or indirect holding of 20% to 50% of the investee's voting rights.

The Company's investments in associates are accounted for in the consolidated annual accounts under the equity method of accounting, i.e. at a value equivalent to the Group's proportional share in their capital after the deduction of dividends paid to the Group and other eliminations from equity. Gains or losses from any transactions with associates are eliminated to the extent of the Group's interest in the relevant associate.

If an associate incurs losses to the extent that its equity becomes negative, it is recorded in the Group's consolidated balance sheet with a value of zero, since the Group has no obligation to support the associate financially.

c. Translation differences

The various captions in the balance sheets and income statements of companies whose annual accounts are presented in other currencies have been translated to euros using the following criteria:

- Assets and liabilities were translated at the official year-end exchange rates.
- Capital and reserves were translated at historical exchange rates.
- The income statements were translated at the average exchange rates for the year.

The differences arising from the application of these criteria have been included under "Equity - Translation differences". These differences are recognised in revenue or expenses in the period in which the investment that gave rise to them was, totally or partially, realised or sold.

d. Changes in consolidation scope

In 2005, the Group sold its stake in the following companies:

- Aragonesas Industrias y Energía, S.A.
- Aiscondel, S.A.
- Aragonesas Derivados Electrolíticos Levante, S.A.
- Teczone Española, S.A.
- Lusofane, S.A.
- Uralita Comercial Canarias, S.A.
- Aquatecnic Sistemas, S.A.
- Uralita Industria y Comercio, Ltda.
- Cerámiques Estructurals del Penedés, S.A.
- Materiales y Cubiertas Caolita, S.A.
- Uralusa Instalaçoens e Montagens, S.L.

The detail of the equity of companies sold at the disposal date and at 31 December 2004 is the following:

Thousands of Euros	Date of sale	31 December 2004
Revenue	170,178	374,122
Property, plant and equipment	179,588	209,092
Other non-current assets	4,026	67,073
Current assets	195,065	134,905
Deferred income	2,802	2,777
Non-current liabilities	6,908	37,958
Current liabilities	112,392	97,560
Provisions	41,738	41,738
Total equity	214,839	231,037
Attributable to equity holders of the parent	211,509	227,691
Attributable to minority interests	3,330	3,346
Sale price received in 2005	193,746	
Sale price deferred	1,169	
Net sale price	194,915	
Gain (loss) on disposal	(16,594)	

These sales form part of the Group's strategy of disposing of non-core businesses begun a few years ago.

The main disposals include:

- Shares in companies in the Group's Chemicals Business. The operation was carried out in June 2005.
- The stake in Uralita Industria y Comercio, Ltda., included in the Roofing Business, which carried out its business in Brazil and was disposed of in May 2005.
- The shareholding in Sociedad Teczone Española, S.A., sold in November 2005.
- Holdings in a number of companies included in the Pipes Business.
- The investment in Cerámiques Estructurales del Penedés, S.A.

The total sales price and overall results generated from these sales during the year are detailed in the table above.

Results of operations of companies sold are included in the consolidated income statement for 2005 up to the date of the disposal.

The combined impact of results of companies sold on Group results in 2005 and 2004 has been a gain of €3,881 and €7,063 thousand, respectively.

In 2004, the Group sold its stake in Promat Ibérica, S.A. The impact on the accompanying financial statements is not significant.

3. Distribution of parent company profit

Uralita, S.A. made a profit in 2005 of €31,559 thousand. The Company's Board of Directors has proposed the following distribution of 2005 profit for approval at the General Shareholders' Meeting:

Thousands of Euros

Legal reserve	420
Unrestricted reserves	9,414
Dividends	21,725
	31,559

The proposed dividend is subject to approval by shareholders at the Shareholders' Meeting and is not included as a liability in these financial statements.

4. Main accounting principles

The main accounting principles and measurement bases used in the preparation of the Group's consolidated annual accounts in compliance with the IFRS adopted by the European Union are as follows:

4.1. Goodwill

Goodwill, which is only recognised when acquired in exchange for payment, entails the positive or negative difference between the acquisition cost of a holding in a company and its underlying carrying amount at acquisition date that could not be allocated to a specific asset.

Goodwill is not amortised. Until 1 January 2004, the IFRS transition date, goodwill was amortised on a straight-line basis. Accordingly, goodwill on acquisitions before that date are recognised at the amounts shown at the transition. The Group tests goodwill for impairment annually or whenever there are indications that it may be impaired. An impairment is recognised when the recoverable amount is less than the carrying amount. The loss is taken to the income statement.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units. A cash-generating unit's recoverable amount is the higher of value in use and potential net selling price.

4.2. Intangible assets

Intangible assets, which mainly relate to software and trademarks, are initially recognised at acquisition or production cost and subsequently carried at cost less any accumulated amortization and any accumulated impairment losses.

The Uralita Group considers that all its intangible assets have finite lives and amortizes them applying similar criteria to those used in the depreciation of its property, plant and equipment, considering estimated useful lives between three and five years.

4.3. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment. In some cases, cost includes past revaluations made in accordance with various enabling legislation, including Royal Decree-Law 7/1996 (see Note 11.4).

It also includes the values assigned in the acquisition of companies. At 31 December 2004 and 2005, these amounted to €28,780 and €9,530 thousand, respectively.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised as an increase in the cost of the corresponding asset. Repairs and maintenance expenses are expensed currently.

Companies' own work on property, plant and equipment is recorded at the accumulated cost (external costs, in-house costs determined on the basis of the warehouse materials consumed in-house and manufacturing costs incurred).

Property, plant and equipment are depreciated on a straight-line basis at annual rates based on the years of estimated useful life of the related assets. The rates used are the following:

	<u>Years of estimated useful life</u>
Buildings	33 / 50
Plant	10 / 20
Machinery	10 / 20
Tools	5 / 8
Furniture and fittings	10 / 15
Data processing equipment	4
Transport equipment	6 / 7

Land is considered to have an indefinite useful life and therefore is not depreciated.

Assets acquired under financial leases are recorded under the asset item of the leased asset and depreciated over the shorter of their estimated useful life using the same method as for the assets owned or the relevant lease period. "Property, plant and equipment" at 31 December 2005 in the consolidated balance sheet included €5,407 thousand of assets held under finance leases (see Note 7).

4.4. Non-current assets held for sale

Non-current assets classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell.

An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is deemed to have been met only when disposal is highly probable, and the asset is available for immediate sale in its current state and this will foreseeably be concluded in a period of one year from the date of classification.

4.5. Impairment of property, plant and equipment and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying values of its property, plant and equipment and intangible assets to determine if there are indications that the assets have been impaired. If there are indications of impairment, the recoverable amount of the assets is calculated to determine any potential impairment loss. Where the asset does not generate cash inflows that are independent of those from other assets, the Group estimates the recoverability of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Where the carrying amount exceeds the recoverable amount of an asset (or cash-generating unit), the asset (or cash-generating unit) is written down to its recoverable amount. An impairment loss is immediately recognised as an expense, except where the asset is stated at revalued cost, in which case the impairment loss is recognised as a decrease to the revaluation reserve.

When an impairment loss is subsequently reversed, the carrying amount of the assets (cash-generating unit) is increased to the revised estimate of the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as an increase in the revaluation reserve.

4.6. Investments in associates and joint ventures

The amount of these investments in the consolidated balance sheet includes, where applicable, the goodwill arising from the acquisition.

4.7. Leases

Finance leases are those that transfer to the lessee substantially all the risks and benefits incidental to ownership of the leased asset. Other leasing arrangements are classified as operating leases.

Finance leases

When the consolidated companies act as lessee the cost of the leased assets is recognised in the consolidated balance sheet under the appropriate item for the type of asset leased and a liability is simultaneously recognised for the same amount (this amount is determined as the lower of the fair value of the leased asset and the present value of all amounts due to the lessor plus, where relevant, the exercise price of the call option). These assets are amortised on the same basis as property, plant and equipment for own use.

In both cases, finance revenue and costs arising from the leases are credited or debited to the consolidated income statement such that the yield remains constant over the life of the lease.

Operating leases

When the consolidated companies act as lessor, they recognise the acquisition cost of the leased assets under "Property, plant and equipment." These assets are amortised on the same basis as other similar property, plant and equipment for own use and income from the leases is recognised in the income statement by the straight-line method.

When consolidated companies act as lessees, leasing expenses, including any incentives granted by the lessor, are taken to the consolidated income statement evenly throughout the lease period.

4.8. Inventories

Inventories of raw materials and other goods purchased from third parties are stated at the lower of cost (average price) or market value.

Finished goods and work in progress are valued at the lower of production cost (average real cost), including raw materials, direct labour costs and manufacturing overheads, and market value.

Obsolete, defective or slow-moving inventories are valued at their lowest realisable value.

4.9. Financial assets and liabilities

Trade receivables

Financial assets held by the Group basically relate to receivables generated by consolidated companies, which are recognised in the accompanying consolidated balance sheet under "Trade and other accounts receivable." These assets are recognised at the nominal amount (considered to be equivalent to fair value) less any provisions for possible insolvency risks.

Cash and cash equivalents

This item includes both cash and sight deposits. Other equivalent liquid assets are short-term investments maturing in less than three months and which are not subject to a significant risk of change in value.

Equity instruments

Capital and equity instruments issued by the Company are carried at the amount received in equity, net of direct issuing costs.

Financial liabilities

- *Bonds and other long-term marketable securities*

These are measured at amortised cost using the effective interest rate method less any directly attributable issue costs. Amortized cost is the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between the initially recognised amount and the maturity amount. Variations between the initial amount and the maturity amount that do not derive from the repayment of principal are recognised in the consolidated income statement for the year.

- *Bank loans*

Interest-bearing bank loans are recognised at the amount received less directly attributable transaction costs. Financial expenses, including premiums payable on settlement or repayment and direct issuing costs, are booked according to accrual criteria in the income statement using the effective interest method and are incorporated to the carrying amount of the instrument if not paid during the period in which they accrue.

- *Trade and other payables*

Trade payables are non-interest bearing and are recognised at nominal value.

Derivative financial instruments and hedge accounting

The Group's activities primarily expose it to financial risks from fluctuations in foreign exchange rates and interest rates. To hedge these risks, the Group uses currency swaps and interest-rate hedges. The Group does not use derivative instruments for speculative purposes.

The use of derivatives is governed by the Group policies approved by the Board of Directors, which publishes in writing these principles on the use of derivatives.

Fluctuations in the fair value of derivative instruments which have been conceived and shown to be effective as cash flow hedges are recognised directly in equity, while the ineffective portion is recognised directly in profit or loss. When the cash flow hedge of a firm commitment or forecast sale leads to the recognition of a non-financial asset or liability, upon recognition the gains or losses on the hedging instrument previously taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. However, for hedges where the asset or liability are not recognised, the amounts previously recognised in equity are transferred to profit or loss in the same period in which the hedged item affected net results.

For an effective hedge of the risk to variability in fair value, the hedged item is adjusted to fair values attributable to the risk being hedged, with recognition in profit or loss. Gains or losses from the remeasurement of the derivative, or of the carrying amount of the foreign currency item when it does not involve derivatives, are recognised in profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer meets hedge accounting criteria. Any accumulated gains or losses on the hedging instrument remain in equity until the forecast transaction occurs. If the transaction is not expected to occur, net cumulative gains and losses recorded in equity are transferred to profit or loss.

4.10. Classification of current and non-current

In the accompanying consolidated balance sheet, financial assets and liabilities are classified according to their maturity. Those due to be settled in 12 months or less are classified as current and those due to be settled after 12 months from the balance sheet date as non-current.

Loans repayable in the short term whose long-term financing is assured at the Company's discretion via available long-term credit facilities are classified as non-current liabilities.

4.11. Post-employment benefits

Uralita, S.A. and some of its Spanish subsidiaries have undertaken commitments in respect of supplementary post-retirement benefits for certain groups of retired or disabled employees and under other captions.

In 2004 and previous years, the companies arranged external coverage for these commitments with non-Group Spanish insurance companies. These defined contribution contracts provide full payment of the benefits at no additional cost to the companies, except, in the case of Uralita, S.A., expenses arising from changes in estimated salary and social security pension variables.

For foreign subsidiaries, the amounts considered sufficient to meet the commitments accrued at 31 December 2005 are recorded on the liabilities side on the balance sheet at that date under "Provisions". The liabilities are estimated by actuarial valuation methods, with the gains and losses recognised as income or expense in the year (see Note 12).

4.12. Termination indemnities

Under current labour legislation, employers are required to make indemnity payments to employees terminated without just cause. The cost of these indemnities is recorded in the year in which the termination of the employee's contract is agreed on.

The Group's policy is to record provisions for future payments arising from these plans at the time the restructuring is approved by the Directors, publicly announced and communicated to employees based on the best available estimates of the potential costs in accordance with the corresponding actuarial studies.

At 31 December 2005 and 2004 liabilities relating to existing redundancy plans were recorded under "Provisions" on the consolidated balance sheet at that date.

4.13. Provisions

The Group's consolidated annual accounts contain all provisions that cover obligations existing at the balance sheet date arising as a consequence of past events that could give undermine the companies' equity, the nature of which is certain but the amount and timing of which cannot be determined. This includes all provisions where the probability of having to cover the commitments is estimated to be higher than the probability of not having to cover the commitments.

Provisions, which are estimated based on the best available information as to the consequences of the events giving rise thereto and which are re-estimated at each reporting date, are applied to meet the specific and probable risks for which they were initially recognised and are reversed, totally or partially, whenever said risks disappear or diminish.

Unsettled claims and litigation

At year-end 2005 certain judicial proceedings and claims made against consolidated companies arising in the ordinary course of business were still underway. The Group's legal counsel and Directors estimate that the resolution of these proceedings and claims will produce no material effect on the annual accounts of the years in which they are resolved.

Provisions for guarantees

Provisions for the cost of guarantees provided are recognised at the date of sale of the related products based on the Directors' best estimate of the expense and the amount necessary to settle the Group's liability.

4.14. Government grants

Non-repayable capital grants are measured at the amount given and taken to profit or loss under "Other operating income" in proportion to the periodic depreciation of the subsidised assets, except in the case of non-depreciable assets, the subsidies for which are recognised in income in the year in which the related assets are disposed of or derecognised.

These grants are recognised in "Deferred income" on the liabilities side of the accompanying consolidated balance sheet.

4.15. Revenue recognition

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. This normally coincides with delivery of the good sold.

Revenue is calculated at the fair value of the payment to be received and represents the amounts receivable for the goods delivered and the services provided as part of the company's ordinary course of business, less discounts, VAT, and other sales taxes.

Interest income is recognised as interest accrued on a time basis according to the outstanding principal and the effective interest rate charged, which is the rate that exactly discounts estimated future cash receipts over the life of the financial asset from the net carrying amount of the asset.

Dividend revenue from investments is recognised when the rights of the shareholders to receive the dividend payment have been established.

4.16. Income tax; deferred tax assets and liabilities

The expense for income tax for each year is calculated on the basis of the accounting profit before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income.

Uralita S.A. files a consolidated tax statement with the Spanish subsidiaries in which it holds more than 75% of the share capital. The remaining Group companies file individual statements.

The Group's policy is to recognise the tax credit from the future offset and use of loss carryforwards and deductions to the extent allowed by its estimates of future earnings for both the companies comprising the consolidated tax group and those that file taxes individually. The tax credit is recognised under "Use of tax credits" in the accompanying consolidated income statement.

In addition, “Deferred tax assets” and “Deferred tax liabilities” in the consolidated balance sheets reflect the impact of temporary differences identified on tax items that are expected to be either payable or recoverable arising from differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases. These amounts are measured by applying to the temporary differences the tax rate that is expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences except where the temporary difference arises from the initial recognition of goodwill, whose amortization is not deductible, or the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all identified temporary differences to the extent that it is probable that consolidated companies will have taxable profit available against which the deductible temporary differences can be utilised except where this relates to the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are reviewed at each balance sheet to verify they remain in force, with the appropriate corrections being made in accordance with the results of the review.

4.17. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, excluding the number of parent company shares held as treasury shares by Group companies. As there are no potential ordinary shares that could dilute earnings for the Group, basic and diluted earnings per share for 2005 and 2004 are the same.

4.18. Foreign currency transactions

Transactions in foreign currency, i.e. currency other than the euro, which is the Company’s functional currency, are initially recorded at the euro rate ruling at the date of the transaction. Exchange gains or losses arising on the settlement of foreign currency transaction balances are recognised in the consolidated income statement when they arise.

Receivables and payables in foreign currency at the balance sheet date are recorded in euros at the year-end exchange rate or the hedged exchange rate. Differences are taken to profit or loss for the year.

The Group uses forward currency contracts and options to hedge its exposure to foreign currency risk (see Note 4.9 on the Group’s policy with respect to recognising derivative financial instruments).

4.19. Consolidated cash flow statements

The consolidated cash flow statements are prepared using the indirect method and the terms used are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents; cash equivalents are short-term investments that are highly liquid and have low risk that their value will change.
- Operating activities: activities typically carried out by the Company and any others that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, disposal or use by other means of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and liabilities that are not generated by operating activities.

4.20. CO₂ emission rights

CO₂ emission rights granted by governments freely to consolidated companies, in line with the international environmental agreements reached with the Kyoto Protocol, are measured at the market value at which they were granted (1 January 2005) and recognised in “Intangible assets” on the consolidated balance sheet at 31 December 2005. At that date, the value of the rights used and pending use, respectively, are recognised in “Provisions” and “Deferred income” in the balance sheet at that date.

The use of emission rights is recognised as a period expense in “Other operating expenses” in the consolidated income statement for the year ended 31 December 2005. The recognition of the deferred income is included in “Other operating revenues.”

4.21. Environmental matters

The consolidated companies treat as an expense of an environmental nature the payments made to personnel occupied exclusively with environmental tasks and the goods and purchases necessary for activity in this area, as well as the disposal of waste from operational activities. The remaining amounts related to environmental activities are considered investments.

The consolidated companies also establish provisions for any responsibilities or obligations likely to arise relating to activities that affect the environment and whose amount can be estimated.

4.22. Accounting judgments and estimates

The information included in the accompanying consolidated annual accounts is the responsibility of the Group’s Directors.

In the preparation of the consolidated financial statements for 2005 and 2004 estimates made by the Directors of the Group have been used to measure certain assets, liabilities, revenues, expenses and commitments recognised therein. These estimates relate primarily to:

- The estimate of the potential losses due to the impairment of certain assets,
- The useful life of property, plant and equipment and of intangible assets,
- The measurement of goodwill.

These estimates were made on the basis of the best information available at 31 December 2005 and 2004. However, it is feasible that future events could oblige the company to modify these amounts (upwards or downwards) prospectively in the coming years, taking the effects of said changes to the corresponding consolidated income statements, pursuant to IAS 8.

4.23. Changes in estimates and accounting principles and correction of material errors

The impact of any change in estimates is recognised in the same entry of the income statement that includes the previously estimated expense or revenue. Material errors are applied retrospectively, with changes to the information affected by the errors.

5. Goodwill

Goodwill at 31 December 2005 and 2004 arose from the acquisition of equity investments in the following subsidiaries.

Thousands of euros

OAo URSA Chudovo	23,767
URSA Dämmssysteme Austria GmbH	10,296
URSA Salgotarjan Rt.	9,831
TOTAL	43,894

Goodwill acquired prior to 1 January 2004 is stated at the net amount recognised at that date (see Note 4.1). There were no movements in this caption in 2005.

The Group's directors have implemented a procedure to be followed annually to identify potential capital losses on the cost recorded with respect to the recoverable value of such losses. The procedure for performing this "impairment test" is the following:

- The Directors of each business unit prepares an annual business plan by market and business activity for each cash-generating unit for the following five years. The plan mainly includes:
 - Profit and loss forecasts
 - Investment and working capital forecasts

The forecasts are prepared for each business unit based on recent performance and the best estimates of Group management regarding the future performance of the main internal and external economic variables.

- The business plans prepared are reviewed and subsequently approved by the Group's Management Committee.
- The main variables that influence these projections are:
 - The discount rate to be applied, defined as the weighted average cost of capital, with the cost associated with liabilities and the specific risks related to assets being the primary variables that influence its calculation.
 - The cash flow growth rate used to extrapolate projected cash flows for periods of time that extend beyond the period covered by budgets and forecasts. This growth rate is between 0% and 1% for mature markets and between 1% and 2% for emerging markets.

The recoverable amounts are calculated for each cash-generating unit based on assumptions for the following five years on profit and loss, investment and working capital. The discount rate used was 7.5% for both 2005 and 2004. The growth rate used to extrapolate forecasts was 1% for both years.

Based on the results of this analysis, the Group has decided that it was not necessary to make any adjustments to the amounts recorded for goodwill at 31 December 2005 and 2004.

6. Intangible assets

The detail of this heading in the consolidated balance sheets at 31 December 2005 and 2004 is the following:

Thousands of euros	31 December 2005		31 December 2004	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Development costs	3,063	2,949	8,865	8,623
Concessions, patents, licenses, trademarks, etc.	9,326	4,545	14,584	8,042
Software and other intangible assets	29,517	17,944	31,992	26,991
TOTAL	41,906	25,438	55,441	43,656

The movement in "Intangible assets" in 2005 and 2004 is the following:

Thousands of euros	2005	2004
OPENING BALANCE	11,785	10,375
Changes in consolidation scope	(174)	(16)
Increases	9,419	6,115
Sales	(616)	(446)
Accumulated amortization	(4,295)	(4,763)
Translation differences	(5)	-
Other movements	354	520
CLOSING BALANCE	16,468	11,785

Additions include CO₂ emission rights received for an amount of €2,122 thousand.

At 31 December 2005, there were no internal costs included in intangible assets. At 31 December 2004, the amount for this item was €311 thousand.

All the Group's intangible assets have a finite useful life and are amortised using the criteria explained in Note 4.2.

As of 31 December 2004 and 2005, the Group estimates that there was no impairment in its intangible assets that led to a lower recoverable value of the assets than their net carrying amount.

Research and development costs recognised as an expense in the consolidated income statements for 2005 and 2004 amount to €1,057 and €1,816 thousand, respectively.

7. Property, plant and equipment

The detail of this heading in the consolidated balance sheets at 31 December 2005 and 2004 is the following:

Thousands of euros	31 December 2005			31 December 2004		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land and buildings	200,476	58,614	141,862	290,962	86,568	204,394
Plant and machinery	613,613	330,489	283,124	1,034,331	634,433	399,898
Other installations, tools and furniture	54,102	36,124	17,978	56,953	40,379	16,574
Advances and work in process	38,740	-	38,740	50,414	-	50,414
Other property, plant and equipment	19,963	16,785	3,178	34,600	30,178	4,422
	926,894	442,012	484,882	1,467,260	791,558	675,702
Impairment provision			(51,831)			(91,514)
Net			433,051			584,188

The movement in this heading in the years ended 31 December 2005 and 2004 is the following:

Thousands of euros	2005	2004
OPENING BALANCE	584,188	635,638
Changes in consolidation scope (Note 2.2)	(166,101)	(36)
Additions	90,640	87,377
Disposals	(16,318)	(25,157)
Accumulated depreciation	(58,945)	(73,233)
Reassignment of the asset value of the Coverings Business	(25,890)	-
Application of impairment provision	19,750	-
Allocation to impairment provision	-	(27,438)
Reversal of impairment provision	4,085	-
Translation differences	7,255	-
Transfer to non-current assets held for sale (Note 8)	(9,042)	(7,854)
Other movements	3,429	(5,109)
CLOSING BALANCE	433,051	584,188

The main additions relate to the construction of new production plants and the introduction of new manufacturing technologies, principally in the Insulation Business.

All items of property, plant and equipment are for the Group's own use and none are granted under operating leases.

Advances on work in progress at 31 December 2005 and 2004 amounted to €14,723 thousand and €4,441 thousand, respectively.

Fully depreciated property, plant and equipment items at 31 December 2005 and 2004 amount to €101,500 and €374,000 thousand. The amounts of temporarily idle items of property, plant and equipment and derecognised items of property, plant and equipment at 31 December 2005 and 2004 are not material.

The Group has taken out insurance policies to cover possible risks to which various items of property, plant and equipment are subject and possible lawsuits which may be filed against the Group during the ordinary course of its business. It considers these policies sufficiently cover these risks.

The net carrying amounts at 31 December 2005 and 2004 of assets acquired under finance leases are €5,407 and €7,375 thousand, respectively.

There are no restrictions to the ownership of the items of property, plant and equipment at 31 December 2005.

Property, plant and equipment located outside Spain are all used for the operations of the Group's consolidated foreign subsidiaries. The carrying amount of these assets at 31 December 2005 is €227,537 million.

At 31 December 2005, the Company has no material contractual commitments to acquire property, plant and equipment.

Impairment losses

The market value of certain cash-generating units has been impaired mainly due to surplus capacity, which has had a material impact on the future economic benefits expected from their use.

The Group assesses the impact of this on its financial statements for 2005 and 2004 through the preparation of projections and businesses plans based on similar criteria to that used for the impairment tests of goodwill (see Note 5).

It also recognises the negative impact on equity at 31 December 2004 of the impairment loss of certain cash-generating units disposed of in 2005. The estimation of the recoverable amount was made based on the sale amount less costs to sell.

The movements that gave rise to impairment losses in these items in 2005 and 2004 are the following:

Thousands of euros	Insulation Western Europe	Concrete Roof tiles	Roof tiles Brazil	Heat-resistant clay tiles	Coverings	Chemicals	TOTAL
Balance at							
1 January 2004	40,017	8,056	14,300	-	1,703	-	64,076
Provision	-	-	-	3,596	-	23,842	27,438
Balance at 31 December 2004	40,017	8,056	14,300	3,596	1,703	23,842	91,514
Reassignment of asset value	-	-	-	-	25,890	-	25,890
Applications due to sales or plant closures	(13,275)	(4,746)	-	-	(1,729)	-	(19,750)
Sale of cash-generating units	-	-	(14,300)	(3,596)	-	(23,842)	(41,738)
Reversal	(4,085)	-	-	-	-	-	(4,085)
Balance at 31 December 2005	22,657	3,310	-	-	25,864	-	51,831

The sale of cash-generating units relates to disposals of holdings in the companies that comprised the Group's Chemicals Business, in Uralita Industria y Comercio, Ltda. and Ceramiques Estructurals del Penedés, S.A., as detailed in Note 2.2.

Provisions in 2004 and reversals in 2005 have been included in the consolidated income statements of those years under "Net impairment losses".

In 2005 the Group made a series of write-offs and sales of plants, mostly to adapt capacity to market demand.

In addition, in December 2005 the Group signed an agreement to sell the business of Fibrocementos NT, S.A., not including the land on which the business was conducted. The agreement was carried out in 2006.

After the agreement was signed, the impairment provision initially made for the unit (net of the realisable value of the land) was reassigned, leaving the value of the business of Fibrocementos NT, S.A. at its market value (with a provision recorded of €25,890 thousand) and reassigning the value of the assets and liabilities that are not included in the contract.

The resulting value of the land is included under "Non-current assets held for sale" in the consolidated balance sheet at 31 December 2005 (see Note 8).

The Company's Directors are currently negotiating the sale of the land and estimate that the amount of the sale will be higher than the carrying amount at 31 December 2005.

8. Non-current assets held for sale

This heading mainly relates to land and buildings not used for business that the Group intends to sell. The movement in this heading in 2005 and 2004 is the following:

<u>Thousands of euros</u>	<u>2005</u>	<u>2004</u>
OPENING BALANCE	7,854	-
Transfers of property, plant and equipment	9,042	7,854
Disposals	(3,042)	-
Reassignment of the value of the land of Fibrocementos NT, S.A. (Note 7) and other	43,160	-
CLOSING BALANCE	57,014	7,854

9. Inventories

The detail of this heading at 31 December 2005 and 2004 is the following:

Thousands of euros	2005	2004
Commercial inventories	9,114	12,310
Raw materials and other supplies	33,652	50,893
Finished goods and work in process	50,103	82,418
TOTAL	92,869	145,621

10. Trade and other receivables

At 31 December 2005 and 2004, a number of consolidated companies had signed a contract with “GC Compass Spain 1, Asset Securitization Fund”, managed by Gestcaixa and authorised by the Spanish Securities Exchange Commission, for the assignment of collection rights. The Group has a contract with this entity to administer the rights until final settlement to collection from customers. Pursuant to this contract, Group companies transfer each month the rights to collection from customers that meet certain requirements. Collection rights transferred in 2005 and 2004 amounted to €703 and €494 million, respectively, of which €130 and €174 million correspond to unmatured receivables at the end of each period, recognised under “Other current financial assets” in the consolidated balance sheets.

The accounts transferred may be settled in cash by the financial entity except for an amount withheld as a guarantee against bad debts, dilution and other items. The €110,024 and €147,463 thousand financed at 31 December 2005 and 2004, respectively, are included under “Other current financial liabilities” in the consolidated balance sheets.

The average credit period in the sale of goods and services is approximately 80 days. Interest is not generally charged on accounts receivable. The Group has recorded a provision for estimated uncollectible amounts from the sale of goods for €2,229 and €2,798 thousand in 2005 and 2004, respectively. The provision was determined based on the Group’s experience and on an account-by-account analysis of the main receivables.

11. Equity

11.1. Issued capital

At Uralita S.A.’s General Shareholders’ Meeting held on May 26, 2004, shareholders agreed to reduce the par value of the shares comprising the issued capital by splitting each €2.16 share into three new shares with a par value of €0.72 each.

At 31 December 2005, the parent company's share capital amounts to €142,199,861.04 and consists of 197,499,807 shares with a par value of €0.72 each. All the shares are fully subscribed and paid up and admitted to trading on the Spanish continuous market.

The only shareholder with a stake of more than 10% is Nefinsa, S.A., which at 31 December 2005 and 2004 effectively controlled 43.37% of the share capital.

11.2. Share premium

The revised Spanish Corporation Law expressly allows the share premium balance to be used to increase capital and establishes no restriction as to its use.

At its meeting of 27 March 2006, the Company's Board of Directors agreed to offset loss carryforwards with voluntary reserves up to the amount of these reserves available, and offset the remaining losses (€52,509 thousand) with a charge to the share premium.

11.3. Reserves attributable to equity holders of the parent

The detail of this heading in the consolidated balance sheets at 31 December 2005 and 2004 is the following:

Thousands of euros	31 December	
	2005	2004
Legal reserve	28,020	23,707
Reserve for restatement of share capital to euros	185	185
Retained earnings	-	(55,495)
TOTAL	28,205	(31,603)

Legal reserve

Under the revised Corporation Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of increased share capital. With the exception of the above, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses provided other reserves are insufficient for this purpose.

Following approval of the proposed distribution of profit of 2005 at the General Shareholders' Meeting (see Note 3), Uralita, S.A. will have fully funded its legal reserve.

11.4. Reserves at consolidated companies

The detail of reserves contributed and foreign exchange differences recognised in equity attributable to equity holders of the parent in the consolidation process is as follows:

Thousands of euros	31 December 2005		31 December 2004	
	Reserves	Translation differences	Reserves	Translation differences
Yesos Ibéricos, S.A.	35,401	-	36,012	-
OA0 Ursa Chudovo	15,694	(1,361)	7,950	(5,065)
Fibrocementos NT, S.A.	6,373	-	8,186	-
OOO Ursa Serpuchov	5,317	(618)	2,516	(2,442)
Ursa Salgotarjan, Rt.	4,967	719	2,990	764
URSA Dämmssysteme Austria GmbH	3,454	(3,081)	2,955	(3,426)
Ursa Benelux BVBA	(1,336)	-	(1,621)	-
Electroquímica Andaluza, S.A.	(4,748)	-	(4,109)	-
Uralita Sistemas de Tuberías, S.A.	(7,123)	-	(3,900)	-
Ursa Internacional GmbH	(12,228)	-	(11,052)	-
Uralita Iberia, S.L.	(15,871)	-	39,074	(21,525)
Ursa Ibérica Aislantes, S.A.	(44,538)	-	(39,188)	(30)
Cerámicas Sanitarias Reunidas, S.A.	(53,940)	-	(54,114)	-
Aiscondel, S.A.	-	-	31,549	-
Aragonesas Industrias y Energía, S.A.	-	-	18,856	-
Teczone Española, S.A.	-	-	8,241	-
Aragonesas Derivados Electroquímicos Levante, S.A.	-	-	5,393	-
Other companies with positive or negative amounts of less than one million euros	13	(102)	360	12
Consolidation adjustments at the parent company	182,804		80,412	-
TOTAL	114,239	(4,443)	130,510	(31,712)

Of total “Reserves at consolidated companies” at 31 December 2005, €40,423 thousand were restricted reserves, before taking into account consolidation adjustments. Of this amount, €9,461 thousand relates to the revaluation reserve pursuant to Royal Decree-Law 7/1996. Once the tax authorities have reviewed and approved the balance of the reserve (or the three-year period for review has expired), the balance is available, free of tax, to offset tax losses. From 1 January 2007, the balance can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been applied for accounting purposes or when the revalued assets have been transferred or retired from the accounting records. If this balance is used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

Translation differences arise from the conversion to euros of balances of consolidated subsidiaries whose functional currency is not the euro (see Note 4.18).

11.5. Profit (loss) for the year attributable to equity holders of the parent

The detail of the contribution by company to profit attributable to equity holders of the parent in 2005 and 2004 is the following:

Thousands of euros	2005	2004
Uralita, S.A.	30,423	66,289
Yesos Ibéricos, S.A.	23,745	17,589
Ursa Salgotarjan, Rt.	9,386	1,976
OAQ Ursa Chudovo	6,652	7,745
Fibrocementos NT, S.A.	6,445	(1,813)
OOO Ursa Serpuchov	3,794	2,801
Uralita BV	1,163	(4)
Uralita Iberia, S.L.	(3,691)	(35,085)
Ursa Eurasia LLC	(5,703)	(412)
Ursa Ibérica Aislantes, S.A.	(10,506)	(5,325)
Ursa Internacional GmbH	(11,912)	(1,171)
Uralita Sistemas de Tuberías, S.A.	(14,103)	(3,223)
Teczone Española, S.A.	-	2,603
Aragonesas Derivados Electroquímicos Levante, S.A.	-	(3,593)
Aragonesas Industrias y Energía, S.A.	-	(4,199)
Other companies with positive or negative amounts of less than one million euros	(509)	1,053
TOTAL	35,184	45,231

11.6. Minority interests

The detail by company of the movement in “Minority interests” in the consolidated balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of euros	Yesos Ibéricos, S.A.	Uralita Tejados, S.A.	OAQ Ursa Chudovo	Aiscondel, S.A.	Uralita Sistemas de Tuberías, S.A.	Promat Ibérica, S.A.	TOTAL
Balance at 1 January 2004	42,629	43,443	3,396	1,551	344	1,230	92,593
2003 dividend	(5,362)	(2,194)	-	(214)	-	-	(7,770)
Foreign currency translation of financial statements	-	13	(187)	-	-	-	(174)
Changes in consolidation scope and holdings	-	493	(1,041)	-	-	(1,306)	(1,854)
Other movements	6	(133)	1	(1)	-	-	(127)
Profit for the year 2004	12,070	2,051	764	604	1	76	15,566
Balance at 31 December 2004	49,343	43,673	2,933	1,940	345	-	98,234
2004 dividend	(12,486)	(1,923)	-	-	-	-	(14,409)
Foreign currency translation of financial statements	-	68	204	-	-	-	272
Changes in consolidation scope and holdings	-	(643)	(1,173)	(2,398)	(289)	-	(4,503)
Other movements	-	(371)	(1)	-	-	-	(372)
Profit (loss) for the year 2005	16,233	1,396	361	458	(56)	-	18,392
Balance at 31 December 2005	53,090	42,200	2,324	-	-	-	97,614

12. Provisions

The detail of movements in this heading in the consolidated balance sheets at 31 December 2005 and 2004 is the following:

Thousands of euros	Taxes	Post-employment benefits	Other liabilities	TOTAL
Balance at 1 January 2004	3,495	5,902	5,674	15,071
Allocation	-	193	9,974	10,167
Amounts applied	-	(5,591)	(976)	(6,567)
Reversal to profit or loss	(463)	(144)	(468)	(1,075)
Reclassifications and other	(1,506)	681	1,792	967
Balance at 31 December 2004	1,526	1,041	15,996	18,563
Change in consolidation scope	(194)	-	(1,673)	(1,867)
Allocation	-	1,447	6,205	7,652
Amounts applied	-	(367)	(4,239)	(4,606)
Reversal to profit or loss	-	(204)	(3,185)	(3,389)
Translation differences	-	-	(323)	(323)
Reclassifications and other	-	1,349	(1,772)	(423)
Balance at 31 December 2005	1,332	3,266	11,009	15,607

“Other liabilities” mainly relate to provisions deemed necessary for ongoing procedures against the Group and other commitments assumed with investees that have been disposed of or wound up. It also includes €1,166 thousand for CO₂ emission rights used in 2005 in accordance with the accounting principle described in Note 4.20.

The provision for post-employment benefits includes amounts considered sufficient to meet the commitments accrued at that date by certain consolidated foreign subsidiaries (see Note 4.11).

13. Interest-bearing loans and borrowings

13.1. Bonds and other marketable securities

The detail of the balance of this heading in the consolidated balance sheets at 31 December 2005 and 2004 is the following:

Thousands of euros	31 December 2005		31 December 2004	
	Non-current	Current	Non-current	Current
2004 private bond placement	123,484	-	123,484	-
Uralita, S.A. 1955 debenture issue	20	19	38	17
Less: Issue costs	(944)	-	(1,081)	-
Total	122,560	19	122,441	17

The private bond placement was held in November 2004 among US institutional investors and comprised two tranches, a €104.8 million tranche maturing in 7 years and an €18.7 million tranche maturing in 10 years (euro equivalent of an exchange rate hedge).

The placement was denominated in dollars and at US market fixed interest rates. Interest and exchange rate risk were hedged through appropriate instruments to create a floating coupon tied to the Euribor with a fixed exchange rate for the exchange of notional values at maturity. The exchange rate was set at 1.231%.

The bonds were issued by consolidated subsidiary Uralita BV, headquartered in the Netherlands. The placement involves covenants usual in this type of financing, such as meeting certain financial and profitability targets. The Group's Directors believe that the likelihood of meeting these targets is such that no significant change in the original conditions of the transaction is expected to occur.

Uralita, S.A.'s 1955 issue of non-convertible bonds was for an original amount of €300 thousand, paying annual interest of 6.75%. The issue is secured by the Company's assets and the amount outstanding at 2005 year-end matures in equal annual instalments through 2007.

13.2. Bank loans

Balances of "Bank loans" at 31 December 2005 and 2004 are the following:

Thousands of euros	31 December 2005			31 December 2004		
	DRAWN DOWN			UNDRAWN		
	LIMIT	Long term	Short term	LIMIT	Long term	Short term
Syndicated loan	170,000	-	-	170,000	140,000	-
Other loans and credit facilities	75,912	229	22,721	70,054	1,066	31,183
Un-matured discounted bills	-	-	-	-	-	674
TOTAL	245,912	229	22,721	240,054	141,066	31,857

The syndicated loan (revolving credit line) was arranged in November 2004 with a number of leading Spanish and foreign credit entities through a 5-year €170 million credit line, of which €140 million had been drawn down at 31 December 2004. No drawdowns were made in 2005. This facility accrues a floating interest rate tied to Euribor.

The terms of the syndicated loan involve the covenants usual in this type of financing, such as meeting certain financial and profitability targets. The Group's Directors estimate that given the degree of compliance to date and the prospects of meeting these targets, no material changes are likely to be made to the original conditions of the transaction.

Other current loans and credit facilities pay interest rates indexed to the Euribor. All debts are guaranteed under the personal guarantee of the individual companies.

The main loans and credit facilities are granted in euros.

14. Other financial liabilities

“Trade payables” mainly include amounts owed on commercial purchases and related costs. The average payment period in the purchase of goods and services is approximately 86 days.

15. Deferred income

The detail of the movement in this heading at 31 December 2005 and 2004 is the following:

Thousands of euros	Government grants	Other deferred income	TOTAL
Balance at 1 January 2004	14,194	842	15,036
Increases	1,107	1,426	2,533
Recognition in income	(2,887)	(125)	(3,012)
Reclassifications and other	(1,065)	571	(494)
Balance at 31 December 2004	11,349	2,714	14,063
Change in consolidation scope	(2,769)	-	(2,769)
Increases	381	2,318	2,699
Recognition in income	(1,669)	(2,631)	(4,300)
Reclassifications and other	66	1,729	1,795
Balance at 31 December 2005	7,358	4,130	11,488

The main increases in 2005 relate to CO₂ emission rights received free by Group companies (see Note 4.20 for recognition of these rights). The amount of rights used and recognised in revenue in 2005 totals €1,166 thousand.

16. Guarantees

As of 31 December 2005, consolidated companies had received bank guarantees amounting to €46,329 thousand. Of this amount, €5,752 thousand derives from Uralita, S.A.'s being head of the consolidated tax group; €4,773 thousand to various transactions related to the businesses of consolidated subsidiaries; and the remainder to ongoing lawsuits against Uralita, S.A. and subsidiaries, for which the necessary provisions have been recorded.

The Group's directors estimate that the operations described in this note will not give rise to material additional liabilities than those recorded on the accompanying consolidated balance sheet.

17. Revenue and expenses

17.1. Revenue

The detail of this heading in 2005 and 2004 is the following:

Thousands of euros	2005	2004
Sales of goods and services	1,105,692	1,315,889
Financial discounts on sales	(1,498)	(1,899)
Other revenues	416	97
TOTAL	1,104,610	1,314,087

17.2. Other operating income

The detail of "Other operating income" in 2005 and 2004 is as follows:

Thousands of euros	2005	2004
Ancillary income	2,967	4,108
Operating grants	214	283
Government grants transferred to profit (loss) for the year (Note 4.14)	1,669	2,887
Capitalized expenses of in-house work on assets	1,333	171
Consumption of free CO ₂ emission rights	1,166	-
Other	674	473
TOTAL	8,023	7,922

17.3. Operating expenses

Supplies

The detail of this heading is the following:

Thousands of euros	2005	2004
Purchases	432,438	551,665
Change in commercial inventories, raw materials and other supplies	3,724	(9,699)
Work carried out for other companies	10,671	18,261
TOTAL	446,833	560,227

Employee benefits expense

The detail of this heading is the following:

Thousands of euros	2005	2004
Wages and salaries	151,469	179,122
Social security	37,726	45,013
Restructuring costs	8,065	14,027
Other employee welfare expenses	9,172	9,833
TOTAL	206,432	247,995

The average number of employees of the Group in 2005 and 2004 by professional category is as follows:

	2005	2004
Managers	123	142
Graduates, line personnel and supervisors	936	992
Sales personnel	614	674
Administrative staff	865	996
Manual workers	2,679	3,524
TOTAL	5,217	6,328

Capitalized staff costs in 2005 and 2004 relating to projects involving properties are not material.

Other operating expenses

The detail of this heading is the following:

Thousands of euros	2005	2004
Transport	100,223	112,283
Supplies	59,867	61,895
Repairs and maintenance	35,598	44,216
Leases	20,640	20,967
Advertising	16,510	18,971
Communication	6,525	6,465
Taxes other than income taxes	5,774	5,400
Insurance premiums	3,999	6,035
Allocation to provision for current assets	3,894	2,453
Consumption of CO ₂ emission rights (Note 20)	1,166	-
R&D costs	1,057	1,816
Other expenses	61,536	67,135
TOTAL	316,789	347,636

Certain buildings used in the business are leased to tenants not belonging to the Group. Some of the leases may not be cancelled before maturity without compensation. The outstanding lease payments of these contracts at 31 December 2005 amount to approximately €11,777 thousand.

Other expenses include fees paid for the audit of accounts of the companies comprising the Group by the main auditor and other associated auditors. These fees amounted to €685 and €900 thousand in 2005 and 2004, respectively.

Fees for non-audit services provided to the various Group companies by the principal auditor and other associated auditors in 2005 and 2004 amounted to €404 and €339 thousand, respectively. The Corporate Governance statement includes a description of the Audit Committee's remit, along with an explanation of how the objectivity and independence of the auditor is guaranteed in the provision of non-audit services.

Fees for financial audit services in 2005 provided to the various companies comprising the Colonial Group by other auditors amounted to €63 thousand and fees for non-audit services by other auditors to €5 thousand.

17.4. Finance costs

The detail of this heading is the following:

Thousands of euros	2005	2004
Interest on loans and debt issues	7,189	16,323
Interest on finance leases	378	506
Other finance costs	5,942	6,361
TOTAL	13,509	23,190

17.5. Gain (loss) on disposal and measurement of non-current assets

The detail of this heading is the following:

Thousands of euros	2005	2004
Disposal of property, plant and equipment and intangible assets	21,336	15,357
Sale of holdings in consolidated companies	(16,594)	5,949
Sale of other financial assets	(167)	-
Remeasurement of assets available for sale to fair value	-	(4,240)
Write-down of investments in non-consolidated companies	(14)	(289)
TOTAL	4,561	16,777

Sales of property, plant and equipment and intangible assets were made to non-Group companies. Total transactions carried out in 2005 amount to nearly €27,000 thousand, of which all had been collected by 31 December 2005.

Note 2.2 details the sales of equity shareholdings.

17.6. Other gains and losses

The detail of this heading is the following:

Thousands of euros	2005	2004
Payments and allocations to provisions for litigation	(5,482)	(7,970)
Repayment of deferred loan arrangement expenses	-	(6,839)
Write-off of goodwill	-	(27,319)
Other	(198)	(5,061)
TOTAL	(5,680)	(47,189)

18. Segment information

The primary segment reporting format is determined to be business segments. Secondary information is reported geographically.

Primary segments - business

The business segments described below were determined based on the Group's organisational structure at year-end 2005 bearing in mind the nature of the products and services offered and the customers they target.

In 2005, the Group organised its business into five large business lines:

- Insulation
- Gypsum
- Roofing

- Pipes
- Chemicals

The business segments are basically defined by the products involved.

The companies comprising the Group's Chemicals Business were sold in 2005 (see Note 2.2). Information for 2005 on this segment refers to transactions carried out up to the sale date.

Revenue and expenses that cannot be specifically attributed to a business line because of decisions adopted for the overall Group or other reasons are attributed to a "Corporate Unit" to which the necessary consolidation adjustments and eliminations are attributed in order to draw up consolidated financial statements for the Group from the aggregate of the businesses.

Costs of the parent company identified as arising from services provided to subsidiaries are passed on to them and are recognised in the profit and loss of the various businesses. The remaining transactions of the parent company are included in the "Corporate Unit".

Secondary segments – geographic

The Group conducts business in:

- Spain
- Rest of the EU
- Other countries

Basis and methodology for business segment reporting

The segment information provided below is based on monthly reports prepared by the various bus and generated from the accounts and other records of the companies comprising the businesses in the same way as the information used to prepared the accompanying consolidated financial statements.

The structure of this information is designed as if each business were an independent business arising from the consolidation or combination of the companies that comprise it and had its own resources.

Segment information by business is presented below.

	INSULATION		PIPES		ROOFING		GYPSUM		CHEMICALS		CORPORATE UNIT		GROUP TOTAL	
Thousands of euros	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
External sales	439,510	433,793	161,544	210,045	169,922	213,895	198,868	179,762	134,360	276,496	406	96	1,104,610	1,314,087
Inter-segment sales	494	618	2,194	2,645	12,659	16,418	768	2,393	9,917	28,360	(26,032)	(50,434)		
NET REVENUES	440,004	434,411	163,738	212,690	182,581	230,313	199,636	182,155	144,277	304,856	(25,626)	(50,338)	1,104,610	1,314,087
Depreciation and amortisation	34,602	35,655	4,962	5,693	10,063	15,426	4,873	6,346	6,886	17,365	1,854	(2,489)	63,240	77,996
OPERATING PROFIT (LOSS)	20,809	37,664	(1,365)	(3,705)	11,742	16,219	53,645	45,760	9,473	12,414	(13,424)	(9,558)	80,880	98,794
ORDINARY PROFIT (LOSS)	16,808	30,350	(2,933)	(5,965)	10,870	11,958	55,617	46,490	9,519	11,913	(16,964)	(16,641)	72,917	78,105
PROFIT (LOSS) BEFORE TAXES	16,444	20,048	(4,155)	(9,131)	47,609	(26,271)	59,259	45,735	9,629	10,364	(52,903)	50,130	75,883	90,875
PROFIT (LOSS) FOR THE YEAR	9,471	11,655	(7,613)	(9,329)	24,659	(32,498)	40,410	29,820	6,885	10,364	(20,236)	50,785	53,576	60,797
Attributable to:														
Equity holders of the parent	9,094	10,890	(7,556)	(9,330)	23,486	(34,320)	23,969	17,673	6,427	9,760	(20,236)	50,558	35,184	45,231
Minority interests	377	765	(57)	1	1,173	1,822	16,441	12,147	458	604		227	18,392	15,566
Goodwill	43,894	43,894											43,894	43,894
Property, plant and equipment	237,513	232,607	45,526	49,797	91,872	144,898	86,089	81,310		161,714	(27,949)	(86,138)	433,051	584,188
Intangible assets	14,683	14,073	137	862	604	2,209	772	1,757		28	272	(7,144)	16,468	11,785
Other non-current assets	28,547	489	406	735	(1,046)	405	406	275		566	169,509	126,177	197,822	128,647
Current assets	118,741	127,896	37,865	46,762	42,626	83,629	21,149	16,040		60,406	113,712	149,187	334,093	483,920
ASSETS	443,378	418,959	83,934	98,156	134,056	231,141	108,416	99,382		222,714	255,544	182,082	1,025,328	1,252,434
Financing from /(to) the Group	115,183	120,460	13,888	9,936	(56,664)	41,645	(81,389)	(72,591)		(53,827)	8,982	(45,623)		
Non-current liabilities	14,757	16,251	2,537	4,579	8,875	20,499	4,161	5,298		4,375	146,086	258,337	176,416	309,339
Current liabilities	97,066	86,498	47,198	48,873	42,586	64,264	55,169	45,409		59,583	134,376	173,581	376,395	478,208
LIABILITIES	227,006	223,209	63,623	63,388	(5,203)	126,408	(22,059)	(21,884)		10,131	289,444	386,295	552,811	787,547
TOTAL NET ASSETS	216,372	195,750	20,311	34,768	139,259	104,733	130,475	121,266		212,583	(33,900)	(204,213)	472,517	464,887

Inter-segment sales are made at current market prices.

Information by geographical segments

The following table provides the detail of certain Group balances in accordance with the geographical distribution of the companies that produce them:

Thousands of euros	Revenues		Profit (loss) before taxes		Total assets	
	2005	2004	2005	2004	2005	2004
Spain	563,055	687,692	101,464	87,103	587,897	775,099
Rest of EU	406,689	474,703	(36,554)	(10,137)	345,738	372,870
RoW	134,866	151,692	10,973	13,909	91,693	104,465
TOTAL	1,104,610	1,314,087	75,883	90,875	1,025,328	1,252,434

19. Tax matters

19.1. Consolidated tax group

In accordance with prevailing legislation, the consolidated tax group includes Uralita, S.A., as parent company, and Spanish companies that comply with legislation governing taxation on the consolidated profit of Group companies as subsidiaries.

The remaining subsidiaries file individual taxes in accordance with the tax regulations prevailing in each country.

19.2. Years open to inspection

At 31 December 2005, the consolidated tax group was open to inspection for all the main taxes applicable for 2001, 2002, 2003, 2004 and 2005. In general, consolidated companies are open to inspection for the main taxes applicable for the last four years.

At 31 December 2005, the consolidated tax group had tax assessments signed in disagreement, for which it has filed the associated claims and appeals. Considering the related provisions recorded by the Group, the directors estimate that any potential liabilities arising as a result of the tax assessments will not have a material impact on the consolidated annual accounts for 2005.

Because of the possible different interpretations of tax regulations, any tax audits that the authorities may carry out in future in respect of the years currently open for inspection could give rise to tax liabilities that cannot be quantified objectively. However, the Group's tax advisors and directors believe that the chances of material liabilities arising as a result are remote.

19.3. Income taxes recognised in profit and loss

Income taxes recognised in the consolidated income statements for the years ended 31 December 2005 and 2004 are the following:

Thousands of euros	2005	2004
Income tax for the Spanish consolidated tax group	(1,810)	(107)
Income tax for other Spanish subsidiaries	24,642	19,747
Income tax on foreign operations	8,187	8,877
Deferred tax, net	(8,712)	1,561
TOTAL	22,307	30,078

Spanish companies are taxed by applying a 35% rate to the estimated tax base less any deductions or rebates.

Taxes in other jurisdictions are calculated in accordance with the prevailing rates.

Of the local income tax charge in 2005, approximately €3,507 thousand (€84 thousand in 2004) correspond to subsidiaries disposed of during the year. These disposals did not produce any tax assets or liabilities.

19.4. Deferred tax

Under prevailing tax legislation in the various countries where consolidated companies are located, at 31 December 2005 tax assets / liabilities rose from the differences between accounting principles and tax criteria applied and the temporary differences between the recognition of revenue and expenses. An unused tax credit is also recognised as the Company considers that its recoverability is reasonably assured.

The detail of movements in “Deferred tax assets” and “Deferred tax liabilities” recognised by the Group at 31 December 2005 and 2004 is the following:

Thousands of euros	ASSETS				LIABILITIES	
	Tax loss carryforwards and deductions		Temporary differences		TOTAL	Deferred tax from reassignment of value of land of Fibrocemento NT, S.A. (Note 7)
	Consolidated tax group	Other companies	Tax impact of adoption of IFRS	Other		
Balance at 1 January 2004	-	12,592	25,731	9,710	48,033	-
Increases	70,620	-	-	-	70,620	-
Reversal to profit or loss	-	-	(1,561)	-	(1,561)	-
Balance at 31 December 2004	70,620	12,592	24,170	9,710	117,092	-
Increases	31,268	13,676	13,181	-	58,125	13,181
Reversal to profit or loss	(2,846)	(483)	(23,193)	(9,710)	(36,232)	-
Balance at 31 December 2005	99,042	25,785	14,158	-	138,985	13,181

The balance at 1 January 2004 was recognised in the transition to IFRS (see Note 2.1).

In 2004, as profit estimates by the companies included in the consolidated tax group guarantee the unused tax credits at 31 December 2004, the Group decided to recognise the tax effect of the future offset and application of tax loss carryforwards and deductions available at that date.

20. Earnings per share

20.1. Basic earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of parent company shares held as treasury shares in the year.

Basic earnings per share is therefore determined as follows:

	2005	2004
Profit (loss) for the year attributable to equity holders of the parent (thousands of euros)	35,184	45,231
Average number of ordinary shares outstanding (thousand)	197,500	196,162
Basic earnings per share (euros)	0.18	0.23

This calculation takes into account the stock split which reduced the par value of the shares on 1 January 2004 (see Note 11.1), which does not alter the shareholder structure.

20.2. Diluted earnings per share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (adjusted by the effect attributable to dilutive potential ordinary shares) and the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the company. Conversion is considered to take place at the beginning of the period or at the time of the issue of the potential ordinary shares if these were issued during the year.

In 2005 and 2004, diluted earnings per share coincided with basic earnings per share.

21. Related party transactions

Caja de Ahorros de Salamanca y Soria, a related party by virtue of its equity investment in Uralita, S.A., has granted Group companies credit lines at 31 December 2005 at market rates with a combined limit of €10,500 thousand, of which €50 thousand had been drawn down at that date. Interest payable on these facilities in 2005 totalled €209 thousand. In addition, at 31 December 2005, this entity had granted guarantees to Group companies for an amount of €5,464 thousand.

22. Compensation and other information

In 2005 the members of the Board of Directors of Uralita, S.A. were paid total compensation of €1,034 thousand (€1,256 thousand in 2004) in salaries and compensation in kind and €648 thousand (€507 thousand in 2004) in attendance fees, with the following detail:

2005	Board of Directors	Nomination and Remuneration Committee	Audit Committee	TOTAL
Thousands of euros				
Nefinsa	48	9	9	66
Caja Duero	48	9	-	57
Atalaya Inversiones	48	-	9	57
Mr. Javier Serratos Luján	96	-	-	96
Mr. Javier Echenique Landívar	48	18	-	66
Mr. José M. Serra Peris	48	-	18	66
Mr. Jesús Quintanal S. Emeterio	48	-	-	48
Mr. José I. Olleros Piñero	48	-	-	48
Mr. José A. Carrascosa Ruiz	48	-	-	48
Mr. Javier González Ochoa	48	-	-	48
Mr. Álvaro Rodríguez-Solano Romero	48	-	-	48
TOTAL	576	36	36	648

2004	Board of Directors	Nomination and Remuneration Committee	Audit Committee	TOTAL
Thousands of euros				
Nefinsa	36	6	6	48
Caja Duero	36	6	-	42
Atalaya Inversiones	36	-	6	42
Mr. Javier Serratosa Luján	72	-	-	72
Mr. Javier Echenique Landívar	36	12	6	54
Mr. José M. Serra Peris	36	-	6	42
Mr. Jesús Quintanal S. Emeterio	36	-	-	36
Mr. José I. Olleros Piñero	36	-	-	36
Mr. Íñigo Jodra Uriarte	36	-	-	36
Mr. José A. Carrascosa Ruiz	36	-	-	36
Mr. Javier González Ochoa	36	-	-	36
Mr. Álvaro Rodríguez-Solano Romero	27	-	-	27
TOTAL	459	24	24	507

The Group has no commitments for pensions or insurance premiums for members of the Board of Directors. Nor has it granted board members any advances, loans or guarantees.

Compensation paid to senior managers (excluding those who are members of the Board of Directors, whose compensation is described previously) amounted to €1,044 thousand (5 managers) in 2005 and €1,633 thousand (seven managers) in 2004.

In accordance with the terms of Law 26/2003 the Group defines its main activity as described in Note 1.

In accordance with the information of Uralita, S.A. directors, there is no situation described in Law 26/2003 with respect to the ownership by members of the Board of Uralita, S.A. of equity stakes in companies with the same, similar or complementary business to the Group's main activity. Similarly, these members have not carried and do not carry out on their own behalf or on the behalf of a third party, an activity which is similar or complementary to Company's main activity.

The detail of members of the Board of Directors of Uralita, S.A. who are directors in other companies with the same, similar or complementary business to the Company's main activity is as follows:

- Mr. Javier Serratosa Luján
 - Ursa Ibérica Aislantes, S.A.
 - Ursa International, GmbH
- Mr. José Ignacio Olleros Piñero
 - Uralita BV
 - Uralita Holding BV
- Mr. Álvaro Rodríguez-Solano Romero
 - Uralita BV
 - Uralita Holding BV

All these companies are subsidiaries of Uralita, S.A.

In all cases, members of the management teams of all subsidiaries represent Uralita, S.A., as the main shareholder, with the exception of certain subsidiaries, belonging mainly to the Gypsum and Roofing businesses, whose management teams include representatives of minority shareholder Grupo Lafarge, which carries out similar activities to those carried out by Uralita Group. Representatives of the Uralita and Lafarge groups on these management teams do not hold stakes in the share capital of companies which carry out the same, similar or complementary business activities to those carried out by the companies making up the Uralita Group's core business, nor do they hold positions of responsibility in other companies not belonging to the Group, which carry out a similar business activity.

23. Contingent assets and liabilities

At 31 December 2005, there are no contingent assets or liabilities that could have a material impact on the financial position and equity reflected in the accompanying consolidated financial statements.

24. Environmental Information

Some of the consolidated companies are required to comply with a series of legal provisions relating to the prevention and reduction of emissions, recovery of zones and the protection and improvement of the environment, and this has given rise to a series of investments and expenses.

The net carrying values at 31 December 2005 of systems, equipment and facilities included in property, plant and equipment designed to protect and improve the environment amount to €4,935 thousand.

Costs incurred in 2005 for environmental protection and improvement came to €1,037 thousand. All of these were ordinary expenses and mostly comprised wages paid to personnel who carry out environmental services, waste collection and treatment, environmental audits and similar certifications.

At year-end 2005 no provisions were recorded for environmental actions, with €50 thousand having been used for cleaning tasks and waste collection resulting from the discontinuation of all production processes using asbestos in previous years.

The follow-up of environmental contingencies is mainly undertaken by specialised personnel, while third parties are charged with carrying out environmental audits and waste management and collection. The evaluation of these contingencies has not indicated any eventual effects on the companies' assets and results, nor are any additional contingencies of an environmental nature expected to arise from their activity.

Environment-related subsidies and compensation obtained in 2005 amounted to €51 thousand.

APPENDIX 1 - Subsidiaries - 2005

By business segment Thousands of euros	Location	Direct holding (%)	Group holding	Carrying amount	Assets	Liabilities	Equity	Profit (loss) for the year	Unrealised capital gain
INSULATION									
Ursa Ibérica Aislantes, S.A.	Barcelona	100.00%	100.00%	35,271	144,375	115,459	28,916	(5,933)	6,355
Ursa Italia S.R.L.	Italy	100.00%	100.00%	201	25,616	21,331	4,285	(668)	
Ursa France, S.A.	France	100.00%	100.00%	0	73,206	78,590	(5,384)	4,648	
Ursa Saint-Avold, S.A.	France	100.00%	100.00%	0	46,808	58,881	(12,073)	(9,159)	
Ursa U.K. LTD.	UK	100.00%	100.00%	15	3,909	2,412	1,497	1,379	
Ursa International GmbH	Germany	100.00%	100.00%	18,212	33,906	4,747	29,159	(6,168)	5,016
Ursa Eslovenija, d.o.o.	Slovenia	100.00%	100.00%	29,000	46,053	5,368	40,685	(2,322)	
Ursa Novoterm Sarajevo d.o.o.	Bosnia	100.00%	100.00%	13	26	9	17	4	
Ursa Beograd d.o.o.	Yugoslavia	100.00%	100.00%	15	79	72	7	(1)	
Ursa Novoterm Zagreb d.o.o.	Croatia	100.00%	100.00%	140	1,517	1,298	219	94	
Ursa Dämmssysteme Austria GmbH	Austria	100.00%	100.00%	46,249	51,265	11,193	40,072	442	10,751
Ursa CZ s.r.o.	The Czech Republic	100.00%	100.00%	846	2,144	1,299	845	590	1
Ursa SK s.r.o.	Slovak Republic	100.00%	100.00%	0	621	406	215	168	
Ursa Benelux BVBA	Belgium	100.00%	100.00%	2,740	33,059	37,174	(4,115)	(693)	6,855
Ursa Deutschland GmbH	Germany	100.00%	100.00%	27,048	73,488	74,753	(1,265)	(28,678)	
Ursa Salgótarjáni Üvegyipart RT.	Hungary	100.00%	100.00%	22,883	43,284	7,859	35,425	11,436	9,831
TOO Ursa Kazakhstan	Kazakhstan	100.00%	95.02%	0	12	27	(15)	0	
OOO Ursa Serpuchov	Russia	100.00%	99.75%	13,507	50,496	28,530	21,966	3,552	
OAO Ursa Chudovo	Russia	95.02%	95.02%	35,482	37,609	(9,067)	46,676	7,255	23,785
Ursa Industry	Germany	100.00%	100.00%	29	618	1,471	(853)	(878)	
Ursa Nordic	Sweden	100.00%	100.00%	12	34	19	15	5	
Ursa Enterprise	Ukraine	100.00%	100.00%	0	1,327	1,286	41	532	
Ursa Eurasia LLC	Russia	100.00%	100.00%	0	23,221	29,493	(6,272)	(5,703)	
Ursa Polska Sp. z.o.o.	Poland	100.00%	100.00%	7,917	22,238	10,743	11,495	4,171	
Ursa Romania SRL	Romania	100.00%	100.00%	3	1,272	794	478	432	
Ursa Swiss GmbH	Switzerland	100.00%	100.00%	16	105	91	14	(2)	
GYPSUM									
Yesos Ibéricos, S.A.	Madrid	59.31%	59.31%	25,752	210,551	80,437	130,114	39,482	
Episa, S.L.	Portugal	100.00%	60.94%	2	259	137	122	(9)	
ROOFING									
Uralita Iberia	Madrid	100.00%	100.00%	1,497	3,883	2,386	1,497	(21,978)	
Uralita Tejados, S.A.	Madrid	53.00%	53.00%	47,584	110,634	24,985	85,649	3,884	
Lusoceram Empreendimentos Cerâmicos, S.A.	Portugal	0.01%	0.01%	1	30,732	22,328	8,404	(8,701)	
Fibrocementos NT, S.A.	Madrid	100.00%	100.00%	34,814	65,735	55,400	10,335	(33,175)	37,660
Rocmat, E.U.R.L.	France	100.00%	100.00%	113	1,106	1,277	(171)	(283)	
PIPES									
Uralita Sistemas de Tuberías, S.A.	Madrid	100.00%	100.00%	20,312	85,891	65,640	20,311	(12,964)	
Epe France, S.A.R.L.	France	100.00%	100.00%	1,427	1,623	135	1,488	61	
OTHER SUBSIDIARIES									
Uralita Holding BV	Netherlands	100.00%	100.00%	1,324	1,370	20	1,350	29	
Uralita BV	Netherlands	100.00%	100.00%	1,136	125,395	124,168	1,227	170	
Electroquímica Andaluza, S.A.	Madrid	75.49%	75.49%	0	0	5,627	(5,627)	(896)	
Cerámicas Sanitarias Reunidas, S.A.	Barcelona	100.00%	100.00%	648	794	146	648	(57)	

The Uralita Group

Management Report 2005

1. Results

Throughout 2005 the Uralita Group continued to implement its 2004-2006 Strategic Plan, successfully completing the planned disposal of non-core assets one year ahead of schedule. We highlight the disposal of the group's Chemicals Business –Aragonesas– in May for €180 million, free of debt. Despite these disposals, Net Income attributable to the controlling company was €35.2 million, the second best result reported in the last decade. Furthermore, gains on disposals carried out during the year, coupled with improved management of cash flow from operating activities allowed the Group to reduce net debt by 52% to €140.1 million.

Consolidated sales totalled €1,104.6 billion, with foreign operations accounting for 49% of the total. This figure includes the first five months of the year for the Chemicals Business. Consolidated sales at the Group's core businesses grew 0.6% vs. the same period last year. Performances varied between Uralita's geographical markets in 2005. The Spanish business performed well once again, with 730,000 housing starts in 2005 (+6.2% vs. 2004), while the construction market -particularly housing construction- in Portugal remained depressed, and even more so in Germany. The Eastern European markets continue to show strong growth, in line with previous years.

Consolidated EBITDA for 2005 stood at €150.5 million, with an EBITDA margin of 13.6% vs. 14.4% in 2004. The decline is due primarily to lower income from the non-core businesses that were sold and the fall in EBITDA in the Insulation Business, caused by the weak German market and the rise in raw material prices.

Despite the unfavourable backdrop and the disposals carried out, Net Income for the year was €53.6 million, with a margin of 4.9%, 0.3pp higher than in 2004. Net Income attributable to the controlling company was €35.2 million.

The Group generated free cash flow of €188.4 million in 2005, allowing it to reduce net debt to €140.1 million from €292 million at year-end 2004. This significant reduction in debt was made possible by the proceeds of the non-core asset disposals carried out during the year, and operating income from core businesses and the active management of its investments in property, plant and equipment and working capital.

2. Results by business

External conditions for the Insulation Business were extremely unfavourable throughout 2005, due largely to the decline in construction activity in Germany and the rise in polystyrene prices (the main raw material for XPS), which could not be passed onto the final customer. Sales stood at €440 million, up 1.3% vs. 2004 while the EBITDA margin contracted from 17.1% in 2004 to 12.6% in 2005, due largely to the factors mentioned above.

Despite the margin erosion in 2005 (measures have already been implemented to address this issue) the Insulation Business still has a strong competitive position in Europe, and is the leader in Eastern Europe, where the Uralita Group has invested in a second glass wool line at its Serpuchov plant in Russia, brought on stream in the first quarter of 2005.

Results at the Gypsum Business showed a sharp improvement in 2005, with sales of around €200 million and an EBITDA margin of 29.3%, making this the Group's most profitable activity. Sales increased by 9.5% vs. 2004, outstripping the increase by the building sector in Spain, and due largely to the increased penetration of Pladur® and the development and promotion of higher added value products in the powdered gypsum segment.

The Roofing Business was the most affected by the disposals carried out in 2005, as these included Thermo-clay blocks (Cerámicas Estructurales) and Profiles and Panelling (Teczone). Sales fell 20.7% to €182.6 million as a result of these disposals, with an EBITDA margin of 11.9%. The two core businesses, Tejas España and Tejas Portugal, showed widely different performances: In Spain, the construction growth trend seen over the past two years continued, while in Portugal construction activity slowed for the fourth consecutive year. The core businesses reported combined sales of €108 million in 2005, -6.0% vs. 2004, with an EBITDA margin of 14.8%.

The performance of the Pipes Business was worse than expected throughout 2005. Sales fell by 23% vs. 2004 due mainly to the disposal of non-core assets and the closure of non profitable activities. The Business was negatively impacted by unfavourable polyester pipe prices and higher PVC prices on the international markets. EBITDA was €3.6 million, with an EBITDA margin of 2.2%, still a long way off the Uralita Group's targets. The Pipes Business was fully restructured during 2005 and a series of measures implemented designed to boost profitability. The impact of these measures should start to be felt in 2006.

3. Research and Development

In 2005 the Group earmarked €1.1 million to R&D projects.

4. Risk Management

Uralita's exposure to financial risk is mitigated by an appropriate framework for the detection and prevention of risk which forms part of the Group's Risk Management System. Therefore, all price, credit, liquidity and cash flow risk is periodically evaluated, monitored and controlled by the company.

The effectiveness of the system is based on creating an appropriate framework for risk prevention, encouraging active participation in the detection and prevention of risks in advance, notifying risks at the appropriate decision-making level, and controlling risks through suitable procedures.

5. Treasury Stock

At 31 December 2005 no shares in the parent company were held as treasury stock and no transactions involving treasury stock were carried out in 2005.

6. Subsequent events

No subsequent events have taken place between the close of the consolidated financial statements and the date of which they were prepared.

7. Outlook

The company's Management forecasts a good outlook for its activities over the next few years.

The Uralita Group

Summary of Financial Data

RESULTS

Thousands of euros	2005	%	2004	%	2003	%
Net sales	1,104,610	100.0	1,314,087	100.0	1,314,556	100.0
Gross margin	659,318	59.7	764,499	58.2	765,753	58.3
EBITDA	150,516	13.6	189,708	14.4	162,054	12.3
EBIT	87,581	7.9	111,532	8.5	65,589	5.0
PBT	75,883	6.9	90,875	6.9	(1,548)	(0.1)
Net income	53,576	4.9	60,797	4.6	(26,389)	(2.0)
Net income attrib. to the controlling company	35,184		45,231		(41,931)	

BALANCE SHEET

	2005	2004	2003
Fixed assets	433,051	584,188	694,758
Financial assets	1,823	3,701	10,246
Other assets	256,361	180,625	105,388
Working capital	97,835	297,747	375,347
Total investment	789,070	1,066,261	1,185,739
Shareholders' equity	374,903	366,653	339,708
Minority interests	97,614	98,234	95,508
Other funds	176,416	309,339	299,382
Net debt	140,137	292,035	451,141
Total resources	789,070	1,066,261	1,185,739
Capital employed	612,654	756,922	886,357
Working capital with third parties			
· Value	31,331	72,356	176,962
· % of net sales	2.8	5.5	13.5

RATIOS

	2005	2004	2003
Earnings per Share, euros	0.18	0.23	(0.64)
R.O.C.E.	14.2%	14.8%	8.1%
R.O.I.C.	6.5%	7.1%	4.6%
Interest Coverage	10.6	5.4	2.0
Assets Turnover	1.8	1.7	1.5
Gearing	37.4%	79.6%	132.8%
Current Ratio	0.9	1.0	0.8