Letter from the Chairman

Dear Shareholders,

The highlights of reporting year 2005 include completion of non-core business divestments (a process that was started in 2003), achievement of the Group's second-highest profit in the last decade and a significant reduction in debt, which allows us to envisage a new phase of growth.

2005 Results

Results in 2005 were marked by the divestment of non-core businesses and a complex macroeconomic situation.

Disposal of non-core business lines

The sale of six non-core business lines completed our divestment of non-core activities and allowed us to consolidate our portfolio, which now contains Insulation, Gypsum, Roofing and Pipes. We defined these as our four core business lines in 2003 and we will use them as a platform for future growth.

The divestments reduced our 2005 income – due to the loss of sales and earnings from the divested businesses – but at the same time, they have improved the Group's situation, both in financial terms, by significantly cutting debt, and at operational level, by enabling Uralita to focus on businesses where it is competitive due to its size, capacity and positioning.

The divestment of the Chemical Business to Ercros had a particularly strong impact, as it had contributed 305 million euros in Sales, €30 million in EBITDA and €10 million in Net Income in 2004.

Today the Uralita Group is more focused and more profitable than in 2002 when I was appointed Chairman of the Group: the number of business lines has been streamlined from 17 to 4, and the number of plants from 70 to 38.

The economic climate

The Group’s activities in 2005 were carried out in a complex environment as regards both the performance of the markets in which Uralita is present and the rise in cost of crude and its derivatives.

On a market-by-market basis, Spain and Eastern Europe performed very well whilst the German and Portuguese markets, which are extremely important to the Group, fared worse with a marked decrease in construction activity.

The construction sector in Spain, where the Group carried out 51% of its business in 2005, once again performed strongly with 730,000 housing starts, a 6.2% increase compared to the previous year and 3.4% above GDP growth in 2005.

With regards to costs, results for the year 2005 were affected by the rise in crude prices and its effect on the prices of gas and electricity, used in our production processes, on transport costs and on the price of some of our key raw materials such as polystyrene and PVC.

This macroeconomic situation especially affected the Insulation Business both because of the situation in the German market which accounts for around 20% of the business, and the temporary difficulties in transferring the increases in energy and raw material costs to the market. Likewise, the Roofing Business was affected by the situation in Portugal, a market which accounts for around one third of total activity and where construction activity has fallen for the last fourth year.

Lines of strategy

In order to deal with these situations, the Uralita Group introduced a number of measures in 2005 aimed at strengthening the competitive position of our businesses:

- Review of the industrial structure and reduction of fixed overhead costs in the Insulation and Roofing Businesses.
- In-depth restructuring of the Pipes Business to guarantee adequate future profitability.

- Implementation of measures to boost industrial output in Gypsum and commercial initiatives aimed at increasing the penetration of Pladur®.
- Simplification of our product range and review of the Group's branding policy with the launch of the new roof tile (Cobert®) and powdered gypsum (Algíss®) brands.
- Increased capacity in high growth markets, most notably Eastern Europe.

We also implemented in-depth organizational restructuring based on three linchpins:

- Significant streamlining of the corporate centre aimed at adapting it to the simpler Group structure and thereby cutting costs.
- Grouping together of the Gypsum, Roofing and Pipes Businesses in order to optimise common functions and carry out an integrated commercial and industrial management.
- Relocation of the Insulation Business headquarters to Madrid.

All of these measures have made the Group more efficient operatively and less exposed to ever-changing external variables.

Financial results and share performance

Despite the smaller business scope mentioned above, Uralita's Net Income attributable to the controlling company totalled €35.2 million, the second highest result for the past 10 years, and the Group slashed its debt by 52% to €140 million.

Results by Business area were varied: whilst sales and profitability continued to grow in the Gypsum Business, the Insulation and Roofing Businesses performed worse than 2004 due to the reasons mentioned above. Finally, profits at the Pipes Business improved slightly, although these still fell short of expectations.

Uralita's shares traded at an average of €4.10 throughout 2005, although the share price fell 8% during the year, closing at a low of €3.42/share.

Summary

In 2005, the Group achieved some important targets:

- It posted its second highest income for the past 10 years (€35.2 million).
- It slashed its debt by 52%, which will enable it to study the possibility of growing through new acquisitions.
- It simplified its business portfolio and shed non-strategic businesses.
- It acted on many operating fronts in its businesses and at Group level in order to offset the unfavourable economic environment and be more competitive in the future.

Shareholder remuneration

In accordance with our policy of ensuring adequate remuneration for our shareholders, we intend to propose at the General Shareholders' Meeting an ordinary dividend of €0,11 per share from 2005 profits. This would imply a 61% pay-out (ratio of dividend over Net Income attributable to the controlling company), notably higher than the established 30%-40% pay-out policy.

With this payment we aim to ensure attractive remuneration for our shareholders in a year when disposals have led to a lower result, but have enabled the Group to improve its operating and financial position.

Priorities for 2006

Now that the disposals process is finished, the Group intends to increase profitability in 2006 so that, with a lower sales volume, we can record net income in line with 2005 levels. Although we look forward to seeing some markets recover (particularly Germany), improvements will stem mainly from initiatives implemented in 2005.

In addition, the Group's sound financial situation means that we can consider further growth via acquisitions or increasing capacity.

Finally, I would like once again to thank you, on my own behalf and on behalf of the Board, for the confidence you have placed in us, and I would also like to renew our commitment to continue generating value for all of you and to making Uralita Group an European standard-bearer for profitability in the construction materials sector.

Javier Serratosa Luján
Chairman
Uralita Group