



Uralita Group



Management
Report by
Business



GRUPO
URALITA



URSA GLASSWOOL®



URSA

Grupo Uralita



URSA GLASSWOOL®



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Grupo Uralita



A complex macroeconomic situation in a high potential business

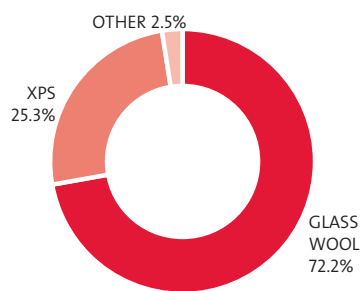


Insulation

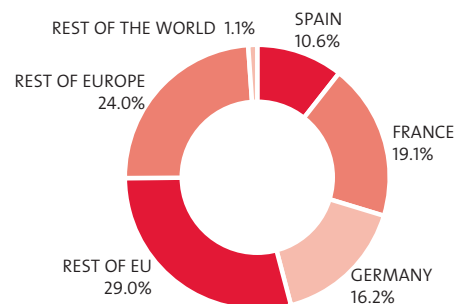
BUSINESS DESCRIPTION

Uralita Group's Insulation Business, Ursa, manufactures and sells insulation solutions, principally to the construction industry. The Business manufactures two kinds of materials: Glass wool and extruded polystyrene (XPS). The Business also makes technical glass wool products for use in pipe insulation.

Sales by product type



Sales by geographical area



Competitive positioning and market structure

Uralita Group is the third largest producer of insulation in Europe

Uralita Group is the third largest producer of insulation in Europe. The material that competes most directly with glass wool is another mineral wool, stone wool. The main products to compete directly with XPS are other foam products such as EPS (expanded polystyrene) and PUR/PIR (polyurethane/polyisocyanurate)

Ursa's business scope encompasses Europe and Russia, being the second largest producer of glass wool and XPS and the third largest manufacturer of all insulation materials. Ursa is market leader in many Eastern European countries and in Russia.

Ursa currently has nine glass wool and four XPS plants in Spain (2), France (2), Belgium, Italy, Germany (2), Slovenia, Hungary, Poland and Russia (2).

Due to the high entry barriers, the European mineral wools market is highly concentrated, with five major players present in most markets. The market for XPS and for foam products in general is significantly more fragmented, especially in Southern Europe, where there are an increasing number of producers.



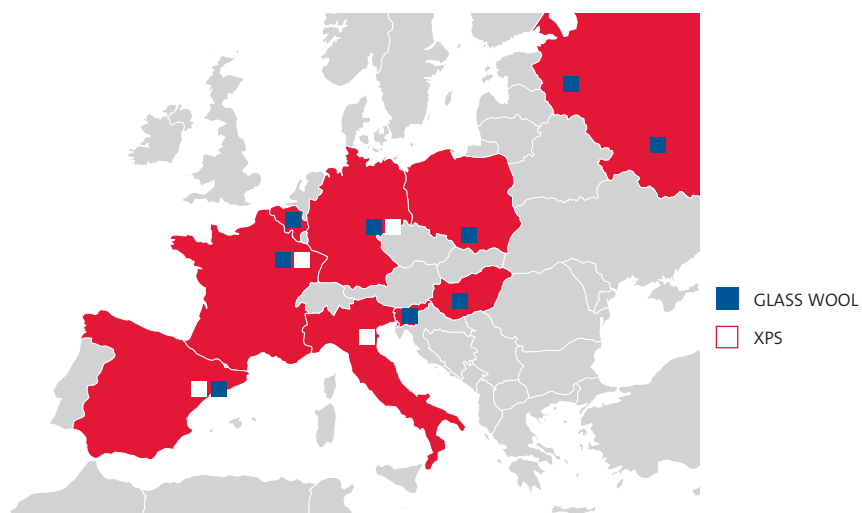
Ursa sells both glass wool and XPS to a large percentage of its customers

There are four main sales channels for insulation materials:

- General distributors of construction materials.
- Specialist distributors in a specific segment, where insulation materials are part of their product offering.
- Large DIY (“Do it yourself”) stores.
- Direct sale to manufacturers.

Ursa sells both glass wool and XPS to a large percentage of its customers, as this combined offering of complementary insulation materials is one of its main competitive strengths. Ursa is the only company which manufactures and sells both materials and which is a leader in both.

Map of plant facilities





BUSINESS PERFORMANCE IN 2005

Market growth

In Western and Central Europe, growth was fairly uneven in the different markets. Among the growth markets, Spain, France and the UK are worth a particular mention. Among the markets where growth was negative, we would highlight Poland and Germany (consumption of insulation materials was closely related to the negative general performance of the construction sector in the latter country). In Eastern Europe and Russia the performance was boosted by the increase in construction activity and the penetration of insulation materials.

Main initiatives of the Uralita Group

Given the situation of the market, Ursa revised its Strategic Plan in 2005

Given the situation of the market, whose performance did not match the business plan's forecasts, Ursa revised its Strategic Plan in 2005. In August the Group implemented an ambitious restructuring plan whose strategic objectives were, firstly, to focus activity on the core construction business, secondly, to tailor existing production capacity to demand, especially in Western Europe, and, thirdly, to implement an ambitious plan to cut costs and reduce the complexity of the business, thereby increasing its profitability. The initiatives carried out were as follows:

- Closure of the Wesel glass wool plant in Germany.
- A significant cutback in industrial insulation activities.
- Withdrawal from sale of third-party products.

- Closure of the pipe insulation line in Novo Mesto (Slovenia), concentration of production at the Salgotarjan plant (Hungary) and concentration of sales in more profitable markets.
- Rationalisation of the product portfolio
- Personnel downsizing at all levels and structural cost cuts.
- Drafting of a plan to reduce the number of operating units (to be implemented in 2006).

Finally, the decision was made to relocate the headquarters from Frankfurt to Madrid to consolidate the culture of the Group and increase synergies with the Group's corporate centre and other businesses.

2005 Results

The Insulation Business reported sales of €440 million in 2005, up 1.1% on 2004, thanks to the growth of Eastern European markets, which offset the decline in activity in Germany.

EBITDA in the Insulation Business came to €55.4 million, 25.3% down on 2004. The EBITDA margin fell from 17.1% in 2004 to 12.6% in 2005. This setback in profitability was due primarily to the situation of construction markets in Central Europe, mainly Germany, and secondly to the increase in the cost of energy and oil-derived raw materials, with the temporary difficulty of passing on the entire increase in these costs to the market at present.





Financial highlights

Million euros

	2001	2002	2003	2004	2005
Sales*	195.2	258.4	434.5	434.4	440.0
EBITDA	18.5	27.1	72.1	74.2	55.4
EBITDA margin	9.5%	10.5%	16.6%	17.1%	12.6%
Capital expenditure	23.3	14.1	36.0	43.9	54.8
Year-end workforce	827	2,275	2,239	2,239	2,188

* Business sales include intra-group sales

MILESTONES FOR 2006

In 2006 the Group will focus on stabilising and increasing the profitability of its current core businesses and seeking growth opportunities.

- Continuing to reduce costs and improve industrial and logistics efficiency.
- Completing the reduction of the number of operating units and the transfer of the headquarters to Madrid.
- Identifying and assessing new growth projects, especially in Eastern Europe.



Increased penetration of plasterboard and higher value-added gypsum products are boosting profitability



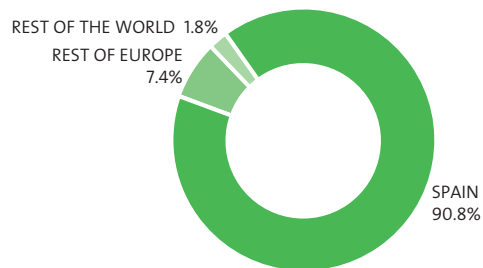
Gypsum

BUSINESS DESCRIPTION

The Gypsum Business manufactures and sells building products and interior partition solutions for all segments of the building construction sector (residential and non-residential construction, refurbishing and reforms). It has two business lines:

- Pladur® plasterboard systems: dry wall partition solutions
- Powdered gypsum under the Algiss® brand: traditional or wet plaster partition solutions

Sales by geographical region



Competitive positioning and market structure

PLADUR®

Pladur® has now become the widely accepted term for plasterboard in Spain and Portugal

Pladur® construction systems, comprising plasterboard and other items required for its assembly, lead the Iberian market where the Pladur® brand name has virtually become the generic term for plasterboard. Plasterboard systems are quicker and easier to assemble than traditional partition solutions, and are therefore cheaper to install. They also have better finishes and provide better thermal and acoustic insulation. In addition, some products in the plasterboard system range have waterproof and fire-resistant properties, among others.

Pladur® production is carried out at the Valdemoro plant, which supplies the company's markets in the Iberian peninsular and abroad.

The Iberian plasterboard market is an established market, with three multinationals companies as competitors and it has registered high growth in recent years.

Pladur® is mostly sold through distributors, a sector that has registered significant growth in recent years. The second most important channel is direct installation, with slower growth rates. Other less important channels are large retail outlets and manufacturers of other products, which use the board as a raw or semi-finished material.

Plasterboard is perfect for the needs of the refurbishment and reform segment which is envisaged to grow as new building works decline

With regard to applications, Pladur® systems are used both in new constructions (residential and non-residential) and in refurbishing and reforms. In recent years Pladur® has focused largely on new residential construction as this segment accounts for approximately 60% of the faceboards (partition walls, structural walls and roofing) built in Spain and currently has the lowest penetration for plasterboard. Campaigns have been directed at promoters and constructors to explain the advantages of Pladur® construction systems over traditional solutions. Also, although it is the smallest segment in the faceboards market, refurbishing and reforms has magnificent future prospects as it will be the fastest growing segment when new residential construction declines, and plasterboard fits perfectly with the construction needs of this segment.

ALGÍSS®

2005 saw the launch of the Uralita Group's new powdered gypsum brand: Algíss®. The choice of this brand was inspired by the Mozarabic term for gypsum and the inspiration for the logo is derived from the "desert rose", which is a shape into which gypsum mineral crystallises.

Although Algíss® ranks second in the Iberian market in volume terms, it is the sector leader in terms of product range and quality. Algíss® continues to promote higher value-added gypsum products by stressing their advantages in terms of profitability and quality compared to other more traditional products such as manually applied plaster. In addition, Algíss® is the producer with the greatest focus on customer service, promoting its gypsum silos offer and developing new services such as SMS shipping notification.

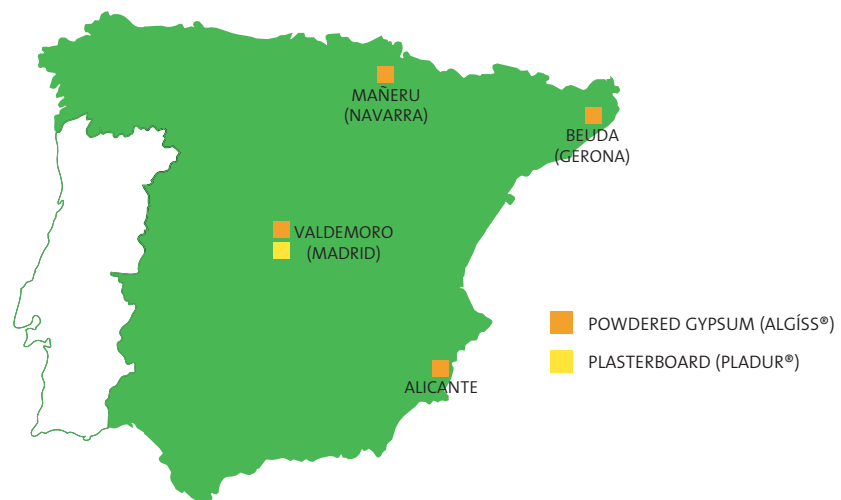
Four plants, located in mainland Spain, serve the various domestic markets for Algíss®.



Unlike the plasterboard market, the powdered gypsum market is strongly regional due to the different construction methods in each region and the high cost of transport. Therefore the relative weighting of the two main distribution channels, applicator and general distributor, vary according to the regional market.

The product preferences of each market also differ: markets such as northern Spain consume more added value gypsum products, while manually applied plaster still has a larger market share in the country's north-east.

Map of plant facilities



BUSINESS PERFORMANCE IN 2005

Market growth

Increased use of plasterboard is due to its advantages compared to traditional partition walling solutions and to Pladur®'s marketing policy

The building sector in Spain, which accounts for most of the Gypsum Business's activity, remained buoyant in 2005 with 730,000 housing starts. The penetration of plasterboard in Spain, measured as the percentage of square metres of interior board over total partitions constructed, continued to increase and stood at 15% in 2005, though there is still huge potential compared with neighbouring countries. This is due to the advantages of Pladur® construction systems over traditional solutions, as well as to the commercial policy implemented by Pladur®.

The powdered gypsum market also performed well due to the change in product mix, headed by Algíss®, and the high level of construction activity.

Main initiatives carried out by Uralita

PLADUR®

Pladur® increased its profitability in 2005 as a result both of commercial (market development and product range) and industrial improvements.



In terms of market development, the Business focused on increasing the penetration of Pladur® construction systems over traditional solutions through:

- Promotional campaigns with decision making groups: developers (direct marketing campaigns), architects (Pladur® prize), installers (construction references on the website) and end-users of the system (possibility of hiring an installer via the website).
- Development of distribution by attracting new customers: extension of use of e-commerce, joint advertising.

- Loyalty plans for indirect clients

Pladur®'s margins improved thanks to the market's development, the launch of new products and improvements in industrial efficiency

With regard to the product range, the most important event was the launch of the new Pladur Fon® range for soundproofed ceilings.

Finally, as regards industrial plans, the most important was the implementation of the Valdemoro management plan, which enabled the Business to achieve a new record for plasterboard production and to reduce unit production costs with measures such as:

- Improving the plant's efficiency, introducing industrial management systems such as TPM (Total Productive Maintenance) and OOC (Organisation, Order and Cleaning), etc.
- Boosting output via initiatives to improve industrial ratios, thereby maximising available capacity.
- Reducing industrial costs: reducing the weight of board, improvements in dosage, adaptation of the workforce, etc.

ALGISS®

The efficiency of the Powdered Gypsum business was also enhanced by:

- Improving the mix through promotions of applied gypsum with perlite and promoting the use of gypsum for silos which has advantages in terms of speed, productivity and application quality.
- Improving the industrial process both in terms of technology used and by implementing a single total management quality system, which has served as a platform for the transfer of knowledge and best practices.

2005 Results

In 2005 the Gypsum Business posted a record EBITDA margin of 29.3%

The Gypsum Business reported excellent results in 2005, with turnover close to €200 million and EBITDA of €58.5 million.

Both businesses contributed to the 9.5% sales growth compared to the previous year, higher than the average for the construction activity in Spain.

The business as a whole reported a record EBITDA margin of 29.3%, up 0.7% on 2004, thanks to the industrial efficiency programmes, comfortably offsetting the increase in energy and transport costs.

Financial highlights

Million euros

	2001	2002	2003	2004	2005
Sales*	136.0	146.5	164.7	182.2	199.6
EBITDA	30.7	35.8	45.6	52.2	58.5
EBITDA margin	22.6%	24.4%	27.7%	28.6%	29.3%
Capital expenditure	17.8	20.8	7.1	11.0	12.9
Year-end workforce	494	525	531	509	492

* Business sales include intra-group sales

MILESTONES FOR 2006

In 2006 the Business will focus on continuing to improve sales and profitability, maintaining its leadership position.

- Continuing with the programme of initiatives to increase penetration of Pladur® systems.
- Establishing the Algíss® brand as a benchmark for powdered gypsum.
- Consolidating the industrial and commercial presence of Algíss® in the Iberian Peninsula.
- Designing new management systems to enhance our customer relations.
- Improving the supply chain, thereby further increasing the level of service and reducing logistics and industrial costs.





Disposal of non-core activities
and improvements
at the core businesses
of Tejas España and
Tejas Portugal



Roofing

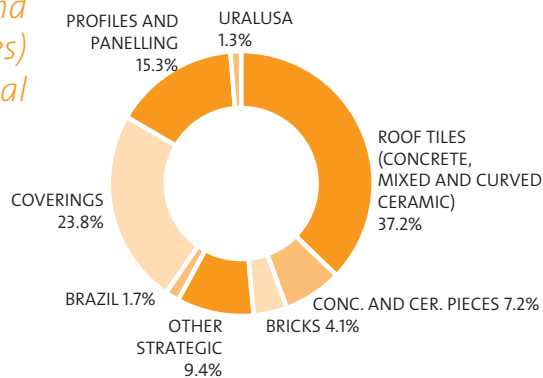
BUSINESS DESCRIPTION

The Roofing Business is centred on Spain and Portugal. In Spain, Uralita manufactures and sells concrete tiles, mixed and curved ceramic tiles, special pieces and integral roofing solutions. In Portugal, Uralita's business focuses on bricks, mixed ceramic roof tiles and special ceramic pieces.

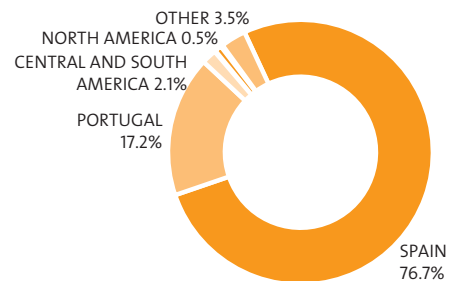
Following the disposals, the Business is now made up of the core activities of Tejas (Roof tiles) España and Tejas (Roof tiles) Portugal

In 2005 and the first quarter of 2006, as part of the disposal process for non-core businesses set forth in 2004-2006 Strategic Plan, the Group sold the Roofing Business's remaining non-core businesses: the Brazil business (roof tiles and bricks), Caolita and Uralusa (works), Profiles and Panelling in 2005, and Coverings in January 2006.

Sales by product type



Sales by geographical region



Competitive positioning and market structure

Uralita remains the leader in the production and sale of roof tiles in the Iberian market and occupies a prominent position in concrete roof tiles. It is also market leader in ceramic roof tiles. The Iberian market is fragmented. The introduction in recent years of new ceramic roof tile plants have resulted in excess supply, affecting the dynamics of the sector. Uralita has focused on consolidating its industrial capacity and promoting products with a better competitive position and projected margins.



Uralita's main distribution channels are stockists and installers; the latter channel, in which Uralita is participating with joint developments of integral solutions for roofs, is gaining strength. Uralita remains present in major retail outlets and wholesale centres, though these account for a small percentage of its business at present.

Uralita serves customers through a large and experienced sales force, the largest in the Iberian peninsula by coverage and capillarity. The sales team focuses both on key agents and on working with customers, participating in the design of custom-made solutions; Uralita has a special centre where products are on display and training courses are available.

It also has a large number of industrial facilities, each specialising in a specific product, throughout Spain and Portugal.

Map of plant facilities



BUSINESS PERFORMANCE IN 2005

Market growth

The performance of Uralita's core businesses in Spain and Portugal has been uneven due to the different situation of the construction market in each country. In Spain, the positive performance in recent years continued. The record for the number of housing construction permits was broken again. The situation remained difficult in Portugal, where the market showed no signs of recovery in 2005, declining for the fourth consecutive year.

Main initiatives carried out by Uralita

The launch of the Cobert® single brand name will lead to a clearer and more efficient market approach

Against this backdrop, and in line with the 2004-2006 Strategic Plan, which included a disposal process for non-core businesses, the main initiatives in 2005 were as follows:

- Disposal of the Brazilian business, Caolita and Uralusa and the Profiles and Panelling Businesses, which were regarded as non-strategic. Following the sale of the Coverings business (fibre-cement sheeting) in January 2006, the Roofing Business comprised just two core businesses: Tejas (Roof tiles) España and Tejas (Roof tiles) Portugal.
- The launch in April of a new brand in Spain (Cobert®) gave us a stronger and more efficient market foothold by unifying the four previous brands under a single umbrella.
- Further simplification of the product range by unifying previous product ranges.



- Closure of brick production facilities in northern Portugal that failed to achieve projected profit targets and concentration of production at the Outeiro plant.
- Concentration of production of ceramic roof tiles in the Alfaro factory, ceasing this activity elsewhere (Cervelló and Alicante) and freeing capacity for mixed ceramic roof tile production in Alicante.
- Continuing to implement the same total quality management system at all our plants in Spain and Portugal, providing a platform for sharing best practices and specific know-how.



2005 Results

Lower sales compared to 2004 due mainly to the disposals carried out

Sales totalled €182.6 million in 2005, 21% down on the previous year. This slide is due primarily to the reduction in the consolidation scope as a result of the disposals carried out.

The strategic Roofing business in Spain and Portugal reported sales of €108.2 million in 2005, 6% down on 2004. The EBITDA margin of the strategic businesses was 14.8%, with very different dynamics in both countries: in Spain, where the construction growth trend seen in recent years continued, sales were 2% higher than in 2004, whilst in Portugal, where construction activity slowed for the fourth consecutive year, sales were 20% lower.



Financial highlights

Million euros

	2001	2002	2003	2004	2005
Sales*	305.6	274.6	260.8	230.3	182.6
EBITDA	54.6	38.6	33.3	32.3	21.8
EBITDA margin	17.9%	14.1%	12.8%	14.0%	11.9%
Capital expenditure	29.6	23.8	10.5	7.0	6.8
Year-end workforce	1,730	1,807	1,568	1,529	921

* Business sales include intra-group sales.



MILESTONES FOR 2006

Our target for 2006 is to improve profitability thanks to increased industrial efficiency and processes and solid commercial positioning

In 2006 the main objective is to improve the profitability of our businesses by boosting industrial efficiency and improving our internal operational processes, as well as maintaining a solid commercial position in Spain and Portugal.

- To seek to innovate by launching new products and services that permit us to strengthen our leadership image.
- To make significant investments to ensure the technological competitiveness of our industrial facilities and achieve cost efficiency.
- To continue to progressively increase sales of roofing components.



GRUPO
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Restructuring to achieve
adequate and sustainable
profitability

URALITA
SISTEMAS DE TUBERÍAS

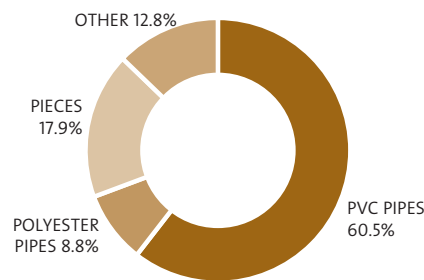


Pipes

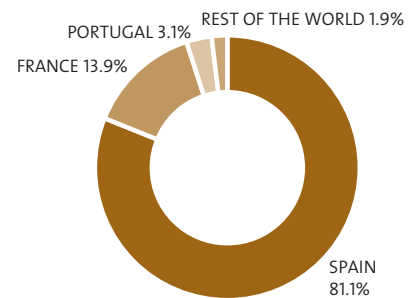
BUSINESS DESCRIPTION

The Pipes Business manufactures and sells pipes and accessories made of plastic (mainly PVC and polyester reinforced with glass fibre) for infrastructure and building works in Spain, Portugal and France. For infrastructure works it provides integral solutions for networks that supply irrigation and drinking water, sanitary networks and land drainage. For buildings, the Business offers a wide range of drainage products.

Sales by product type



Sales by geographical region



Competitive positioning and market structure

Uralita is present in the infrastructure and building markets

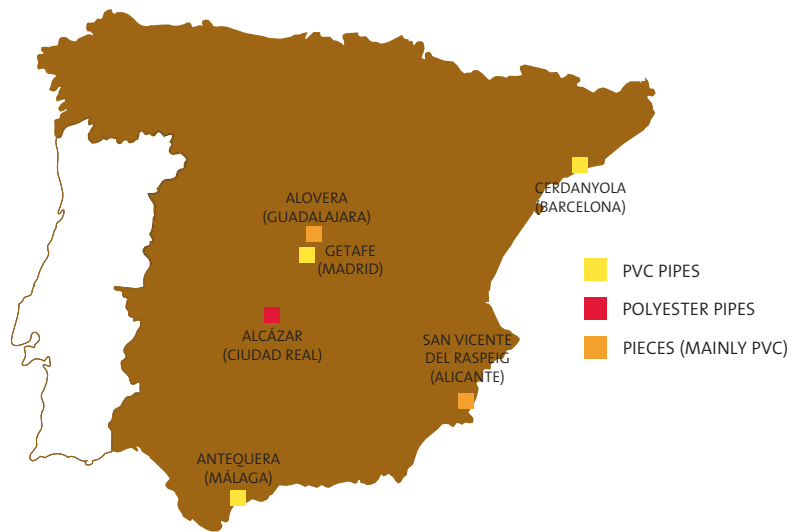
The Pipes Business operates in a market worth an estimated total of €1.52 billion, of which 60% corresponds to infrastructure works and 40% to building. Uralita controls approximately 9% of the general market and 20% of the PVC pipe market.

Infrastructure sales, a segment in which Uralita is present in Spain and Portugal, are distributed among two market segments: water infrastructure and sanitary infrastructure, with seven types of products, of which three (corrugated pipes, PVC pressure pipes and polyester pipes) account for close to 80% of sales. The Building Business is active in the drainage segments in Spain, Portugal and France, and to a lesser extent in sanitary networks in France. It has six product types, of which two (co-extruded drainage pipes and accessories) account for 84% of total sales.

The breakdown of sales by customer is very different in each business. Whilst the most important customers in infrastructure works are construction companies (both national and local) and hydraulic works installers, in construction sales are concentrated in distribution.

Commercially, Uralita's Pipes Business enjoys a high level of confidence and has a solid presence in infrastructure requirements. It also maintains a buoyant competitive position in the building market and is well positioned in the channel, both in Spain and in France.

Map of plant facilities



BUSINESS PERFORMANCE IN 2005

Market growth

The infrastructure market in Spain and Portugal grew by 5%¹ compared with 2004. In building construction, performance varied considerably in different countries: Spain and France registered growth of 5% and 10% respectively, whilst in Portugal the market declined by around 7.5%².



Main initiatives

Disposal of non-core businesses, specialisation of factories and headcount reductions

The Pipes Business continued to implement an ambitious restructuring plan in 2005:

- Withdrawal from unprofitable businesses: sale of filters, production and sale of cable and gas piping.
- Disposal of businesses with a weak competitive position: Lusofane (Portugal); Urcan (Canary Islands); Aquatecnic (Spain) and a joint venture with STF.
- Completion of specialisation process at all factories with the aim of optimising production costs and maximising production capacity: Getafe (PVC for drainage), Alcázar (polyester), Antequera (PVC for high-pressure pipes), Cerdanyola (PVC for drainage) and Alovera and San Vicente (pieces).
- Finally, adaptation of the Pipes Business to the new organisational structure entailed 76 job cuts in 2005 (excluding the staff of the businesses sold).



¹ Euroconstruct figures including Energy and Hydroelectric works

² New residential construction figures from Euroconstruct



2005 Results

Improved EBITDA despite the significant reduction in sales due to disposals

The Pipes Business reported sales of €163.7 million in 2005, 23.1% below the 2004 figure. However, EBITDA rose to €3.6 million.

The significant decline in sales was due to the disposal of non-core assets, whilst the withdrawal from unprofitable businesses and the implementation of restructuring and reorganisational measures increased profitability. The challenging situation of the polyester pipes market, where competitive pressure has triggered a sharp fall in prices, meant that profits were lower than expected.

Financial highlights

Million euros

	2001	2002	2003	2004	2005
Sales*	206.8	214.5	227.6	212.7	163.7
EBITDA	16.2	21.4	7.4	2.2	3.6
EBITDA margin	7.8%	10.0%	3.2%	1.0%	2.2%
Capital expenditure	4.9	4.8	6.7	7.3	5.0
Year-end workforce	835	849	970	793	585

* Business sales include intra-group sales.



MILESTONES FOR 2006

The main objective is to sustainably increase profitability to sector levels by focusing on activities in which the business has a solid competitive position.

In pursuit of this aim the priorities are:

- To optimise industrial costs by making factories specialised with the aim of increasing production capacity and reducing fixed unit costs.
- To improve the efficiency of logistics warehouses by increasing their sales of both manufactured products and, especially, marketed products.
- To revise the sales model to optimise the current commercial networks for infrastructure works and building works.