





The Uralita Group in 2006

ECONOMIC AND MARKET ■
CONDITIONS

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Economic and market conditions

GENERAL ECONOMIC CONDITIONS

In 2006, Spain's economy outperformed the euro zone again by over one percentage point. The Spanish GDP expanded 3.8% compared to 3.5% in 2005, indicating a continued bullish cycle. As in previous years, this was driven by domestic demand on the back of low interest rates coupled with an expansive lending strategy on the part of banking entities.

In 2006, the consumer price index reached a year-on-year rate of 2.7%, down from the figure of 3.8% seen in 2005. It was uneven throughout the year, however, as a result of oil price fluctuations but remained above the European average. These major price increases undermine the competitiveness of Spanish products abroad if not met with increased productivity levels, and as such, can limit future growth.

The euro zone continued to pursue the process of economic recovery began in 2005, although at a slower rate during the second half of the year. GDP for the area grew at a year-on-year rate of 2.6%, showing an ongoing buoyant economy driven by domestic demand and sound export performance. Euro zone inflation continued to reflect the impact of energy price fluctuations, posting a year-on-year growth rate in 2006 of 1.9%.

The Eastern European economies continued to grow at sound rates overall. Of particular note is the case of Russia, where GDP grew 6.6% in 2006, primarily explained by high natural gas and oil prices, which inject considerable resources into its economy.





THE CONSTRUCTION SECTOR

Spain's housing market remained buoyant for yet another year. In 2006, after some contraction in the first quarter of the year, new housing starts increased and closed the year at a new record high. Data furnished by the Ministry of Development showed an 18.4% increase in the number of new construction permits and an 11.5% increase in the number of project completion certificates compared to 2005. The coming into force of the new Technical Building Code in September 2006 may have been one reason behind increased construction activity since construction permits were being requested in advance to avoid the rising costs for companies.

In Europe the construction market is expanding in most countries. Of particular note is the recovery seen in Germany, which despite the moderate increase in construction activity in 2006, saw 253,000 building permits applied for,

up 11% from 2005. After two expansive years, France's construction market grew to a record high in 2006, with the number of new housing starts at 430,000, up 4.9% from the previous year. A high percentage of insulation sales are made in France and Germany and as such, the strong performance of these markets had a positive effect on the Group's activity.

It is important to note the negative performance of Portugal's construction market, which continued to fall (5.7% in 2006) although a modest recovery is expected as of 2008.

Other important countries for Uralita, such as Russia, and to a lesser extent Poland, registered growth rates of 15.7% and 9.9%, respectively, in 2006, which, coupled with a lack of capacity on the part of some competitors, enabled the Group to significantly increase sales in these areas.

2006	Spain	France	Russia	Germany	Portugal	Poland
Population (mill.)	44.7	60.5	143.9	82.7	10.5	38.5
GDP (% annual chg.)	3.8	2.2	6.6	2.5	1.2	5.2
CPI (% annual chg.)	2.7	1.7	9.8	1.4	2.5	1.4
Housing activity (thousands)	863.8 ⁽¹⁾	430.0 ⁽²⁾	604.7 ⁽³⁾	235.0 ⁽⁴⁾	69.0 ⁽⁴⁾	125.0 ⁽²⁾
NEW						
Building (% annual chg.)	6.1	6.8	17.3	2.8	-8.7	8.2
Residential (% annual chg.)	7.6	7.8	9.5	2.8	-8.0	7.2
Non-residential (% annual chg.)	2.4	5.2	7.8	2.9	-10.0	8.7
Civil engineering (% annual chg.)	7.3	5.9	12.5 ⁽⁵⁾	-0.1	-5.0	24.6
RENOVATION						
Building (% annual chg.)	4.0	2.1	11.6	1.0	-0.1	2.3
Residential (% annual chg.)	5.0	2.5	4.0	1.1	0.5	0.0
Non-residential (% annual chg.)	2.2	1.5	7.6	0.7	-2.5	4.0
Civil engineering (% annual chg.)	4.5	3.0	12.5 ⁽⁵⁾	1.4	0.0	7.0
TOTAL CONSTRUCTION						
(% annual chg.)	5.8	4.5	15.7	1.6	-5.7	9.9

Source: Ministry of Development, INE, Eurostat, Euroconstruct, CIA, Rosstat, AMR, PMR

(1) New construction permits.

(2) New housing.

(3) Finished housing.

(4) Building construction permits.

(5) Total civil engineering chg.

RAW MATERIALS

The price of raw materials remained bullish throughout 2006, although increases were more moderate than in previous years. Nevertheless, the impact of energy price increases in 2005 drove gas supply costs up 66.6% and 23.4% for electricity supply costs¹.

The prices of other raw materials important to the Group's industrial process, such as gas-oil or polystyrene, increased 6.4% and 6.2% respectively, compared to 2005.

The strong rise in demand for construction materials and the supply/demand imbalance for some products meant that these cost increases could be passed onto customers and ensured margins were maintained or even grew with respect to previous years.

¹ The supply of these types of raw materials tends to be linked to a long-term contract with price revisions on a 6-month or yearly basis.

Lines of Action

IMPROVE THE EFFECTIVENESS OF STRATEGIC BUSINESSES

In 2006, various initiatives were implemented to continue to improve efficiency and ensure profitability going forward. In addition, a significant portion of income from actions aimed at improvement implemented throughout 2005 was secured: simplifying the business portfolio, shutting down factories, reducing overhead costs, etc.

Although a more detailed description of the various initiatives is provided in the Management Report for each business, the main actions undertaken in 2006 are summarized as follows:

- COMMERCIAL INITIATIVES

In 2006, the Group undertook to optimise the commercial management of all its businesses in order to maximise sales and focus management on market segments with the highest growth and profitability. URSA®'s commercial management was improved in a context of strong demand in order to attract the highest number of sales possible. In Pladur® and Algiss®, the model for accessing certain markets (e.g. renovation) that the Group expects to show high growth rates going forward was reviewed. In Cobert®, channels that sell products with greater added-



value, which allowed a more efficient model for accessing the market to be set up, were identified. As regards pipes, the Group made a commitment to the creation of a new identity under the Adequa® brand to be used as an unique tool to transmit customers about the advantages of our products.

- INDUSTRIAL AND COST STREAMLINING INITIATIVES

Overhead cost rationalisation and industrial cost optimisation are both lines that the Uralita Group has continued to pursue through 2006. In this sense, the high utilisation rates at the URSA® plants have allowed the Group to reduce unitary manufacturing costs while maintaining a firm grip on fixed manufacturing costs. Pladur® and Algiss® continued to roll out plans to increase the efficiency of the factories as well as logistics costs. Cobert® reduced its overhead costs, primarily in Portugal and Adequa® optimised its industrial costs after becoming more specialised and increasing the utilisation rate at its plants.



- IMPLEMENTING THE NEW ORGANISATION:

The implementation of the organisational model was another pivotal action undertaken by the Uralita Group in 2006. It simplified the corporate structure of the Group, adapting it to a simpler business model. Furthermore, in the first half of the year, URSA offices were moved to Madrid with a view to fully integrating its management headquarters into the Uralita Group and leverage the advantages and synergies that come with belonging to a construction materials group. Lastly, throughout the year, the integration of the management headquarters of Uralita Iberia, which includes the Iberian plasterboard, powdered gypsum, roof tiles and pipes businesses, continued. The main objective is to identify all commercial, industrial and structural synergies that exist across these businesses.

The new organisational model, now fully executed, will allow the Group to undertake future growth initiatives with a highly trained, motivated organisation and with a strong results-driven culture.

LAYING THE GROUNDWORK FOR GROWTH

In October 2006, the new Strategic Plan for 2007-2009 was published. This has one main objective: profitable growth. This objective was the reason behind numerous measures implemented in 2006, among which we highlight the following: approval of capacity increases at URSA® in response to expected levels of market growth; the commencement of construction on a Pladur® plant in Gelsa (Zaragoza); launch of new complementary businesses in Cobert® (for example, solar panels); capacity increases for products with greater added-value at Adequa (such as 1,200 mm corrugated pipes).

*Uralita's new
organisational model
prepares the company
for growth*

A CULTURE OF EXECUTION

Seven core values define the Uralita Group culture and form the cornerstone of our business and personal growth:

The Group worked on the practical introduction of these values in 2006, several examples of which include the following:

CORPORATE SPIRIT. Moving the central offices of our Insulation business from Frankfurt to Madrid provided an opportunity for collaboration between all the Group's business to be increased and synergies, such as opportunities for shared marketing, overhead savings, etc, to be identified. All such improvements will ensure the competitiveness of all the Group's businesses going forward.

TRANSPARENCY. By presenting its Strategic Plan for 2007-2009 to the financial community, we were able to share with the market Uralita's objectives for the coming years, as well as our market outlook going forward. In addition, the Group's website was updated in 2006 with a new design that facilitates the search for corporate and business information.

OPENNESS TO CHANGE. Reviewing the commercial models for Pladur® and Cobert®, businesses with a long, successful sales history, will allow Uralita to take advantage of their firm foothold in the Spanish market, developing new sales channels with better growth prospects going forward.

SELF-ACHIEVEMENT MINDSET. The construction of a new plasterboard factory in Zaragoza, the setting into motion of an ancillary facility for profiles, pulps and material recycling

at the Pladur® factory in Valdemoro and projected capacity increases at several insulation facilities in Central Europe were key decisions made throughout the year that allow the Group to continue growing in the construction materials business.

AMBITION FOR EXCELLENCE RESULTS. The net attributable income of €47.3 million reported was the highest in the history of Uralita. These excellent results stem from the Group's continued efforts aimed at improving its business operations and our aim to become standard-bearers for profitability in our business areas. The Group announced an objective for 2007 to reach a new profit record of €54 million, thereby showing its clear ambition to improve continuously.

RESPECT FOR AND CONTINUOUS DEVELOPMENT OF PEOPLE. The Domus Programme was also followed in 2006, targeting factory management and the objective of which is to ensure the implementation of the HR model. "The Supervisor as a people manager." The programme provides the management tools and aptitudes that will help improve job performance and will allow the personal and professional objectives of each collaborator at Uralita to be achieved.

SOCIAL RESPONSIBILITY AND COMMITMENT. The Fundación Tierra de Hombres "Viaje a la Vida" (Voyage of Life) project in which Uralita Group participates, together with the other Nefinsa Group companies, provides travel for children from countries in which healthcare facilities are non-existent or very substandard to Spain, where they will receive necessary medical attention. In 2006, sufficient funds were raised for the surgery of two children.

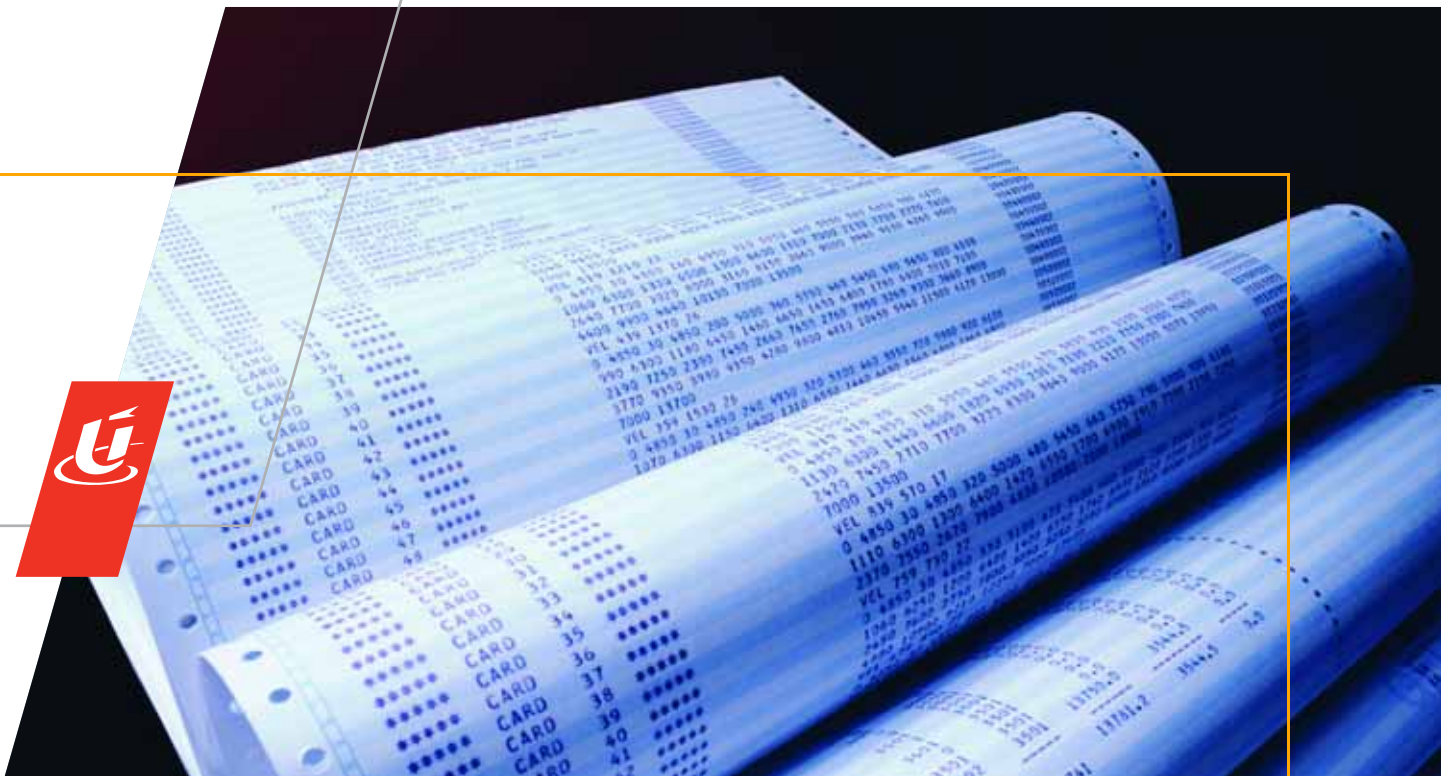
Financial results

Uralita's key financial highlights in 2006 were as follows:

FIGURES FOR THE CONSOLIDATED GROUP (in millions of euros)

	2006	2005	Chg. 2006/2005
Sales	1,005.2	1,104.6	-9.0% (+11.4% lfl)
EBITDA	178.2	150.5	+18.4% (+39.6% lfl)
EBITDA margin	17.7%	13.6%	+ 4.1 pp (+3.6 lfl)
Net Profit	70.6	53.6	+31.7%
Net profit margin	7.0%	4.9%	+ 2.1pp
Net income attributable to the controlling company	47.3	35.2	+34.4%
Net debt	104.1	140.1	-25.7%





In 2006, Uralita achieved record figures in building materials, with sales totalling €1,005.2 million, 52% of which represented sales outside of Spain. This is the first time foreign sales exceeded domestic sales. Stripping out the disposals of non-core businesses, sales increased by 11.4% compared to 2005.

EBITDA in 2006 amounted to €178.2 million, an 18.4% increase on 2005 despite the Group's smaller size. Ex-disposals, EBITDA increased by 39.6%.

The consolidated EBITDA margin for the year was 17.7%, 4.1pp higher than 2005. This increase came on the back of wider margins in core businesses (+3.6pp) and the Group's withdrawal from non-core and generally less profitable businesses (+0.5pp).

The net result was €70.6 million, a 31.7% gain despite the smaller business scope. The net profit margin increased significantly from 2005, to 7.0%, placing the Group at benchmark profitability levels within its industry.

Net income attributable to the controlling company amounted to €47.3 million, constituting a gain of 34.4% and a new record in the history of Uralita.

Finally, the Group cut Net Financial Debt by €36 million in the year, to €104.1 million.