

URALITA GROUP

INTERIM MANAGEMENT REPORT **FIRST HALF 2011**

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INTRODUCTION

Consolidation of growth in sales (+2%) and EBITDA (+5%) thanks to international diversification (65% of sales) and positioning in the energy savings sector (80% of sales from Insulation and Pladur®)

- ***Consolidation of growth in sales during the first half of 2011, especially in international markets (+11% in Eastern Europe and +6% in Western Europe) thanks to the strength of the insulation business. However, turnover was down 7% in Spain, where the construction industry is still in a downturn.***
- ***In terms of segments of activity, the Interior Solutions business experienced low-level growth (+1.2%), as notable increases in sales for the insulation business were affected by the slowdown in the plaster business in Spain. The Roof Tile business was also affected by the downturn in the sector and turnover fell by 6%. However, the Pipes business managed to increase its sales by 10% thanks to an increase in market share.***
- ***These geographical differences produced cumulative sales for the first half of 2011 of €335 million (up 2% on 1H 2010) and gross operating profits, EBITDA, of €43 million (up 5% on 1H 2010).***
- ***Finally, Uralita generated positive net profits of €0.5 million in the second quarter of 2011, partially compensating for the losses of the first quarter and putting the six-monthly cumulative figure at -€0.5 million. Despite improved results in comparison with 2010, net profits for 2011 suffered from foreign exchange losses and the lack of extraordinary profits.***

1. MAIN PROFIT AND LOSS ACCOUNT FIGURES

<i>Figures in million euros</i>	1H 10	1H 11	Difference
SALES	328.3	334.9	2.0%
EBITDA	41.1	43.2	5.2%
ATTRIBUTABLE NET PROFIT	2.7	-0.5	-117.4%

2. SALES BY GEOGRAPHICAL AREA AND BUSINESS SEGMENT

Sales differed in each geographical area: in Western and Central Europe (Uralita's largest region, with 44% of sales in 1H 2011), sales were up 5.9%, mainly due to the strong growth of the German market. The increase in Eastern Europe (21% of sales) reached 10.8%, thanks to the strength of the Russian market and, to a lesser extent, that of the Polish market. In said markets, URSA (Uralita's insulation business) is a leader in its segment. Finally, sales in Spain (35% of the group's sales) fell by 6.9% in the context of a continuing downturn in the construction market, affected by the current economic and financial situation.

Sales by region (million euros)

	1H 10	1H 11	Difference
WESTERN AND CENTRAL EUROPE	138.1	146.2	5.9%
EASTERN EUROPE, RUSSIA AND TURKEY	64.2	71.1	10.8 %
SPAIN	125.7	117.1	-6.9%
TOTAL	328.3	334.9	2.0 %

* NB: total figure includes other group revenue

In terms of business areas, the Interior Solutions segment, which includes the insulation and plaster businesses, increased sales by 1.2%, albeit in two very different ways. Thanks to its position as an energy-saving product and its high levels of international diversification, the insulation business maintained significant growth rates (up 9% on 1H 2010) and said growth was significantly higher in Eastern Europe and Russia. Turnover in the plaster business fell as a result of decreased activity and the slowdown in the construction market in Spain.

The Roof Tiles segment was also affected by decreased activity in Spain and although sales were up in Portugal and export markets, as a whole, sales dropped 6.3%.

Finally, sales in the Pipes segment were up 10.6% compared to 1H 2010 thanks to improved market share in the pressure pipes segment.

Sales by business segment (million euros)

	<i>1H 10</i>	<i>1H 11</i>	<i>Difference</i>
INTERIOR SOLUTIONS	262.9	266.1	1.2 %
PIPES	43.0	47.5	10.6%
ROOF TILES	22.2	20.8	-6.3 %
TOTAL	328.3	334.9	2.0 %

* NB: total figure includes other group revenue

3. CONSOLIDATED EBITDA, NET PROFITS AND DEBT

Gross operating profits, EBITDA, for the six-month period totalled €43.2 million, up 5.0% on the same period of 2010, with an EBITDA margin of 12.9%, up slightly (0.4 percentage points) on 1H 2010. The fact that the increase in EBITDA was higher than the increase in turnover is due to the operating leverage achieved through the cost-containment and efficiency programs put in place in 2009 and 2010, which are now starting to deliver the desired results.

Attributable net profits for 2Q 2011 totalled €0.5 million. This positive result partially compensates for the losses reported in the first quarter and brings the cumulative figure for attributable net profits for the six-month period to -€0.5 million. Despite improved operating profits, attributable net profits were down on the same period of 2010 owing to foreign exchange losses of almost €3 million and a lack of positive extraordinary profits (which totalled €1.3 million in 1H 2010).

Finally, Uralita kept up a strict cash optimisation and control programme, which helped it to more or less maintain its debt level in the first half of 2011, ending the period with net financial debt of €263 million and a debt/EBITDA ratio of below x3 (x2.95).

4. SIGNIFICANT EVENTS DURING THE FIRST HALF OF 2011 AND THEIR EFFECTS

There were no significant events during the first half of the year other than those described above.

5. FINANCIAL SITUATION

The consolidated balance sheet at 31 December 2010 showed a working capital deficit, mainly as a result of the €147 million in bank borrowings which are scheduled to mature in November 2011 (see notes 2.5, 15 and 21 of the 2010 Consolidated Financial Statements Report).

From 31 December 2010 to the presentation of this report (September 2011) the group has met all of its payment commitments (including interest) and in the first half of 2011 paid back €28 million in debt.

Taking into account current disposable liquidity and expected operating cash flows, all financial and operations payments are insured until November 2011.

In order to find a solution to the financial deficit that would appear after November 2011, back in 2010 the group launched an action plan that analysed different alternatives for obtaining liquidity and began negotiations with potential financial investors, including current ones.

Based on the outcome of this action plan and negotiations being held with potential financial investors, the group anticipates that the required financial resources will be secured to meet all the company's commitments.

6. EVENTS TAKING PLACE AFTER THE REPORTING PERIOD

No significant events occurred after 30 June 2011 that might have a material effect on the accompanying financial statements.

7. MAIN RISKS AND UNCERTAINTIES FOR THE SECOND HALF OF 2011

1. Deceleration or slowing-down of growth in the European markets where Uralita operates brought about by doubts concerning the strength of said countries' economic and financial recovery.
2. Higher energy costs and prices for certain raw materials which may be difficult to consistently pass on in the form of increased sales prices.

8. FUTURE GROWTH

The first half of 2011 consolidated the growth in sales at a group level, regardless of decreased sales in Spain, where the downturn continued. Uralita is well positioned to compete in the current environment thanks to:

- Strong position of the insulation business, with more than 95% of sales generated outside Spain and which in H1 2011 accounted for more than 60% of total Uralita sales. Strong growth is expected for this business due to the recovery of the building sector in several countries and the stimulus from regulations for projects to improve building energy-efficiency.
- Leading position in Eastern Europe and Russia. In this region prospects for insulation growth are very positive due to the expected improvement in the economic situation (which will boost building activity) and the need to increase energy efficiency, where insulation products play a crucial role.
- Ability to leverage its present structure, both in factories and sales and back-office structure. Virtually no further investments are needed to meet anticipated future demand.
- Focus on products that have a leading market position in Spain, tailored to suit demand in the segments that are expected to outperform the market (refurbishment and non-residential). It is worth mentioning the versatility and product range of Pladur® and the strategic focus on high quality tiles in the Roof Tiles business.

With regards to the second half of 2011, taking into account present economic projections and limited visibility caused by the financial instability of Europe in the second quarter, the group expects to consolidate the recovery in European markets and see sales decreases in Spain slow, albeit with differences between products.

9. RESEARCH & DEVELOPMENT

During the first half of 2011 the group invested €3 million in research & development projects.

10. TREASURY STOCK

At 30 June 2011, 9,618,273 parent company shares were held as treasury stock (acquisition cost of €42.7 million), which represented 4.87% of Uralita S.A. share capital. During the first half of 2011, 440,301 parent company shares were bought, with an acquisition cost of €1.5 million.

11. RISK MANAGEMENT

The group's exposure to financial risk is mitigated by its Risk Management System. Price, credit, liquidity and cash-flow risks are periodically evaluated, monitored and controlled at the group level.

The effectiveness of this system is based on creating an appropriate environment of prevention, encouraging active participation in detecting and preventing risks and reporting risks to the appropriate decision-making level, and through a systematic follow-up of the measures taken.

Therefore, the group's policies to adequately manage certain financial risks to which it is exposed, such as exchange rate and interest rate risks, establish hedging agreements, which mitigate exposure to the risk derived from the evolution of exchange and interest rates.