# *INTERMEDIATE MANAGEMENT REPORT FOR THE SECOND HALF OF 2009*

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- ***Significant impact of the global financial and economic crisis*** *on the construction activity and therefore on Uralita´s sales, though with* ***differences by regions****: smallest drop in Western Europe, Uralita's largest region in sales.*

- *Faced with this fall in activity, Uralita* ***successfully implemented an ambitious improvement plan*** *in 2009 focused on increasing profitability and maximizing cash generation*

- *The improvement plan made that, despite the sales drop (-30%, to 705 M EUR), Uralita achieved an* ***EBITDA of EUR 102.5 M*** *and a* ***positive attributable net profit of 10.1 M EUR****. Additionally, Uralita increased its cash flow significantly and was able* ***to reduce its debt by 9 M EUR*** *after having met with the already committed investment and restructuring payments*

- *In Uralita we continue trusting in the* ***in the medium and long term potential of our business****:(1) products favored by regulatory (energy efficiency, water management) and construction trends; (2) international diversification, with strong positioning in countries with growth potential; and (3) significantly improved operational efficiency*

- *In 2010, and with the current macroeconomic outlook, we foresee some* ***first signals of recovery in the second half of the year*** *thanks to sales in international markets, which already account for approximately two thirds of the Group's total sales*

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## 1. ECONOMIC ENVIRONMENT AND LINES OF ACTION IN 2009

The activity in the construction sector in Europe was strongly affected by the financial and economic crisis in 2009: economic constraints and declining consumer confidence together with tougher access to financing strongly reduced the housing demand, and, in general, the other activities in the construction industry: mainly non-residential and reform and refurbishment (R&R).

While the activity reduction was widespread, its impact was different in the regions where Uralita operates:

– The more moderate declines occurred in Western European markets (which in 2009 accounted for 41% of Uralita's sales) thanks to the regulatory momentum towards energy efficiency and therefore the use of insulation and to the resilience of activity in R&R.

– In turn in Spain (40% of Uralita's sales), the fall was more pronounced due to the housing stock surplus built in previous years which caused a significant contraction on the sector activity.

– Finally in Eastern Europe and Russia (19% of sales), the fall in sales was also significant since the lower-activity (due to the strong dependence of these markets on the economic and financing situation) was further impacted by the devaluation of several currencies against the euro.

In order to adapt to this complex market context, Uralita initiated already at the end of 2008 the implementation of an ambitious improvement plan oriented to increase profitability and optimize cash flow generation. The plan was successfully executed, exceeding all the objectives initially set.

**A. Increase of profitability,** structured in three lines of action**:**

- Industrial restructuring and SG&A simplification: in order to adapt capacity to demand, six roof tiles, one insulation and one pipe factories were closed[1], with temporary stoppages and shift reductions in other plants.

  Additionally, support staff at businesses and corporate center was reduced. All these measures resulted in a 17% personnel costs reduction compared to 2008.

- Fixed cost reduction: all fixed cost elements were revised to adapt the Group's structure to the lower activity levels. The reductions affected maintenance, I.T., traveling, consulting, etc. The total reduction achieved was 33% compared to 2008.

- Commercial management improvement: likewise, Uralita worked on improving its commercial area by launching new products, managing prices and reviewing commercial positioning in customers, channels and regions. All this contributed to maintaining (+0.2 percentage points) the contribution margin[2], an especially complex

[1] During 2009 and January 2010
[2] Contribution margin defined as sales less variable costs

goal in a situation of strong sales reductions and with the impact of the inventory reduction undertaken.

**B. Maximization of cash flow,** also structured in three lines of action:

- Review of growth investments: Uralita proceeded to temporarily postpone the three growth projects in progress until the demand recovers: in insulation, the new factory in the United Kingdom and the capacity increase at the Serpuchov plant (Russia) and in plasterboard, the new Pladur® factory in Gelsa (Spain). The three projects continue making strategically sense and a periodic assessment has been put in place to establish the optimum time to start operations at each of the factories. These measures achieved a 48% reduction of the investments payments (vs 2008).

- Optimization of maintenance investments: Uralita proceeded also to review maintenance policies and minimize investments in factories, reducing payments by 51% compared to 2008.
- Active management of working capital: Finally, Uralita worked on generating cash through inventory reduction and management of client and supplier financing. All this lead to an 85 M EUR working capital reduction and to maintaining very strict client collection policies having been necessary to make provisions for bad debts in 2009 for only 0.6% of sales.

## 2. URALITA´S CONSOLIDATED RESULTS

| | 2008 | 2009 (1) | Variation |
|---|---|---|---|
| **Sales** | **1,007.0** | **704.7** | **-30 %** |
| **EBITDA** | **162.4** | **102.5** | **-37 %** |
| ***EBITDA Margin %*** | ***16.1%*** | ***14.5%*** | |
| **Attributible Net Profit** | **40.3** | **10.1** | **-75 %** |

(1) Does not include Sales and EBITDA of discontinued operations in 2009.

Sales were hit by falling volumes and pricing pressure, resulting from the market situation, and the devaluation against the euro of the currencies in several Eastern European countries.

Sales fell 30%, to 704.7 M EUR, with differences among regions: 16%[3] in Western Europe and 38% both in Spain and Eastern Europe/Russia.

The substantial cost reductions implemented allowed Uralita reach an EBITDA of 102.5 M EUR (-37% vs 2008) with a 14.5% margin, despite the significant sales drop.

[3] Of which, insulation -6% and rest of businesses -37%

Finally, Attributable Net Result was 10.1 M EUR (-75%vs 2008). It is important to emphasize the relevance of achieving a positive net result in such a complex year with a sharp drop in sales, while being in the process to adapt to the new market context.

The improvement plan had also a very positive effect on cash flow: thanks to the businesses cash generation and the working capital reduction, Uralita generated a free cash flow[4] of 65 M EUR (compared to -36 in 2008), having paid 56 M EUR for already committed growth investments and 38 M EUR for restructuring and other payments.

As a result, net financial debt was reduced by 9 M EUR, closing 2009 with a debt of EUR 235 M which implies a 2.3 times Debt/EBITDA ratio.

## 3. RESULTS BY BUSINESS

| Figures in M EUR | Accumulated Sales | | | | | Accumulated EBITDA | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Insulation | 440.0 | 495.9 | 542.4 | 508.0 | 398.8 | 55.4 | 87.4 | 130.4 | 88.6 | 57.3 |
| *% previous year* | | *12.7%* | *9.4%* | *-6.3%* | *-21.5%* | | *57.7%* | *48.8%* | *-32.1%* | *-35.3%* |
| EBITDA Margin | | | | | | 12.6% | 17.6% | 24.0% | 17.4% | 14.4% |
| Gypsum | 199.6 | 234.4 | 246.3 | 230.6 | 140.1 | 58.5 | 69.1 | 67.4 | 57.4 | 34.6 |
| *% previous year* | | *17.4%* | *5.1%* | *-6.4%* | *-39.2%* | | *18.1%* | *-2.4%* | *-14.9%* | *-39.7%* |
| EBITDA Margin | | | | | | 29.3% | 29.5% | 27.4% | 24.9% | 24.7% |
| Pipes | 147.2 | 168.6 | 198.8 | 182.4 | 111.8 | 3.7 | 11.0 | 15.9 | 12.5 | 11.0 |
| *% previous year* | | *14.5%* | *17.9%* | *-8.3%* | *-38.7%* | | *201%* | *44.5%* | *-2.6%* | *-12.0%* |
| EBITDA Margin | | | | | | 2.5% | 6.5% | 8.0% | 6.8% | 9.8% |
| Roof Tiles | 105.2 | 102.9 | 107.2 | 85.3 | 53.1 | 16.1 | 17.0 | 16.7 | 9.2 | 5.0 |
| *% previous year* | | *-2.2%* | *4.2%* | *-20.4%* | *-37.7%* | | *5.8%* | *-1.7%* | *-44.8%* | *-46.1%* |
| EBITDA Margin | | | | | | 15.3% | 16.5% | 15.6% | 10.8% | 9.4% |
| Others and adjustments[(1)] | -25.6 | 3.4 | -0.1 | 0.7 | -0.9 | -5.1 | -6.3 | -6.5 | -5.3 | -5.4 |
| **TOTAL** | **866** | **1.005** | **1.095** | **1.007** | **705** | **128.5** | **178.2** | **224.0** | **162.4** | **102.5** |

(1) Includes Corporate Sales and EBITDA and consolidation adjustments. In 2009 it includes sales and EBITDA from discontinued operations in 2009

[4] Cash flow before payments of interests and dividends

***Insulation: URSA® (57% of Uralita´s sales in 2009). Adaptation of the business to a temporary situation of lower sales***

The insulation business achieved sales of 398.8 M EUR in 2009. This figure was 21.5% lower than in 2008, the fall being more pronounced in Eastern Europe, where the weak demand and pricing pressure was accentuated by the devaluation of local currencies against the euro.

EBITDA was 57.3 M EUR, 35.3% lower than in 2008, showing the impact of lower sales volume in a high fixed costs business.

The business launched innovative products (Ursa, PureOne and Terra) to compensate for lower sales, adjusted production capacity (closure of one plant and shifts reductions) and adapted the fixed and personnel costs to the lower level of activity.

***Gypsum: Pladur® y Algíss® (20% of sales). Maintenance of sales profitability despite activity reduction***

The gypsum business reached sales of 140.1 M EUR (-39.2% vs 2008), with a greater fall in the powder gypsum business than in plasterboard, Pladur®. The business worked on the development of differentiated solutions oriented to those segments less affected by the fall of construction activity, mainly renovation.

EBITDA was reduced 39.7%, maintaining profitability on sales thanks to the commercial management (in a sector where Pladur® is the market leader), to the fixed and personnel costs reduction and to the shifts reduction at factories. It is important to emphasize the generation of cash through divestment of working capital, mainly stocks.

***Pipes: Adequa® (16% of sales). Reduction of sales with improvement of profitability***

Adequa®'s sales in 2009 were 111.8 M EUR, 38.7% lower than in 2008. In this context, EBITDA reached 11,0 M EUR (-12% compared to 2008), improving the EBITDA margin by 3 percentage points.

This improvement was obtained thanks to the business orientation towards products and markets with greater profitability, to the margin improvements obtained due to the PVC resin price reduction (main raw material), and to the business adaptation to lower sales levels both industrially – closure of one factory and shift reductions- and in the fixed costs and SG&A personnel.

In this business, an important cash generation was also achieved by reducing stocks.

***Roof Tiles: Cobert® (7% of sales). Restructuring of the business to respond to the market context***

The roof tiles business sales were reduced 37,7% compared to 2008, down to 53.1 M EUR. The sales reduction in a high fixed costs business also affected EBITDA, which fell to 5.0 M EUR, 46.1% lower than in 2008.

In the past, the roof tiles business has had a high exposure to the residential new construction segment in Spain, the most affected by the crisis. In this context, Uralita has decided to focus on high quality roof tiles, a segment that we expect will progressively gain share as the market size gradually decreases. Therefore, in 2009 production of high quality roof tiles started at the Outeiro factory (Portugal) and an important restructuring was undertaken with the closure of six factories.

## 4. BUSINESS POTENTIAL AND PERSPECTIVES FOR 2010

In Uralita we continue trusting in the medium and long term potential of our businesses:

- High potential products portfolio: either aligned with regulatory trends towards energy efficiency, or focus on an activity as relevant as water management or in line with current constructive trends (shorter installation time, comfort and quality)
- Geographical diversification, with 60% current sales outside Spain, being optimistic about the expected recovery of these markets in the future
- Improvements implemented in 2009 have made Uralita more efficient, meaning higher profitability when demand recovers

In the short term, i.e. 2010, markets visibility is still limited. Nevertheless, with the current macroeconomic outlook, we expect to see some signals of recovery in the second half of the year, mainly in our international markets.
In this context, Uralita management will focus on developing sales by leveraging on its leading products, strengthening the relation with its customers and taking advantage of the growth in some markets. In parallel, Uralita will continue actively managing costs and cash generation.

## 5. KEY EVENTS AND IMPACT ON THE SECOND HALF OF 2009

The main events taking place in the second half and its estimated impact on results were the following:

1. Progress with the implementation of the profitability improvement plan and cash maximization, whose impact is already included in the results.
2. Closure of two additional roof tiles factories and one of Pipes[5] plant

[5] Between 2009 and January 2010

## 6. MAIN RISKS AND UNCERTAINTIES FOR 2010

1. Potential additional deceleration of the construction activity in Spain
2. Potential and rate of the recovery of the international markets in which Uralita operates
3. Increased intensity of competition in some markets
4. Exchange rate evolution in key markets for the Group (mainly Russia, Eastern Europe and Turkey)