

## INTERIM MANAGEMENT REPORT FOR THE SECOND HALF OF 2010

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A group that is becoming more **International** (64% of sales) and more focused on **Energy Efficiency** (80% of sales in Insulation and Pladur®)

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- ***A positive recovery in international sales (representing around 64% of Uralita's total sales in 2010) whilst the business in Spain continued to fall, mainly in the Piping Systems business, hit by cuts in public works.***
- ***For the year as a whole, Uralita generated sales of €683 M, reducing the fall to -3% compared with 2009 (from -8% in the first half of the year). The Interior Solutions business, which continues to be the most important for the group, increased its sales by 2% in 2010 thanks to its significant presence in international markets, especially in Eastern Europe.***
- ***Operating profitability (EBITDA) fell in comparison with 2009 (a margin of 12.7% against 14.5%), affected by the low level of activity of the Piping Systems business and the high prices of certain raw materials, especially polystyrene, which affected the profitability of part of the insulation business.***
- ***The fall in EBITDA, along with a higher tax rate and a higher weighting of the results in business with minority interests, meant that the Net Attributable Result fell to €0.6 M.***
- ***In 2010, Uralita continued its strict cash control, managing to end the year with the same level of debt as 2009, taking its net financial debt to €234 M, with the Debt/EBITDA ratio standing at 2.7.***
- ***For 2011 and based on our current foresight, we anticipate a recovery in sales and margins, driven on by the insulation business, through the consolidation of the recovery in Eastern European markets and the improved growth rate in Western and Central Europe.***

## 1. ECONOMIC ENVIRONMENT

Following 2009, a year marked by a significant fall in construction activity in all the markets in which Uralita trades, the sector began a recovery in 2010, especially in the second half of the year after a very adverse winter in climate terms. The recovery was characterised by large differences between regions:

- The Western European markets (which accounted for around 42% of Uralita's sales in 2010) showed the first signs of recovery, driven by the economic recovery in some countries (mainly Germany and, to a lesser extent, France) and by the ongoing regulatory promotion of energy efficiency, benefiting demand for insulation materials, the main product with which Uralita trades in the region.
- As for the construction sector in Spain (36% of Uralita's sales), both new buildings and refurbishments and public work continued to experience significant falls as a result of the economic and financial crisis and the public measures for containing investment outlays.
- Finally, the region that showed the clearest signs of recovery, although with great differences between countries, was that of Eastern Europe and Russia (22% of Uralita's sales). Following a first half that was hit by the weather, economic activity returned to the path of strong growth and had a positive effect on the building sector, given the shortage of houses and their low energy efficiency.

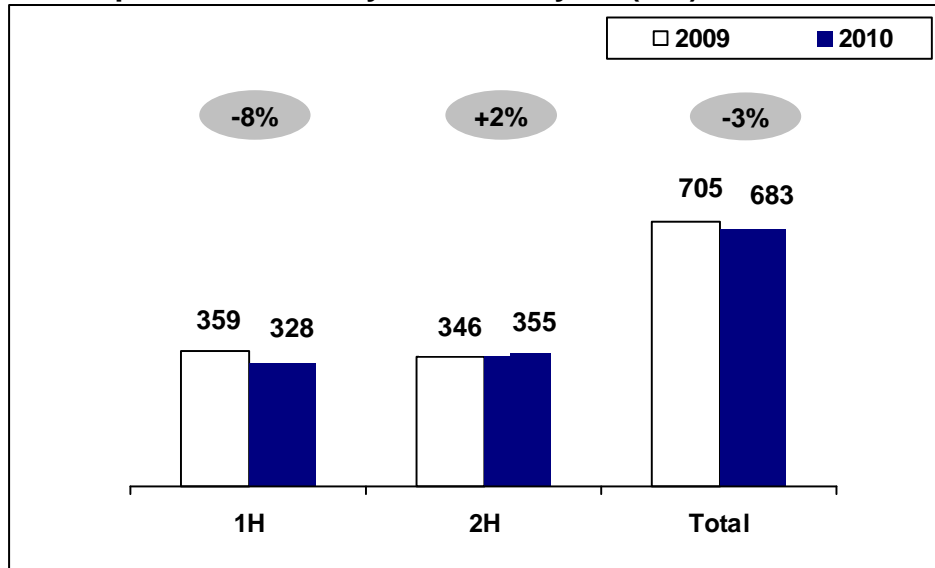
## 2. CONSOLIDATED RESULTS FOR URALITA

<b>Figures in €M</b>	<b>2009</b>	<b>2010</b>	<b>Variation</b>
<b>SALES</b>	<b>704.7</b>	<b>683.0</b>	<b>-3.1%</b>
<b>EBITDA</b>	<b>102.5</b>	<b>86.8</b>	<b>-15.3%</b>
<b><i>EBITDA Margin</i></b>	<b><i>14.5%</i></b>	<b><i>12.7%</i></b>	<b><i>-1.8 pp</i></b>
<b>NET ATTRIBUTABLE RESULT</b>	<b>10.1</b>	<b>0.6</b>	<b>-94.0%</b>

(1) Excluding Sales and EBITDA from discontinued operations in 2009

Sales of €683 M in 2010, down 3% on 2009. Sales recovered gradually over the year, where the second half was up 2% on the same period in 2009 (compared with -8% for the first half).

### Development in sales by half of the year (€M)



By geographical areas, there was a gradual recovery in international sales, with recent months compensating the heavy fall in the first quarter of 2010 due to bad weather. For the year as a whole, international sales were up 4% on 2009 (+12% in Eastern Europe and 0% in Western Europe), especially in Russia. The fall in sales in Spain improved and held at an accumulated figure of -13% for the year.

### Sales development by region (€M)

	2009	2010	Variation
WESTERN AND CENTRAL EUROPE	287	287	0%
SPAIN	283	245	-13%
EASTERN EUROPE, RUSSIA AND TURKEY	135	151	12 %
<b>TOTAL</b>	<b>705</b>	<b>683</b>	<b>-3 %</b>

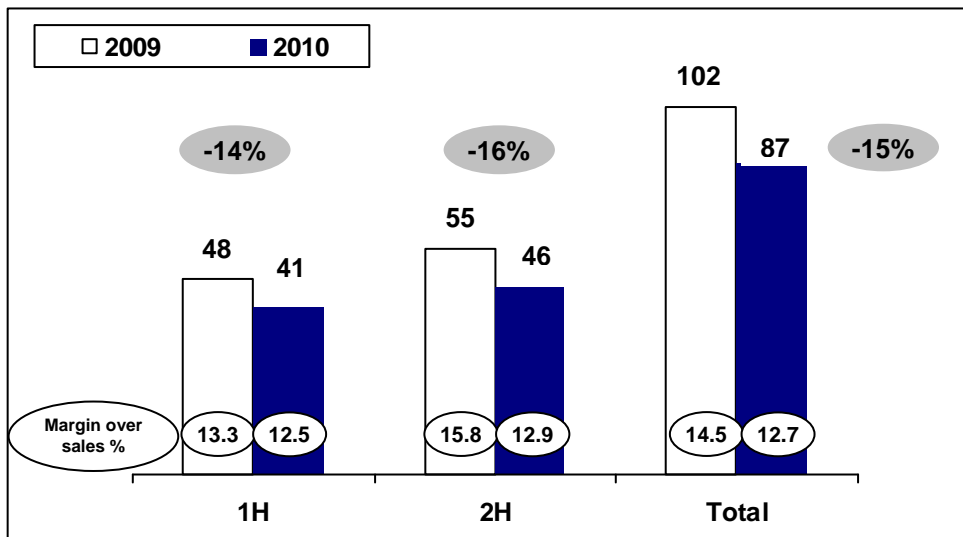
By business divisions, there was an improvement in Interiors Solutions (Gypsums and Insulation), with a turnover of €547 M in 2010, 2% up on 2009, with the second half recovering the loss of the first half. The Piping Systems business continued its negative trend and reported the greatest fall in sales (-24% in comparison with 2009). It was greatly affected by the significant fall in public works brought about by austerity plans. For its part, the Roofing business recovered part of its turnover in recent months, ending the year at around 5% down on sales for 2009 (compared with -17% for the first half) and with a positive trend in sales and margins.

### Sales development by line of business (€M)

	2009	2010	Difference
<b>INTERIOR SOLUTIONS</b>	<b>539</b>	<b>547</b>	<b>+2 %</b>
<b>PIPING SYSTEMS</b>	<b>112</b>	<b>85</b>	<b>-24%</b>
<b>ROOFING</b>	<b>53</b>	<b>51</b>	<b>-5 %</b>
<b>TOTAL</b>	<b>705</b>	<b>683</b>	<b>-3 %</b>

EBITDA for 2010 reached €86.8 M, down 15% on 2009. There were two main causes for the fall: firstly, the increase in the price of polystyrene, which had a negative effect on the profitability of one part of the Insulation business (XPS), in which, because of the still incipient recovery of some markets, the increase in cost could not be transferred in full to sales prices (the estimated impact of polystyrene on results was €12 M). Secondly, the drop in sales and, therefore, the profitability of the Piping Systems, which is still adapting to the sharp fall in activity of 24% (together with the almost 40% drop in 2009) and which lost more than €8 M in EBITDA.

### Development of consolidated EBITDA by half of the year (€M)



The net result attributable to the group was negatively affected by the fall in EBITDA (almost €16 M compared with €103 M in 2009), a higher tax rate (up from 24.2% in 2009 to 39% in 2010, owing to the generation of higher positive results in businesses without tax credits) and by higher results in businesses with minority interests, mainly Roofing. Consequently, the net attributable result for 2010 stood at around €0.6 M, approximately 94% down on the 10.1 million for 2009.

Uralita has continued its policy of maximising cash flow to keep the group's debts under control. Accordingly, thanks to the cash generated from the businesses and control over investments, Uralita generated a free cash flow<sup>1</sup> of €48.7 M. This meant that Uralita was able to meet financial interest charges and dividends whilst maintaining its debts at the same level as 2009. As a result, the company closed 2010 with a net financial debt of €234.3 M, which implies a Debt/EBITDA ratio of 2.7.

<sup>1</sup> Cash flow before financial payments and dividends.

### 3. RESULTS BY LINE OF BUSINESS

Figures in €M	Sales		EBITDA	
	2009	2010	2009	2010
Interiors Solutions <i>% previous year</i>	538.8	547.2 +1.6%	91.9	81.5 -11.3%
EBITDA Margin			17.1%	14.9%
Roofing <i>% previous year</i>	53.1	50.7 -4.5%	4.9	7.1 +44.7%
EBITDA Margin			9.2%	14.0%
Piping Systems <i>% previous year</i>	111.8	84.6 -24.4%	11.0	1.5 -86.4%
EBITDA Margin			9.8%	1.8%
Others and Adjustments <sup>(1)</sup>	1.0	0.5	-5.3	-3.3
<b>TOTAL</b>	<b>704.7</b>	<b>683.0</b>	<b>102.5</b>	<b>86.8</b>

(1) Includes Sales and Corporate EBITDA and consolidation adjustments.

***Interiors Solutions (80% of Uralita's sales in 2010). Recovery in insulation sales and business level held for Gypsum***

The Interiors Solutions business (Gypsums and Insulation) is still the most important for the group and accounted for around 80% of sales in 2010 and 90% of the group's total EBITDA, with more than 75% of its sales being outside Spain.

In the Insulation business, 2010 was characterised by different behaviour in each half of the year: whilst the first half was marked by harsh weather conditions and a still weak demand for insulation, the second half saw a revival in the construction market, especially in Eastern Europe. In particular, demand for insulation in the Russian market was up more than 20% on 2009, showing a return to the significant level of growth that is characteristic of the region.

The increase in the construction market and in the demand for insulation led to an increase in insulation sales volumes (both glass wool and XPS) in practically every region, closing 2010 with sales 5% up on 2009. Despite the increase in demand, prices continued to be under pressure in some regions due to excess capacity.

Although unit production costs benefited from increased demand, it is important to highlight the heavy increase in the price of certain raw materials, mainly in the second half of the year. In particular, Polystyrene prices were up nearly 50% on 2009. This had a significant negative effect on the profitability of the XPS business, despite the increase in volume. This price escalation affected negatively the overall profitability of the Insulation business.

This line of business worked on launching innovative products and on extending those set up in 2009 (especially PureOne and Ursa Terra) to other countries to meet increases in demand and maintain fixed and personnel costs, building on improvements already implemented in 2009.

The Gypsum business suffered from the fall in the general construction activity in Spain for both plasterboard and powder plaster and saw an overall drop in sales of 9%, which was less than the forecasted for the general construction sector

The business division worked on launching products adapted to demand (e.g. products suited to the refurbishment and alterations segment), improving efficiency in the use of raw materials and implementing operating improvements in the factories. The improvements will compensate the increase in energy prices and the fall in profitability of the plaster powder business owing to high price competition.

For the Interiors Solutions as a whole, EBITDA dropped by 11% to €82 M. Of the €10 M by which EBITDA was reduced, €12 M were due to the loss of profitability in XPS caused by the aforementioned rise in polystyrene prices, whilst profitability improved elsewhere in the business bringing in additional EBITDA.

***Roofing: (8% of Uralita's sales) improved profitability despite the fall in sales***

Sales in the Roofing business fell by 5%, with differences between regions: exports and the Portuguese market improved slightly more than the Spanish market.

Despite the fall in sales, profitability increased thanks to the launch of high-quality mixed ceramic tiles, mainly in Portugal, the good performance of concrete tiles in Spain, the operating improvements in the factories and the adaptation of the business to market size following the 2008-2010 restructuring process. As a result, the EBITDA for the business rose by 45% to €7.1 M and the EBITDA margin reached 14% (+4.8 pp).

***Piping Systems: Adequa® (12% of sales). A further drop in sales in 2010 that undermined profitability***

Piping Systems was the business most affected by the situation in Spain and was down 24% on 2009.

The most affected segment was Infrastructures due to the interruption of projects in progress that affected both public and private investors. Furthermore, the level of competition in some businesses prevented the transfer of raw materials and energy price increases to the end price, which heavily affected margins.

The Building segment was also affected by the fall in volume; however, it was partially compensated by the increase in sales of accessories associated with the launch of new products and in the improved performance of the French market.

This led to a drop of 86% in EBITDA to €1.5 M, with an EBITDA margin of 1.8% compared with 9.8% in 2009.

#### **4. BUSINESS POTENTIAL AND PROSPECTS FOR 2011**

Uralita is well positioned for the future thanks to:

- Its strong position in insulation, which accounted for 61% of Uralita's sales in 2010 and that generates 95% of its revenue outside Spain. Strong growth is forecasted in this segment, coming from both recovery of the construction market in any countries and the boost by legislation regarding the improvement of energy efficiency in buildings.

- Its position as leader in Eastern Europe, especially in Russia. The forecasts for growth in the insulation business in this region are very positive, especially with the expectations for improvements in the construction activity (backed up by the improvement of said countries' economies and the need to upgrade the low levels of energy efficiency), in which insulation plays a fundamental role.
- Its capacity to leverage on its current structure, both on the factories and the commercial and support network, means that practically no investments are required to satisfy the future demand that has been anticipated.
- Its focus in Spain on leading products adapted to the segments that are expected to develop more in the future (refurbishments and non-residential). The versatility and range of Plasterboard products from Pladur® and the decision to go for high quality Tiles are also worthy of special mention.

With the current macroeconomic prospects, we anticipate a consolidation of the recovery in Eastern European markets and a high growth rate in Western and Central Europe in 2011; however, there will be differences between products.

We consider that this will lead to a higher turnover than 2010 (especially in the international markets) and that Uralita will improve its results thanks to the leverage it has in its current structure for meeting the increase in sales.

## **5. IMPORTANT EVENTS AND THEIR IMPACT ON THE SECOND HALF OF 2010**

There were no important events in the second half of the year.

## **6. MAIN RISKS AND UNCERTAINTIES FOR 2011**

- A further fall in public works in Spain.
- Strength and pace of the recovery of the international markets in which Uralita trades.
- Additional increases in raw materials prices above anticipated levels.