

Interim report for January–March 2006

### **Uponor posts a strong 1st quarter, full-year profit outlook has improved**

- Earnings and profitability showed favourable development, with strong growth in net sales
- Net sales came to EUR 250.5 (217.6) million, a change of 15.1%
- Operating profit (EBITA) was EUR 21.8 (13.7) million, a change of 59.3%
- Cash flow from operations turned positive, coming to EUR +1.2 (-12.5) million
- Earnings per share improved, reaching EUR 0.21 (0.12)
- Return on investment (ROI) was at 21.8% (13.3%), with a solvency ratio of 54.7% (53.4%)
- Uponor believes in improving its full-year results and reaching the long-term operating profit margin target

### **CEO Jan Lång comments on the financial performance for the period:**

- Uponor showed strong development in the first quarter, and we exceeded our long-term target growth in all of our Regions. The growth achieved in Uponor Central Europe and the halt in the downward demand trend in Germany were particularly pleasing. Our growth strategy has been successful also in those markets of the 'Uponor Europe – West, East, South' region where satisfactory market presence for Uponor has not yet been achieved.

- The positive development in net sales also strengthened our operating profit. Due to a more efficient production structure, our gross margin showed positive development, as the results of increased efficiency have become fully apparent. Further enhancing this development is the fact that we have been faster than we were last year in compensating for increases in material costs by adjusting sales prices.

- The brand renewal launched throughout the corporation at the end of last year has progressed successfully in all of the markets without causing any disturbances to business.

### **Presentation material is available, and a teleconference is to be held:**

Following the release of this report, the presentation material for the interim report shall be available at <http://www.uponor.com/investors>, under 'IR material'.

Uponor will hold a teleconference in English for equity analysts today, at 4:00pm Finnish time (2:00pm London time, 9:00am New York time). Those who would like to participate should, using a DTMF telephone, ring +358 (0)9 8248 3612 and enter the PIN code 2805. Those participating are requested to introduce themselves when presenting any questions.

Interim report for January–March 2006:

## Markets

Demand for housing solutions and infrastructure applications was active in the first quarter of 2006, and demand for all product systems marketed by Uponor has shown quite positive development in all main markets.

With the exception of Germany, demand in the 'Uponor Central Europe' region continued to be satisfactory, although the harsh winter did impede new building activities in parts of the region. A positive aspect of developments was that, unlike last year, this year saw the decline in demand in the construction market halted in Germany, which is the main market in the Region.

In the Nordic countries and in countries belonging to the 'Uponor Europe – West, East, South' region, construction markets remained at a solid level. Demand for infrastructure solutions was, however, hampered by the prolonged winter conditions in the Nordic countries and central Europe.

In North America, very active demand for housing solutions continued both in the United States and in Canada. This was contributed to by the exceptionally warm weather in the US in the early part of the year. Recent months have seen several downswings in North American building market statistics, but these had no significant effects on demand in the first months of the year.

## Net sales

Uponor's consolidated net sales for the first quarter totalled EUR 250.5 (217.6) million, or 15.1% more than for Q1/2005. The most significant factors contributing to the growth in net sales were active demand in the main markets, coupled with strong marketing and sales efforts, and increases in product prices in line with increased raw material costs. In 2005, sales price increases were, for the most part, implemented only after the first quarter. Furthermore, the timing of Easter increased the number of effective working days and thus contributed to the growth in net sales. The impact of foreign exchange fluctuations totalled approximately EUR +3.7 million.

The growth in net sales exceeded the long-term target of 5% in all regional organisations, with Uponor Europe – West, East, South and Uponor North America recording the highest growth figures.

Net sales by segment (January–March):

MEUR	Q1/2006	Q1/2005	Change
Central Europe	73.6	68.5	+7.5%
Nordic	74.5	66.0	+12.8%
Europe – West, East, South	87.7	70.8	+23.9%
North America	44.7	33.0	+35.4%
North America (USD)	53.7	43.1	+24.5%
Other	-	2.2	
Eliminations	-30.0	-22.9	
Total	250.5	217.6	+15.1%

The growth in net sales in Uponor Central Europe was mainly accounted for by the Benelux countries, while net sales in Germany remained near the level achieved last year.

The growth in Uponor Nordic stemmed mainly from housing solutions, an area in which seasonal fluctuations are smaller than in the infrastructure solutions business. Increased sales were achieved also for infrastructure applications.

Net sales grew in all key markets in the 'Uponor Europe – West, East, South' region, mainly because those operations that mostly involve small units became more established, resulting in a stronger market position and enhanced logistical capabilities. Good results were achieved in, e.g., Great Britain, Ireland, France, and Russia, as a result of the actions that were launched to strengthen market position. Strong growth in net sales continued in the Iberian Peninsula, supported by successful customer loyalty programmes.

In Uponor North America, the strongest growth was seen for plumbing systems. Plastic pipes continue to increase in popularity among installers. The development in sales of radiant under-floor heating systems was also positive.

Of the secondary segments, housing solutions showed clearly stronger growth than infrastructure solutions did.

## Results and profitability

Group operating profit was EUR 21.8 (13.7) million, up 59.3 per cent from the preceding year.

The growth in the operating profit is mainly based on the increased net sales, supported by continuing solid demand and increases in sales prices to offset higher material costs, as well as on the sales mix focusing more on products with higher margins compared to Q1/2005. The increase in raw material costs for plastics and metals has been successfully compensated through increases in sales prices, except in the North American region, where the development of net selling prices has temporarily been adverse due to changes in the sales mix triggered by price increases.

Due to investments in the implementation of the strategy, the Group's costs increased, as planned, during the first quarter and impacted the profitability.

Operating profit by segment (January–March):

MEUR	Q1/2006	Q1/2005	Change
Central Europe	9.8	7.4	+31.3%
Nordic	6.2	3.7	+67.3%
Europe – West, East, South	7.0	2.4	+188.1%
North America	1.7	2.4	-28.3%
North America (USD)	2.0	3.1	-34.0%
Other	-1.0	-0.6	
Eliminations	-1.9	-1.6	
Total	21.8	13.7	+59.3%

Consolidated profit before taxes improved clearly, coming to EUR 22.6 (13.5) million. Income taxes totalled EUR 7.0 (4.2) million, with the tax rate remaining at 31% (31%).

The result for the financial period was EUR 15.6 (9.3) million.

Earnings per share (diluted and undiluted) were EUR 0.21 (0.12). Shareholders' equity per share improved from the previous year's figure to EUR 5.00 (4.82), or EUR 4.99 (4.81) diluted.

## **Investment and financing**

Gross investments totalled EUR 8.6 (7.9) million, or 3.4 (3.6) per cent of net sales. The investments were increased mainly in the renewal of the enterprise resource planning (ERP) system and development of the manufacturing network in line with the strategy, with the ongoing production expansion in Uponor North America as an example.

The solvency ratio rose to 54.7 (53.4) per cent, while gearing fell to 12.6 (22.8). Net interest-bearing liabilities, totalling EUR 46.0 million, saw an increase from the total for the end of the last fiscal year (31.12.2005: -26.9) due to dividends paid, but the total remains substantially less than during the reference period last year (EUR 81.7 million).

Return on investment grew to 21.8% (13.3%). Also, the return on equity (ROE) improved to 15.9% (9.8%).

## **Key events**

The main areas of focus in the Uponor strategy include organic growth, development of the brand, and increased operational efficiency. Investment in the latter two has been strong for the last two years, and the ongoing actions are progressing as planned.

At the beginning of 2006, Uponor introduced a new visual identity for the company in all markets, in line with the brand renewal. In the first months of the year, resources have been allocated to ensure a uniform appearance at trade shows as well as uniform marketing campaigns, thereby for the first time presenting the Group's entire product range under the name 'Uponor' to customers and other professional partners. The renewal was received well by customers.

With the brand renewal, also processes associated with the offering management have been made uniform and the product offering has been harmonised. In Germany, for example, Uponor previously marketed several brands for the same applications, and focussing on the Uponor brand enabled a reduction in the number of products by almost half without any significant reduction in the actual offering.

Further to this, Uponor officially introduced a new joint sales organisation in Germany, in which four previous sales organisations for system brands were merged. The reform was successful and improved the sales and marketing power as was planned.

The ERP project aimed at improving operational efficiency continues to move forward toward the introduction of the new software system in Uponor Central Europe in summer 2006.

In February, Uponor published its revised strategy, in which efforts to achieve profitable growth are emphasised more strongly than before. The company aims at boosting its growth in markets for single-family housing and infrastructure solutions, in both of which Uponor already has a relatively solid market position in international terms. Uponor also introduced a new growth area, the high-rise building market segment. High-rise buildings function as multi-storey residential and commercial buildings. Uponor plans to increase its market share in this segment over the next few years by, e.g., developing its product and service offering and adjusting its marketing methods to meet this sector's special needs. The first steps in this direction have already been taken, in the current quarter – for example, by initiating co-operation with designers and planners.

The market presence in south-eastern Europe was strengthened in January by establishing the subsidiary Uponor A.E. in Greece. It is responsible for marketing Uponor systems in Greece and neighbouring areas.

### **Personnel and organisation**

The reported number of Group employees averaged 4,175 (4,202) during the period under review, down by 27 from the Q1/2005 figure. At the end of the period, the Group had 4,190 (4,181) employees, nine more than at the same time last year. After the end of 2005, the number of employees increased by 64.

The number of personnel decreased mainly in Uponor Central Europe, due to, for example, merging of sales organisations, while in Uponor North America and Uponor Europe – West, East, South, additional personnel have been hired as the business has expanded.

### **Annual General Meeting**

The Uponor Annual General Meeting was held in Helsinki on 16 March 2006. The AGM adopted Uponor's parent company and consolidated financial statements for 2005 and discharged members of the Board of Directors and the managing director from liability. It also decided to distribute a per-share dividend of EUR 0.90 for 2005. The dividend payment date was 28 March 2006.

The number of members of the Board of Directors remained at five, and all of the members were re-elected: Chair of the Board Pekka Paasikivi, Deputy Chair Aimo Rajahalme, Jorma Eloranta, Anne-Christine Silfverstolpe Nordin, and Rainer S. Simon. The members are elected for one year at a time.

The AGM re-elected KPMG Oy Ab, Authorised Public Accountants, to serve as official auditor.

The AGM also approved the Board's proposal for reducing share capital by invalidating own shares, and it authorised the Board to decide to buy back own shares.

### **Share capital and shares**

The number of Uponor shares exchanged on the Helsinki Stock Exchange decreased in the first quarter to 8.3 (9.3) million shares, while the worth in euros of the shares exchanged saw an increase to EUR 170.8 (143.2) million due to the higher share price. The market value of the share capital at the end of the period was EUR 1.6 (1.2) billion, and the number of shareholders was 7,022 (6,003).

At the beginning of 2006, Uponor Corporation's share capital amounted to EUR 148,766,888 and the number of shares totalled 74,383,444, each share having a nominal value of two euros. The AGM in March decided to reduce share capital by EUR 2,320,000 by cancelling 1,160,000 treasury shares. As a result of this cancellation on 23 March, the company's share capital was reduced to EUR 146,446,888 and the number of shares to 73,223,444.

The AGM authorised the Board to decide, within one year, on the buyback of the company's own shares using distributable earnings from unrestricted equity. The combined par value of the shares to be bought back, together with the par value of own shares already held by the corporation, may not exceed five per cent of the corporation's share capital and voting rights held at the time of the buyback. The Board of Directors did not use this authorisation during the period under review.

The Board of Directors has no other authorisations.

At the beginning of 2006, Uponor Corporation held 1,248,000 treasury shares. As a result of the cancellation of treasury shares, the number decreased to 88,000, with a combined value totalling EUR 176,000. At the end of the period, they accounted for 0.1 per cent of the share capital and total voting rights accompanying all shares.

### **Short-term outlook**

No significant deviations from the previous guidance are expected in the Uponor business environment or in the economic environment this year.

The main construction market in Central Europe is Germany, where the protracted downward trend discontinued during the first quarter. No significant further reduction in demand is expected for this year. No significant factors, as a whole, that could significantly alter the situation in the regions of Uponor Nordic and Uponor Europe – West, East, South can be seen either. In North America, however, the historically high demand in the building sector is expected to take a downward turn in 2006 but nonetheless remain at the healthy level that prevailed in the early years of this decade.

Uponor's net sales and profitability developed strongly in January–March compared to the previous year and reached the upper end of the range expected by the company. Due to the solid development experienced in the first months of the year, the guidance for the entire year shall be revised.

In 2006, the growth in Uponor's net sales is expected to be similar to that in 2005, when organic growth was 7.0%. The operating profit for the entire year is expected to exceed the operating profit of 2005, which totalled EUR 123 million. It is estimated that the operating profit margin is going to reach the long-term target level of a minimum of 12%.

Vantaa, 25 April 2006

Uponor Corporation  
Board of Directors

For further information, please contact  
Jan Lång, president and CEO, at tel. +358 40 508 7223  
Jyri Luomakoski, CFO, at tel. +358 40 515 4498

Uponor Corporation

Tarmo Anttila  
Vice President, Communications

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Appendix: Tables

## Information on the interim report:

Uponor Group has prepared its financial statements in compliance with the International Financial Reporting Standards (IFRS) from the beginning of the 2005 financial year. In its interim reports, Uponor follows the same principles as in the annual financial statements. The principles for preparing IFRS-compliant financial statements can be found from the company's homepage at [www.uponor.com](http://www.uponor.com) and in the company's annual financial statements.

The figures in brackets in this interim report are the reference figures for the equivalent period in 2005. Unless separately indicated, all figures concern the continuing operations in accordance with IFRS principles. The change percentages reported in the interim report have been calculated from exact figures and not from the published rounded figures.

The reference figures for Q1/2005 are restated to include the impact from the sale of the German machine-building unit on 11 May 2005 with the retrospective effective date 1.1.2005. Also, the reference figures presented for the primary segment have been modified due to the structural changes in the region organisations 'Uponor Central Europe', 'Uponor Nordic', and 'Others'. The impact of these modifications on the interim report figures for 2004–2005 was published in a Stock Exchange Release document on 20 April 2006.

The figures in this interim report have not been audited.

The tables:

<b>CONSOLIDATED INCOME STATEMENT</b>						
MEUR				1-3/ 2006	1-3/ 2005	1-12/ 2005
Net sales				250.5	217.6	1,031.4
Cost of goods sold				163.1	146.6	667.6
Gross profit				87.4	71.0	363.8
Other operating income				0.3	1.2	6.2
Despatching and warehousing expenses				6.1	5.5	23.6
Sales and marketing expenses				42.7	37.4	158.2
Administration expenses				12.7	11.6	47.7
Other operating expenses				4.4	4.0	17.5
Operating profit				21.8	13.7	123.0
Financial expenses, net				-0.8	0.2	2.5
Profit before taxes				22.6	13.5	120.5
Income taxes (1)				7.0	4.2	37.8
Profit for the period				15.6	9.3	82.7
Earnings per share, EUR				0.21	0.12	1.12
Fully diluted earnings per share, EUR				0.21	0.12	1.12

<b>CONSOLIDATED BALANCE SHEET</b>							
MEUR							
					31.3.	31.3.	31.12.
					2006	2005	2005
<b>Assets</b>							
<b>Non-current assets</b>							
Intangible assets					85.8	75.3	85.1
Tangible assets					212.0	209.9	214.9
Investment property					-	10.8	-
Securities and long-term investments					17.3	23.5	19.4
Deferred tax assets					18.8	22.0	18.3
Total non-current assets					333.9	341.5	337.7
<b>Current assets</b>							
Inventories					127.1	142.9	111.4
Accounts receivable and other receivables					196.5	173.6	165.3
Cash and cash equivalents					10.6	14.4	48.9
Total current assets					334.2	330.9	325.6
<b>Total assets</b>							
					668.1	672.4	663.3
<b>Shareholders' equity and liabilities</b>							
<b>Shareholders' equity</b>							
					365.4	357.9	418.4
<b>Non-current liabilities</b>							
Interest-bearing liabilities					22.3	24.2	19.4
Deferred tax liability					17.4	24.7	17.9
Employee benefits and other liabilities					27.6	26.9	30.4
Total non-current liabilities					67.3	75.8	67.7
<b>Provisions</b>							
					16.4	19.7	14.8
<b>Current liabilities</b>							
Interest-bearing liabilities					34.3	71.9	2.6
Accounts payable and other liabilities					184.7	147.1	159.8
Total current liabilities					219.0	219.0	162.4
<b>Total shareholders' equity and liabilities</b>							
					668.1	672.4	663.3
<b>CONSOLIDATED CASH FLOW</b>							
MEUR							
					1-3/	1-3/	1-12/
					2006	2005	2005
Net cash from operations					30.1	21.6	153.5
Change in net working capital					-21.5	-25.8	22.8
Income taxes paid					-8.7	-8.2	-16.8
Interest paid					-0.6	-1.0	-4.2
Interest received					1.9	0.9	3.3







					1-3/ 2006	1-3/ 2005	1-12/ 2005
<b>Segment result</b>							
Central Europe					9.8	7.4	34.5
Nordic					6.2	3.7	45.4
Europe - West, East, South					7.0	2.4	30.0
North America					1.7	2.4	22.7
Others					-1.0	-0.6	-8.3
Eliminations					-1.9	-1.6	-1.3
Total					21.8	13.7	123.0
<b>Segment depreciation and impairments</b>							
Central Europe					1.8	1.9	6.7
Nordic					2.7	2.8	10.3
Europe - West, East, South					2.5	2.3	9.2
North America					1.5	1.1	5.0
Others					0.2	0.2	0.9
Eliminations					0.1	0.1	-1.1
Total					8.8	8.4	31.0
<b>Segment investments</b>							
Central Europe					0.8	1.0	7.7
Nordic					2.7	3.3	11.8
Europe - West, East, South					1.5	1.2	9.7
North America					2.5	1.5	9.7
Others					1.1	0.9	10.1
Total					8.6	7.9	49.0
<b>Segment assets</b>							
Central Europe					186.4	190.4	189.6
Nordic					238.6	185.2	226.3
Europe - West, East, South					211.4	201.8	199.3
North America					111.4	92.8	120.8
Others					657.9	490.3	747.9
Eliminations					-737.6	-488.1	-820.6
Total					668.1	672.4	663.3
<b>Segment liabilities</b>							
Central Europe					114.6	140.7	129.0
Nordic					327.9	97.5	318.9
Europe - West, East, South					121.9	136.7	113.0
North America					50.9	49.1	59.8
Others					445.0	405.9	465.6
Eliminations					-757.6	-515.3	-841.4
Total					302.7	314.6	244.9
<b>Segment personnel, average</b>							
Central Europe					1,131	1,204	1,180
Nordic					1,253	1,258	1,277
Europe - West, East, South					1,126	1,087	1,076
North America					618	582	581
Others					47	71	55
Total					4,175	4,202	4,169





<b>DERIVATIVE CONTRACTS</b>							
MEUR		Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
		31.3. 2006	31.3. 2006	31.3. 2005	31.3. 2005	31.12. 2005	31.12. 2005
Interest derivatives							
- Interest rate options, bought		-	-	30.0	-	-	-
- Interest rate options, sold		-	-	30.0	-	-	-
Foreign currency derivatives							
- Forward agreements		25.3	-0.1	22.6	-0.2	26.9	-0.1
Commodity derivatives							
Forward agreements		3.0	1.2	1.3	0.1	3.2	0.5
Currency swaps		7.8	0.1	1.5	-	-	-
(1) The taxes have been calculated to correspond the result for the period.							
The figures in this interim report have not been audited.							