Uponor Corporation Stock exchange release 3 February 2004 12:00

Financial statements 1 Jan. 2003 – 31 Dec. 2003:

Growth and profitability improved, restructuring continues

- Net sales EUR 1,021.0 (1,137.2) million, down 10.2% due to divestments and the strong euro
- Comparable net sales growth +4.9%; Housing Solutions grew in Europe and North America
- Operating profit EUR 30.7 (114.2) million, down 73.2%, due mainly to restructuring
- Profit after financial items at EUR 20.8 (100.7) million, down 79.4%
- Solvency ratio at 59.8% (58.9%), cash flow before financing improved to EUR 148.0 (124.8) million
- Earnings per share EUR 0.04 (1.72); EPS adjusted for restructuring costs EUR 1.29
- Board’s dividend proposal at EUR 2.00 (1.50) per share

CEO Jan Lang comments the financial statements:

- Following the modest outlook of the spring and especially the second quarter, our net sales growth speeded up and growth picked up clearly during the last two quarters. This had a favourable effect on our profitability, which strengthened towards the end of the year. If we exclude the real estate business, our operating profit for the second half of the year, adjusted for divestments and restructuring costs, reached EUR 52.2 million, against EUR 40.7 million in 2002, showing a growth of 28.1% year-on-year. Similarly, operating profit margin for the same period grew from 8.2% to 10.1%.

- The implementation of the 2004 restructuring programme has started well, with the first related measures underway. The recent strengthening of our management resources, coinciding with the introduction of a new organisation, will create a solid basis for our determined development of the Group’s operations. Supported by the somewhat brighter market outlook, they will build confidence in a sustained improvement of our performance.

Dividend payout

The Board proposes to the Annual General Meeting that a dividend of EUR 2.00 per share be distributed for 2003. The dividend shall be paid to a shareholder who is registered as a shareholder in the shareholder register maintained by Finnish Central Securities Depository Ltd on the record date 22 March 2004. Since the Finnish Central Securities Depository Ltd has granted to the company a permission to deviate from the statutory date of dividend payment, the Board proposes to the Annual General Meeting that the dividend be paid on 30 March 2004.

Chairman of the Board, Pekka Paasikivi comments on the dividend proposal of 2 euros:

- The company has developed in a positive direction and the financial performance adjusted for restructuring costs was reasonable. This provides a basis for a dividend of one euro per share. Moreover, the real estate and non-core business divestments programme that was carried out during the financial year has released capital, and the company’s balance sheet position has remained strong, giving us a further justification for another euro per share to be paid out as dividend.

Further information:

Jan Lång, CEO, Tel +358-9-4789 6339 or +358-40-508 7223
Jyri Luomakoski, Deputy CEO and CFO, Tel +358-9-4789 6346 or +358-40-515 4498

Uponor Corporation

Tarmo Anttila
Vice President, Corporate Communications

Annex:
Report by the Board of Directors
Tables

DISTRIBUTION:
Helsinki Exchanges
Media
www.uponor.com

Review by the Board of Directors

Markets

Demand for Uponor’s product lines in the construction sector remained at a satisfactory level during 2003, and much the same way as in 2002. Demand in the EU remained on average at the previous year’s level, albeit characterised by large differences within the region. Housing construction in North America remained robust.

Germany is still the largest single residential construction market area in terms of value, although volume has fallen by almost half of its peak level in 1999. During 2003, residential housing construction in Germany continued to decline, although the second half of the year saw subtle signs of recovery. One and two-family housing construction decreased less than housing construction in general. The number of residential building permissions rose from the 2002 level.

In other large markets, such as the UK, Spain and Nordic countries, demand remained good in residential housing-construction, while the company’s new market areas in Russia and the Baltic countries remained buoyant. Portugal made an exception to this overall trend, with its market facing a downturn.

Demand for infrastructure and environment solutions remained unchanged or showed a slight growth in most European market areas, despite the unusually long winter holding up sales in Central and Northern Europe.

Net sales

In 2003, Uponor posted consolidated net sales of EUR 1,021.0 million (2002: EUR 1,137.2 million), down 10.2 per cent, or EUR 116.2 million over the previous year, due almost completely to first-half divestments and the strong euro. Excluding currency fluctuations and divestments, net sales improved by 4.9 per cent in comparable terms.

Housing Solutions experienced quite a favourable sales performance. Following two weaker years, net sales in Europe rose by 4.8 per cent. Net sales continued their vigorous growth in North America, amounting to 21.0 per cent in U.S. dollars, gathering momentum during the second half of the year, in particular.

Infrastructure and Environment recorded 13.0 per cent lower net sales than a year ago, due to both divestments and declined orders from utilities customers in the UK and Portugal. If divestments and exchange rate changes are taken into account, net sales remained almost at the previous year’s level (decrease of 0.4 per cent).

The largest geographical markets and their share of consolidated net sales in 2003 were as follows: North America 18.5 (23.8) per cent, Germany 16.4 (16.6) per cent, other EU 19.7 (17.5) per cent, Scandinavia 14.7 (12.5) per cent, UK and Ireland 11.1 (11.8) per cent, other countries 9.0 (8.8) per cent and Finland 10.6 (9.0) per cent.

Results

Consolidated operating profit reported for the period came to EUR 30.7 (114.2) million, down 73.2 per cent on the previous year, the sharp fall being mainly due to restructuring costs of EUR 54.9 (9.0) million entered in 2003. In addition, the 2002 operating profit included EUR 35.6 million in other operating income, generated by capital gains mostly on property, whereas the corresponding item came to a mere EUR 7.3 million in 2003.

Business profitability improved in comparable terms, due in particular to favourable developments during the second half of the year.

Profit after financial items dropped by 79.4 per cent, to EUR 20.8 (100.7) million. Profit before appropriations and taxes amounted to EUR 20.8 (100.7) million. Taxes totalled EUR 19.2 (36.9) million. Profit for the financial year diminished by 97.6 per cent, to EUR 1.6 (64.2) million.

Non-recurring expenses of around EUR 54.9 (9.0) million incurred in 2003 were entered as operating expenses.

Group net financial expenses totalled EUR 9.9 (13.5) million.

Return on equity was 0.3 (11.8) per cent and return on investment reached 4.9 (14.8) per cent.

Earnings per share came to EUR 0.04 (1.72) and equity per share was EUR 12.69 (14.58).

Year on year, cashflow from business operations increased to EUR 148.0 (124.8) million.

Investment and financing

Gross investments amounted to EUR 36.7 (45.0) million, i.e. EUR 50.4 million less than the value of depreciation. Net investments totalled EUR 1.2 (–24.0) million. Investments were mainly allocated to restructuring businesses, improving productivity and maintenance.

The Group’s R&D expenditure remained at the previous year’s level, totalling EUR 16.0 (16.0) million, or 1.6 (1.4) per cent of net sales.

With a marked improvement in the Group’s financial position, net interest-bearing liabilities decreased from EUR 163.9 million to EUR 84.0 million and solvency ratio rose to 59.8 (58.9) per cent while gearing fell to 18 (30) per cent.

Key events

Nordic countries

2003 marked the first year Uponor was engaged in the marketing of all of its three international housing technology brands – Wirsbo, Unipipe and Ecoflex – in Finland, Sweden, Norway and Denmark under the pan-Nordic organisation. The main focus was on the development of the distribution chain, resulting in a favourable impact on sales.

Central Europe

In line with its new brand strategy, Uponor aims to integrate all of its major system brands into the Uponor brand. Consequently, in March it was the first time that Uponor's German units were housed on the same stand under the Uponor brand at the ISH, the largest international trade fair for plumbing and heating technology. Furthermore, Uponor's leading heating system brand in Germany, Velta, which had been an independent brand, joined Uponor brand offerings at the end of 2003.

In spite of much focus being placed on production restructuring, the Ochtrup unit introduced a plastic-aluminium-multilayer pipe production line based on new technology, with the aim of meeting growing demand.

Other Europe

Uponor's contracts for its pressure pipe systems were extended, as evidenced by the extension by two more years to the end of 2005 of the three-year agreement with Transco for the supply of gas pipe systems, and with Severn Trent Water, a water utility services provider, by two more years to April 2006. Furthermore, Uponor's subsidiary Radius Plastics, the provider of telecom installation ducting systems, concluded agreements with British Telecom and Pirelli, the leading cable manufacturer in Europe, for the supply of so-called microglide products for installing broadband into buildings.

In the UK, Uponor began to provide its customers with special installation and maintenance services for utility pipe systems, which met with a favourable reception.

All of Uponor's businesses in Russia and the Baltic countries were arranged under one unit. In Estonia, the operations belonging to different divisions were merged into one company, while the Russian unit in Moscow moved into new premises featuring appropriate training facilities.

North America

Demand remained at a good level for Uponor's plastic radiant floor heating and plumbing systems. Uponor streamlined marketing by combining under a single management the sales of other brands sold alongside the Wirsbo brand.

The company continued to develop further its partnership programmes, the most popular of which is Wirsbo Advantage with over 800 installation firms as members. The year also saw the launch of a new training programme, Mini-Camp II, focusing on technical training for installation firms and wholesalers, so that they might gain a deeper knowledge of radiant floor heating.

With the increasing logistics efficiencies achieved, Uponor closed down its Utah-based distribution facilities, redeploying their operations to an extended distribution centre in Minnesota. The Minnesota plant launched a large-scale expansion investment programme in production, due for completion in the first few months of 2004, coupled with several other investments in order to shorten throughput times.

Uponor Aldyl Company within Municipal Americas finalised several new contracts of 2–3 years’ duration for the supply of gas distribution pipes and related components.

Other issues

At the end of the year, Uponor launched an ERP project aimed, in the initial stage, at establishing new, harmonised operating models and policies, while the overall aim is to implement modifications for enterprise resource planning systems. The project’s first phase will be completed during the beginning of the current year.

Restructuring

At the beginning of the year, Uponor divested two of its non-core businesses. In February, Uponor sold its 51 per cent holding in a manufacturer of in-house and house drainage systems, Uponor Hausabflusstechnik GmbH and its subsidiaries, to Magnaplast Beteiligungs GmbH & Co KG, established by minority shareholders, for EUR 6.5 million. The deal, which included production plants in Germany and Poland, took effect at the beginning of the year.

In March, Uponor sold its shareholding in Uponor ETI Company, a U.S. subsidiary specialising in municipal water and sewage systems, to the PW Eagle group for USD 30–34 million, of which USD 22 million was paid cash at closing on 14 March. The deal involves the company’s four production plants in the eastern and central part of the USA.

As a result of the above divestments, Uponor’s annual net sales fell by approximately EUR 135 million and staff by around 445 employees.

In early 2003, Uponor initiated a restructuring programme in Continental Europe, with the aim of streamlining operations. In Germany, it transferred the production of installation panels for radiant floor heating systems from the closed Buchholz/Mendt plant to the Ochtrup factory and moved injection moulding production to the Hassfurt unit. The Westheim plant discontinued the manufacture of fittings, and the manufacture of pipe-in-pipe products was transferred to Ochtrup. In Sweden, the Virsbo plant expanded its PEX pipe production, resulting from the discontinuation of radiant floor heating and plumbing systems in Maintal, Germany.

A decision was made to withdraw from the development of the solar panel business in Sweden, due to insufficient prospects for profitable international growth.

As a result of the introduction of a new organisation in early June, Housing Solutions Central Europe, began to reorganise, combining key functions, previously managed by separate units, such as marketing, production and logistics, under one management. This project for building up a new organisation proceeded according to plans during the year.

In September, Uponor decided to redeploy its sales office in charge of Infrastructure and Environment systems for eastern Central Europe to a unit based in the Czech Republic, while running down the unprofitable manufacture of sewer, gas and water pipes in Szekszárd, Hungary.

The Nordic countries underwent a number of operational efficiency enhancing projects as part of normal business development, and in response to intensified competition. The business unit for decentralised sewage treatment was dissolved and the businesses will be managed by the local companies in each country. The focus of the loss-making installation of NoDig systems for piping renovation was placed on product and system sales.

At the end of the year, Uponor began to take measures to centralise its production in Portugal on the Vila Nova de Gaia unit. The Vila do Conde plant will be closed down during the first quarter of 2004.

The Group’s restructuring measures led to the reduction in the number of Group employees by around 330 in 2003.

Personnel

Uponor’s long-standing President and CEO, Jarmo Rytilahti, stepped down on 31 July 2003, in line with his Executive Contract, but will act as Senior Executive Advisor reporting to the Board’s Chairman until his retirement in September 2004.

Uponor Corporation’s Board of Directors elected Jan Lång (46), M.Sc. (Econ.), as the company’s new CEO who took up his duties on 1 August 2003.

The number of the Group’s employees decreased by close to 500 during 2003. The Group had a staff of 4,803 (5,302) at the end of the year, while the reported average number of employees came to 4,962 (5,393).

The geographical breakdown of personnel was as follows: Germany 1,536 (32.0%), North America 655 (13.6%), Scandinavia 900 (18.7%), Finland 494 (10.3%), other EU 475 (9.9%), UK and Ireland 495 (10.3%), and other countries 248 (5.2%).

Administration and audit

The 2003 Annual General Meeting (AGM) re-elected Matti Niemi, Pekka Paasikivi and Horst Rahn for a term of one year and elected Anne-Christine Silfverstolpe Nordin and Aimo Rajahalme as new members. Hannu Kokkonen and Niilo Pellonmaa, the long-standing members who withdrew from the Board, acted until 17 March 2003 as the first and second Deputy Chairman, respectively. Pekka Paasikivi chaired the Board of Directors during the rest of 2003 and Horst Rahn has acted as Deputy Chairman since 17 March 2003.

The AGM appointed KPMG Wideri Oy Ab, Authorised Public Accountants, as the company’s auditor, with Sixten Nyman, Authorised Public Accountant, acting as the principal auditor.

The 2003 AGM also approved the Board’s proposal for the alterations of the company’s Articles of Association. Consequently, the company adopted Uponor Corporation as an English equivalent to its corporate name. The amendments also applied to the provisions governing aspects relating to the Board of Directors, the rights to sign on behalf of the company and notice of the shareholders’ meeting. In addition, it altered the company’s object to better align with the company’s strategy, extending it to cover systems solutions for housing, infrastructure and environmental technologies.

On 2 September, the Board of Directors set up a new Executive Committee for the Group, consisting of CEO Jan Lång; CFO and Deputy CEO Jyri Luomakoski; Executive Vice President, Corporate Development Kari Norbäck; as well as Division Presidents Jim Bjork (Housing Solutions North America), Jukka Kallioinen (Infrastructure and Environment Europe) and Dieter Pfister (Housing Solutions Europe). The previous management group, which consisted of corporate functions, and the internal Divisional Boards were suppressed.

Uponor revised rules applying to its Corporate Governance to be in line with the recommendation issued jointly by the Central Chamber of Commerce, HEX Helsinki Exchanges and the Confederation of Finnish

Industry and Employers (TT). Approved by the Board of Directors in December, the revised Corporate Governance came into force on 1 January 2004.

Share capital and shares

In accordance with the Articles of Association, the company's minimum share capital amounts to EUR 33,637,590 and maximum capital to EUR 132,550,360. The company can increase or reduce its share capital within these limits, without amending its Articles of Association.

At the beginning of the financial year, Uponor Corporation's share capital came to EUR 75,834,444 and the number of shares totalled 37,917,222. Based on the AGM's decision, the company reduced its share capital by EUR 1,000,000 in March by invalidating 500,000 treasury shares. At the end of the financial year, Uponor Corporation's share capital amounted to EUR 74,834,444 and the number of shares totalled 34,417,222. In January 2004, the company increased its share capital by EUR 542,000 as a result of share subscriptions based on stock options, with the result that its share capital increased to EUR 75,376,444 and the number of shares to 37,688,222. With a nominal value of EUR 2, each share entitles its holder to one vote at the shareholders' meeting.

The 2003 AGM authorised the Board of Directors to issue one or several convertible bonds, grant stock options and increase share capital through one or several rights issues. Based on this authorisation, the company's share capital can be increased by a maximum of EUR 10 million. The Board is also authorised to sell a maximum of 1,800,000 treasury shares bought back by the company. During the financial year, the Board of Directors did not exercise these authorisations which are valid until 17 March 2004.

Own shares

Pursuant to the authorisation given by the AGM, the Board of Directors decided on 17 March 2003 to buy back a maximum of 1,400,000 own shares. The company may use such shares to strengthen its capital structure or finance investments, in consideration of any company acquisitions and other industrial restructuring, or it can dispose of them in some other way or invalidate them. Based on previous authorisations, the company held 911,000 own shares at the beginning of the financial year, of which 500,000 were invalidated by the AGM in March 2003.

During the year, Uponor Corporation bought back a total of 234,000 own shares traded on the Helsinki Exchanges, for EUR 4.6 million. At the end of the year, it held 645,000 own shares, at a total nominal value of EUR 1,290,000, accounting for 1.7 per cent of the share capital and total votes at the end of the year. The share buybacks have no significant effect on the distribution of shareholdings and votes in the company. Treasury shares carry no balance-sheet value in the financial statements.

Stock option plan

The number of shares subscribed during the financial year, under Uponor Corporation's valid stock option plan, totalled 271,000, each share carrying a nominal value of EUR 2. The number of shares subscribed based on A stock options totalled 194,000 and that on B stock options totalled 77,000. The subscription price for A stock options and B stock options amounted to EUR 15.46 and EUR 19.75, respectively. The unexercised stock options based on the company's stock option plan entitle their holders to subscribe for 289,000 new shares, corresponding to a further share capital increase of EUR 578,000. The share subscription period will expire on 31 August 2004.

The share subscription price for stock option A is determined by the trade-weighted average of a Uponor share quoted on the Helsinki Exchanges in August 1999, and for B stock option the trade-weighted average quoted in August 2000, both added by 15 per cent. Dividends distributed after August 1999/2000 and before the subscription will be deducted from the subscription price. A dividend is deemed distributed on the record date of each dividend distribution. The shares are payable at subscription and they entitle their holders to a dividend for the same accounting period during which they were subscribed for. Any other shareholder entitlements will become effective once the increase of the share capital has been registered with the Trade Register.

Management shareholding

The members of the Board of Directors, CEO and his deputy, as well as corporations known to the company, in which they exercise influence, held a total of 180,368 Uponor shares on 31 December 2003. These shares accounted for 0.5 per cent of the share capital and total votes at the end of the year. In addition, the stock options granted to the Deputy CEO account for 5 per cent of all the stock options issued by Uponor Corporation. The stock options held by the Deputy CEO on 31 December 2003 entitle their holder to subscribe for a maximum of 21,000 shares, corresponding to 0.06 per cent of the total number of shares and votes on 31 December 2003.

Events after the financial year

The increase of share capital by EUR 542,000, corresponding to the 271,000 shares subscribed under Uponor's stock option plan 1999/2002, was registered with the Trade Register on 19 January 2004. The new shares were traded on the Helsinki Exchanges as of 20 January. As a result of the increase, the company’s share capital amounts to EUR 75,376,444 and the number of shares totals 37,688,222.

On 3 February, Uponor announced a letter of intent to divest, on an MBO basis, its cable and tap water protection pipe businesses, as well as certain industrial-product and metal components businesses in Germany, to Dieter Pfister, President of Housing Solutions Europe Division, who plans to resume as an entrepreneur. With a combined staff of around 110 in Hassfurt, Schweinfurt and Ochtrup, these businesses’ net sales total approximately EUR 16.7 million. The parties aim at closing the deal by the end of March.

3 February also saw the announcement of the Board’s decision to approve the management’s proposal for replacing the Group’s divisional organisation with a regional one. This change aims at streamlining the organisational structure, speeding up decision-making and providing the impetus for the establishment of hamonised, Group-wide processes. The regional organisation will strengthen Uponor’s market position and the marketing power of its product portfolio.

Outlook

The large-scale restructuring programme initiated at the end of 2003 is to complete, mainly during 2004, a series of changes initiated at the merger of Asko and Uponor in late 1999, with the aim of making Uponor a streamlined, efficient and integrated international company. This restructuring, coupled with the development of the uniform operating model, will tie up resources and involve great challenges in the years to come.

Construction markets that began to show signs of picking up during the latter part of 2003 are expected to continue to develop favourably, and the volume of housing renovation projects in the EU is expected to continue to grow faster than that of new housing projects. In Germany, the housing construction volumes are not expected to decline any more. Market prospects in the Nordic countries and the UK are likely to remain good, whereas the currently buoyant demand in Spain is predicted to weaken slightly. With housing construction in North America remaining extremely active for the last few years, growth is expected to remain at a healthy level during 2004, albeit slowing down slightly. Renovation and modernisation projects are also expected to increase in value.

The restructuring measures already taken and the new ones, partly underway are expected to have a favourable effect on the company’s financial performance during the current year. Market prospects too are somewhat brighter than a year ago. Consequently, the Group’s cashflow is expected to remain strong and the 2004 operating profit and profit margin are expected to improve, excluding restructuring expenses.

TABLES

CONSOLIDATED INCOME STATEMENT	2003 MEUR	%	2002 MEUR	%
Net sales	1,021.0	100.0	1,137.2	100.0
Other operating income	6.8		35.7	
Depreciation according to plan	87.1		74.7	
Expenses	910.0		984.0	
Operating profit	30.7	3.0	114.2	10.0
Financial income and expenses	-9.9	-1.0	-13.5	-1.2
Profit after financial items	20.8	2.0	100.7	8.9
Extraordinary income	0.0	0.0	0.0	0.0
Extraordinary expenses	0.0	0.0	0.0	0.0
Profit before appropriations and taxes	20.8	2.0	100.7	8.9
Book result	1.6	0.2	64.2	5.6

CONSOLIDATED BALANCE SHEET	2003 MEUR	%	2002 MEUR	%
Non-current assets	373.1	47.3	455.8	49.2
Consolidation goodwill	75.9	9.6	91.2	9.8
Inventories	135.5	17.2	166.5	18.0
Cash and deposits	16.9	2.1	6.3	0.7
Other liquid assets	187.8	23.8	207.0	22.3
Restricted equity	186.9	23.7	179.2	19.3
Non-restricted equity	283.1	35.8	360.9	38.9
Minority interest	0.9	0.1	5.4	0.6
Obligatory provisions	31.4	4.0	11.4	1.2
Interest-bearing long-term liabilities	59.5	7.5	100.2	10.8
Interest-bearing short-term liabilities	41.5	5.3	70.0	7.6
Non-interest-bearing liabilities	185.9	23.6	199.7	21.5
Balance sheet total	789.2	100.0	926.8	100.0

NET SALES	2003 MEUR	Share, %	2002 MEUR	Change, %
Pipe Systems	999.7	97.9	1,112.9	-10.2
Real Estate	21.1	2.1	23.7	-11.0
Other/internal	0.2	-	0.6	-66.7
UPONOR GROUP	1,021.0	100.0	1,137.2	-10.2

OPERATING PROFIT	2003 MEUR	Share, %	2002 MEUR	Change, MEUR
Pipe Systems	28.3	92.2	83.9	-55.6
Real Estate	12.8	41.7	30.9	-18.1
Other/elimination	-10.4	-33.9	-0.6	-9.8
UPONOR GROUP	30.7	100.0	114.2	-83.5

INVESTMENTS	2003 MEUR	Share, %	2002 MEUR	Change, MEUR
Pipe Systems	35.2	95.9	43.1	-7.9
Real Estate	1.0	2.7	1.4	-0.4
Other/elimination	0.5	1.4	0.5	-
UPONOR GROUP	36.7	100.0	45.0	-8.3
- % of net sales	3.6		4.0	

PERSONNEL AT 31 DEC	2003 Number	Share, %	2002 Number	Change, %
Pipe Systems	4,740	98.7	5,239	-9.5
Real Estate	35	0.7	36	-2.8
Other	28	0.6	27	3.7
UPONOR GROUP	4,803	100.0	5,302	-8.6

Average no. of personnel	4,962	5,393

DERIVATIVE CONTRACTS

Interest derivatives		
Interest rate options, bought	96.7	82.7
Interest rate options, sold	120.4	111.3
Interest rate swaps	10.0	10.0
Foreign currency derivatives		
Forward agreements	12.4	5.0
Currency swaps	-	17.0
Commodity derivatives		
Forward agreements	1.7	1.1

CASH FLOW STATEMENT

Net cash from operations	100.3	110.7
Change in working capital	47.7	14.1
CASH FLOW FROM OPERATIONS	148.0	124.8
Cash flow from investments	-1.2	24.0
CASH FLOW BEFORE FINANCING	146.8	148.8
Cash flow from financing	-136.7	-172.8
Exchange rate differences for liquid assets	0.5	-0.8
CHANGE IN LIQUID ASSETS	10.6	-24.8
Liquid assets at 1 January	6.3	31.1
Liquid assets at 31 December	16.9	6.3
Changes according to balance sheet	10.6	-24.8