

Review of the year 2014

Jyri Luomakoski, President and CEO

Uponor Corporation's Annual General Meeting, 17 March 2015

Dear chairman, shareholders, ladies and gentlemen,

2014 was an unusual year in many respects. Global development was not what we may have expected from either a political or economic perspective. The stable growth we have become accustomed to building our lives on did not stay on course everywhere. Unforeseen surprises also occurred on the political front.

Uponor's operations are significantly dependent on trends in the world around us. We seek to regularly and thoroughly assess risks and opportunities to ensure that we can adjust our objectives in line with realistic expectations. It is fair to state that we did not achieve all the objectives we set for ourselves for 2014. However, considering the challenges we faced in our business and the competitive environment, we can look back on our performance in reasonably good spirits: considering the situation as a whole, Uponor has developed at a satisfactory pace and, I think, in the right direction. In terms of net sales, we rose back into the billion euro class. Our earnings continued to develop steadily.

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The market for our largest business segment, Building Solutions – Europe, was quite challenging in 2014, as in the past few years. Development varied greatly in this region – some markets were subdued, but fortunately growth has already started to gain momentum in other markets.

The mild winter in Central Europe in early 2014 ushered in strong demand, boosting construction activity. However, after the summer, both demand and the mood of the construction industry began to wane in the region.

The Southern and Western European markets were characterised by clearly varying market developments. In the UK, the non-residential segment returned to growth, and activity in the new residential segment improved for the second year running. The first signs of recovery were witnessed in Spain as well, though it must be kept in mind that levels were low to begin with. Development in other countries in this region was muted.

In Eastern Europe, including Russia, residential construction activity remained almost on a par with the previous year in spite of the challenging business environment. Events related to the Ukraine crisis have had an impact on the entire region, but no great changes were seen in Uponor's operations, at least not in 2014.

In Building Solutions – Europe, trends in the largest market area, Germany, caused concern in the latter half of 2014. On the basis of the current information, it would appear that although general financial indicators in Germany remain in good shape, consumer confidence has apparently decreased due to the Ukrainian crisis, and the mild winter coupled with lower energy prices has weakened consumers' need to carry out renovations to improve energy efficiency, for example. These and other factors have

weakened demand in our entire industry, and thus we cannot be satisfied with development in Germany during the latter half of 2014.

For years, the infrastructure pipe markets in Europe have been characterised by overcapacity, a slowdown in public investments and fierce competition. The same trends continued in 2014, with flattish demand in most regions in which we are active. The notable exception was Finland, where the market deteriorated further. In particular, the financing challenges facing the public sector were a significant concern in Finland.

As you may remember, the infrastructure businesses of Uponor and KWH Pipe were merged in July 2013 to form the joint venture Uponor Infra. Uponor has a 55.3% holding in the firm. KWH Group owns the remaining 44.7%. The operations of the joint venture have started in line with plans and the sought-for synergy benefits have been achieved.

In North America, we enjoyed a comparatively healthy business environment in 2014, and the recovery in new building projects continued, particularly in the United States. Uponor has a relatively high market share in the single-family new build segment in the U.S., and we have been able to capitalise on that position as new housing starts have increased. The Plumbing Solutions business group's efforts on the commercial plumbing market also yielded results. Though our plumbing systems provide benefits in all types of commercial buildings, we have been particularly successful in the hospitality, institutional and apartment segments. The Canadian market, both residential and commercial, was somewhat stronger than expected in 2014.

Plumbing renovation is growing in all our markets. Uponor's plumbing systems are exceptionally suitable for use in renovation applications, due to the minimal amount of deconstruction required. We have therefore expanded our efforts to capture market share in the renovation and refurbishment business.

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In other words, all our business environments except North America were quite tough in 2014. No significant improvements have occurred from a slightly longer-term perspective, either, again with the exception of North America.

Despite that, we successfully improved our performance as a company. For this, we can thank our determined and sustained efforts to enhance efficiency throughout the company. Particular thanks go to our employees and their resilience in these difficult circumstances, offered valued service to key target groups.

What, then, are the special areas on which we have focused our attention? First of all, we have sought to target our efforts at development projects that may enable us to reap concrete benefits on a relatively short schedule. As I have already mentioned, we have wanted to keep the development of our costs at a moderate level in line with the principle of prudence. That is, we first seek to make headway in our projects before investing more in them. We have continued to step up our operational efficiency as part of our ongoing development efforts. On that front, our most sweeping actions targeted Uponor Infra. We had to rapidly downscale its operations due to plummeting demand, especially in the Finnish market. Another example is the development of our Central European logistics model and the transfer of our distribution centre to a more rational location that is not only close to our largest factory and office cluster, but also closer to our customers.

In addition to these internal development measures, we are strongly driven to differentiate our offerings and thereby create value for our customers. In last year's review, I mentioned the unveiling of a new seamless composite pipe for the Southwestern European market. In 2014, the pipe was launched in our main markets in Central Europe and the Nordic countries. This unique product has been well-received by customers and we have increased its production.

We also came out with another slightly different innovation – Smatrix, the next generation of indoor climate control systems, which we launched in the latter half of 2014. Its fine points include continuous automatic temperature optimisation, which ensures low energy consumption and peerless comfort. Two of its new features are enhanced connectivity and remote control with smart phones.

Thanks to further development of our production technology, we were able to unveil the new Uponor Comfort Pipe PLUS for floor heating, boasting superior installation characteristics than last-gen products.

In the United States, we have augmented our plumbing solutions range to include larger pipe sizes in order to support our aim of expanding our operations outside of the traditional single-family house segment.

As renovation demand has grown, we have introduced ready-to-install cabinets that are preassembled in accordance with the customer's needs. These cabinets improve the quality of construction and facilitate installation.

Our strategy of differentiation is not limited to our products and their features. It is at least equally as important for us to develop our operating methods and models and forge new cooperation schemes and partnerships so that we can offer our product systems as end-to-end solutions for a variety of customer needs.

Here in Finland, this approach enabled us to grow our operations in building solutions, even though the news about the construction industry would lead you to expect very different results. The strongest factor driving our growth comprised our new renovation product concepts and solutions. The Uponor Home concept for pipe renovations in single-family houses has continued to develop particularly well. In addition, the popularity of our Uponor CEFO elements for apartment building renovations has risen significantly among professional builders. We announced our latest new product at the end of 2014 in association with major renovation players: a joint operating model intended mainly for use in the modernisation of apartment buildings built in the 1970s. The model is based on the Uponor technical wall, in which the necessary building system piping is preinstalled. We consider this a major new business area, as there are about a quarter of a million such apartments in Finland that will be in need of cost-effective renovations in the next few years.

With these new products and new kinds of operating models, we want to spearhead development in our industry and ensure that our offering matches the growth areas of the market.

Of course, all development depends on the company's strongest resource – our employees. Unless a company's employees are firmly committed to its shared objectives and their achievement, it cannot evolve. This is particularly significant at companies like

Uponor, as we seek to create something new, drive development forward and achieve positive change in the entire industry.

One of our major projects in the development of our own operations in 2014 was the drafting of our new values. This was carried out through the joint efforts of many local working groups. We presented the new values - connect, build, inspire - to all our personnel in the autumn. They emphasise the company's desire to renew its operations, work in cooperation with different stakeholders and achieve sustainable development with its partners.

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Uponor's frequently stated objective is to seek *profitable growth internationally*. Those three words are the tip of the iceberg – we are carrying out numerous wide-ranging and far-reaching development programmes and measures. They can be summarised in four sentences:

- We want to ensure and consolidate our leading position as a supplier of plumbing and indoor climate systems in Europe.
- In North America, we seek to be the leading brand in our own product areas in both residential and non-residential construction.
- We want to further bolster our position in selected new markets for plumbing and indoor climate systems in which we are as yet not an established player. And finally:
- We want to be the leading company in infrastructure pipe systems and related extrusion technologies in our selected markets.

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In closing, I would like to say a few words about the future:

Current discussions often express concerns about the economy, safety and the future.

Uponor's most important geographical region is Europe, where the economic climate will most likely remain unstable and develop sluggishly. The European Central Bank's stimulus measures serve to create more favourable financing conditions for construction projects, which as a rule always require drawing loans. As a result, the value of the euro has declined against other currencies, which will hopefully give a boost to European export countries and thereby stimulate the economies.

In North America, development seems to be fixed on the upswing, at least in the short term. We seek to step up our business operations in this growing market, also by increasing our market share. To this end, we recently announced a large expansion investment at our Minnesota plant.

We published our profit guidance for 2015 in February. We estimate that Uponor's net sales and operating profit excluding non-recurring items will improve on 2014. The profit guidance assumes that we will continue down the road of continuous improvement, as I have described. We will focus on those matters on which we can exercise an influence. I believe that these measures will enable us to keep developing the company's operations in today's multifaceted business environment while weathering its surprising changes.

Thank you!