Uponor Corporation   Stock Exchange Release   5 August 2003   10:45

Interim report for January—June 2003

Uponor results affected by divestments and strong euro

January–June net sales EUR 496.2m (568.5m), down 12.7%.
In comparable terms, taking currencies and Q1 divestments into account, net sales grew by 2.0%.
Operating profit EUR 29.3m (67.9m), a decrease of 19.0% in comparable terms.
Core business profitability for the year as a whole almost at the previous year's level when reckoning without the one-time restructuring costs already announced.

Markets

The European and North American economies continued to experience a sluggish mood during the second quarter, affecting non-residential construction and municipal water, sewer and energy investments, in particular.

Despite the overall economic situation and the cold winter, demand in the housing construction market in most of Europe was at quite a satisfactory level during the first half. The Nordic, UK and Spanish markets enjoyed the briskest demand, but the Portuguese market was hit by a marked downturn.

However, the European construction market as a whole is strongly characterised by the downturn in the German construction market, the largest on the continent. This downturn, which began at the end of the last millennium, continued during the first half of the year, albeit more gently. During the spring, the number of building permits in Germany reached a transient peak, with people fearing that the government support programme for new building permits would be discontinued.

Spurred by low interest rates, the North American housing construction market continued to perform very well. In addition, the success in the Iraq war and the third largest tax reduction programme in the U.S. history, which was passed by Congress, gave a boost to consumer confidence.

The European market for municipal and environmental engineering solutions remained largely unchanged for Uponor's product areas. Demand remained at a good level in the Nordic countries, even perking up in Ireland. In Central Europe, the downward trend in the water and sewer pipe systems market levelled off. Demand for gas pipe systems in the UK weakened from the good level of 2002. In the Iberian Peninsula, the market for municipal engineering solutions was eroded by plummeting demand in Portugal and stiffening competition in Spain. During the spring, demand also remained quiet in the export markets in the Middle East and Far East.

The U.S. and South American gas pipe markets did not experience any major recovery.

Net sales and profit

Uponor's consolidated net sales for the first half of 2003 came to EUR 496.2 million (Jan-June 2002: EUR 568.5 million), down 12.7 per cent over the previous year. The fall in net sales was mostly attributable to the first-quarter divestment of the U.S. and Central European municipal water and sewage systems businesses, as well as the stronger euro compared to its rate in early 2002. When taking divestments and exchange rate changes into account, consolidated net sales rose by EUR 10.4 million in comparable terms, up 2.0 per cent year-on-year.

The Pipe Systems segment posted net sales of EUR 485.0 (555.9) million, while the Real Estate segment recorded net sales of EUR 10.9 (12.2) million.

The sales performance of the divisions within the Pipe Systems segment was as follows:
- Housing Solutions Europe, the largest division, reported a 2.0 per cent increase in first-half net sales, to EUR 231.0 million, sales growing strongly in Northern Europe, the UK and Spain.
- Housing Solutions North America, with net sales of EUR 57.1 million, continued to grow strongly in dollar terms (up 12.3 per cent), albeit falling by 8.8 per cent in euro terms.
- Infrastructure and Environment Europe posted net sales of EUR 164.2 million, down 15.1 per cent (down 2.8 per cent exclusive of divestments and the impact of exchange rate changes). The decrease in net sales was mostly due to lower gas pipe delivery volumes in the UK, the low number of export projects and the decline in sales in the Iberian Peninsula.
- Similarly, due to divestments, Municipal Americas net sales fell to EUR 36.9 million, down 52.5 per cent on a year earlier. When taking divestments and exchange rate changes into account, net sales rose by 8.4 per cent in comparable terms.

Consolidated operating profit totalled EUR 29.3 (67.9) million, down 56.8 per cent over the previous year when the figures included exceptionally high capital gains of around 28.5 million on property divestments. In addition to divestments and currency fluctuations, operating profit was affected by the Group's heavy investments in new environmental businesses which have not yet recognised income, and the EUR 3.6 million costs, entered as expenses for the report period, deriving from the restructuring programme underway in Central Europe. When excluding company and property divestments, one-time restructuring costs and exchange rate changes, operating profit fell by 19.0 per cent in comparable terms.

Profit after financial items came to EUR 26.6 (60.4) million, accounting for 5.4 (10.6) per cent of net sales. Profit before taxes amounted to EUR 26.6 (60.4) million, while profit for the period totalled EUR 17.5 (39.6) million.

Earnings per share (diluted) were EUR 0.47 (1.06) and equity per share (diluted) was EUR 13.18 (13.97).

Investment and financing

January–June gross investments of EUR 16.6 (18.8) million were made to improve operational efficiency and maintain capacity.

The Group's net interest-bearing liabilities totalled EUR 195.3 (233.0) million at the end of the period.

Solvency ratio rose to 53.5 (51.2) per cent and gearing ratio was 40 (44) per cent. Net financial expenses fell to EUR 2.7 (7.5) million.

Key events during the second quarter

Pipe Systems

In Central Europe, Uponor initiated an extensive restructuring programme. As a result, the Maintal plant in Germany will discontinue manufacturing pipes for plumbing and underfloor heating systems during the current year. In early June, Uponor introduced a new organisation for Housing Solutions Europe, Central Europe, which will, in line with Uponor's brand strategy, centralise key functions under one management, such as marketing, production, logistics, etc., previously managed by separate units. These restructuring measures will reduce the unit's personnel by approximately 100 by the end of the year. The annualised cost savings due to these measures taken by the end of the report period amount to about EUR 10 million, and they will gradually be reflected in results as of early 2004.

During the spring, Uponor took the first steps in Germany to extend its ventilation systems business from the Nordic countries to Central Europe. In Germany, Uponor also introduced a multi-layer pipe production line based on a new technology. Wirsbo-Velta, Uponor's German subsidiary and leader in heating systems, organised the 25th Velta Arlberg Congress in Austria, attended by 228 customers and specifiers.

The Spanish market saw the introduction of a new-generation high-performance plastic fitting, Quick&Easy, whose sales developed strongly.

In the UK, Uponor launched special installation and maintenance services for utilities, meeting with a favourable reception.

Uponor Radius, Uponor's subsidiary providing telecom installation ducting systems, concluded a major European-wide distribution agreement with Pirelli, the leading cable manufacturer in Europe, for its microglide systems used in fibre optic cable installation.

In North America, Uponor supplemented its Uponor Wirsbo radiant underfloor heating and plumbing systems with new products, such as the pre-installed ProPanel series control boxes which simplify and standardise the design and installation of underfloor heating. Other new products included preassembled TruFlow manifolds in which the heat balancing of different loops is performed electronically using infrared flow and thermal measurements. Uponor continued to develop further its contractor-partnering programmes, the most popular of which is Wirsbo Advantage with over 650 installation firms as members.

Real Estate

In line with the company's strategy, Uponor continued to sell its property, although the first-half divestments amid the subdued property market amounted to only around EUR 3.5 (44.6) million, bringing in capital gains of approximately 2.0 (28.5) million. Also, property occupancy ratio decreased slightly, to 73.4 per cent.

The bearish stock market, on the one hand, which has persisted for a couple of years now, and the substantial fall in interest rates, on the other, have made property investment in Finland more competitive in relation to other financial assets, and the Finnish property market has also attracted property investors from abroad.

Personnel

The reported average number of the Group's employees amounted to 5,045 (5,412), while the period-end staff totalled 4,972 (5,405). The decrease in the number of employees resulted mainly from the divestments during the first quarter of the year and streamlining measures taken in Central Europe. Personnel grew in the

Housing Solutions businesses which have increased their staffing levels in North America and the UK, as well as the Baltic countries and Russia as a result of business expansion.

Share capital and shares

Uponor Corporation's share capital amounts to EUR 74,834,444. With a total of 37,417,222 shares, each share has a nominal value of EUR 2, entitling its holder to one vote.

The 2003 AGM authorised the Board of Directors to decide, within one year, to buy back and dispose of own shares, as well as to issue one or several convertible bonds and issue stock options, and increase share capital through one or several rights issues. In addition, the AGM decided to reduce the company's share capital by EUR 1,000,000 by invalidating 500,000 shares. The reduction of share capital was registered with the Trade Register on 21 March 2003.

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 for strengthening its capital structure or financing 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 report period, of which 500,000 were invalidated by the AGM in March. During the report period, the company bought back a total of 103,800 own shares for EUR 1,843,423.97, quoted on the Helsinki Exchanges. At the end of the report period, it held 514,800 own shares, at a total nominal value of EUR 1,029,600, accounting for 1.4 per cent of the share capital and total votes. The share buybacks will have no significant effect on the distribution of shareholdings and votes in the company.

The Board of Directors did not exercise its authorisations to issue shares and dispose of own shares during the report period.

On the basis of Uponor Corporation's present stock option plan, the company has granted 560,000 A and B stock options to 50 key employees, entitling them to subscribe for an equal number of the company's shares, each at a par value of EUR 2. Pursuant to the share subscriptions based on these stock options, the company's share capital may increase by a maximum of EUR 1,120,000 and the number of shares by a maximum of 560,000.

The current subscription price for stock option A and stock option B is EUR 15.46 and EUR 19.75, respectively. 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.

No company shares have yet been subscribed for on the basis of the stock options. The share subscription period will expire on 31 August 2004.

Events after the report period

On 1 August 2003, Jan Lång (46), M.Sc. (Econ.), took over his duties as Uponor Corporation's new CEO. Jarmo Rytilahti, the company's long-standing President and CEO, will act as Senior Executive Adviser, reporting to Pekka Paasikivi, Chairman of the Board of Directors, until he retires in September 2004, as specified in his Executive Contract.

Outlook

No major changes have taken place in the overall economic outlook and housing construction prospects since the previous interim report. German housing construction is not expected to recover from its low level during the current year, and elsewhere in Europe, except for Portugal, housing construction market activity is likely to remain at its current level during the second half of the year.

Demand for housing construction in the U.S., which showed signs of a downturn during January–February, rose to its previous high level in the second quarter. On the basis of the promising housing starts figures recorded in the first half, it has been estimated that the number of housing starts for 2003 will exceed the previous year's level, the highest for 15 years.

Municipal water and energy investments are expected to remain at their current low levels.

The Group estimates that its core business profitability will be almost at the previous year's level when reckoning without the one-time restructuring costs already announced. The Group forecasts that its profit after financial items for the year as a whole will clearly fall behind the 2002 figures, due to exceptionally high capital gains on property recorded for 2002 and this year's restructuring costs.

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Enclosure: Tables

Tables

Income statement	1-6	1-6	1-12
MEUR	2003	2002	2002
Net sales	496.2	568.5	1,137.2
Other operating income	5.1	28.5	35.7
Operating profit	29.3	67.9	114.2
Financial expenses, net	-2.7	-7.5	-13.5
Profit after financial items	26.6	60.4	100.7
Profit before taxes	26.6	60.4	100.7
Profit for the period (1)	17.5	39.6	64.2

Balance sheet	30 Jun.	30 Jun.	31 Dec.
MEUR	2003	2002	2002
Intangible assets	95.0	107.8	102.8
Tangible assets	382.4	448.8	432.6
Securities and long-term investments	10.3	11.5	11.6
Inventories	161.9	174.6	166.5
Cash in hand and at bank	14.7	16.7	6.3
Other current assets	252.4	276.4	207.0
Shareholders' equity	486.9	522.3	540.1
Minority interest	1.1	7.9	5.4
Obligatory provisions	17.2	11.2	11.4
Long-term liabilities	101.9	167.4	142.5
Short-term liabilities	309.6	327.0	227.4
Balance sheet total	916.7	1,035.8	926.8

Cash flow statement	1-6	1-6	1-12
MEUR	2003	2002	2002
Cash flow from operations			
Net profit for the period	17.5	39.6	64.2
Sales gains	-5.1	-28.5	-35.3
Depreciations	31.9	37.3	74.7
Change in net working capital	-50.5	-21.7	14.1
	-6.2	26.7	117.7
Cash flow from investments			
Gross investments in fixed assets	-16.6	-18.8	-42.4
Acquisition of shares	-	-	-2.6
Proceeds from sales of shares	22.7	30.9	30.9
Proceeds from sales of fixed assets	7.7	30.5	38.1
	13.8	42.6	24.0
Cash flow from financing			
Dividends	-55.5	-29.9	-29.9
Net change of loans	57.5	-54.2	-134.8
Others	-1.2	0.4	-1.8
	0.8	-83.7	-166.5

Change in cash	8.4	-14.4	-24.8
Liquid assets at 1. January	6.3	31.1	31.1
Liquid assets at end of period	14.7	16.7	6.3
Changes according to balance sheet	8.4	-14.4	-24.8

Investments	1-6	1-6	1-12
MEUR	2003	2002	2002
Gross investments	16.6	18.8	45.0
- % of net sales	3.3%	3.3%	4.0%
Depreciation	31.9	37.3	74.7
Disposal of fixed assets	2.6	22.5	25.9

Personnel	1-6	1-6	1-12
	2003	2002	2002
- average number	5,045	5,412	5,393
- at the end of period	4,972	5,405	5,302

Financial indicators	1-6	1-6	1-12
	2003	2002	2002
Earnings per share, EUR	0.47	1.06	1.72
- fully diluted, EUR	0.47	1.06	1.72
Return on equity, %	6.8	15.0	11.8
Return on investment, %	9.1	16.7	14.8
Solvency ratio, %	53.5	51.2	58.9
Gearing, %	40	44	30
Equity per share, EUR	13.19	13.99	14.60
- fully diluted, EUR	13.18	13.97	14.58
Trading price of shares			
- low, EUR	16.80	18.05	16.51
- high, EUR	20.50	24.85	24.85
- average, EUR	18.23	20.96	19.98
Shares traded			
- 1000 pcs	7,235	6,743	13,511
- MEUR	131.9	141.3	270.0

Contingent liabilities	30 Jun.	30 Jun.	31 Dec.
MEUR	2003	2002	2002
Group:			
Pledges			
- on own behalf	0.7	6.8	0.8
Mortgages	13.5	25.7	23.3
Guarantees			
- on behalf of others	3.4	3.6	3.3
Leasing liabilities	52.2	55.0	53.6
Other contingent liabilities	6.5	-	4.9

Parent company:			
Guarantees			
- on behalf of a subsidiary	57.2	124.0	70.0

Futures contracts	30 Jun.	30 Jun.	31 Dec.
MEUR	2003	2002	2002
Interest derivatives			
- Interest rate options, bought	78.8	125.2	82.7
- Interest rate options, sold	105.0	155.3	111.3
- Interest rate swaps	10.0	10.0	10.0
Foreign currency derivatives			
- Forward agreements	14.9	5.0	5.0
Currency swaps	1.2	-	17.0
Electricity derivatives	2.1	-	1.1

Own shares	30 Jun.	30 Jun.	31 Dec.
	2003	2002	2002
Own shares held by the company	514,800	573,300	911,000
- combined nominal value, EUR	1,029,600	1,146,600	1,822,000
- of share capital/voting rights, %	1.4%	1.5%	2.4%

Net sales by segment	1-6	1-6	1-12
MEUR	2003	2002	2002
Pipe Systems	485.0	555.9	1,112.9
Real Estate	10.9	12.2	23.7
Others	0.3	0.4	0.6
Group total	496.2	568.5	1,137.2

Operating profit by segment	1-6	1-6	1-12
MEUR	2003	2002	2002
Pipe Systems	28.8	38.6	83.9
Real Estate	5.9	21.0	30.9
Others	-5.4	8.3	-0.6
Group total	29.3	67.9	114.2

(1) The taxes have been calculated to correspond the result for the period.

The figures of this interim report have not been audited.