

Jan-June 2004: Uponor's profitability improves, boosted by growth

- Net sales EUR 536.8 (496.2) million. Reported growth at 8.2%, comparable growth at 15.1%
- Operating profit EUR 44.8 (29.3) million. Reported growth at 53.0%, comparable growth at 44.7%
- Profit after financial items EUR 41.9 (26.6) million, equalling 7.8% (5.4%) of net sales
- Cash flow from business operations EUR 12.6 (-6.2) million
- Earnings per share EUR 0.77 (0.47)

Comparable figures have been adjusted to the effects of business divestments, restructuring expenses and currency changes.

CEO Jan Lång comments on the first-half performance:

- Sales of our products in our main markets have shown a highly positive development during the first half of the year. Demand remained satisfactory during the second quarter too: the comparable growth of net sales exceeded our long-term target by more than two-fold, which was achieved by all our regional organisations.

- Boosted by improved sales, Uponor strengthened its profit performance. Furthermore, the measures taken to improve our cost structure and product portfolio already had a positive impact on the company's performance.

- Plastic and plastic-aluminium plumbing systems have continued to strengthen their position due to the high price of copper. However, we believe that we have won market shares from other competitors as well. Furthermore, sales of radiant underfloor heating systems developed favourably during the first half of the year.

Interim report for January - June 2004

General

The overall market situation remained at a satisfactory level during the second quarter. Demand in the German construction market is still flat and, as expected, it did not follow the favourable pattern of development prevailing in Q1. In North America, demand has remained at an excellent level. Neither did demand show any unpredicted changes in other market areas.

Uponor's long-term goal is to emerge as a world-leading brand in solutions for housing and environment infrastructure. In the shorter term, a key strategic cornerstone is to transform corporate structures in such a way that they support the company's long-term strategy, while bolstering the maintenance and development of competitiveness in the dynamic market environment. The first half of the year indicates that we have made progress with regard to these goals, and the results of the restructuring programmes are also becoming visible in our key performance figures.

Uponor has embarked on structural and organisational changes that will strengthen its market position and cement relationships with its customers through, for example, considerably more efficient supply chain and delivery processes. In the near future, Uponor will pay particular attention to the strengthening of its brands and the development of its product offerings and practices. The initiatives aim at creating an integrated housing and environment infrastructure solutions company that applies uniform business processes, based on customer needs, everywhere.

Net sales and profit

Uponor's January-June 2004 consolidated net sales came to EUR 536.8 million (Jan-June 2003: EUR 496.2 million), up by 8.2 per cent on a year earlier. In comparable terms, net sales grew organically by 15.1 per cent, taking into account business divestments, restructuring costs and exchange-rate changes.

A satisfactory demand in all the main markets contributed to the growth in net sales. In Germany, regardless of the continued weak overall market situation, Uponor's product sales remained at a healthy level too, albeit at a more modest level than during the first quarter. In particular, sales of underfloor heating and plumbing systems remained good. Sustained high metal prices contributed to the competitive position and undermined the competitive edge of copper piping systems in particular.

The Pipe Systems segment posted net sales of EUR 525.9 (485.0) million, up 8.4 per cent. The Real Estate segment posted net sales of EUR 10.7 (10.9) million, down 1.9 per cent.

Distribution of net sales in Pipe Systems, January-June:

	2004 1-6	2003 1-6	Reported change, %	Comparable change, %
Central Europe	175.8	154.8	13.6	15.4
Nordic	140.9	130.3	8.1	9.1
Europe - West, East, South	159.3	144.4	10.3	9.4
North America, EUR	74.2	57.1	30.0	42.6
(North America, USD	90.7	63.6	42.6	42.6)
Others (Municipal Americas), EUR	22.0	36.9	-40.3	36.1

During Q2, consolidated net sales of EUR 289.6 (264.1) million were 9.6 per cent higher than in the previous year. With business divestments, restructuring costs and currency fluctuation taken into account, the comparable growth in net sales amounted to 11.3 per cent.

As anticipated, the growth in net sales during Q2 was milder than during Q1 in Central Europe and North America. In Central Europe, the growth was affected by the MBO agreement in Germany on the production of protection pipes and contract manufacturing of metal components; in North America, Q1 sales were boosted by, among other things, postponed deliveries due to insufficient production capacity. In other regions, the development of net sales remained at the same level as in Q1.

Distribution of net sales in Pipe Systems in Q2:

	2004 4-6	2003 4-6	Reported change, %	Comparable change, %
Central Europe	87.1	84.1	3.5	9.7
Nordic	84.4	77.5	8.9	9.4
Europe - West, East, South	83.9	76.6	9.6	8.0
North America, EUR	40.3	32.7	23.3	31.5
(North America, USD	48.8	37.1	31.5	31.5)
Others (Municipal Americas), EUR	13.2	9.2	44.0	50.5

The Group's January-June operating profit amounted to EUR 44.8 (29.3) million, equalling 8.3 (5.9) per cent of net sales. The reported profit increased by 53.0 per cent, whereas the comparable growth of operating profit totalled 44.7 per cent, taking into account business divestments, restructuring costs and exchange-rate changes. Operating profit (EBITA) before goodwill amortisation accounted for 9.3 (7.0) per cent of net sales.

The improved operating margin was mainly due to streamlined operations and the resulting economies of scale, as well as improved net sales in the favourable market situation. Individual factors with a notable impact on the operating profit included the marked improvement in the performance of the German Housing Solutions business, as well as the protracted losses made by the Infrastructure and Environment business in Spain and Portugal.

The operating profit for April-June, EUR 30.6 (19.2) million, grew by 59.2 per cent; comparable growth stood at 38.2 per cent.

The Group's profit after financial items for January-June came to EUR 41.9 (26.6) million, accounting for 7.8 (5.4) per cent of consolidated net sales. Profit before taxes totalled EUR 41.9 (26.6) million, including extraordinary income of EUR 1.7 million resulting from the divestment of fixed assets. Profit for the period totalled EUR 28.5 (17.5) million.

Earnings per share (also in diluted terms) were EUR 0.77 (0.47). Equity per share was EUR 11.64 (13.19) and, in diluted terms, EUR 11.62 (13.18).

The development of cash flow from operations remained strong, EUR 12.6 (-6.2) million, turning positive already during the first half of the year.

Investment and financing

The Group's gross investments at EUR 16.2 (16.6) million were earmarked for normal business development initiatives.

Net interest-bearing liabilities totalled EUR 152.4 (195.3) million at the end of the period. Solvency ratio stood at 50.5 (53.5) per cent, while gearing was at 35 (40). The change mainly results from the 2004 dividend payment of EUR 74.1 (55.5) million, which is higher than usual.

Net financial expenses amounted to EUR 2.9 (2.7) million.

Markets

Central Europe

The overall German housing construction market was still subdued, and close to the level of the previous year.

Demand for Uponor's products, however, has mostly remained good. Determined investment in the training of installers and designers boosts the transition to the use of plastic and plastic-aluminium piping systems. During the first half of the year, this development has been further strengthened by the persistently high price of metals, such as copper.

Nordic

Housing construction in Finland, Sweden and Denmark continued at a relatively good level, which increased the demand for housing solutions. The market for Infrastructure and Environment solutions remained at a satisfactory level: marked growth was evident, among other things, in the installation systems of optic cables and, in Finland, in the demand for wastewater treatment systems, which was boosted by new regulations governing sparsely populated areas.

Europe - West, East, South

Demand in housing construction remained brisk, growing in a number of markets. In Spain, the market for plastic-aluminium piping systems, in particular, grew as a result of buoyancy of housing starts, renovation and modernisation projects.

Demand for Infrastructure and Environment solutions picked up, with the exception of Spain and France. In particular, demand for installation systems of telecom cables exceeded expectations. In the U.K., sales of gas piping showed a favourable development. The demand for Uponor's municipal infrastructure systems continued to grow in Germany, in spite of the generally weak development in the construction market. In particular, sales of systems designed for wastewater treatment in sparsely populated areas strengthened considerably.

North America

The North American housing construction market remained lively, and Q2 did not yet show any signs of the expected slowdown in the U.S. market. In Canada, the number of housing starts declined slightly from the previous year's level, remaining, however, at a very high level. The active demand in North America is buttressed not only by housing starts and strong migration but also renovation and modernisation projects, which have increased both in volume and value terms. The prolonged buoyancy in housing construction has resulted in occasional shortages of supplies and material, causing some construction delays.

Uponor markets its underfloor heating and cooling systems mainly for housing construction projects in North America. However, they have recently attracted interest in the sector of commercial and institutional applications as well.

Key events

Central Europe

Uponor displayed at two major trade fairs: in Essen in March and in Nuremberg in April. All system brands were exhibited together on the same stand, thus enhancing Uponor's recognition and image as a supplier of housing solutions. The product range of plastic-aluminium piping systems was further expanded, which increased its popularity particularly among professional installers. The new design software common to Uponor's system brands Velta, Unipipe and Polytherm was launched onto the market during the report period.

Nordic

In Finland, Uponor won two major supply contracts, whereby the constructor wanted to order heating, plumbing and ventilation solutions for the entire building from one supplier. Plastic-aluminium piping systems have received positive coverage in trade magazines, and they have improved their recognition. Demand has grown strongly especially in Denmark and Finland.

An extensive road show comprising nine cities in Denmark was arranged for customers of Infrastructure and Environment, with more than 500 professionals participating in the events. In conjunction with the road show, Uponor introduced its new wastewater infiltration system, complete with integrated pumping chambers. The system was met with a favourable reception among the customers.

Europe - West, East, South

Providing professional installers and designers with training forms an important part of Uponor's total offerings. For this purpose, the company opened new training centres in Russia, France and the U.K. An extensive customer loyalty programme was launched in Spain and Portugal to train authorised Uponor installers. In Spain, sales were particularly focused on the core product offerings. As a result, demand for Unipipe multi-layer composite pipes and plastic fittings experienced robust growth.

North America

The expansion investments commenced in 2003, with a view to meeting the increased demand for radiant underfloor heating and plumbing systems, were completed. As a consequence, Uponor's combined North American manufacturing capacity for tubing increased by one third.

In June, Uponor exhibited in the Pacific Coast Builders Convention in San Francisco. The convention is the largest show of its kind that focuses on home builders in the western states of the U.S. Interest in the PEX plumbing system was keen, which indicates that Uponor's effort to obtain the full-state approval of the State of California for the PEX plumbing systems is largely supported by the local builders. The appeal procedure for the State approval is still pending.

Real Estate

In line with its strategy, Uponor aims to dispose of the Real Estate business. During the first half of the year, the value of real estate transactions totalled a mere EUR 1.4 (3.5) million. In addition, there are preliminary real estate agreements worth EUR 1.5 million. The transactions generated capital gains of approximately EUR 0.9 (2.0) million. Although demand for office premises was subdued, the real estate occupancy ratio grew slightly to 74.4 (73.4) per cent.

Restructuring

The implementation of Uponor's Restructuring 2004 programme is progressing as planned. During the second quarter of the year, the project for concentrating the production of the Unipipe plastic-aluminium pipe systems in Germany was completed. During the report period, Uponor made a decision to close down the Maintal plant in Germany during the autumn. The production of large-diameter PEX plastic pipes earlier manufactured in Maintal and mostly used for gas distribution will be transferred to Sweden, with the expected job losses of around twenty. The assembly operations of certain special products were also outsourced in Germany.

A decision was made to close down the Vårgårda plant in Sweden and to transfer the production to the nearby Fristad plant, with the aim of streamlining both production and distribution. Norway saw measures to migrate the Infrastructure and Environment customer service and sales from Furuflaten in northern Norway to southern Norway, close to major customers, in order to enhance customer service and logistics.

Personnel

The reported average number of the Group's employees came to 4,720 (5,045), while the period-end staff totalled 4,759 (30 June 2003: 4,972; 31 December 2003: 4,803). The staff reduction was due mainly to the restructuring programme and the MBO in Germany. By region, the number of employees grew only in North America.

The report period saw the completion of the new role and duties of the company's Executive Committee with new members.

Share-based incentive programme

In May, the Board of Directors of Uponor Corporation made a decision to launch a new incentive programme aimed at the Executive Committee, as a part of the Group's compensation programme. The programme will replace the stock option plan, which will expire in August 2004. Under the new incentive plan, the Executive Committee has the opportunity to obtain a share-based reward in 2007. This reward is based on the attainment of a pre-determined cumulative EBITA target during the 3-year period from 2004 to 2006.

Reaching the maximum level for the target results in a total reward corresponding to the net value of 40,000 Uponor shares. The CEO and CFO are not entitled to dispose of the shares earned under this programme during their term of employment without the consent of the Board of Directors. For the other members of the Executive Committee, half of the shares earned are subject to the same restriction.

The Board of Directors has the possibility to raise or reduce the number of shares by ten per cent, depending on whether the company's other long-term objectives are achieved.

Share capital and shares

At the beginning of the report period, Uponor Corporation's share capital amounted to EUR 74,834,444 and the number of shares totalled 37,417,222. In January 2004, the company increased its share capital by EUR 542,000 as a result of share subscriptions based on stock options. The 2004 AGM in March decided to

reduce the company's share capital by EUR 1,120,000 by invalidating 560,000 own shares. In April, the company's share capital was increased by EUR 216,000 as a consequence of the share subscriptions based on stock options. At the end of the period, Uponor Corporation's share capital came to EUR 74,472,444 and the number of shares totalled 37,236,222. With a nominal value of EUR 2, each share entitles its holder to one vote at the shareholders' meeting.

The Annual General Meeting was held on 17 March. The AGM decided, among other things, on invalidating own shares and authorised the Board of Directors to decide on the repurchase of 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. The authorisation will be valid until 17 March 2005. The Board of Directors has no other authorisations.

The company did not buy back own shares during 2004. The number of previously bought own shares totalled 85,000, their combined nominal value amounting to EUR 170,000, accounting for 0.2 per cent of the share capital and total votes. The share buybacks had no significant effect on the distribution of shareholdings and votes in the company.

Stock option plan

On the basis of Uponor Corporation's stock option plan 1999/2002, ending 31 August 2004, 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.

The report period saw subscriptions for 108,000 new shares, based on the stock option plan. The number of shares subscribed based on A stock options totalled 22,000 and that on B stock options totalled 86,000. As a result of the subscriptions, the company increased its share capital by EUR 216,000 in April.

The subscription price for A and B stock options amounted to EUR 13.46 and EUR 17.75, respectively. The shares are payable on subscription. The subscribed shares entitle their holders to receive dividends for 2004; other share-based entitlements will become effective once the share capital increase is registered with the Trade Register. The share subscription period will expire on 31 August 2004.

Events after the report period

The post-report period saw subscriptions for 7,000 new shares in July, based on Uponor's stock option plan. The number of shares subscribed based on A stock options totalled 3,500 and that on B stock options totalled 3,500. As yet, the share capital increase corresponding to the share subscription has not been registered with the Trade Register. Based on the stock options included in the stock option plan, a total of 386,000 shares have been subscribed so far, and the number of shares left for subscription totals 174,000. The company's share capital may yet be increased by a maximum of EUR 362,000.

Near-term outlook

Near-term market prospects look favourable. According to recent public forecasts, the expected slight slowdown in the U.S. housing construction market will not occur this year but will be postponed until 2005. In Germany, the housing construction market is expected to remain stable, close to the activity level of the previous year. In the other main markets, such as the Nordic countries, the U.K. and Spain, market growth prospects remain good.

Uponor estimates that, during the rest of 2004, demand for Uponor's product segments will remain stable, close to the level of the latter half of 2003. The company's organic growth is expected to continue, but at a lower rate than in the 2nd quarter.

Progressing as planned, Uponor's large-scale restructuring programme is to be completed during the current year for the most part. A great number of efficiency gains and improvements resulting from the programme are already bearing fruit, and all of these effects will be fully reflected in the company's financial performance in 2005.

With regard to the entire year 2004, the Group's cash flow is expected to remain strong and operating profit and profit margin are expected to improve, excluding restructuring expenses.

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Appendix: Tables

Tables

Income statement	Jan-June	Jan-June	Jan-Dec
MEUR	2004	2003	2003
Net sales	536.8	496.2	1,021.0
Other operating income	1.7	5.1	6.8
Gross profit	171.5	148.0	281.0
Operating profit	44.8	29.3	30.7
Financial expenses, net	2.9	2.7	9.9
Profit after financial items	41.9	26.6	20.8
Profit before taxes	41.9	26.6	20.8
Profit for the period (1)	28.5	17.5	1.6

Balance sheet	30 Jun.	30 Jun.	31 Dec.
MEUR	2004	2003	2003
Intangible assets	79.1	95.0	85.4
Tangible assets	340.8	382.4	349.2
Securities and long-term investments	10.5	10.3	14.4
Inventories	157.8	161.9	135.5
Cash in hand and at bank	7.5	14.7	16.9
Other current assets	262.8	252.4	187.8
Shareholders' equity	432.5	486.9	470.0
Minority interest	0.9	1.1	0.9
Obligatory provisions	32.1	17.2	31.4
Long-term liabilities	87.1	101.9	93.6
Short-term liabilities	305.9	309.6	193.3
Balance sheet total	858.5	916.7	789.2

Cash flow statement	Jan-June	Jan-June	Jan-Dec
MEUR	2004	2003	2003
Cash flow from operations			
Net profit for the period	28.5	17.5	1.6
Sales gains	-1.7	-5.1	-7.2
Depreciation	28.5	31.9	87.1
Change in net working capital	-42.7	-50.5	47.7
Cash flow adjustment items	-	-	18.8
	<u>12.6</u>	<u>-6.2</u>	<u>148.0</u>

Cash flow from investments			
Gross investments in fixed assets	-16.2	-16.6	-36.7
Proceeds from sales of shares	-	22.7	20.8
Proceeds from sales of fixed assets	7.9	7.7	14.7
	<u>-8.3</u>	<u>13.8</u>	<u>-1.2</u>

Cash flow from financing			
Dividend	-74.1	-55.5	-55.5
Subscription of shares	1.8	-	-
Net change of loans	58.7	57.5	-81.1
Others	-0.1	-1.2	0.4
	<u>-0.1</u>	<u>-1.2</u>	<u>0.4</u>

	-13.7	0.8	-136.2
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Change in cash

	-9.4	8.4	10.6
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Liquid assets at 1 January	16.9	6.3	6.3
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Liquid assets at end of period	7.5	14.7	16.9
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Changes according to balance sheet	-9.4	8.4	10.6
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Investments

MEUR	Jan-June 2004	Jan-June 2003	Jan-Dec 2003
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Gross investment	16.2	16.6	36.7
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- % of net sales	3.0%	3.3%	3.6%
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Depreciation	28.5	31.9	87.1
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Disposal of fixed assets	6.2	2.6	6.3
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Personnel

	Jan-June 2004	Jan-June 2003	Jan-Dec 2003
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- average number	4,720	5,045	4,962
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- at the end of period	4,759	4,972	4,803
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Financial indicators

	Jan-June 2004	Jan-June 2003	Jan-Dec 2003
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Earnings per share, EUR	0.77	0.47	0.04
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- fully diluted, EUR	0.77	0.47	0.04
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Return on equity, %	12.6	6.8	0.3
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Return on investment, %	15.9	9.1	4.9
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Solvency ratio, %	50.5	53.5	59.8
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Gearing, %	35	40	18
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Equity per share, EUR	11.64	13.19	12.69
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- fully diluted, EUR	11.62	13.18	12.68
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Trading price of shares			
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- low, EUR	24.20	16.80	16.80
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- high, EUR	27.55	20.50	26.02
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- average, EUR	25.86	18.23	20.12
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Shares traded			
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- 1000 pcs	12,060	7,235	13,956
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- MEUR	311.9	131.9	280.8
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Contingent liabilities

MEUR	30 Jun. 2004	30 Jun. 2003	31 Dec. 2003
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Group:

Pledges			
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- on own behalf	0.7	0.7	0.7
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Mortgages	5.0	13.5	9.2
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Guarantees			
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- on behalf of others	3.3	3.4	3.2
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- on behalf of associated companies	9.0		9.3
Leasing liabilities	52.6	52.2	57.8
Other contingent liabilities	12.2	6.5	8.8
Parent company:			
Guarantees			
- on behalf of a subsidiary	25.5	57.2	39.8
- on behalf of others			9.3
Futures contracts	30 Jun.	30 Jun.	31 Dec.
MEUR	2004	2003	2003
Interest derivatives			
- Interest rate options, bought	89.7	78.8	96.7
- Interest rate options, sold	114.4	105.0	120.4
- Interest rate swaps	10.0	10.0	10.0
Foreign currency derivatives			
- Forward agreements	18.2	14.9	12.4
Currency swaps	2.3	1.2	-
Electricity derivatives	1.4	2.1	1.7
Own shares	30 Jun.	30 Jun.	31 Dec.
	2004	2003	2003
Own shares held by the company	85,000	514,800	645,000
- combined nominal value, EUR	170,000	1,029,600	1,290,000
- of share capital/voting rights, %	0.2%	1.4%	1.7%
Net sales by segment	Jan-June	Jan-June	Jan-Dec
MEUR	2004	2003	2003
Pipe Systems	525.9	485.0	999.7
Real Estate	10.7	10.9	21.1
Others	0.2	0.3	0.2
Group total	536.8	496.2	1,021.0
Operating profit by segment	Jan-June	Jan-June	Jan-Dec
MEUR	2004	2003	2003
Pipe Systems	47.1	28.8	28.3
Real Estate	4.9	5.9	12.8
Others	-7.2	-5.4	-10.4
Group total	44.8	29.3	30.7

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

The figures of this interim report have not been audited.