uponor

Financial statements bulletin 1-12/2017

15 February 2018

Uponor continues its solid performance, despite sizable investments for the future

- Supported by higher net sales, effectivity enhancements due to the transformation programmes helped to improve comparable operating profit in Building Solutions – Europe and Uponor Infra in 2017; operating profit in Building Solutions – North America remained strong and improved modestly in USD
- Net sales for Oct–Dec 2017 €279.4 (2016: 268.9) million
- Comparable operating profit for Oct–Dec at €18.0 (16.1) million
- Net sales for Jan–Dec: €1,170.4m (1,099.4m), up 6.5% in organic terms; growth in constant currency 7.4%
- Operating profit for Jan–Dec: €95.9m (71.0m); up 35.2%; comparable operating profit at €97.2m (90.7m), up 7.2%
- The effective tax rate was 25.8% (31.3%), largely as a result of the Supreme Administrative Court tax resolution in Uponor's favour in Finland, as well as the U.S. tax reform
- Earnings per share at €0.83 (0.58)
- Guidance statement for the year 2018: Excluding the impact of currencies, Uponor expects its organic net sales and comparable operating profit to grow from 2017
- The Board's dividend proposal is €0.49 (0.46) per share, of which 24c is paid in March 2018 and 25c in September 2018

President and CEO Jyri Luomakoski's comments:

- In 2017, we saw positive progress throughout the Group, with net sales and profitability growing in all segments. Meanwhile, we have continued to execute a challenging but rewarding R&D programme with our investment into forward-looking technology once again rising to historically high figures.
- After a 21-month journey alongside our technology partner Belkin, our joint venture Phyn presented its first product in the U.S. market in January 2018. This unique product, with its specialised professional route to market, represents another major step into the digital smart water technology market.
- Building Solutions – Europe reported a solid improvement in comparable operating profit for the full-year, with net sales modestly rising. While we were able to report positive progress in several countries, including Eastern Europe, Russia and Spain, we lagged behind our aspirations in some key markets such as Germany. Strategically, we are placing the focus on developing new hygienic solutions and prefab technology which will offer compelling value to professional sectors on the market.
- Building Solutions – North America is actively building up its manufacturing capacity. Construction work in Apple Valley has been completed and new personnel have been trained. Also the investment in Hutchinson is progressing well towards completion in the summer of 2018. Both of these impacted our profitability in Q4 and will also impact in the first half of 2018. Overall, the segment's product supply is running smoothly and we have returned to a committed lead time promise in customer orders.
- Uponor Infra reported a brisk improvement in performance, driven by cyclical improvement in demand in North America. The performance in Europe, where markets for the most part were flat or growing modestly, did not meet acceptable levels in 2017.

The Board's dividend proposal

The Board proposes to the Annual General Meeting a dividend of €0.49 (0.46) per share, to be paid in two instalments. When making the proposal, the Board considered the solvency of the company, the company's dividend policy, the business outlook and planned investments, recognising the high availability of external funding for the company's growth plans.

Key financial figures

Consolidated income statement (continuing operations), M€	2017	2016	2015	2014	2013
Net sales	1,170.4	1,099.4	1,050.8	1,023.9	906.0
Operating expenses	1,038.4	991.0	942.7	926.4	823.6
Depreciation and impairments	39.2	41.6	39.1	36.5	33.0
Other operating income	3.1	4.2	2.4	2.4	0.8
Operating profit	95.9	71.0	71.4	63.4	50.2
Comparable operating profit	97.2	90.7	75.8	67.7	55.2
Financial income and expenses	-5.4	-10.0	-8.9	-7.4	-7.1
Profit before taxes	88.2	60.4	62.8	56.3	43.2
Result from continuing operations	65.4	41.5	37.1	36.3	27.1
Profit for the period	65.4	41.9	36.9	36.0	26.8
Earnings per share	0.83	0.58	0.51	0.50	0.38

Information on the financial statements bulletin
The figures in brackets are the reference figures for the equivalent period of the previous year. Unless otherwise stated, the figures refer to continuing operations. Any change percentages were calculated from the exact figures and not the rounded figures published here.

Webcast and presentation
A webcast of the results briefing in English will be broadcast on 15 February at 13:00 EET. It can be viewed via our website at investors.uponor.com or via the Uponor IR mobile app. The recorded webcast can be viewed via the website or the Uponor IR mobile app shortly after the live presentation. All presentation materials will be available at investors.uponor.com > News & downloads.

Next interim results
Uponor Corporation will publish its Q1 interim results on 3 May 2018. During the silent period from 1 April to 3 May, Uponor will not comment on market prospects or factors affecting business and performance.

Interim results October – December 2017

Markets

Construction activity in Uponor's key building markets saw no notable changes from the third quarter and, overall, the markets remained at a healthy level during the fourth quarter. In Europe, builders continued to report strong order books notwithstanding the soft housing permit trends in some areas, such as Sweden and Germany, in the final quarter. In North America, demand continued to be steady in Uponor's key market segments. Market demand for infrastructure solutions continued to be high in Canada and Sweden.

The abnormal weather and storm patterns experienced in the third quarter did not repeat themselves at the same magnitude towards the end of the year, although lengthy rain fall and harsh winter weather was experienced in some areas, potentially causing some delays in building and construction projects.

Net sales

Uponor reported net sales of €279.4 (268.9) million for the fourth quarter, showing growth of 3.9% in reported numbers from 2016. The currency impact, mainly from the USD, came to €-2.6 million, whereby the year-over-year growth in the quarter in constant currency came to 4.9%.

Building Solutions – Europe's sales development was flat, with net sales coming to €125.5 (125.8) million, a decline of -0.3% from the comparison period. The main reason for the lacklustre development was a decline in net sales in key Central European and Nordic markets, reflecting e.g. fewer ceiling cooling projects in Germany and weaker development of distribution business in the Nordics. Positive net sales growth was reported in Denmark, Spain and Russia, and also in Asia, which is reported as part of this segment.

Building Solutions – North America continued its healthy growth with net sales picking up especially in Canada. Growth in the U.S. softened from the third quarter, similarly to 2016. Net sales measured in euro came to €79.5 (77.2) million, which represents an increase of 3.0%. In USD, the pace of growth was more marked, with net sales at $94.2 (82.7) million, up by 13.9%. After the temporary production challenge in April, Uponor has increased its manufacturing capacity and was able to return its daily operations to normal lead time schedules.

Uponor Infra's net sales amounted to €75.4 (67.2) million, showing growth of 12.2%. Net sales growth was driven by strong volume growth, mainly in North America, Sweden and Poland. This offset a drop in net sales in Finland and Norway, where infrastructure projects were fewer in 2017 compared to the previous year.

Breakdown of net sales by segment, October–December:

M€	10-12 2017	10-12 2016	Reported change
Building Solutions – Europe	125.5	125.8	-0.3%
Building Solutions – North-America	79.5	77.2	3.0%
(Building Solutions – North-America, M$	94.2	82.7	13.9%)
Uponor Infra	75.4	67.2	12.2%
Eliminations	-1.0	-1.3	
Total	279.4	268.9	3.9%

Profits and profitability

Uponor's gross profit in the final quarter of 2017 totalled €95.0 (85.9) million. Comparable gross profit totalled €95.0 (91.4) million. The comparable gross profit margin remained stable at 34.0% (34.0%).

Consolidated operating profit for the fourth quarter came to €18.0 (7.5) million, representing growth of 141.4%. The operating profit margin came to 6.4% (2.8%). In addition to an increase in net sales, growth in operating profit is due to the fact that the fourth quarter of 2016 included costs relating to the European transformation programmes which affected comparability. In 2016, items affecting comparability (IAC) totalled €8.6 million in the fourth quarter, of which €5.6 million was related to Building Solutions – Europe and €3.0 million to Uponor Infra.

Comparable operating profit, i.e. excluding any items affecting comparability, also improved and came to €18.0 (16.1) million, while the comparable operating profit margin came to 6.5% (6.0%).

Building Solutions – Europe's reported operating profit was €10.2 (1.6) million. Adjusting for IAC, comparable operating profit came to €10.2 (7.2) million, which represents a comparable operating profit margin of 8.1% (5.7%). The performance improvement resulted from cost savings derived from the transformation programme, offsetting the decline in net sales in the fourth quarter.

Building Solutions – North America's operating profit came to €9.6 (11.9) million, or to $11.5 (12.7) million measured in USD. The operating profit margin weakened to 12.2% (15.4%). The main reasons for this were costs related to establishing a second manufacturing site, higher conversion and overhead costs after the production issue experienced in April, as well as a higher than average share of lower margin products in the sales mix. Further, a more expensive material used for plastic fittings has an adverse impact on operating profit in a year-over-year comparison.

Uponor Infra reported a clear improvement in operating profit, coming to €1.8 (-5.0) million. The comparable operating profit came to €1.8 (€-2.1) million. The positive trend was a result of operational leverage on lively net sales in Canada. The European business suffered from a lack of large projects, high resin prices earlier in the year, and challenges related to production relocations.

Operating loss in the Others segment increased year-over-year, due to accruals made in Uponor Insurance Ltd. to cover potential claim exposures. In 2016, the costs were partially offset by income from electricity hedging and reversal of unused environmental provisions.

Reported operating profit by segment, October–December:

M€	10-12 2017	10-12 2016	Reported change
Building Solutions – Europe	10.2	1.6	546.3%
Building Solutions – North-America	9.6	11.9	-19.8 %
(Building Solutions – North-America, M$	11.5	12.7	-9.9 %)
Uponor Infra	1.8	-5.0	137.4 %
Others	-2.5	-0.3	
Eliminations	-1.1	-0.7	
Total	18.0	7.5	141.4 %

Comparable operating profit by segment, October–December:

M€	10-12 2017	10-12 2016	Comparable change
Building Solutions – Europe	10.2	7.2	12.5%
Building Solutions – North-America	9.6	11.9	-19.8 %
(Building Solutions – North-America, M$	11.5	12.7	-9.9 %)
Uponor Infra	1.8	-2.0	189.7 %
Others	-2.5	-0.3	
Eliminations	-1.1	-0.7	
Total	18.0	16.1	12.5 %

Events during the period

There were no significant events to report on in the fourth quarter.

Financial statements January – December 2017

Markets

Construction activity developed favourably in 2017, supported by strong macroeconomic tailwinds. In North America and Europe, confidence on the part of both consumers and businesses, strong labour markets, and accommodative monetary policies drove growth across most residential and non-residential building segments.

In Central Europe, record-high employment levels and high levels of immigration in Germany fuelled growth in multi-family residential projects, while the significantly larger residential renovation segment was flat. Despite consistently positive measures of business confidence, non-residential construction remained steady, expanding only marginally overall. Builders throughout the industry also reported an increasingly severe lack of skilled labour, which probably hindered growth. In the Netherlands, both the residential and non-residential market grew from 2016.

In Southwest Europe, Spain saw a marked increase in construction activity, albeit from a low base. The significantly larger French market also made notable gains, while the Italian market remained depressed, yet stable. Meanwhile, fallout from the "Brexit" negotiations was muted in the UK, with building activity remaining steady, in general, to the end of the year.

Construction activity in the Nordic countries grew from 2016. In Finland, the number of multi-family projects in urban growth centres increased, while non-residential activity was largely on a par with 2016. In Sweden, the number of multi-family projects remained at elevated levels not seen since the early 1990s, while businesses also initiated non-residential projects in significantly larger numbers than the previous year. In both Denmark and Norway, residential segments generated modest growth, while non-residential markets grew marginally.

In Eastern Europe, the Russian market has stabilised, but remains rather weak. In East-Central European countries such as the Czech Republic, Hungary and Poland, residential investments rose, while non-residential activity was more mixed. Construction spending in the Baltic countries expanded.

In North America, residential and non-residential markets grew at a moderate overall rate. While many employment and confidence measures remained at exceptionally strong levels in the USA, market growth was tempered by a persistent lack of skilled labour and, to a lesser extent, cost inflation. In Canada, construction activity remained at a high level, but moderated in some building segments.

With regard to Uponor's infrastructure solutions, demand in the Nordic markets was stable on the whole, with demand in Sweden improving notably. The markets in Poland and other East Central European countries remained subdued, with the exception of a few notable EU funded projects, while civil engineering spending rose significantly in the Baltic countries. In Canada, a pickup in business investments impacted positively on demand.

Net sales

Uponor's 2017 consolidated net sales amounted to €1,170.4 (2016: €1,099.4) million, up 6.5% year-on-year. The currency impact totalled €-10.9 million, bringing the 2017 full-year growth in constant currency to 7.4%. The negative currency effect was mainly due to the USD and SEK, while the RUB had a small positive influence.

Building Solutions – Europe's net sales amounted to €521.7 (511.0) million, showing growth of 2.1% year-over-year. Growth of net sales was prevalent in most European key markets. Two exceptions included Germany, where the satisfactory development in prefabricated solutions was not enough to cover the lower sales in the ceiling cooling business, where Uponor turned down projects due to low margins, and Finland, where net sales declined due to the fact that the markets grew most in building types and in urban areas which offer less value for Uponor. In addition, the UK business clearly declined, partly due to earlier internal reorganisation measures, and partly as a result of the rising costs of exports into the UK. The markets in Spain, Austria, Russia and Norway showed the most positive trends in terms of net sales.

Building Solutions – North America reported full-year net sales at €328.2 (305.6) million, up 7.4%. In U.S. dollar terms, net sales climbed to $373.2 (337.2) million, representing growth of 10.7%, exactly the same as the growth reported for full-year 2016. Throughout the year, sales of the PEX plumbing offering have developed steadily, aside from the temporary production issue experienced in April. Now that the shortage of plastic fittings resin has been overcome, plastic fittings sales are also recovering to earlier sales patterns. Overall, the building solutions business in North America, with its increasing number of new market entrants, has become more competitive, slowing net sales growth in certain sectors of the market.

Uponor Infra's net sales for 2017 came to €323.4 (287.9) million, which represents growth of 12.3%. Most of this growth came from North America and Sweden, where the markets were flourishing through most of the year, and from Poland where large projects began towards the end of the year in particular.

Within the business groups, the share of Plumbing Solutions represented 49% (49%), Indoor Climate Solutions 24% (25%), while Infrastructure Solutions represented 27% (26%) of Group net sales.

Measured in terms of reported net sales, and their respective share of Group net sales, the 10 largest countries were as follows (2016 figures in brackets): the USA 26.3% (25.1%), Germany 13.2% (14.7%), Finland 10.3% (11.2%), Sweden 9.7% (9.1%), Canada 8.6% (7.3%), Denmark 4.3% (4.5%), the Netherlands 3.5% (3.6%), Spain 3.2% (3.2%), Norway 2.6% (2.7%), and Russia 2.0% (1.7%).

Net sales by segment for 1 January – 31 December:

M€	1–12 2017	1–12 2016	Reported change
Building Solutions – Europe	521.7	511.0	2.1%
Building Solutions – North America	328.2	305.6	7.4%
(Building Solutions – North America (M$)	373.2	337.2	10.7%)
Uponor Infra	323.4	287.9	12.3%
Eliminations	-2.9	-5.1	
Total	1,170.4	1,099.4	6.5%

Results

The consolidated full-year gross profit ended at €394.1 (376.0) million, a change of €18.1 million. The gross profit margin came to 33.7% (34.2%). Comparable gross profit came to €395.1 (383.9) million, or 33.8% (34.9%). Gross profit was burdened by a tight competitive situation and product mix issues in Building Solutions – Europe, despite improvements in production efficiency, as well as an increase in costs and weaker production yield than anticipated in Building Solutions – North America.

Consolidated operating profit came to €95.9 (71.0) million, a clear improvement from the previous year, mainly due to transformation programme costs in 2016. The operating profit margin ended at 8.2% (6.5%) of net sales.

Comparable operating profit, i.e. excluding any items affecting comparability relating to the transformation programmes in Building Solutions – Europe and in Uponor Infra, reached €97.2 (90.7) million, an increase of 7.2%. Comparable operating profit margin came to 8.3% (8.2%). The net total amount of items affecting comparability was €1.3 (19.7) million, of which €2.8 (12.4) million was reported in Building Solutions – Europe and €-1.5 (7.2) million in Uponor Infra.

Building Solutions – Europe reported an improvement in full-year comparable operating profit, which came to €42.8 (37.8) million. This growth was the result of an increase in net sales and the savings achieved by the transformation programme, mainly relating to the enhanced production network. The transformation programme was completed during 2017. The segment's profitability was also burdened by the continuing tight competitive situation, which affected both the indoor climate and plumbing markets, as well as challenges within the distribution channel.

Building Solutions – North America is briskly expanding its capacity and building up and training the organisation in order to respond to growth in demand and to return capacity utilisation to a long-term sustainable level. For the above reasons, the segment's operating profit dropped slightly, and came to €49.7 (50.0) million, or $56.5 (55.2) in USD. Managing the repercussions of the temporary production challenge in the spring of 2017 also had an effect on the full year figures.

Uponor Infra reported a brisk improvement in comparable operating profit which reached €10.5 (6.4) million. The main contributor to this was the North American infrastructure solutions business, which experienced a boost in net sales and an improvement in margins.

Other operating income in 2017 includes a gain of €1.9 million from the sale of Uponor Infra's real estate premises in Vaasa, Finland.

Uponor's net financial expenses declined to €5.4 (€10.0) million, including a positive impact of €3.6 million from the Finnish Supreme Administrative Court tax resolution. Net currency exchange differences in 2017 totalled €-3.2 (-3.9) million.

The share of the result in associated companies, €-2.3 (-0.6) million, includes product development and other start-up costs related to Phyn, the joint venture company with Belkin International, Inc. established in 2016.

Profit before taxes was €88.2 (60.4) million. The effective tax rate of 25.8% (31.3%) was affected by the Finnish Supreme Administrative Court tax resolution, in Uponor's favour, which had an impact of -2.6ppts, or €2.3 million, and the U.S. tax reform whose impact was -2.6ppts, or €2.3 million. The change impact of the U.S. tax reform is due to a mandatory repatriation and revaluation of the net deferred taxes with the new, lower federal tax rate. Both the U.S. and Finnish elements affecting the effective tax rate in 2017 are viewed as one-time impacts. Income taxes totalled €22.8 (18.9) million.

Profit for the period totalled €65.4 (41.9) million. Return on equity reached 19.4% (13.1%).

Return on investment increased to 16.3% (14.1%). Return on investment, adjusted for items affecting comparability, came to 16.6% (18.3%).

Earnings per share were €0.83 (0.58). Equity per share was €3.83 (3.60). For other share-specific information, please see the Tables section.

Consolidated cash flow from operations amounted to €101.5 (59.9) million, while cash flow before financing came to €42.0 (-31.9) million. In 2016, cash flow before financing was burdened by the German acquisitions in January 2016 and the $15 million investment in the joint venture company Phyn in July 2016.

Key figures are reported for a five-year period in the key financial figures section.

Operating profit by segment for 1 January – 31 December:

M€	1-12/ 2017	1-12/ 2016	Reported change
Building Solutions – Europe	40.0	25.4	57.3%
Building Solutions – North-America	49.7	50.0	-0.7%
(Building Solutions – North-America (M$)	56.5	55.2	2.3%)
Uponor Infra	12.0	-0.8	1538.0%
Others	-4.2	-2.0	
Eliminations	-1.6	-1.6	
Total	95.9	71.0	35.2%

Comparable operating profit by segment for 1 January – 31 December:

M€	1-12 2017	1-12 2016	Comparable change
Building Solutions – Europe	42.8	37.8	12.9%
Building Solutions – North-America	49.7	50.0	-0.7%
(Building Solutions – North-America, M$	56.5	55.2	2.3%)
Uponor Infra	10.5	6.4	65.5%
Others	-4.2	-1.9	
Eliminations	-1.6	-1.6	
Total	97.2	90.7	7.2%

Investment, research and development, and financing

For the last decade or so, Uponor has focused on maintaining a careful balance between targeting resources at the most viable opportunities and keeping overall investment modest, and this policy continues to be valid. However, in 2016, capital expenditure, including R&D, had already grown from its longer-term historic levels and a similar trend continued in 2017. A significant element of this expenditure was on forward-looking strategic investments, such as the digitalisation efforts announced during the years 2016-2017. These initiatives will help to ensure that we remain at the forefront of development in our industry, and will help us to safeguard the competitiveness of our offering in the digital age.

In addition, two capacity expansion investments were launched in Building Solutions – North America. The first, announced on 4 May 2017, was Uponor, Inc.'s plan to expand its manufacturing facility in Apple Valley, Minnesota with a €16.3 million ($17.4 million) investment. The second investment, was intended to safeguard future pipe manufacturing capacity and meet expected longer-term growth: on 20 July 2017 Uponor announced the purchase of a manufacturing facility and real estate in Hutchinson, Minnesota. The €5.6 million ($6.3 million) deal was closed on 3 August 2017. It is estimated that the total investment in the Hutchinson facility will reach circa $30 million by the end of 2018. Of this sum, $8.6 million had already been used by year end 2017. Uponor, Inc. is a U.S. subsidiary and part of Building Solutions – North America.

In addition to new initiatives, a considerable amount of funds was again used for selected productivity improvements, maintenance and the modernisation of technology in our manufacturing operations, maintaining their competitiveness with regard to both cost-efficiency and quality.

In 2017, gross investment in fixed assets totalled €63.4 (50.7) million. Net investments totalled €61.8 (48.4) million.

Research and development costs, which were at a historically high level, grew to €23.2 (21.4) million, or 2.0% (1.9%) of net sales. Driven by the new and expanded Group Technology and Corporate Development function established in 2016, Uponor channelled further funds into digitalisation and Internet of Things (IoT) initiatives, the development and finalisation of new-generation indoor climate controls and plumbing fittings, as well as pipe material technology and production process improvements.

The main existing long-term funding programme on 31 December 2017 was the 5-year bilateral loan agreement of €100 million, signed in 2017, which will mature in July 2022. Resulting in a modest increase in long-term interest-bearing liabilities, the new loan replaced the earlier €80 million bond maturing in June 2018, which is now booked as current liabilities.

In addition to the above-mentioned funding arrangements, Uponor has outstanding, bilateral long-term loans of €50 million and €20 million, both of which will mature in the summer of 2021. As back-up funding arrangements, Uponor has four committed bilateral revolving credit facilities in force, totalling €200 million. These back-up facilities will mature in 2019-2021; none of them were used during the reporting period.

For short-term funding needs, Uponor's main source of funding is its domestic commercial paper programme, totalling €150 million, none of which was outstanding on the balance sheet date. Available cash-pools limits granted by Uponor's key banks amounted to €34.8 million, none of which was in use on the balance sheet date. At the end of the year, Uponor had €107.0 (16.3) million in cash and cash equivalents.

Accounts receivable and credit risks received special attention throughout the year. Most of Uponor's accounts receivable are secured by credit insurance.

Consolidated net interest-bearing liabilities decreased slightly to €151.5 (159.5) million. The solvency ratio was 40.5% (42.8%) and gearing came to 43.5 (48.8). Average quarterly gearing was 58.4 (56.7), in line with the range of 30–70 set in the company's financial targets.

Events during the period

In January 2017, Uponor closed its PEX pipe production site in Móstoles, Spain and concentrated production in the company's facilities in Virsbo, Sweden as part of the transformation programme. Building Solutions - Europe's transformation programme was completed in June. The last initiative in the programme involved the closing of an office in Italy in December.

In March, at the international ISH trade fair in Germany, Uponor presented its solutions and new offerings under the concept "Build on innovation", with a focus on drinking water hygiene, indoor climate, comfort and efficient energy distribution for a wide variety of building types. Uponor also presented its renewed Uponor PRO mobile app, which is intended to be the mobile channel through which Uponor serves the professional community.

On 4 May 2017, Uponor's U.S. subsidiary, Uponor, Inc., part of the Building Solutions – North America segment, announced plans to continue expanding its manufacturing facility in Apple Valley, Minnesota with a €16.3 million ($17.4 million) investment. As the tenth expansion since operations began in Apple Valley in 1990, this project was completed in January 2018, adding 5,440 square metres (58,000 square feet) in manufacturing operations space related to crosslinked polyethylene (PEX) pipe production. Furthermore, on 20 July, Uponor announced a plan to purchase a manufacturing facility and real estate in Hutchinson, Minnesota, intended to safeguard future pipe manufacturing capacity and meet expected longer-term growth. Production of PEX pipe in Hutchinson is expected to begin in the summer of 2018, after regulatory approvals have been obtained.

On 13 September, the Supreme Administrative Court in Finland resolved the taxation adjustment decisions, based on the appeals submitted in January 2016, concerning Uponor Corporation and its subsidiary Uponor

Business Solutions Oy. The matter concerns taxation adjustment decisions made by the Large Taxpayers' Office in 2011. The decision of the Supreme Administrative Court lowers Uponor Corporation's uncharged mark-up of service fees, which was added to the company's taxable income, from seven to three per cent for the tax years 2005 – 2007. The taxes, late fees and tax increases imposed on the company have also been decreased. The taxation adjustment decisions concerning the parent company's subsidiary, Uponor Business Solutions Oy, for the 2005 tax year were also overruled. The Finnish Tax Administration has reassessed the changes in taxation caused by this decision and will adjust the payment for both companies. With regard to the tax years 2006 – 2009, the clarification of arm's length amounts of service fees charged by Uponor Business Solutions Oy have been returned to the Finnish Tax Administration for review.

Uponor Infra announced two new licensees in 2017. Licenses to manufacture and market the Weholite® pipe were granted to the French company TUBAO S.A.S. and the Tanzanian company, Plasco Ltd. Invented in the 1980s, Uponor's revolutionary Weholite® technology consists of high density polyethylene (HDPE) pipe, fittings and fabricated assemblies, and is used worldwide in low-pressure service applications for potable water, storm water, sewage and various other liquids.

On 13 December, the Board of Directors of Uponor Corporation resolved to continue the key management Performance Share Plan mechanism, originally decided on by the Board in 2014. Approximately 50 Group key managers, including the members of the Executive Committee, belong to the target group covered by the new plan. The new plan covers the calendar years 2018–2020. The potential reward based on the new plan will be paid in 2021. The purpose of the incentive programmes is to align the objectives of the management and Uponor shareholders in order to increase the value of the company, boost profitable growth and retain the services of participants over the longer term.

Personnel and organisation

At the end of the year, the Uponor Group had 4,075 (3,868) employees, in full-time-equivalent (FTE) terms. This is 207 more than at the end of 2016. The average number of employees (FTE) for the year was 3,990 (3,869). The increase in the number of employees was mainly driven by the expansion of operations in Building Solutions – North America.

The Group's Executive Committee had two new members in 2017. M.Sc. (Econ) Maija Strandberg (47), Executive Vice President, Finance and member of the Executive Committee, joined Uponor in March and took over as CFO on 21 March 2017. In September, M.Sc. (Eng) Minna Blomqvist (48) joined Uponor to become Executive Vice President, Human Resources and member of the Executive Committee.

At the end of March, Uponor organised its traditional Leadership Event in the Netherlands, bringing together close to 150 Uponor leaders from around the world. The event was built around customer experience, digitalisation and leadership in a volatile world. In addition to building alignment between the various businesses and geographies, a special emphasis was placed on viewing leadership through the eyes of the millennial generation.

The renewed internal employee engagement survey, Our Voice, was carried out for the second time in the autumn. With close to 3,000 employees responding, the response rate was 74.5%. According to the results, Uponor is doing very well compared to the external manufacturing norm, and its employees give Uponor a high rating as a great place to work.

The geographical breakdown of the Group's personnel (FTE) was as follows: Germany 23% (23%), USA 20% (18%), Finland 15% (16%), Sweden 13% (13%), Poland 6% (6%), Canada 4% (4%), Spain 3% (4%), Denmark 3% (3%), Russia 2% (2%), China 2% (2%), and other countries 9% (9%).

Further, in North America, Uponor sells products through manufacturers' representatives. Such representatives are not direct employees of Uponor, but are independent businesses that operate in defined geographical areas and are paid a commission by Uponor.

A total of €245.7 (240.8) million was recorded in salaries, other remunerations and employee benefits during the financial period.

Non-financial information

In its Annual report 2017, Uponor provides non-financial information on its performance. This information has been reviewed by the Board of Directors.

Key risks associated with business

Uponor's financial performance could be affected by a range of market, operational, financial and hazard risks.

Market risks
Uponor's principal areas of business are Europe and North America, where its exposure to political risks is considered to be relatively low in general. The situation has changed somewhat after Uponor opened production facilities in the St. Petersburg, Russia area (2015) and in Taicang, near Shanghai in China (2017).

The Ukraine crisis, the sanctions imposed by the U.S. and EU against Russia, and Russia's counter sanctions are affecting business conditions in Russia and elsewhere in Europe, particularly in Finland. This has kept the political risks associated with Russia on the agenda. Tense relations have negatively impacted on the European markets and their growth. Russia's share of Uponor's net sales was around 2.0% in 2017.

The European economy finally shows fairly clear signs of recovery, albeit with regional differences. The uncertainty around the UK's decision to 'Brexit' is a clear risk factor for both the UK and its trade partners in mainland Europe.

Despite the weakening of terror organisations in the Middle East, unrest and warfare still prevail in the area. Together with unrest in Africa, the possibility of uncontrolled mass migration poses huge challenges to Europe now and in the years to come.

Since Uponor's net sales are divided among a large number of customers, most of which are distributors (wholesalers); end-market demand for the company's products is distributed across a wide customer base. The five largest customer groups, whose sales are distributed between over 20 countries, generate roughly one third of Uponor's net sales.

Demand for Uponor's products depends on business cycles in the construction sector. Uponor's main end market has traditionally comprised single-family housing. However, the company's products are increasingly being supplied for multi-family residential and non-residential building construction, where Uponor plans to increase its sales further. Demand often fluctuates differently within each of these two sectors. To a certain degree, such fluctuations are being offset by demand for renovation projects, which is not always as discretionary as that for new housing projects.

Roughly one quarter of Uponor's annual net sales come from the infrastructure solutions business. In addition to construction sector cycles, demand for infrastructure products depends on civil engineering and publicly funded investments in municipal development. To safeguard against risks associated with economic cycles and fluctuations in demand, the company has developed its sales forecasting processes and enhanced the flexibility of its organisation and supply chain.

In many countries, Uponor's operations are regulated by local legislation. For example, Uponor seeks national product approval for a large proportion of the products it sells. It also closely monitors any laws and regulations under preparation, in order to anticipate their impact on Uponor and its customers.

Operational risks

The prices of raw materials used in the manufacture of plastic pipe systems are susceptible to change, driven by several factors including petrochemical and metal product price fluctuations, supply capacity, market demand etc. In recent years, Uponor has been able to pass most of the effects of such fluctuations onto its selling prices with a reasonable delay, in such a way that this has not resulted in any material losses in income. Whenever feasible, Uponor manages the risk of fluctuations in the price of metals and plastics raw materials through supply agreements with fixed prices, and by means of financial products. Uponor continuously and systematically uses financial instruments to manage price risks associated with electricity prices at Nordic level.

With respect to component, raw material or services sourcing, Uponor aims to use supplies and raw materials available from several suppliers who are also expected to follow all aspects of Uponor’s Code of Conduct and our framework contracts. Wherever only one raw material supplier is used, Uponor seeks to ensure that the supplier has at least two production plants manufacturing the goods used by Uponor. The Group implements systems for material and raw material quality control and supplier accreditation.

Uponor manages its organisational and management risks, such as employee turnover and distortion of the age distribution, by continuously analysing its human resources and ensuring that its organisational structure supports efficient operations. Personnel development programmes focus on enhancing leadership skills in a multicultural matrix organisation. Uponor’s internal employee surveys provide important information on our employees’ engagement, by measuring various aspects of engagement, alignment, the working environment and motivation. Action plans are agreed and followed up based on the survey results, resulting in better performance and employee engagement.

The relevance of the ’cyber world’ is growing and Uponor has entered the ’IoT era’ by launching new intelligent product lines. Cyber risks are being taken seriously, and potential cyber, data and information threats are continuously monitored as a matter of course. Uponor’s business processes are managed using several IT applications, the most important of which are the ERP systems for the company’s European and North American operations. A system criticality review and contingency planning are included in the implementation and lifecycle management of major IT systems. Contingency plans can include activities such as failover planning, backup and restore management, and testing. Disaster recovery tests are held every two years for key systems. IT-related risks are evaluated as part of Uponor’s risk management process, with an increasing emphasis being placed on the security aspects of IT systems. Uponor IT systems are regularly evaluated by external parties. These reviews are used as input for further security improvements. In addition, Uponor has been acquiring insurance coverage that covers certain risks within IT applications over a period of several years.

A few years ago, Uponor had already declared that it had adopted a stance of zero or near-zero tolerance with respect to Health & Safety, Compliance & Laws, and Environment risks. Risks – and the opportunities – related to sustainability issues have long been on Uponor’s agenda. The world is in the midst of major transformations and one of the risks concerning the whole planet is climate change, which is likely to introduce a new set of risks in turn. For Uponor, risks related to climate issues or clean water also represent potential opportunities. These include the possibilities of executing our vision, ‘Throughout the world, our solutions enrich people's way of life’, based on our water saving, water hygiene-enhancing and energy-saving products and solutions.

Uponor applies an ISO 9001 quality management system and an ISO 14001 environmental management system, which enhance production safety, environmental law compliance and productivity while reducing the environmental impact and risks of Uponor's operations. In Germany, Uponor has implemented a certified Energy Management System based on ISO 50001 for all factories. A further rollout to all Uponor production sites is planned by 2020.

In its Project Business operations, Uponor is seeking to manage risks related to issues such as project-specific timing and costs. In so far as possible, such risks are covered in project and supplier agreements. In addition, the staff's project management skills are being actively enhanced.

Financial risks
Major disruptions can occur on the international financial markets with very little warning. For this reason, although the situation now seems rather stable from Uponor's perspective, significant risks may arise in relation to the availability of financing in the future. Uponor aims to ensure the availability, flexibility and affordability of financing by maintaining sufficient committed credit limit reserves and a well-balanced maturity distribution of loans, as well as by using several reputable and well-rated counterparties and various forms of financing.

The Group manages its liquidity through efficient cash management solutions and by applying a risk-averse investment policy, investing solely in low-risk instruments that can be liquidated rapidly and at a clear market price.

Interest rate movements expose the Group to changes in interest expenses, as well as in the fair values of fixed-rate financial items. The interest rate risk is managed by spreading Group funding across fixed and floating rate instruments.

The international nature of its operations exposes the Group to currency risks associated with various currencies. A significant proportion of Uponor’s net sales are created in currencies other than the euro. Correspondingly, a major part of expenses associated with these net sales are also denominated in the same local currencies, markedly decreasing the associated currency risks. The Group Treasury function is responsible for managing and hedging Group-level net currency flows in external currency markets, mainly by using currency forward contracts and currency options as hedging instruments.

Uponor is also exposed to currency translation risk, which manifests itself in the translation of non-euro-area subsidiaries’ equity into euro. According to the company’s hedging policy, non-euro-area balance sheet items are not hedged, with the exception of some internal loans, which are classified as net investments and included in hedge accounting. Only reputable and well-rated banks are used as currency hedging counterparties.

Hazard risks
At the year-end 2017, Uponor operated 15 factories in ten countries as well as several sites assembling prefabricated products. The products manufactured in these plants generate most of the company's net sales. Uponor co-ordinates property damage and business interruption insurance at Group level on a centralised basis, in order to achieve extensive insurance cover neutralising the possible financial damage caused by risks associated with machine breakdowns, fire etc.

Another major risk is associated with product liability related to products manufactured and sold by Uponor. Product liability is also addressed through centralised insurance programmes at Group level.

A group-wide project, Business Continuity Management and Business Interruption Analysis, launched in 2015, was completed in 2016. No significant new risks regarding business continuity were discovered. Based on the findings, the Group Business Continuity Management Guideline was updated and implemented at unit and function levels during 2016 and 2017. Various and numerous measures are taken in order to manage the risks associated with property damage and business interruption. These include unit-level Business Contingency Plans, safety training for personnel, adherence to maintenance schedules, and actions taken to maintain the availability of major spare parts. The integrity of the supply chain has been and is one of the main focuses of risk management.

Audits and training conducted at Uponor’s production sites by, and in cooperation with, insurance companies also form an essential part of Group risk management. When needed, suppliers’ production facilities may also be audited.

Risk management in 2017
Although the business environment in many of Uponor’s major geographical markets has turned more positive, the management and monitoring of market risks continued to play a key role in the field of risk management. Uponor conducted risk assessment exercises in the spring and autumn of 2017 in relation to the core risks identified, and updated its risk management plans accordingly. In 2017, in cooperation with

insurance companies, Uponor assessed the functionality and preparedness of its risk management in six production units. The results showed the level of risk management to be good or excellent in all units.

In 2017, there were no exceptional price spikes or abnormal market developments in the commodity markets relevant to Uponor. In the plastic resin markets there was one big, but rapid price spike. After the new President took office in the U.S., the price of copper rose significantly. Neither of these episodes had any meaningful effect on Uponor's operations. In the long run, high copper prices may be a positive competition factor regarding Uponor's main products. The availability of raw materials was good overall and price formation occurred in accordance with normal market mechanisms. In order to minimise risks, Uponor continued to add new, approved raw material sources to the supplier portfolios of its business units. In spring 2017, Uponor faced some raw-material based production challenges in the U.S., which caused a short, temporary production halt. Uponor managed to solve the issue and production was quickly normalised.

With volatility still dominating the global economic arena, concern about the availability of bank and market-based funding on favourable terms remained on the agenda. To secure longer-term funding, Uponor has diversified its financing risks through various funding instruments, maturities, multiple counterparties and markets. When funding is not being raised from money or capital markets, special attention is paid to the quality of counterparties. Only solid, well-rated banks or financial institutions are used. The size of Uponor's total committed revolving credit facility programmes is €200 million, with maturities ranging between 2019 and 2021.

As in previous years, special attention was paid to the monitoring of accounts receivable and the handling of credit risk.

Together with changing tax policies, global economic volatility has increased companies' tax risk exposure, giving tax risk management continued prominence within Uponor. The company has proactively endeavoured to focus on good tax governance and has assigned a more explicit role to tax risk assessment within its risk assessment process.

Uponor is involved in several judicial proceedings in various countries. The year 2017 saw no materialisation of risks, pending litigation or other legal proceedings, or measures taken by the authorities that, based on current information, might have been of material significance to the Group. On the other hand, the Supreme Administrative Court resolved the taxation adjustment decisions concerning Uponor Corporation and its subsidiary Uponor Business Solutions Oy, submitted in January 2016. The matter concerned taxation adjustment decisions made by the Large Taxpayers' Office in 2011, which Uponor regarded as ungrounded. Both Supreme Administrative Court's Yearbook decisions are mainly in Uponor's favour.

In relation to Group Risk Management, Uponor has strengthened and reorganised the role of Internal Controls during 2017.

Administration and audit

Uponor's Annual General Meeting, held in Helsinki, Finland, on 20 March 2017, re-elected the existing Chair of the Board Jorma Eloranta for a new one-year term. The other Board members, i.e. Markus Lengauer, Eva Nygren, Annika Paasikivi and Jari Rosendal, were also re-elected, with the exception of Timo Ihamuotila who declined re-election and was succeeded by Pia Aaltonen-Forsell as a new member of the board. Audit firm Deloitte Oy were re-elected as the auditor of the corporation for the 8th consecutive year. In this connection, Jukka Vattulainen, Authorised Public Accountant, was re-elected as the principal auditor.

Uponor prepares a separate corporate governance statement and a remuneration statement, which are made available online, after the annual accounts have been published, on Uponor's IR website at https://investors.uponor.com > Governance > Corporate governance.

Uponor complies with the Finnish Corporate Governance Code 2015, issued by the Securities Market Association, with the exception of recommendation 15 in relation to the Personnel and Remuneration

Committee, which has two members instead of the three stated in the recommendation. Uponor considers sufficient expertise to have been secured for the Personnel and Remuneration Committee on the basis of two members, and the Committee may also obtain views from outside the Committee.

The Committee acts as a preparatory and assisting body for the Board of Directors, and all essential matters relating to remuneration shall be dealt with by the Board of Directors.

Share capital and shares

In 2017, Uponor's share turnover on Nasdaq Helsinki was 35.1 (20.3) million shares, totalling €545.5 (297.7) million. The share quotation at the end of 2017 was €16.78 (16.51), and the market capitalisation of the shares was €1,228.4 (1,208.6) million.

At the end of the year, there were a total of 19,191 (16,113) shareholders. Foreign shareholding in Uponor accounted for 26.4% (26.1%) of all shareholding in the company at the end of the reporting period. More detailed information is available in the financial statements.

In 2017, Uponor Corporation's share capital totalled €146,446,888, and the number of shares stood at 73,206,944; there were no changes during the year. On 20 March 2017, the holdings of Franklin Resources, Inc., a U.S. nominee registered shareholder, went down to 4.97%.

On 20 May 2016, Uponor announced the Board's decision to declare forfeit and sell any shares issued on the basis of the bonus issues of 18 March 1998 and 16 November 2004, and which had not been accepted by 20 May 2017. The 842 shares in question were sold in public trading on 1 November 2017. A party entitled to such shares is entitled to the funds received from the sale, less the expenses incurred due to the sale and the request. Right-holders must submit their claim for the deposited funds as well as their share certificates or any other title documents, to the Nordea Bank AB (publ) branch in Finland on 1 November 2021, at the latest. Funds not withdrawn within four years from the sale shall revert to the company.

Board authorisations
On 20 March 2017, the Annual General Meeting authorised the Board of Directors to buy back a maximum of 3.5 million of the company's own shares. The authorisation is valid until the end of the next AGM, and for no longer than 18 months.

The Board was also authorised to resolve on issuing a maximum of 7.2 million new shares or transferring the company's own shares, amounting to approximately 9.8 per cent of the total number of shares. This authorisation is valid until the end of the next AGM. On 13 February 2017, the Board decided to transfer the company's own shares as specified in the rules of the LTI plan 2014–2016. A total of 9,838 were transferred to 6 key employees.

Further details regarding the AGM are available at https://investors.uponor.com/governance/general-meeting/annual-general-meeting-2017.

Treasury shares
At the end of the year, Uponor held 59,121 of its own shares, representing approximately 0.1% of the company's shares and voting rights.

Management shareholding
At the end of the year the members of the Board of Directors and the President and CEO, along with corporations known to the company and in which they exercise control, held a total of 134,288 Uponor shares (139,173 shares). These shares accounted for 0.18% of all shares and votes in the company.

Share-based incentive programme
The Board of Directors has resolved on several long-term incentive programmes for key management in the last few years. Details of the plans are presented on the company's IR website.

In December 2017, the Board of Directors of Uponor Corporation resolved to continue the key management Performance Share Plan mechanism, originally decided on by the Board in 2014. Approximately 50 Group key managers, including the members of the Executive Committee, belong to the target group covered by the new plan. The new plan covers the calendar years 2018–2020. The potential reward based on the new plan will be paid in 2021.

The purpose of the incentive programmes is to align the objectives of the management and Uponor shareholders in order to increase the value of the company, boost profitable growth and retain the services of participants over the longer term. The plans offer key managers a competitive reward plan based on achieving the company's strategic profitability and growth targets and provide the opportunity to earn and accumulate Uponor shares.

Events after the period

Effective 2 January 2018, Uponor Corporation was listed on the Large Cap segment on Nasdaq Helsinki.

In January 2018, Building Solutions – North America presented a new monitoring system for homes, named Phyn Plus Smart Water Assistant + Shutoff. This new monitoring system for homes automatically measures changes in water pressure, in order to identify and alert homeowners of leaks. The product will be available in the USA in the spring. Its introduction to the European markets is planned for 2019.

On 13 February, Uponor announced its decision to invest an additional USD10 million in Phyn, a smart water technology joint venture between Uponor and Belkin International, bringing its total investment in the company to USD25 million. After this investment, Uponor will have a 50 percent ownership in Phyn, both in the U.S. and in Europe, with the other 50 percent owned by Belkin. As a joint-venture company, Phyn will be consolidated into Uponor's financial accounts using the equity method.

Short-term outlook

Uponor reported favourable market trends for the third quarter in October 2017, and anticipated that the markets would somewhat soften towards the year-end but trends for the second half of 2017 would match those of the first half year. This is more or less what happened.

For the whole 2017, the overall macro-economic development in Uponor's key markets, Europe and North America, has been rather strong and there are no indicators emerging that would materially change the picture. This view is justified by various supporting arguments, such as rising employment rates, demographic needs, sustainability demands and aspirations, new technologies such as digitalisation and prefabrication, as well as urbanisation, to name a few. All of these can act as stimulants to economic activity and prosperity.

Uponor has strengthened its operations in several respects in recent years. Uponor's business segments are more streamlined, more efficient and have a competitive supply chain and manufacturing network. Our sales and marketing functions have been reorganised and refocussed to align with customer needs and our strategic ambitions. In North America, we are determinedly building up our capacities and capabilities to meet growing customer demand, which has been a bottle neck to growth in the last few years.

Uponor remains committed and is working hard to be at the forefront of the digitalisation and sustainability trends in our industry, and has already launched new unique offerings, for instance in the niche sector of smart water technology.

Assuming that economic and political developments in Uponor's key geographies otherwise continue undisturbed, Uponor issues the following full-year guidance for 2018:
Excluding the impact of currencies, Uponor expects its organic net sales and comparable operating profit to grow from 2017.

Uponor estimates that the Group's capital expenditure, excluding any investment in shares, will remain at roughly the same level as in 2017, mainly driven by the capacity expansion programme in North America.

Uponor's financial performance may be affected by a range of strategic, operational, financial, legal, political and hazard risks. A more detailed risk analysis is provided in the section 'Key risks associated with business' in the Annual Report 2017.

Uponor Corporation
Board of Directors

For further information, please contact:
Jyri Luomakoski, President and CEO, tel. +358 20 129 2824
Maija Strandberg, CFO, tel. +358 20 129 2830

Tarmo Anttila
Vice President, Communications, Tel. +358 20 129 2852

Distribution:
Nasdaq Helsinki
Media
www.uponor.com
investors.uponor.com

Table part

This interim report has been compiled in accordance with the IAS 34 reporting standard and it is unaudited. The figures in brackets are the reference figures for the equivalent period in 2016. The change percentages reported have been calculated from the exact figures and not from the rounded figures published in the interim report.
Uponor provides comparable operating profit and comparable gross profit in order to provide useful and comparable information of its operative business performance. Comparable operating or gross profit excludes items affecting comparability (IAC). Items affecting comparability are exceptional transactions that are unrelated to normal business operations. Such items often include issues such as capital gains and losses, additional costs arising from site closures and other restructuring, additional write-downs, or reversals of write-downs, expenses due to accidents and disasters, environmental matters, legal proceedings and changes in regulation.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

M€	1-12/2017	1-12/2016	10-12/2017	10-12/2016
Continuing operations				
Net sales	1,170.4	1,099.4	279.4	268.9
Cost of goods sold	776.3	723.4	184.4	183.0
Gross profit	394.1	376.0	95.0	85.9
Other operating income	3.1	4.2	0.3	1.8
Dispatching and warehousing expenses	33.2	34.6	8.1	8.3
Sales and marketing expenses	190.3	190.1	47.9	47.0
Administration expenses	53.4	58.9	14.6	17.4
Other operating expenses	24.4	25.6	6.7	7.5
Operating profit	95.9	71.0	18.0	7.5
Financial expenses, net	5.4	10.0	2.5	2.8
Share of results in associated companies	-2.3	-0.6	-0.7	-0.8
Profit before taxes	88.2	60.4	14.8	3.9
Income taxes	22.8	18.9	-0.3	-2.0
Profit for period from continuing operations	65.4	41.5	15.1	5.9
Discontinued operations				
Profit for the period from discontinued operations	-	0.4	-	0.0
Profit for the period	65.4	41.9	15.1	5.9
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Re-measurements on defined benefit pensions, net of taxes	-0.4	1.4	-0.4	1.4
Items that may be reclassified subsequently to profit or loss				
Translation differences	-13.2	2.1	-2.6	6.3
Cash flow hedges, net of taxes	1.2	1.4	0.3	0.5
Net investment hedges	1.7	0.2	0.2	-1.0
Other comprehensive income for the period, net of taxes	-10.7	5.1	-2.5	7.2
Total comprehensive income for the period	54.7	47.0	12.6	13.1
Profit/loss for the period attributable to				
- Equity holders of parent company	60.5	42.2	13.4	7.7
- Non-controlling interest	4.9	-0.3	1.7	-1.8
Comprehensive income for the period attributable to				
- Equity holders of parent company	50.1	47.1	11.2	14.2
- Non-controlling interest	4.6	-0.1	1.4	-1.1
Earnings per share, €	0.83	0.58	0.19	0.11
- Continuing operations	0.83	0.57	0.19	0.10
- Discontinued operations	-	0.01	-	0.01
Diluted earnings per share, €	0.83	0.58	0.19	0.11
- Continuing operations	0.83	0.57	0.19	0.10
- Discontinued operations	-	0.01	-	0.01

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

M€	31.12.2017	31.12.2016
Assets		
Non-current assets		
Property, plant and equipment	252.2	240.9
Intangible assets	116.0	119.0
Investments in associates and joint ventures	9.5	13.3
Other securities and non-current receivables	10.7	21.4
Deferred tax assets	10.4	11.6
Total non-current assets	398.8	406.2
Current assets		
Inventories	132.7	139.3
Accounts receivable	171.8	165.8
Other receivables	55.5	39.9
Cash and cash equivalents	107.0	16.3
Total current assets	467.0	361.3
Total assets	865.8	767.5
Equity and liabilities		
Equity		
Equity attributable to the owners of the parent company	280.2	263.3
Non-controlling interest	68.2	63.6
Total equity	348.4	326.9
Non-current liabilities		
Interest-bearing liabilities	176.6	158.2
Deferred tax liability	7.9	11.8
Provisions	7.1	8.9
Employee benefits and other liabilities	24.4	25.2
Total non-current liabilities	216.0	204.1
Current liabilities		
Interest-bearing liabilities	81.9	17.6
Provisions	21.8	19.9
Accounts payable	77.0	76.2
Other liabilities	120.7	122.8
Total current liabilities	301.4	236.5
Total equity and liabilities	865.8	767.5

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

M€	1-12/2017	1-12/2016
Cash flow from operations		
Net cash from operations	141.8	105.3
Change in net working capital	-7.2	-16.6
Income taxes paid	-29.5	-24.9
Interest paid	-3.8	-4.1
Interest received	0.2	0.2
Cash flow from operations	101.5	59.9
Cash flow from investments		
Acquisition of subsidiaries and businesses*	-	-31.4
Acquisition of joint venture	-	-13.5
Purchase of fixed assets	-63.4	-50.7
Proceeds from sale of fixed assets	3.7	3.4
Dividends received	0.2	0.4
Loan repayments	0.0	0.0
Cash flow from investments	-59.5	-91.8
Cash flow from financing		
Borrowings of debt	159.5	97.3
Repayment of debt	-59.6	-58.8
Change in other short-term loan	-16.2	-5.4
Dividends paid	-33.6	-32.2
Payment of finance lease liabilities	-1.1	-1.1
Cash flow from financing	49.0	-0.2
Conversion differences for cash and cash equivalents	-0.3	0.2
Change in cash and cash equivalents	90.7	-31.9
Cash and cash equivalents at 1 January	16.3	48.2
Cash and cash equivalents at end of period	107.0	16.3
Changes according to balance sheet	90.7	-31.9

*) Acquisition of subsidiaries and businesses consists of €32.5 million paid for the acquisition of the KaMo/Delta business and €1.1 million received in cash and cash equivalents from the acquisition.

STATEMENT OF CHANGES IN EQUITY

M€	A	B	C	D*	E	F	G	H	I
Balance at 1 Jan 2017	146.4	50.2	0.4	0.9	-0.5	65.9	263.3	63.6	326.9
Total comprehensive income for the period			1.2	-11.3		60.2	50.1	4.6	54.7
Dividend paid (€0.46 per share)						-33.6	-33.6		-33.6
Share-based incentive plan					0.1	0.3	0.4		0.4
Balance at 31 December 2017	146.4	50.2	1.6	-10.4	-0.4	92.8	280.2	68.2	348.4
Balance at 1 Jan 2016	146.4	50.2	-1.0	-1.8	-0.7	54.9	248.0	63.7	311.7
Total comprehensive income for the period			1.4	2.7		43.0	47.1	-0.1	47.0
Dividend paid (€0.44 per share)						-32.2	-32.2		-32.2
Share-based incentive plan					0.2	0.2	0.4		0.4
Other adjustments						0.0	0.0		0.0
Balance at 31 December 2016	146.4	50.2	0.4	0.9	-0.5	65.9	263.3	63.6	326.9

*) Includes a €-13.5 (-15.2) million effective part of net investment hedging at the end of period.

A – Share capital
B – Share premium
C – Other reserves
D* – Translation reserve
E – Treasury shares
F – Retained earnings
G – Equity attributable to owners of the parent company
H – Non-controlling interest
I – Total equity

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The interim report has been prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU and IAS 34 Interim Financial Reporting. In its interim reports, Uponor Group follows the same principles as in the annual financial statements for 2017.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

M€	31.12.2017	31.12.2016
Gross investment	63.4	50.7
- % of net sales	5.4	4.6
Depreciation and impairments	39.2	41.6
Book value of disposed fixed assets	1.6	2.3

PERSONNEL

Converted to full time employees	1-12/2017	1-12/2016
Average	3,990	3,869
At the end of the period	4,075	3,868

OWN SHARES

	31.12.2017	31.12.2016
Own shares held by the company, pcs	59,121	68,959
- of share capital, %	0.1 %	0.1
- of voting rights, %	0.1 %	0.1
Accounted par value of own shares held by the company, M€	0.1	0.1

SEGMENT INFORMATION

		1-12/2017			1-12/2016	
M€	External	Internal	Total	External	Internal	Total
Net sales by segment, continuing operations						
Building Solutions – Europe	520.6	1.1	521.7	510.2	0.8	511.0
Building Solutions - North America	328.2	0.0	328.2	305.6	0.0	305.6
Uponor Infra	321.6	1.8	323.4	283.6	4.3	287.9
Eliminations	0.0	-2.9	-2.9	-	-5.1	-5.1
Total	1,170.4	-	1,170.4	1,099.4	-	1,099.4

		10-12/2017			10-12/2016	
M€	External	Internal	Total	External	Internal	Total
Net sales by segment, continuing operations						
Building Solutions – Europe	125.2	0.3	125.5	125.6	0.2	125.8
Building Solutions - North America	79.5	0.0	79.5	77.2	0.0	77.2
Uponor Infra	74.7	0.7	75.4	66.1	1.1	67.2
Eliminations	0.0	-1.0	-1.0	-	-1.3	-1.3
Total	279.4	-	279.4	268.9	-	268.9

M€	1-12/2017	1-12/2016	10-12/2017	10-12/2016
Operating result by segment, continuing operations				
Building Solutions - Europe	40.0	25.4	10.2	1.6
Building Solutions - North America	49.7	50.0	9.6	11.9
Uponor Infra	12.0	-0.8	1.8	-5.0
Others	-4.2	-2.0	-2.5	-0.3
Eliminations	-1.6	-1.6	-1.1	-0.7
Total	95.9	71.0	18.0	7.5

M€	1-12/2017	1-12/2016
Segment depreciation and impairments, continuing operations		
Building Solutions - Europe	14.0	14.2
Building Solutions - North America	12.4	10.7
Uponor Infra	11.0	13.1
Others	1.8	3.6
Eliminations	0.0	0.0
Total	39.2	41.6

Segment investments, continuing operations		
Building Solutions – Europe	13.5	14.4
Building Solutions - North America	39.7	20.8
Uponor Infra	9.7	14.3
Others	0.5	1.2
Total	63.4	50.7

M€	31.12.2017	31.12.2016
Segment assets		
Building Solutions - Europe	365.6	397.2
Building Solutions - North America	233.9	222.5
Uponor Infra	210.4	196.8
Others	400.3	301.4
Eliminations	-344.1	-350.4
Total	866.1	767.5

Segment liabilities		
Building Solutions - Europe	293.6	325.5
Building Solutions - North America	176.3	156.0
Uponor Infra	69.6	65.1
Others	345.8	269.5
Eliminations	-367.9	-375.5
Total	517.4	440.6

The presentation of segment assets and liabilities has changed as of the beginning of 2017 due to a transfer of non-operative companies from the segment Others to the segments Building Solutions - Europe and Building Solutions - North America, causing a change in elimination of internal receivables and liabilities. The comparable data have been adjusted accordingly.

M€	1-12/2017	1-12/2016
Segment personnel, continuing operations, average		
Building Solutions – Europe	2,065	2,037
Building Solutions - North America	808	682
Uponor Infra	1,041	1,081
Others	76	69
Total	3,990	3,869

Reconciliation

M€	1-12/2017	1-12/2016
Operating result by segment, continuing operations		
Total result for reportable segments	101.7	74.6
Others	-4.2	-2.0
Eliminations	-1.6	-1.6
Operating profit	95.9	71.0
Financial expenses, net	5.4	10.0
Share of results in associated companies	-2.3	-0.6
Profit before taxes	88.2	60.4

CONTINGENT LIABILITIES AND ASSETS

M€	31.12.2017	31.12.2016
Commitments of purchase PPE (Property, plant, equipment)	12.4	9.7
Other commitments	0.8	0.6
- on own behalf		
Pledges at book value	0.1	0.1
Mortgages issued	2.1	2.5
Guarantees issued	5.6	5.0
- on behalf of a subsidiary		
Guarantees issued	29.4	34.1
Letter of Comfort commitments undertaken on behalf of subsidiaries		
are not included in the above figures		
Pledges at book value	0.1	0.1
Mortgages issued	2.1	2.5
Guarantees issued	35.0	39.1
Total	37.2	41.7

Uponor Corporation's subsidiary in Spain, Uponor Hispania, S.A.U, had tax audits covering financial years 2006-2007 and 2011-2012. As a result of the audits, the tax authority rejected the tax deductibility of costs related to certain Group services and to advertising and promotion. As a result of this, Uponor Hispania has paid €0.7 million in taxes and in interest on delayed payments and booked a provision of €0.4 million to cover further delayed interest payments. The company has started a process to avoid double taxation.

On 13 September 2017, the Supreme Administrative Court in Finland resolved the taxation adjustment decisions concerning Uponor Corporation and its subsidiary Uponor Business Solutions Oy. The decision lowers Uponor Corporation's uncharged mark-up of service fees that was added on the company's taxable income, from seven to three per cent for the tax years 2005 – 2007. The taxes, late fees and tax increases imposed on the company have also been decreased. The Finnish Tax Administration has reassessed the changes in taxation caused by this decision and will adjust the payment. The taxation adjustment decisions concerning the parent company's subsidiary, Uponor Business Solutions Oy, for the tax year 2005 have been overruled. The Finnish Tax Administration has reassessed the changes in taxation caused by this decision and will adjust the payment. Based on the reassessments, Uponor has booked the paid surtaxes and delay interests as income at €1.6 million. With regard to the tax years 2006 – 2009, the clarification of arm's length amounts of service fees charged by the company will be returned to the Finnish Tax Administration for review. Uponor has also booked the paid surtaxes and delay interests for the tax years 2006 – 2009, which have not been reassessed, as income at €3.4 million. The paid taxes at €9.6 million have been transferred from the non-current receivables to the current receivables.

M€	31.12.2017	31.12.2016
OPERATING LEASE COMMITMENTS	44.0	47.7

DERIVATIVE CONTRACTS

M€	Nominal value 31.12.2017	Fair value 31.12.2017	Nominal value 31.12.2016	Fair value 31.12.2016
Currency derivatives				
- Forward agreements	212.4	1.1	187.7	-0.6
Interest derivatives				
- Interest rate swaps	100.0	-0.5	50.0	-1.5
- Interest rate options	70.0	0.0	20.0	0.1

Commodity derivatives				
- Electricity derivatives	4.7	0.4	5.8	-0.2

FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

31.12.2017 M€	Derivative contracts, under hedge accounting	Financial assets/liabilities at fair value through profit and loss	Loans and receivables	Available for sales financial assets	Financial liabilities measured at amortised cost	Carrying amount by balance sheet item	IFRS 7 Fair value hierarchy level
Non-current financial assets							
Other shares and holdings				0.2		0.2	
Electricity derivatives	0.4					0.4	1
Non-current receivables			10.1			10.1	
Current financial assets							
Accounts receivable and other receivables			202.4			202.4	
Electricity derivatives	0.1					0.1	1
Other derivative contracts	0.2	1.7				1.9	2
Cash and cash equivalents			107.0			107.0	
Carrying amount	0.7	1.7	319.5	0.2		322.1	
Non-current financial liabilities							
Interest bearing liabilities					176.6	176.6	
Electricity derivatives	0.0					0.0	1
Current financial liabilities							
Interest bearing liabilities					81.9	81.9	
Electricity derivatives	0.1					0.1	1
Other derivative contracts	0.5	0.8				1.3	2
Accounts payable and other liabilities					105.4	105.4	
Carrying amount	0.6	0.8			363.9	365.3	

FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

31.12.2016 M€	Derivative contracts, under hedge accounting	Financial assets/liabilities at fair value through profit and loss	Loans and receivables	Available for sales financial assets	Financial liabilities measured at amortised cost	Carrying amount by balance sheet item	IFRS 7 Fair value hierarchy level
Non-current financial assets							
Other shares and holdings				0.3		0.3	
Electricity derivatives	0.1					0.1	1
Other derivative contracts		0.1				0.1	2
Non-current receivables			20.9			20.9	
Current financial assets							
Accounts receivable and other receivables			193.5			193.5	
Electricity derivatives	0.1					0.1	1
Other derivative contracts		1.6				1.6	2
Cash and cash equivalents			16.3			16.3	
Carrying amount	0.2	1.7	230.7	0.3		232.9	
Non-current financial liabilities							
Interest bearing liabilities					158.2	158.2	
Electricity derivatives	0.2					0.2	1
Current financial liabilities							
Interest bearing liabilities					17.6	17.6	
Electricity derivatives	0.3					0.3	1
Other derivative contracts	1.6	2.1				3.7	2
Accounts payable and other liabilities					102.6	102.6	
Carrying amount	2.1	2.1			278.4	282.6	

The carrying value of financial assets and liabilities is considered to correspond to their fair value. The Group's financial instruments are classified according to IFRS 7 fair value hierarchies. Uponor applies the hierarchy as follows:

- The fair value of electricity derivatives is measured based on stock exchange prices. (Hierarchy 1)
- The fair value of currency forward agreements is measured based on price information from common markets and commonly used valuation methods. (Hierarchy 2)

RELATED-PARTY TRANSACTIONS

M€	1-12/2017	1-12/2016
Continuing operations		
Purchases from associated companies	2.4	1.9
Balances at the end of the period		
Accounts payables and other liabilities	0.2	0.1

KEY FIGURES

	1-12/2017	1-12/2016
Earnings per share, €	0.83	0.58
- continuing operations	0.83	0.57
- discontinued operations	-	0.01
Operating profit (continuing operations), %	8.2	6.5
Return on equity, % (p.a.)	19.4	13.1
Return on investment, % (p.a.)	16.3	14.1
Solvency ratio, %	40.5	42.8
Gearing, %	43.5	48.8
Gearing, % rolling 4 quarters	58.4	56.7
Net interest-bearing liabilities	151.5	159.5
Equity per share, €	3.83	3.60
- diluted	3.83	3.60
Dividend per share, €	0.49 *)	0.46
Dividend per earnings, %	59.0	79.3
Effective share yield, %	2.9	2.8
P/E ratio	20.2	28.5
Market value of share capital	1,228.4	1,208.6
Trading price of shares		
- low, €	13.30	11.13
- high, €	17.79	17.35
- average, €	15.55	14.64
Shares traded		
- 1,000 pcs	35,077	20,339
- M€	546	298

*) Proposal of the Board of Directors

QUARTERLY DATA

	10-12/ 2017	7-9/ 2017	4-6/ 2017	1-3/ 2017	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016
Continuing operations								
Net sales, M€	279.4	317.5	308.4	265.1	268.9	284.1	299.5	246.9
- Building Solutions – Europe	125.5	136.3	135.6	124.3	125.8	127.3	134.8	123.0
- Building Solutions – North America	79.5	91.2	79.3	78.2	77.2	77.5	80.2	70.7
Building Solutions – North America, $	94.2	106.8	88.7	83.5	82.7	86.3	90.0	78.2
- Uponor Infra	75.4	90.6	94.3	63.1	67.2	80.9	85.8	54.1
Gross profit, M€	95.0	109.3	98.4	91.4	85.9	96.8	105.5	87.8
- Gross profit, %	34.0	34.4	31.9	34.5	32.0	34.1	35.2	35.5
Operating profit, M€	18.0	40.4	22.9	14.6	7.5	25.1	26.5	11.9
- Building Solutions – Europe	10.2	14.4	9.1	6.3	1.6	10.7	8.2	4.9
- Building Solutions – North America	9.6	19.0	10.5	10.6	11.9	12.4	14.6	11.1
Building Solutions – North America, $	11.5	21.9	11.7	11.4	12.7	13.8	16.3	12.3
- Uponor Infra	1.8	7.4	4.7	-1.9	-5.0	2.7	5.1	-3.6
- Others	-2.5	0.2	-1.0	-0.9	-0.7	-0.1	-0.9	-0.7
Operating profit, % of net sales	6.4	12.7	7.4	5.5	2.8	8.8	8.8	4.8
- Building Solutions – Europe	8.1	10.5	6.8	5.0	1.2	8.5	6.0	4.0
- Building Solutions – North America	12.2	20.8	13.2	13.6	15.4	16.0	18.2	15.7
- Uponor Infra	2.5	8.1	5.0	-3.0	-7.4	3.3	6.0	-6.7
Profit for the period, M€	15.1	28.6	14.3	7.4	5.9	14.8	15.4	5.9
Balance sheet total, M€	865.8	820.2	825.9	812.9	767.5	803.7	792.5	748.7
Earnings per share, €	0.19	0.35	0.18	0.11	0.11	0.19	0.19	0.09
Equity per share, €	3.83	3.68	3.35	3.25	3.60	3.41	3.22	3.01
Market value of share capital, M€	1,228.4	1,073.2	1,164.7	1,216,0	1,208.6	1,206.5	1,038.1	934.1
Return on investment, % (p.a.)	16.3	19.4	13.6	9.9	14.1	16.9	15.3	8.9
Net interest-bearing liabilities at the end of the period, M€	151.5	161.8	208.9	224.0	159.5	177.5	175.1	176.5
Gearing, %	43.5	48.2	67.6	74.5	48.8	56.6	58.5	62.4
Gearing, % rolling 4 quarters	58.4	59.8	61.9	59.6	56.7	51.8	47.1	44.3
Gross investment, M€	26.0	18.1	11.5	7.8	21.0	14.0	10.4	5.3
- % of net sales	9.3	5.7	3.7	2.9	7.8	4.9	3.5	2.1

ITEMS AFFECTING COMPARABILITY AND RECONCILIATIONS TO IFRS

	10-12/ 2017	7-9/ 2017	4-6/ 2017	1-3/ 2017	10-12/ 2016	7-9/ 2016	4-6/ 2016	1-3/ 2016
Items affecting comparability								
Restructuring charges	-	-	-2.8	-0.6	-8.6	-3.9	-4.2	-3.0
Capital gains and losses on sale of non-current assets	-	-	1.9	0.2	-	-	-	-
Total items affecting comparability in operating profit	-	-	-0.9	-0.4	-8.6	-3.9	-4.2	-3.0
Items affecting comparability, total	**-**	**-**	**-0.9**	**-0.4**	**-8.6**	**-3.9**	**-4.2**	**-3.0**
Comparable gross profit								
Gross profit	95.0	109.3	98.4	91.4	85.9	96.8	105.5	87.8
Less: Items affecting comparability in gross profit	-	-	-0.8	-0.2	-5.6	-0.8	-0.8	-0.7
Comparable gross profit	**95.0**	**109.3**	**99.2**	**91.6**	**91.5**	**97.6**	**106.3**	**88.5**
% of sales	34.0	34.4	32.1	34.6	34.1	34.4	35.5	35.8
Comparable operating profit								
Operating profit	18.0	40.4	22.9	14.6	7.5	25.1	26.5	11.9
Less: Items affecting comparability in operating profit	-	-	-0.9	-0.4	-8.6	-3.9	-4.2	-3.0
Comparable operating profit	**18.0**	**40.4**	**23.8**	**15.0**	**16.1**	**29.0**	**30.7**	**14.9**
% of sales	6.4	12.7	7.7	5.7	6.0	10.2	10.2	6.0
Comparable operating profit by segment								
Building Solutions - Europe								
Operating profit	10.2	14.4	9.1	6.3	1.6	10.7	8.2	4.9
Less: Items affecting comparability in operating profit	-	-	-2.4	-0.4	-5.6	-0.9	-3.3	-2.6
Comparable operating profit	10.2	14.4	11.5	6.7	7.2	11.6	11.5	7.5
% of sales	8.1	10.5	8.5	5.4	5.7	9.2	8.5	6.1
Building Solutions - North America								
Operating profit	9.6	19.0	10.5	10.6	11.9	12.4	14.6	11.1
Comparable operating profit	9.6	19.0	10.5	10.6	11.9	12.4	14.6	11.1
% of sales	12.2	20.8	13.2	13.6	15.4	16.0	18.2	15.7
Uponor Infra								
Operating profit	1.8	7.4	4.7	-1.9	-5.0	2.7	5.1	-3.6
Less: Items affecting comparability in operating profit	-	-	1.5	0.0	-3.0	-3.2	-0.6	-0.4
Comparable operating profit	1.8	7.4	3.2	-1.9	-2.0	5.9	5.7	-3.2
% of sales	2.5	8.1	3.5	-3.1	-2.9	7.2	6.7	-6.0
Others								
Operating profit	-2.5	0.2	-1.0	-0.9	-0.3	-0.1	-0.9	-0.7
Less: Items affecting comparability in operating profit	-	-	-	-	0.0	0.2	-0.3	-
Comparable operating profit	-2.5	0.2	-1.0	-0.9	-0.3	-0.3	-0.6	-0.7
% of sales	na	na	na	na	na	na	na	na

DEFINITIONS OF KEY RATIOS

Return on Equity (ROE), %

$$= \frac{\text{Profit before taxes – taxes}}{\text{Total equity, average}} \times 100$$

Return on Investment (ROI), %

$$= \frac{\text{Profit before taxes + interest and other financing costs}}{\text{Balance sheet total – non-interest-bearing liabilities, average}} \times 100$$

Solvency, %

$$= \frac{\text{Total equity}}{\text{Balance sheet total – advance payments received}} \times 100$$

Gearing, %

$$= \frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$$

Net interest-bearing liabilities

= Interest-bearing liabilities – cash and cash equivalents excluding restricted cash

Earnings per share (EPS)

$$= \frac{\text{Profit for the period attributable to equity holders of the parent company}}{\text{Average number of shares adjusted for share issue in financial period excluding treasury shares}}$$

Equity per share ratio

$$= \frac{\text{Equity attributable to the owners of the parent company}}{\text{Number of shares adjusted for share issue at end of year}}$$

Average share price

$$= \frac{\text{Total value of shares traded (€)}}{\text{Total number of shares traded}}$$

Gross profit margin

$$= \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

Operating profit margin

$$= \frac{\text{Operating profit}}{\text{Net sales}} \times 100$$

Comparable gross profit margin

$$= \frac{\text{Gross profit – items affecting comparability}}{\text{Net sales}} \times 100$$

Comparable operating profit margin

$$= \frac{\text{Operating profit – items affecting comparability}}{\text{Net sales}} \times 100$$