

Review of the year 2013

Jyri Luomakoski, President and CEO

Uponor Corporation's Annual General Meeting on 19 March 2014

Dear shareholders, ladies and gentlemen, welcome to Uponor's Annual General Meeting.

2013 involved major changes for Uponor. Our aim of creating a strong company to provide infrastructure products and solutions, Uponor Infra, was finally achieved last July when the Market Court authorised the merger of Uponor's and KWH Group's infrastructure solutions businesses into a new joint venture. We have since invested a great deal of effort in further integrating and developing the business.

I will revert to this issue later in this speech, but I would first like to comment on the market situation.

As in previous years, the market situation was difficult last year. Ever since the beginning of the global financial crisis in autumn 2007, now six years ago, the construction and housing markets have remained weak. In Uponor's main market areas – Western Europe, the largest Eastern European countries and North America – housing construction has fallen around 40 per cent from the peak year of 2006.

European markets have declined most, particularly in South-Western and Southern Europe, with the national economies suffering from homespun problems as well as the impacts of the global economic crisis. These markets experienced no further major setbacks last year, but no signs of growth were in view either. In the Nordic markets, there was a weakening development in Finland and Norway whereas Sweden showed signs of improvement and Denmark was between the two. Demand varied greatly in Central Europe from one country to another, with some glimmers of hope in the German-speaking parts of Europe. Development was fairly steady, particularly in Germany, Europe's largest market area. Demand declined in France, while in the UK certain segments showed clear signs of revival. Eastern Europe's development mainly declined, although the markets in Russia were fairly lively.

The North American markets enjoyed strong growth for the fourth successive year, mainly thanks to growing markets in the US, with demand levelling off last year in Canada. In the slipstream of this growth, Uponor also managed to improve its market position. All of this made the United States the second most important individual market group-wide, right after Germany.

The infrastructure markets, of which northern Europe and Canada are the most important to us, suffered from slack demand and lack of public investment.

It is easy to grasp that, in a market situation like this, success requires a commitment to determined business development. As customers' order volumes declined, competition intensified in the markets and production overcapacity resulted in tighter price competition. Our aim is not to intensify price competition but to provide customers with a premium-

quality product offering and added value, so that decisions are not made primarily on the basis of price.

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Building Solutions – Europe's last year's main goal was to maintain business profitability while investing in active sales efforts, to compensate for the strong decline in the construction markets. Focus areas included the development of the project business, new product launches and partnerships with other construction business actors.

A few years ago, we adopted the strategy of taking small steps at a time in the project business. We have succeeded in creating a shared operating model that covers several market areas. This has enhanced our credibility in this new segment, while differentiating us from the competition. The key feature of this model is to seek large and challenging building projects and become involved in them at a very early stage, when it is still possible to influence the entire project. We have seen the importance of this, particularly in demanding heating and cooling projects; it allows us to capitalise on the special expertise we have gained from such projects in different parts of the world.

We never lose faith in the importance of product innovations, whether the times are good or bad. For instance, in the Building Solutions business we have launched more than ten key product innovations or upgrades in the European market in the last ten years. These are intended to expedite and ease the work of our installing customers and to ensure that installations are of high quality. We are confident that, in this difficult market situation in particular, innovations that bring savings in lifecycle costs will be given a warm welcome.

Last year, we introduced a new seamless composite pipe to the Spanish market. This was perhaps the decade's most significant product innovation in our industry. The composite pipe features a layer of aluminium between layers of plastic, which improves the pipe's product characteristics in a number of ways. Before, aluminium was wrapped around the pipe, soldered at the seam and covered with a layer of plastic. Uponor launched the world's first pipe product in which aluminium is extruded into the pipe at the manufacturing stage, to avoid the creation of seams. This offers product advantages that are second to none in terms of product features and durability. The product has been well received in Southern Europe and will be launched in other parts of Europe this year.

Partnerships are Uponor's third focus area. We have managed to establish various successful partnerships in different markets, enabling us to gain a stronger foothold in the market, through collaboration with other companies, than we could have achieved on our own. In the domestic market, many of you are probably familiar with the relatively new Uponor Home concept. This offers home builders and renovators an easy way of acquiring efficient high quality building technology systems, installed by reliable Uponor-authorised contractors.

In North America, we faced quite different challenges last year. Brisk growth continued in the markets, and our main challenge was to secure production in order to satisfy the demand for the products customers wanted, while securing our share of growth at the same time as we increase our market share in the segments where our position remains below target.

We have determinedly invested in human resources and improving our operational quality and efficiency in North America in the last few years. The results were good: we achieved new records in production and sales alike, and received external plaudits. Uponor received the 2013 Manufacturer of the Year award and had the honour of being placed 16th in the best employers' listing of Minnesota state.

Furthermore, a significant manufacturing expansion was completed towards the end of the year, to secure Uponor's capacity to respond to market growth in the near future.

At the same time, Uponor has fine-tuned its market strategy in North America. We have traditionally held a strong position in the one and two-family sector and we have recently increased our focus on the public and commercial sector. This has already proven fruitful.

Partnerships play a key role not only in Europe, but also in North America. A project was launched by Uponor a few years ago, in cooperation with the American Milwaukee Tool company, to develop a new type of pipe installation tool. This is one of the key partnerships, and it has brought Uponor new customers in America and around the world.

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I already mentioned Uponor Infra, the joint venture with KWH Group launched on 1 July 2013. The first steps in this project were taken more than two years ago, when we began to outline the strategic options for Uponor's infrastructure business.

Uponor has a long presence in the infrastructure business: our operations began with Upo Plastics in 1964 and continued in 1982 as Uponor was established.

This line of industry has seen major changes over the years. In recent years, Uponor's infrastructure business focussed on the Nordic countries and adjacent regions, and we were one of the three largest operators on the market. The greatest challenge was profitability, which had suffered over the years due to intensifying competition. As a result of acquisitions and increasing imports, particularly cheap imports, international competition had clearly increased in the Nordic countries. In addition to this, new actors had entered the market, using new concepts to win market share.

In this situation, Uponor had three alternatives in its infrastructure business:

- To maintain and develop existing operations. In our view, that would have led to the decline and, ultimately, the slow demise of the business. We could see no possibility of a significant improvement in profitability in this way.
- Another option would have been to continue operations without investing in them. This would have taken us to the end of the road fairly quickly.

The third option was not selling the business because, in my opinion, the infrastructure business plays a key role in supporting Uponor's overall offering and providing the company with its market-leading role in the Nordic countries.

We therefore opted for another alternative: restructuring of the market and eliminating overcapacity. Uponor's and KWH Pipe's businesses were a good match, with few overlaps. Of course, we had to begin restructuring our factory and office network, mainly in Finland, as well as in Sweden and Denmark. Last year, we finalised our plans and decisions. We combined the operations of three factories and one assembly unit with existing factories in Finland and Sweden, and merged two offices in Denmark.

We believe that these measures will enable significant structural savings and help us to provide customers with the best solutions in the field, while turning the profitability trend already this year.

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This autumn, seven years will have passed since the global economic crisis began. It has had a massive impact on building and the construction business. In this situation, an optimist would say that the markets will probably remain stable and no major decline is anticipated. However, I am a realist and, while I largely share that view, I have to add that no signs of growth are visible. The economic risks are still actual and political risks are emerging, as we have recently witnessed.

We are still prepared for a lengthy period of stable development and sluggish growth. At times like this, we intend to invest in strengthening our company from the inside, engaging in intensive product and systems development, and enhancing customer satisfaction. I firmly believe that this approach will ensure a positive trend for Uponor.

Thank you!