Bringing *comfort* to life

Business update: Germany

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Capital Markets Day
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Business update: Germany

1. **Region Central Europe at a glance**
2. **The German construction market**
   - Market development, drivers and latest forecasts for residential and non-residential construction
3. **The German plumbing and heating market**
   - Development of market volumes for plumbing and heating systems
   - Competitive environment
   - Value chain
   - Uponor market position
4. **Strategic direction of Uponor in Germany**

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Uponor Central Europe at a glance

Net sales

- Euro 334.4 million in 2004

Personnel

- ca. 1,300

Countries

- Germany
- Benelux
- Switzerland
- Austria
- Czech Republic
- Poland
- Ukraine
- Belarus

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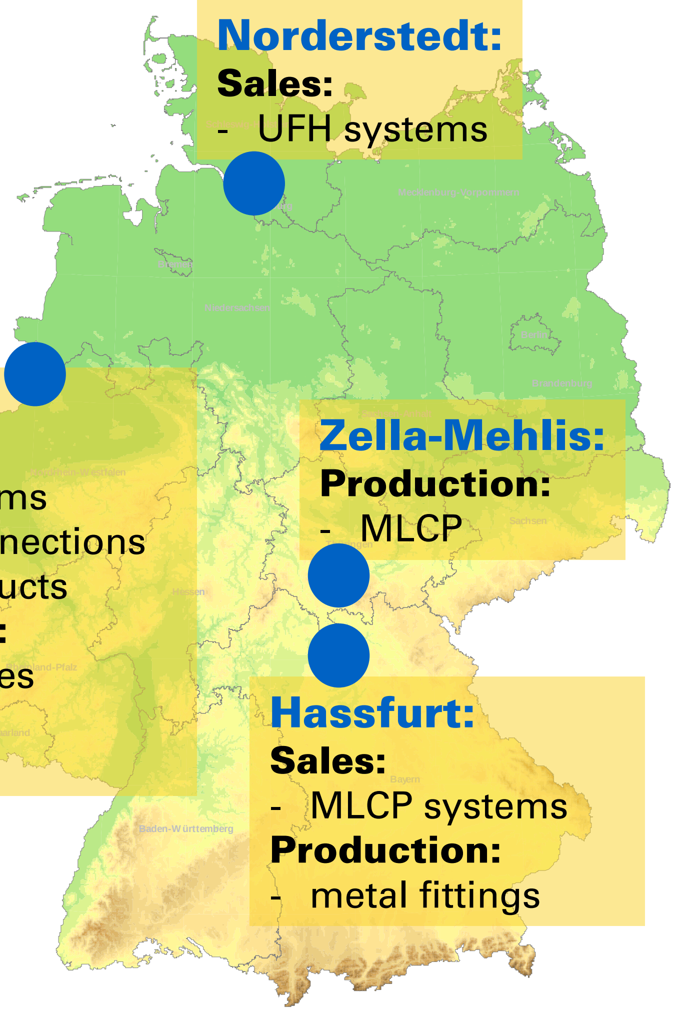
Uponor Central Europe locations



Norderstedt:
Sales:
- UFH systems

Ochtrup:
Sales:
- UFH systems
- house connections
- OEM products

Production:
- plastic pipes
- MLCP
- panels

Zella-Mehlis:
Production:
- MLCP

Hassfurt:
Sales:
- MLCP systems

Production:
- metal fittings

Locations outside Germany

Kungsör / Sweden:
- Production of metal fittings

Nastola / Finland:
- Production of plastic fittings

Blonie / Poland:
- Sales of all Uponor plumbing and heating systems

Prague / CZ:
- Sales of all Uponor plumbing and heating systems

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Uponor Central Europe businesses

Plumbing

- tap water systems
- radiator connection systems

Underfloor Heating

- for both residential and commercial buildings

House Connections

- pre-insulated pipe systems

OEM Business

- PE-Xc pipes
- multi-layer composite pipes
- panels

Inter-Company Business

- supplying Uponor units outside CE

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Residential construction

Some facts about home ownership in Germany

- One Europe's tail-lights in the home ownership statistics with only 45% home owner share (European average 65%)
  - One explanation for this are the traditional tax relieves for capital investments in rental apartments

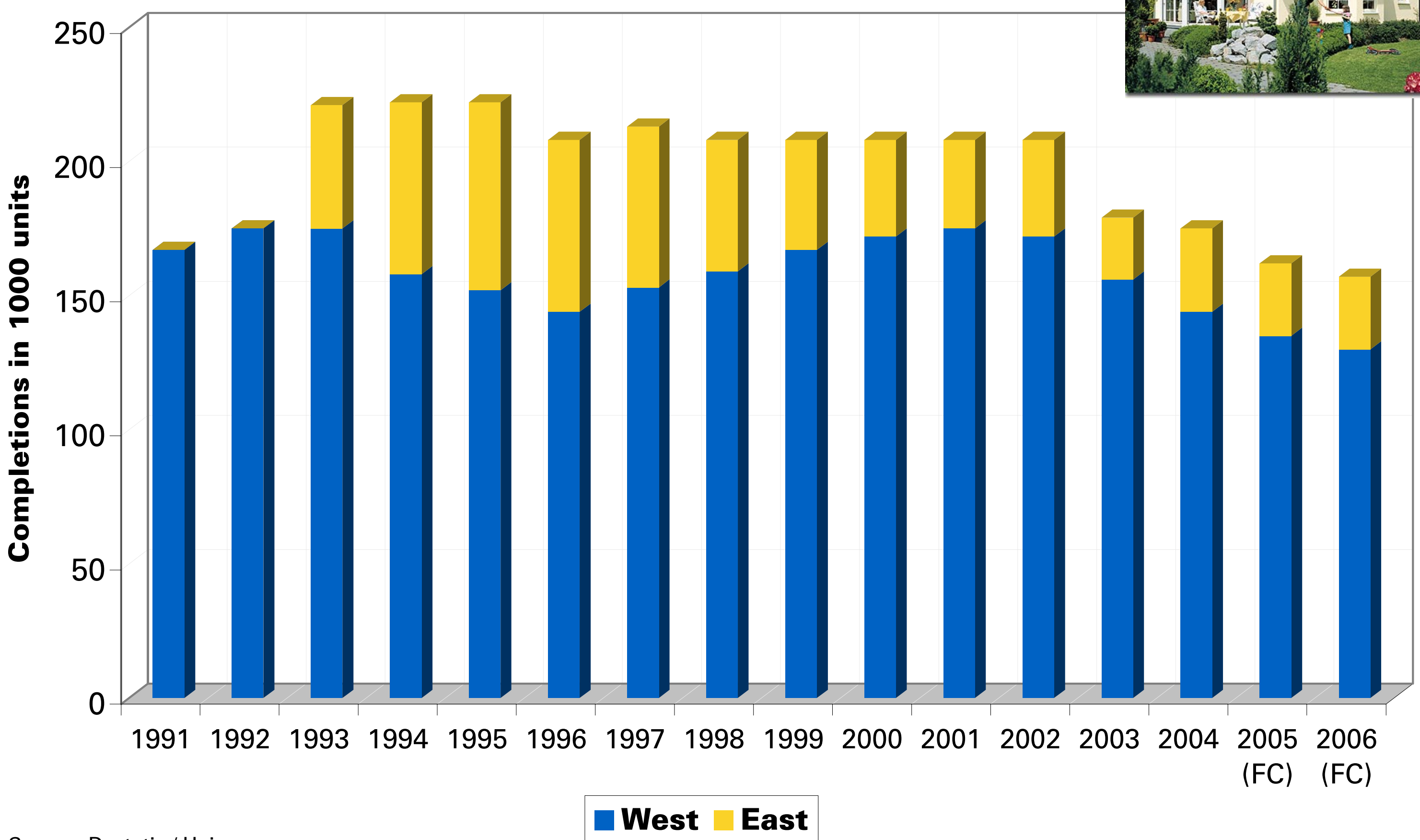
- Germany used to be the "World Champion" in building costs for single houses
  - Since 1995, prices have declined by 6,5%.
  - Today Germany is behind the UK and the Netherlands

- The cost of building land and its preparation are almost as high as the cost for the house itself in many parts of Germany

Residential construction

Building completions in Germany

New single houses (in 1,000 units)

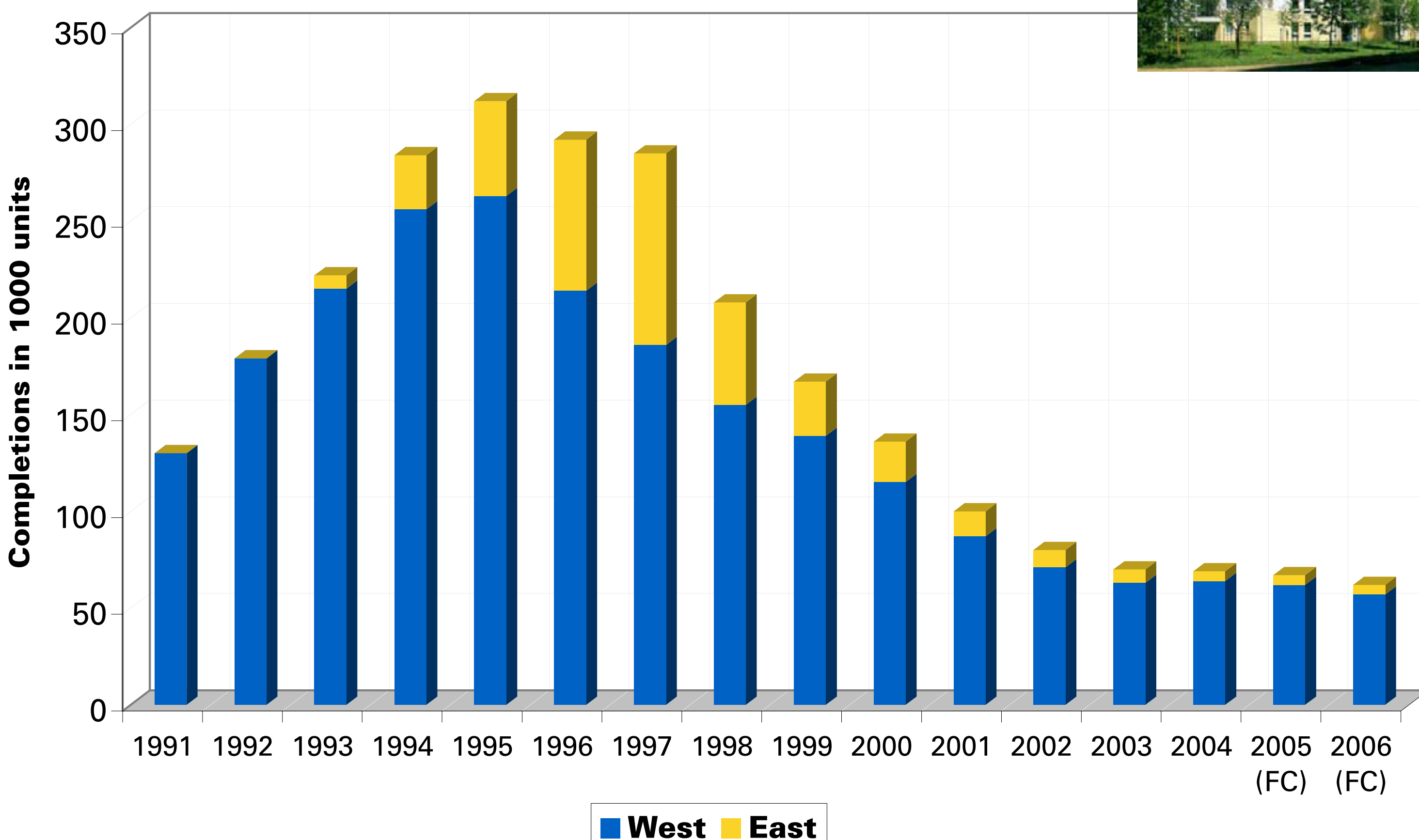


Source: Destatis / Heinze

Residential construction

Building completions in Germany

Multi-family houses (in 1,000 units)



Source: Destatis / Heinze

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Residential construction

Market drivers in the 1990s

- **Reunification**

  After the reunification, a huge demand of new dwellings emerged in the Eastern part of Germany

  - Families were able to afford new single houses
  - New multi-family houses replaced the old concrete slab buildings

- **Private retirement provisions**

  In mid 90s it became obvious that one could no longer rely on the governmental retirement provisions
  - Buying and renting out a condominium became a popular alternative, supported by tax relieves
  - Still today 93%* of all Germans consider an own home the most appropriate retirement provision

The construction industry experienced an extraordinary, but temporary boom until the initial demand was satisfied

* Source: LBS Research

Residential construction

Market development in the recent years

- **General economic situation**
  - Continuous increase in the unemployment rate (current forecast for 2005 at 11.1%)
  - Stagnation / decrease in the available income of private households (2004 at –0.2%)
  - Stagnation / decrease in private consumption (2004 at –0.1%, current forecast for 2005 at +0.2%)
  - Continuous increase in the saving rate, reaching 10.9% in 2004
- **Surplus of completed buildings from the "booming" years**
  - Especially in the multi-family sector, the stock of dwellings was exceeding the demand

The continuously growing concerns for the future resulted in a restrained private spending and investment climate

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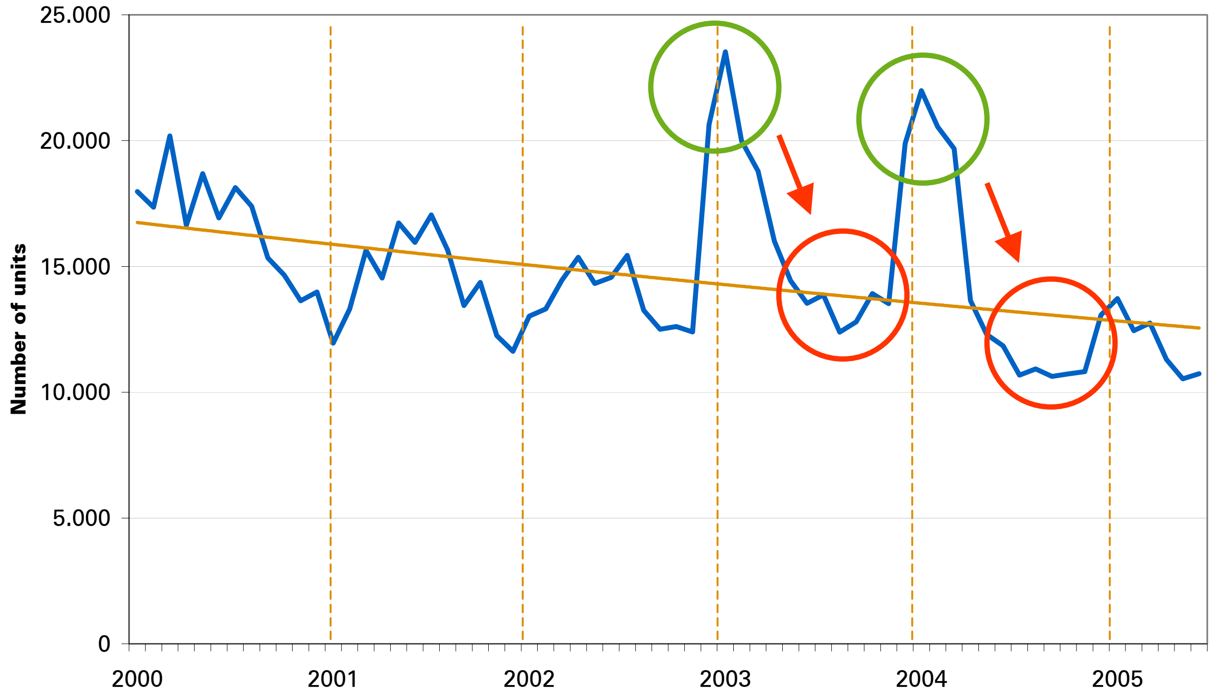
Influence of the state aid to households (Eigenheimzulage)

- The anticipation effects caused by recurrent discussions about abandoning / cutting the home owner subsidies impacted market development

Monthly development of building permits for single houses



Source: Statistisches Bundesamt

Residential construction

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Indicators for future development

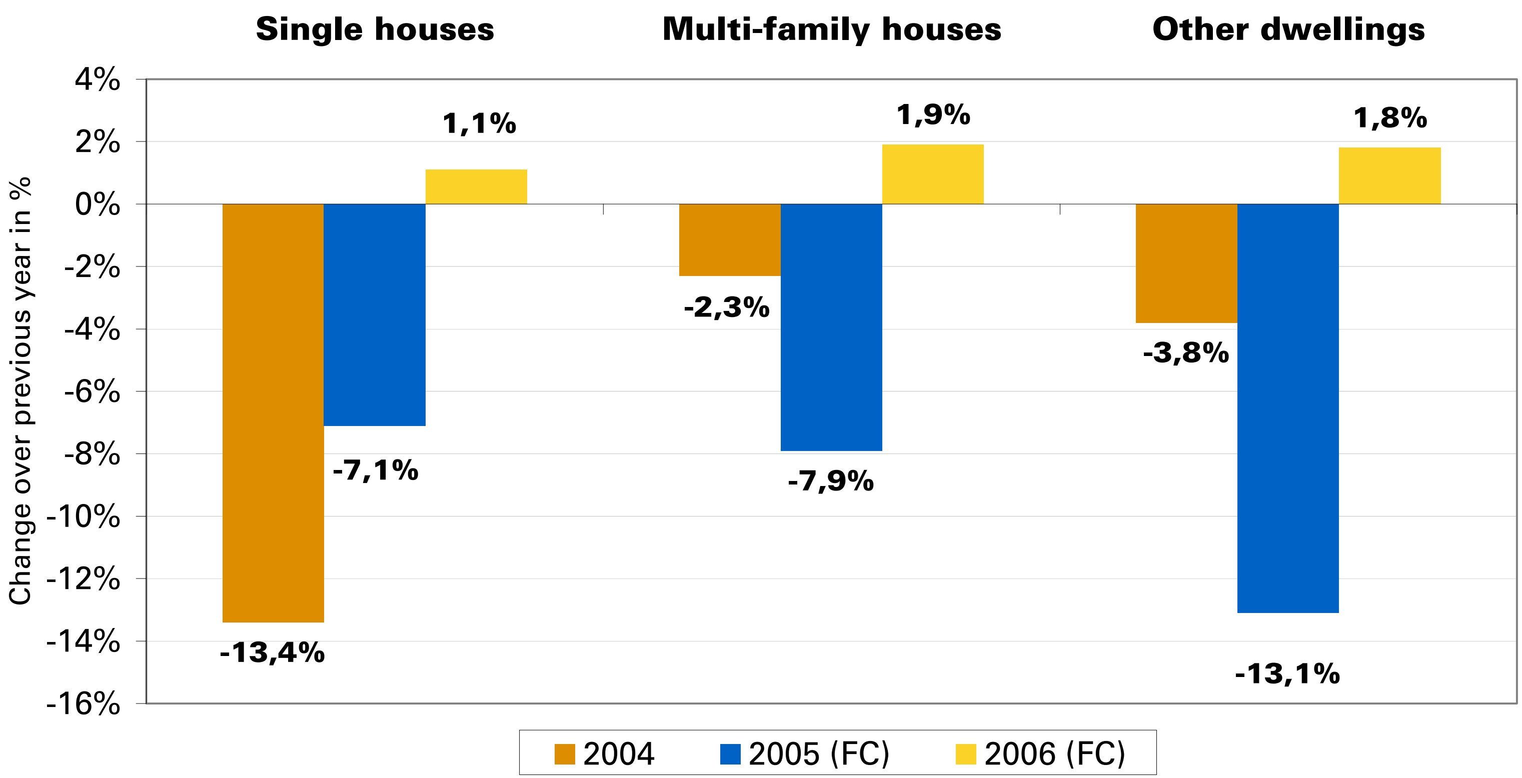
- Expected Government change creates optimism in the nation
- Attitudes of private households signal an improvement
  - the GfK consumption climate index shows a growing confidence in income expectations as well as an increased inclination to invest
- the "Eigenheimzulage" is finally expected to be abandoned
  - end of 2005 or end of 2006?
  - building permits expected to pick up 2005/2006, although not as significantly as in 2003 - 2004

- The decline in building permits is generally expected to stop in 2006 as a result of the positive impulses
- Building completions in 2006 will still reflect the weak development of permits in 2005
  - Recovery possible in 2007 (public estimates)

Residential construction

Current forecasts 2005 – 2006

Building permits (% change over previous year)

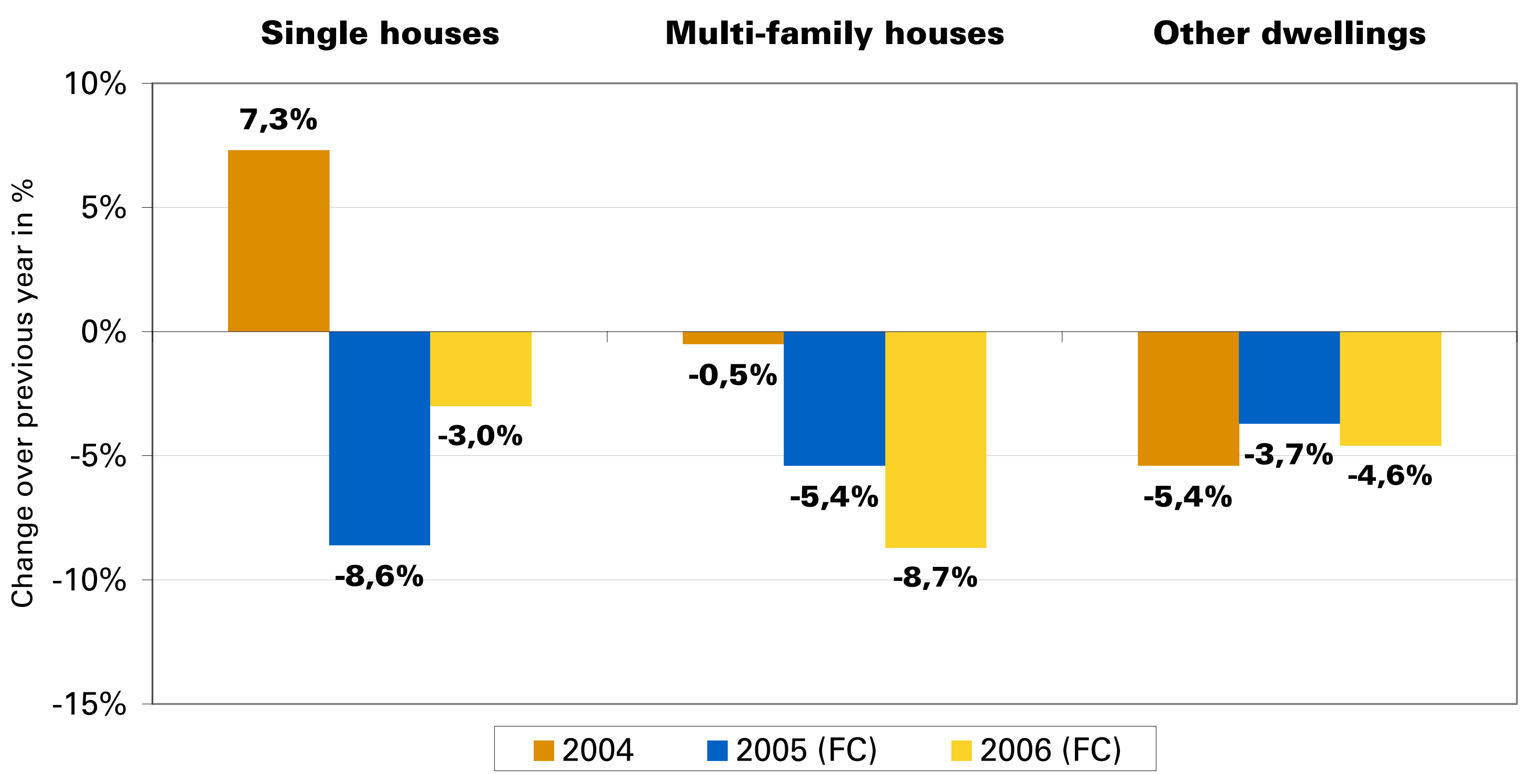


Source: Heinze

Residential construction

Current forecasts 2005 – 2006

Building completions (% change over previous year)

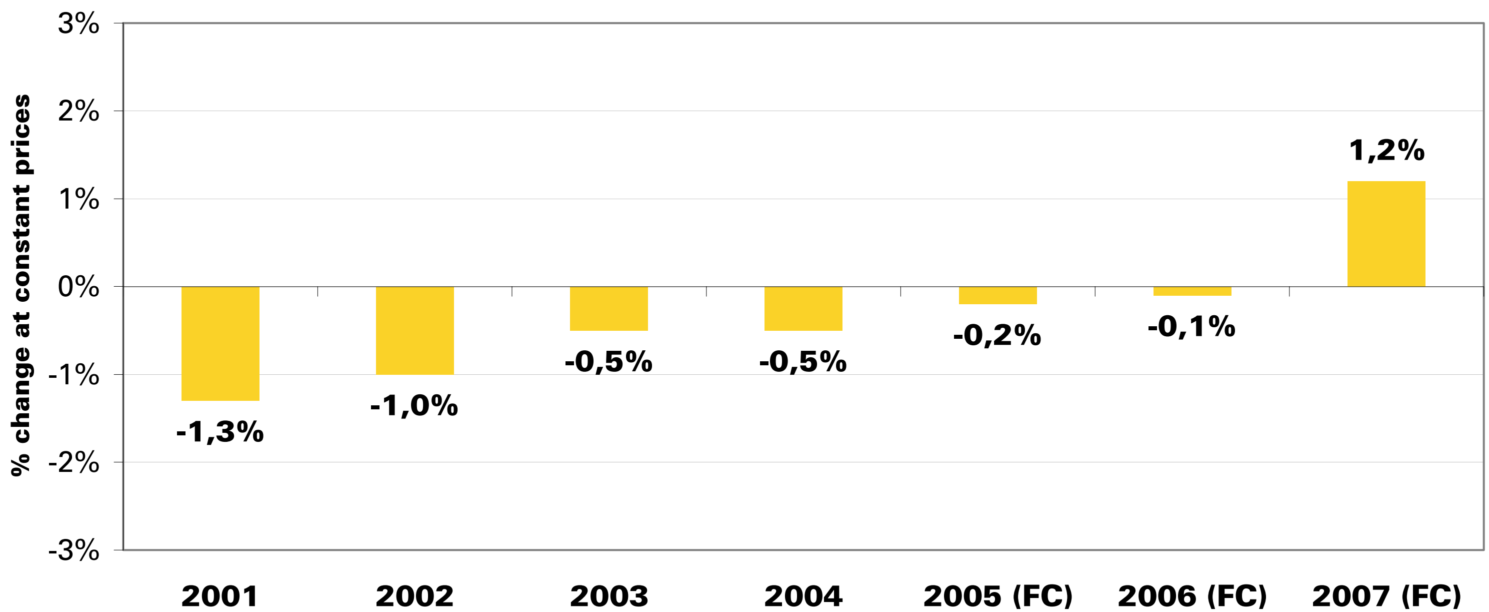


Source: Heinze

Residential construction

Development of the renovation market

- The missing private inclination to invest has also caused a decline in renovation activities, although not as significantly as in new build
- Turnaround expected in 2006, resulting in a positive growth in 2007

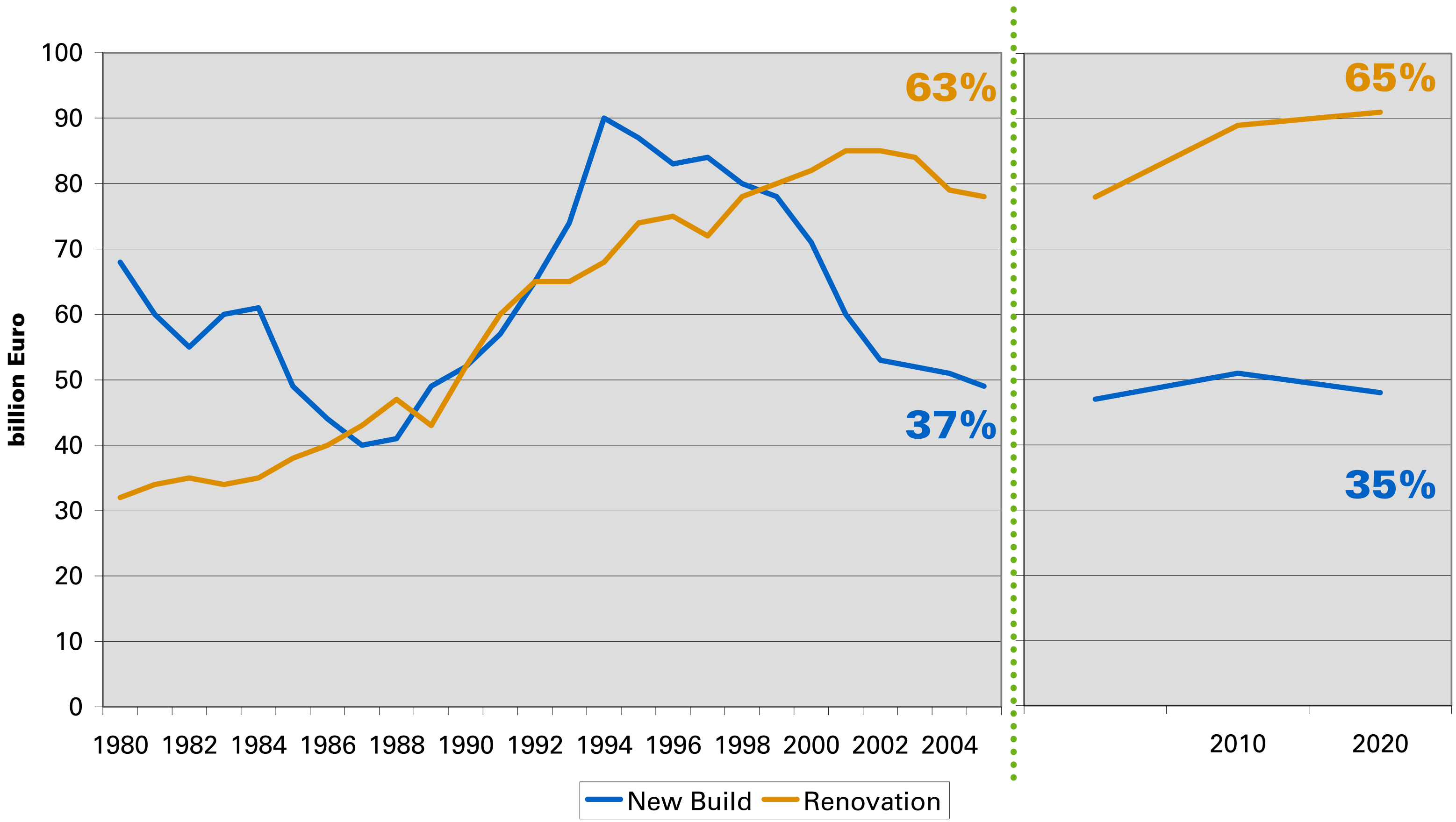


Source: Euroconstruct

Residential construction

Renovation potential in Germany

Construction volume in new build and renovation



Source: Heinze

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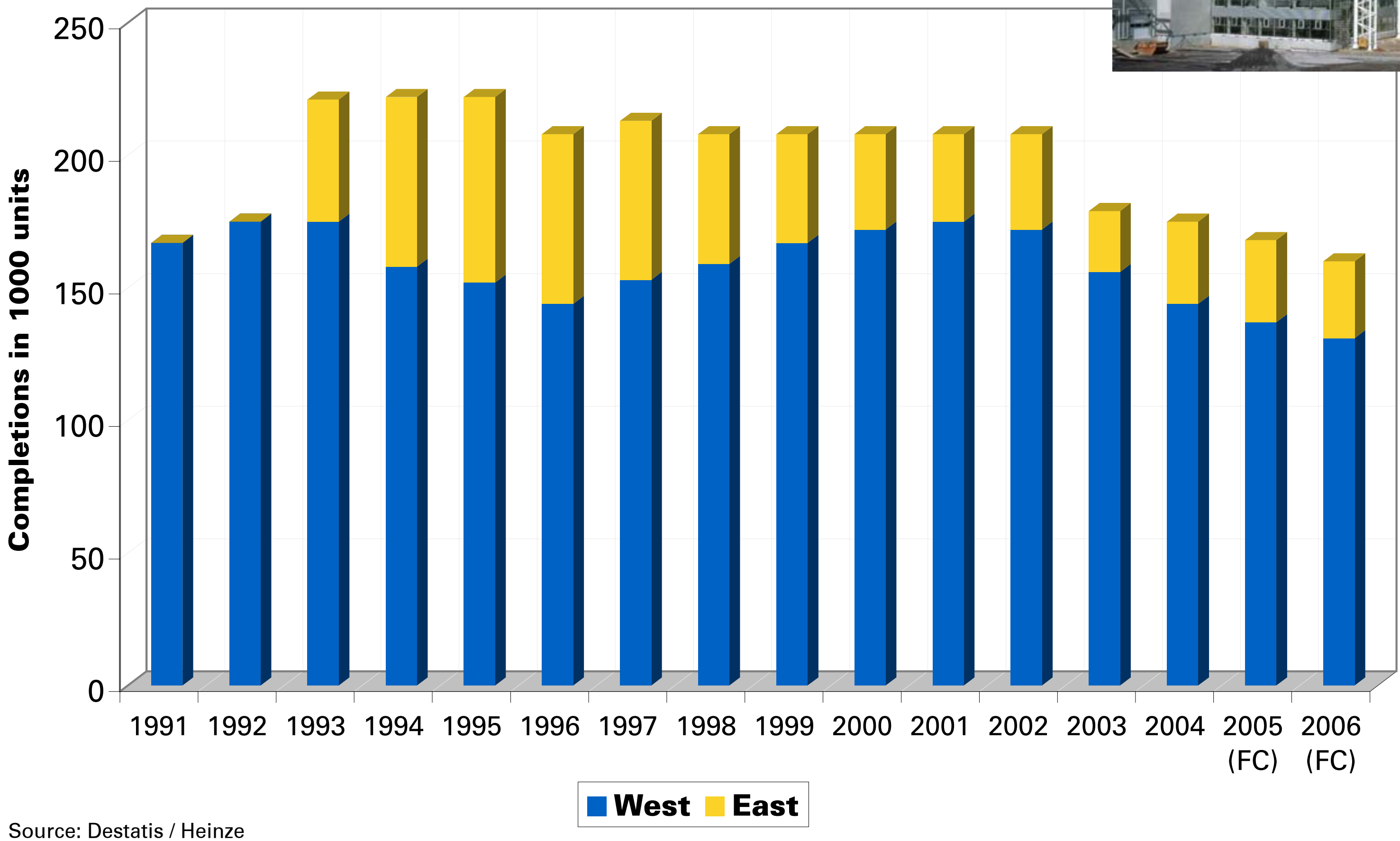
Non-residential construction

Building completions Germany

Non-residential construction (in 1,000m³ volume)

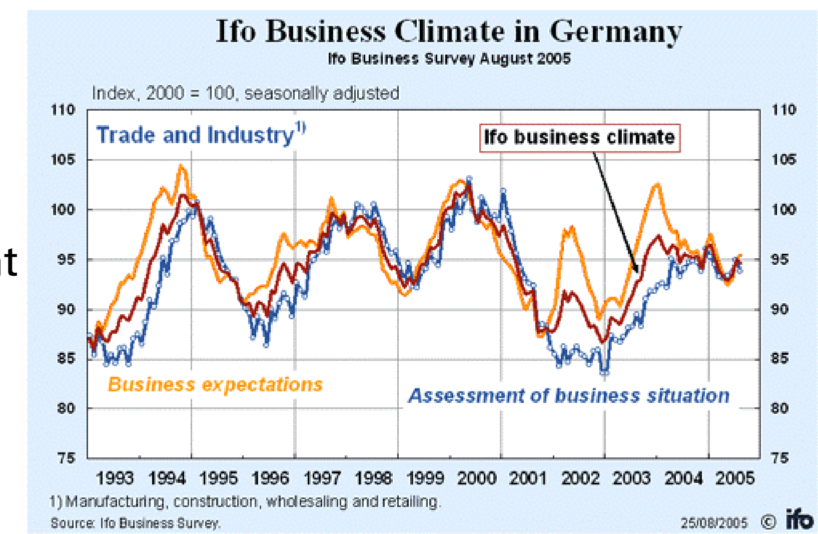


Source: Destatis / Heinze

Non-residential construction

Market development

- Reunification caused a boom also in non-residential construction
  - Subsidies and tax relieves supported investment in the East
  - After the initial demand, the market returned to normal
- During the 90s, the economy grew between 1.5% and 3% per year
  - In the new millennium the growth dropped to –0.2% in 2002
- Continued weak outlook of the German industry since 2001 has sustained the level of investment in equipment (cost reduction) while investments in buildings have been postponed



Non-residential construction

Indicators for future development

- **Commercial construction**

  Lease prices for commercial space have started to stabilise. The demand for office space is showing signs of recovery

- **Industrial construction**

  The positive development of business expectations has stimulated the readiness to invest
  - a growth in building permits in the trading and storage building sector
  - current forecasts for 2005 (next slide) are likely to be adjusted in Q3

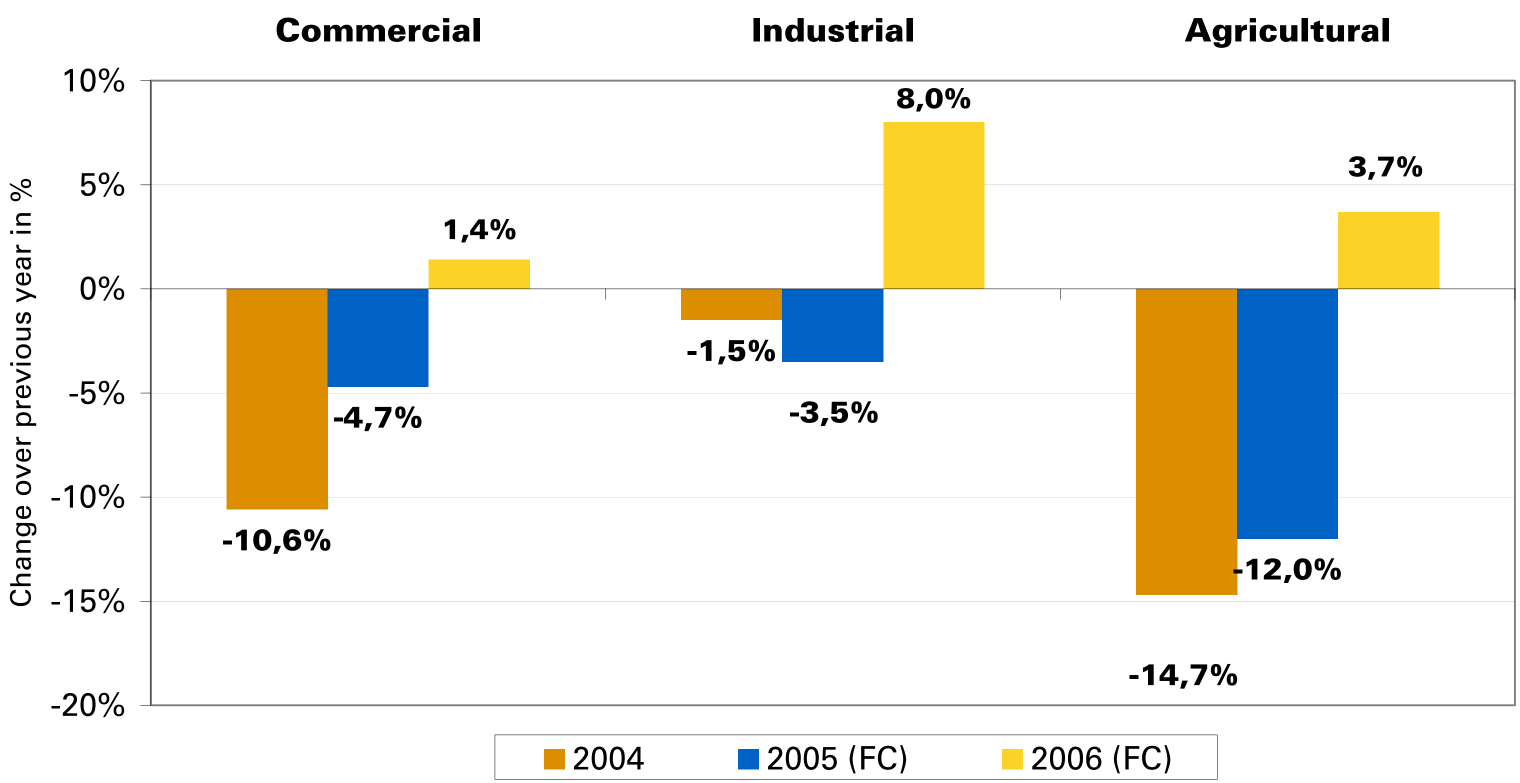
The downswing of building permits is expected to stop in 2006 as a result of the positive impulses

- building completions in 2006 will reflect the weak development of permits in 2005, and thus recover only in 2007 (public estimates)

Non-residential construction

Current forecasts 2005 – 2006

Building permits (% change over previous year)

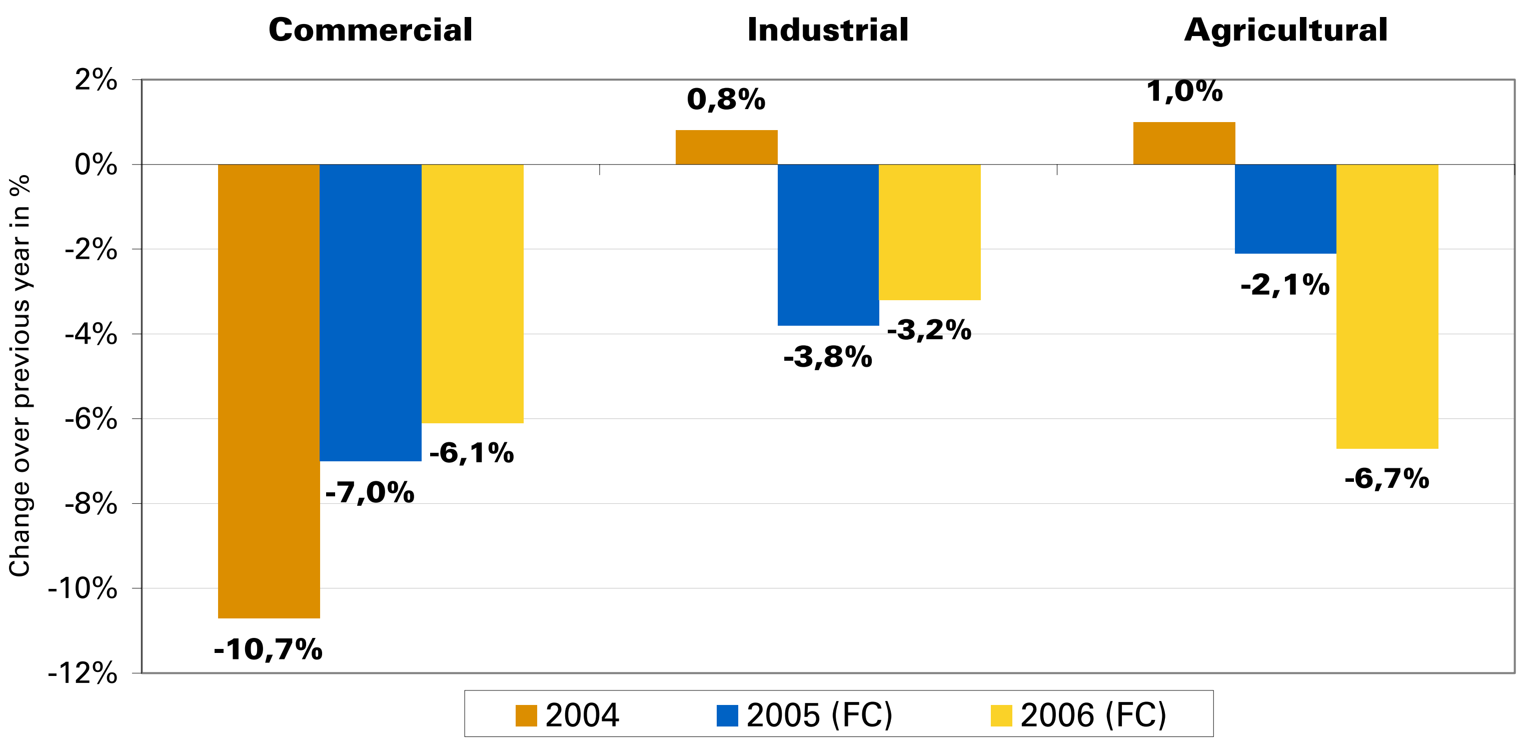


Source: Heinze

Non-residential construction

Current forecasts 2005 – 2006

Building completions (% change over previous year)



Source: Heinze / Euroconstruct

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Plumbing and heating market

Plumbing systems

- Decline in new build and the renovation has resulted the decline of the total market volume for plumbing systems
- The share of plastics is increasing, currently at ca 40%
  - nearly compensates the general market decline
  - further volume growth from market recovery

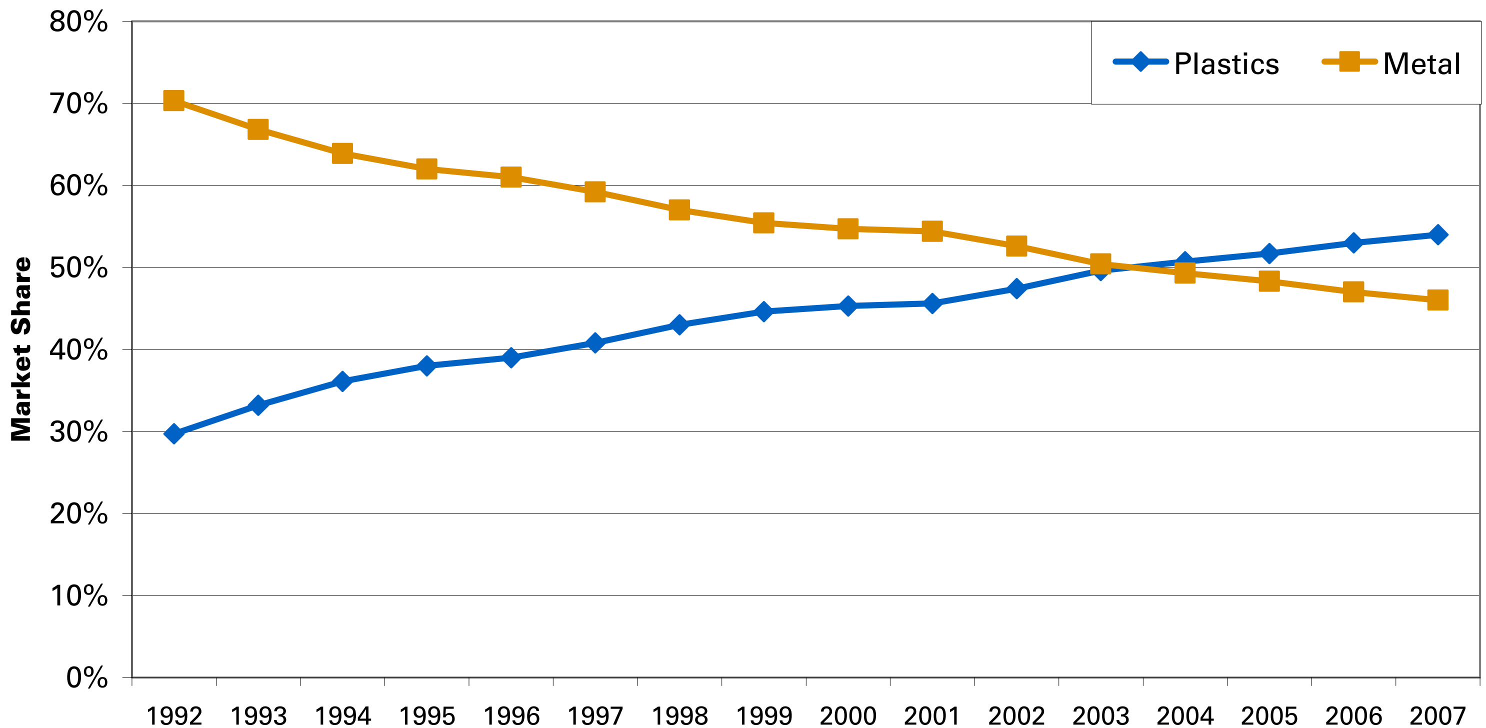
Underfloor heating systems

- Plastics has ca 90% of the UFH market
- UFH installed in 50% of new-build single houses and 20% of new-build multi-family houses*
  - penetration increase annually by ca 5%
- demand directly related to the new build market

*) Source: Bundesverband Flächenheizung

Plumbing and heating market

Market share development of plastic and metal pipes for plumbing and heating in Germany



Source: KWD

Competitive environment

- Changes in the supply
  - private labels
  - aggressive pricing
  - direct sales to installers
- Copper suppliers try to recover market share
- New small suppliers are entering the underfloor heating market
- Systems and services are becoming comparable
  - lack of differentiation
- Innovation is a key to market leadership

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Current trends in the value chain

- **Distribution**

  - a consolidation process in the distribution sector
  - today, the sector is dominated by 8 large wholesale / buying groups
  - consolidation is still continuing

- **Planners**

  - Due to increased costs of planning services, building companies and contractors leave the layout of the systems to the installer
  - the importance of planners is fading
  - service required from system suppliers

- **Installers**

  - foreign installers entering the market
  - pressure on labour costs

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Uponor's role in the plumbing and heating market

Market position

- **Plumbing**

  - The dominance of metal pipes is fading
  - Uponor has a position of innovative technology leader
  - Uponor market leader in plastics and among the top 3 - 5 suppliers of all plumbing suppliers in Germany

- **Underfloor heating**

  - Uponor is the pioneer in solutions for underfloor heating applications
  - standards that the whole industry is following
  - Uponor is the market leader in underfloor heating systems in Germany

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Strategic direction:
Sales management

- **Optimisation of sales activities**
  - Increase of the **distribution ratio** (esp. numerical, but also weighted)
  - Improve utilisation of **cross-selling potentials** between plumbing and underfloor heating
  - Avoid cannibalisation and internal competition
  - Intensify the **support of installers** to create additional pull
- **Expansion of activities in market segments** where we have not yet fully used our potential
- **Reduction of sales costs**

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Summary

- **Restructuring of the sales organisation**

  - Implementation of an integrated sales organisation to increase growth and optimise sales efficiency

  - Merge the 4 existing sales organisations into one

- **Growth**

  Expand our market share in underfloor heating

- **Innovation**

  Improve pipe and fitting technology, optimise solutions for special applications…

- **Increase efficiency**

  Further reduction of conversion and sales costs


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