

Corporate governance statement 2009

Introduction

Uponor Corporation ("Company") complies with the Finnish Corporate Governance Code 2008, issued by the Securities Market Association, from which the Company deviates only as regards the order of nomination of members of the Nomination Committee. The reason for the deviation is that the Board of Directors considers that, taking account of the Company's ownership structure, a model in which the largest shareholders nominate the members of the Nomination Committee best serves the interests of the shareholders as well as the goal of transparency. The Finnish Corporate Governance Code is available on the website www.cgfinland.fi.

This corporate governance statement has been drawn up according to the recommendation 51 of the Finnish Corporate Governance Code issued by the Securities Market Association. This statement is presented as a separate report from the Review by the Board of Directors. The Company's Audit Committee has reviewed the statement in its meeting on 5 February 2010.

Board

Composition

Pursuant to the Articles of Association, the Board comprises a minimum of five and a maximum of seven members, elected for a one-year term starting at closing of the Annual General Meeting (AGM) at which they were elected and expiring at closing of the following AGM. Board members may be elected or removed only by a resolution adopted by the shareholders in a general meeting. The number of terms a Board member may serve is not limited, nor is there any defined retirement age. The Board elects a Chairman and a Deputy Chairman for one year at a time from amongst its members.

In March 2009, the AGM elected the following five members to the Board:

- Mr Jorma Eloranta, born 1951, M. Sc. (Tech.), President and CEO, Metso Corporation
- Mr Jari Paasikivi, born 1954, M.Sc. (Econ.), President and CEO, Oras Invest Oy
- Mr Aimo Rajahalme, born 1949, M.Sc. (Econ.), CFO and member of the Executive Board, KONE Corporation until April 2009, Executive Advisor until December 2009
- Ms Anne-Christine Silfverstolpe Nordin, born 1950, M.A. (Soc.)(Socionomexamen), Partner and Senior Consultant, Neuhauser & Falck AB
- Mr Rainer S. Simon, born 1950, Dr. Sc. (Econ.) (Dr. oec. HSG), Managing Director, BirchCourt GmbH.

All of the current Board members are independent of the Company and, with the exception of Mr Jari Paasikivi, they are also independent of major shareholders. According to Finnish legislation, all Board members are required to act in the best interest of the Company and its subsidiaries ("Group") as well as shareholders, and to disclose any potential conflicts of interest.

It is in the interests of the Company and its stakeholders that the elected Board members represent expertise in various fields, such as the Group's industry, relevant technologies, financing, human resources management, risk management and international sales and marketing.

Duties

In accordance with the Finnish Companies Act, the Board of Directors is responsible for the management of the Company and the proper organisation of its activities. The Board's main duty is to direct the Group's operations in such a way that, in the long run, the yield to shareholders is secured, while simultaneously taking the expectations of various stakeholders into account. In addition to its statutory duties, the Board takes decisions on all other significant issues.

According to the charter of the Board of the Directors, the Board shall, among other things:

- a) annually review and determine the rules of procedure of the Board and Executive Committee ('ExCom'),
- b) approve the Group's values and monitor their implementation,
- c) approve the Group's basic strategy and monitor its implementation and updating,
- d) determine the dividend policy,
- e) present a proposal to the general meeting of shareholders on the payment of the dividend, including the amount and time of payment,
- f) approve the annual operational plan and budget based on the strategy, as well as monitor their implementation,
- g) annually approve the total amount of investments as well as any investments that exceed the approved total annual investment limit,
- h) approve investments and leasing arrangements whose net present value exceeds the limit specified in the Signing and Authorisation Policy,
- i) approve acquisitions, joint ventures, partnerships, licensing arrangements and asset divestments that exceed the limits specified in the Signing and Authorisation Policy,
- j) approve the Group's general organisational structure,
- k) appoint and dismiss the CEO and determine the terms of his/her service contract,
- l) prepare and approve the CEO's annual compensation,
- m) approve the appointment and dismissal of members of the ExCom,
- n) approve annual compensation for the members of the ExCom,
- o) prepare and approve a succession plan for the CEO,
- p) approve succession plans for members of the ExCom,
- q) approve the interim reports, the annual report and the annual financial statements,
- r) meet the external auditor at least twice a year,
- s) regularly review the system of internal control, the management and reporting of financial risks and the audit process,

- t) prepare proposals for general meetings of shareholders,
- u) annually evaluate the performance of the CEO and members of the Board as well as that of the Chairman,
- v) approve key Group operational policies, such as compensation policy,
- w) deal with other issues raised by the Chairman or the CEO.

Meetings and decision-making

The Board meets on average 10 times a year. Some meetings may be held as teleconferences. Two of the meetings should take place at a business unit, a different one each time. The Board may also meet at any time without the presence of the management and make decisions without holding a meeting. Minutes of a meeting are taken in English for each meeting.

During 2009, the Board held 12 meetings, one of which at a business unit. Three nonattendances were recorded, two of which were partial.

Board Committees

Audit Committee

The Audit Committee was established in December 2008. On 29 April 2009, the Board decided to re-establish the Audit Committee with the same charter and same members as earlier, thus nominating Mr Jari Paasikivi, Mr Aimo Rajahalme and Mr Jorma Eloranta as its members who in turn elected Mr Aimo Rajahalme as the chairman of the committee.

According to the charter of the Audit Committee, the Committee shall have the following duties:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the Group's internal control, internal audit and risk management systems;
- to review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the Company's corporate governance statement;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of the statutory auditor or audit firm, particularly the provision of related services to the company to be audited; and
- to prepare the proposal for resolution on the election of the auditor.

During 2009, the Committee held 6 meetings. One non-attendance was recorded.

Nomination Committee

Nomination Committee was established in December 2008. On 29 April 2009, the Board decided to re-establish the Nomination Committee and to deviate from the Finnish Corporate Governance Code. The Board requested the three largest shareholders each nominate one member to the Nomination Committee, following which Mr Pekka Paasikivi was nominated as the representative of Oras Invest Ltd and Mr Risto Murto as the representative of Varma Mutual Pension Insurance Company. Mandatum Life Insurance Company Ltd did not appoint a representative for the Committee. The Board further appointed Mr Jari Paasikivi, Chairman of the Board, as expert member of the Nomination Committee. The Committee members elected Mr Pekka Paasikivi as Chairman.

According to the charter of the Nomination Committee, the Committee shall have the following duties:

- to prepare the proposal for the appointment of directors for the general meeting;
- to present the proposal for the appointment of directors at the general meeting;
- to prepare the proposal to the general meeting on matters pertaining to the remuneration of directors.

During 2009, the Committee held 2 meetings. No non-attendances were recorded.

Other

In order to ensure as broad an expertise as possible in matters related to the remuneration of the CEO and other managers of the Company as well as the incentive systems for the rest of the personnel, the Board has decided that no separate Remuneration Committee be established, but that the whole Board will perform these duties.

Chief Executive Officer

Mr Jyri Luomakoski, MBA, born 1967, acted as President and CEO of the Company during 2009.

Assisted by the ExCom, the CEO is in charge of the Group's day-to-day management in accordance with the orders and instructions issued by the Board. It is the CEO's duty to ensure that the Group's accounting procedures comply with the applicable legislation and that the financial management is conducted in a reliable manner. The CEO is also the Chairman of the ExCom.

Internal control and risk management in the financial reporting process

The Board is responsible for the principles of internal control policy in the Group. Group's internal control is defined as a process influenced by the Board, the management and all the individual employees of the Group. The objective of internal control is to ensure that:

- the management has a reasonable assurance that the Group's operations are effective, efficient and aligned with the strategy;
- the financial reporting and management information is reliable, comprehensive and timely; and
- the Group complies with applicable laws and regulations.

Group's internal control framework strives to balance the business needs and the control perspective. The aim of the internal control framework is thus to:

- focus on the most business-relevant risks and issues from the strategic alignment and operational effectiveness point of view;
- promote good business ethics, good corporate governance and reliable risk management practices;
- ensure a compliance with laws, regulations and Group's internal policies; and
- ensure reliable financial reporting to support internal decision-making and to serve the needs of external stakeholders.

Internal control over the financial reporting process is part of the overall internal control system in the Group. The objective of internal control over financial reporting is to ensure that the financial reporting information is reliable, comprehensive and timely, and that the financial statements are prepared in accordance with applicable laws and regulations, generally accepted accounting principles and other requirements for listed companies.

The Company's consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Community. The financial statements also include additional information as required by the Finnish Accounting Act and the Companies Act. The Company's financial statements have been prepared according to generally accepted accounting principles in Finland.

Control environment

The control environment builds upon the Group's Code of Conduct and its values. It serves as the foundation for all other components of internal control, providing discipline and structure.

Group level policies that serve as binding guidelines for operating units include also policies which define the accounting and reporting rules, risk management policies and internal control principles over financial reporting.

The Group reporting function co-ordinates the business units and functions in setting up adequate control activities in co-operation with the business controllers in the business units. It also provides special reports required by management and regulatory authorities and co-ordinates process level internal control implementation and follow-up in Group reporting process. The Group reporting function is also responsible of the interpretation and application of accounting standards in the Group.

The Audit committee's duties include monitoring and supervising the financial reporting process and the efficiency of the internal control, internal audit and risk management systems. The Audit Committee also monitors the statutory audits of the financial statements and consolidated financial statements, evaluates the independence of the statutory auditor or audit firm, and prepares the proposal for resolution on the election of the auditor.

CEO's duty is to ensure that the Group's accounting procedures comply with the applicable legislation and that the financial management is conducted in a reliable manner.

CFO is responsible for the monitoring of the process-level internal control implementation and follow-up of the financial processes.

Internal Audit is an integrated part of the Group's internal control framework. It supports the Board and the management in following up the effectiveness of internal control and corporate governance. It carries out independent process reviews, including special investigations, to ensure compliance with internal company policies, guidelines and laws and regulations.

Risk assessment

Assessment of financial reporting risks is part of Group's overall internal control and risk management framework. The risk assessment procedure which relates to financial reporting process includes:

- a) setting up of objectives for the financial reporting
- b) identifying risks in order to achieve these objectives.

The objectives are set both in business units and in Group-level operations. The risks are analysed in order to determine how the risks should be managed. The risk assessment process also considers the potential for material misstatement due to fraud.

Control activities

Group's aim is to embed control in the daily operations. Effective internal control requires that duties are properly segregated to different employees and potential conflicts of interest are identified and eliminated. Examples of existing control mechanisms include Group policies, defined control points in financial reporting, accounting and reporting instructions and management meetings.

Information and communication

Group's Accounting Manual sets the standards for financial reporting and describes the accounting policies to be applied within the Group. The purpose of the manual is to ensure the relevance and reliability of each entity's financial statements, the comparability of those statements over time and with the financial statements of other entities.

Group reporting function maintains a common chart of accounts which is applied in all units. The ongoing roll-out of a common enterprise resource planning (ERP) system supports the harmonisation of processes and controls across the Group. The financial reports are reviewed and analysed in local accounting departments prior to their submission to the common Group accounting system for consolidation.

Internal control related topics are regularly reported to the Audit Committee. Findings, recommendations and conclusions of the Audit Committee are continuously reported to the Board of Directors.

Monitoring

Ongoing monitoring of financial reporting process occurs locally in each organisational unit as part of the daily operations. Group-wide, the responsibility lies within the Group reporting function.

Group-level financial reports are reviewed and analysed by the Group Controller and the CFO.

Whenever separate evaluations are needed, their scope and frequency will depend primarily on an assessment of related risks and the effectiveness of the monitoring procedures in place. Internal control deficiencies shall be reported upstream, with any serious matters to be reported to the ExCom and to the Board. Any separate evaluations are performed by the Internal Audit function, and they may also be initiated by the Board.

Internal control and risk management in the financial reporting process in 2009

As part of its internal controls development, the Company established new Group-wide policies on internal control, risk management, fraud prevention and signing and authorisation rights in 2009.

The Company also developed a common Group-wide control framework for external financial reporting, management reporting and treasury processes. These key controls aim to address the risks related to the achievement of the financial reporting objectives. The control activities are designed to provide reasonable assurance of the accuracy, timeliness and completeness of the financial reporting information and they are applied at all levels of the organisation. These key controls include a variety of activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, safeguarding of assets and segregation of duties. The integration of all subsidiaries into the Group-wide control framework started in 2009.