

# Uponor Corporation

## Corporate governance statement 2013

### 1. Introduction

Uponor Corporation ("Company") complies with the Finnish Corporate Governance Code 2010, issued by the Securities Market Association. The Finnish Corporate Governance Code is available on the website [www.cgfinland.fi](http://www.cgfinland.fi).

This corporate governance statement has been drawn up in accordance with the recommendation 54 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 12 February 2014.

The Company has separately issued a Remuneration Statement on its website, in accordance with the recommendation 47 of the Finnish Corporate Governance Code 2010.

### 2. The Board of Directors

#### 2.1 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 2013, the AGM elected the following six members to the Board:

- Mr Jorma Eloranta, born 1951, M. Sc. (Tech.), member of the Board since 2005
- Mr Timo Ihamuotila, born 1966, Licentiate of Science (Finance), Chief Financial Officer and Interim President of Nokia Corporation, member of the Uponor Board since 2013
- Ms Eva Nygren, born 1955, Architect, President and CEO, Rejlerkoncernen, member of the Board since 2011
- Mr Jari Paasikivi, born 1954, M.Sc. (Econ.), President and CEO, Oras Invest Oy, member of the Board since 2007
- Mr Jari Rosendal, born 1965, M. Sc. (Tech.), EVP & President - Outotec Americas, member of the Executive Board, Outotec Oyj, member of the Uponor Board since 2012
- Mr Rainer S. Simon, born 1950, Dr. Sc. (Econ.) (Dr. oec. HSG), Managing Director, BirchCourt GmbH, member of the Board since 2004.

Mr Jari Paasikivi was elected chairman of the Board and Mr Jorma Eloranta deputy chairman of the Board. All 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, risk management and international sales and marketing.

## 2.2 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 the 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) make 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 ExCom;
- n) approve annual compensation for the members of ExCom;
- o) prepare and approve a succession plan for the CEO;
- p) approve succession plans for members of ExCom;
- q) approve the interim reports, the annual report and the annual financial statements;
- r) meet the external auditor at least once a year in a closed session without the management;
- s) prepare the proposals for general meetings of shareholders;
- t) annually evaluate the performance of the CEO and members of the Board as well as that of the Chairman;
- u) approve key Group operational policies, such as compensation policy;
- v) deal with other issues raised by the Chairman or the CEO.

## 2.3 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 2013, the Board held 10 meetings, two of which at a business unit and one teleconference meeting. Three non-attendances were recorded (two of which were partial). Three decisions were made without holding a meeting.

## 3. Board Committees

### 3.1 Audit Committee

On 18 March 2013, the Board decided to re-establish the Audit Committee with the same charter as earlier and nominate Timo Ihamuotila, Jari Paasikivi and Jari Rosendal as the members of the Audit Committee and that Timo Ihamuotila shall act as the chairman of the Committee.

According to the charter of the Audit Committee, which was revised in April 2013, it shall have the following duties:

- to monitor the reporting process of financial statements and assuring that the reporting process generates correct information, to deal with any exceptional and material items and their handling and to approve important accounting principles;
- to review and oversee the quality and integrity of the annual report and the annual financial statements as well as the interim reports;
- to monitor the financial and liquidity position of the company and prepare matters and proposals to the Board on a need-to-know basis;
- to monitor the efficiency, plans and processes of the Group's internal control, internal audit and risk management systems;
- to review the Company's corporate governance statement including the description of the main features of the internal control and risk management systems pertaining to the financial reporting process;
- to approve the annual plan and budget, to issue instructions on and to review and monitor the operations, plans and reports of the internal audit function, to receive status reports of the internal audit function in every meeting and to meet with the internal auditor at least twice a year;
- to review the external audit plan and to monitor the statutory audit of the financial statements and consolidated financial statements, to approve the budget of the external audit as well as new assignment above the limit set by the Audit Committee;
- to meet with the external auditor quarterly and to review all material reports from the auditor;
- to evaluate the independence of the statutory auditor or audit firm, particularly the provision of related services to the company to be audited;
- to prepare the proposal for a resolution on the election of the auditor;
- to monitor the Company's compliance with legal and regulatory requirements, including the performance of its ethics and compliance programme and
- to meet with the management of the company, particularly the CEO and the CFO, but also others responsible for internal control and risk management.

The invitation and materials of the Audit Committee meetings shall be sent to the Board members, who all have the right to attend the meetings.

During 2013, the Committee held 4 meetings, one of which was a teleconference meeting. One partial non-attendance was recorded.

### **3.2 Remuneration Committee**

The Board of Directors decided on 18 March 2013 to re-establish the remuneration committee with the same charter as earlier and nominate Jorma Eloranta, Jari Paasikivi and Eva Nygren as the members of the committee. Jari Paasikivi shall act as the chairman of the committee.

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

- to prepare matters pertaining to the remuneration and other financial benefits of the managing director and other executives ;
- to prepare matters pertaining to the remuneration schemes of the company;
- to evaluate the remuneration of the managing director and the other executives as well as to see that the remuneration schemes are appropriate;
- to review the remuneration statement;
- to answer questions related to the remuneration statement at the general meeting.

The Remuneration Committee held one meeting during 2013. No non-attendances were recorded.

#### **4. Nomination Board**

In March 2012, the AGM established a Nomination Board, comprising shareholders or representatives of shareholders, for the preparation of proposals for the election and remuneration of members of the Board of Directors. Its members are Pekka Paasikivi (Oras Invest), Risto Murto (Varma), Antti Kasi (Nordea Funds Oy) and Jari Paasikivi (expert member), who in turn elected Pekka Paasikivi as chairman.

The duties of the Nomination Board shall be:

- to prepare the proposal for the appointment of members of the Board of Directors, for presentation to the general meeting;
- to prepare the proposal to the general meeting on matters pertaining to the remuneration of members of the Board of Directors;
- to seek prospective successors to members of the Board of Directors;
- to present the proposal on members of the Board of Directors and members' remuneration to the general meeting.

The Nomination Board shall comprise the three largest shareholders or shareholders' representatives. In addition, the chairman of the Board of Directors shall act as an expert member. The right to appoint members representing shareholders lay with the three shareholders who on 31 August 2013 were registered in the shareholders' register of the corporation, held by Euroclear Finland Ltd, and who, according to the shareholders' register, held the greatest share of votes appertaining to all shares. The Nomination Board is deemed a quorate when the majority of members are present.

The Nomination Board is for the first time convened by the chairman of the Board of Directors. Members of the Nomination Board elect a chairman from amongst themselves.

The Nomination Board held one meeting during 2013. No non-attendances were recorded. The Nomination Board additionally made one decision without having a meeting.

#### **5. Chief Executive Officer**

Mr Jyri Luomakoski, MBA, born 1967, acted as President and CEO of the Company during 2013.

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.

#### **6. 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.

The 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.

## **6.1 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 Accounting and 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 Accounting and 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, plans and processes of the internal control, internal audit and risk management systems. Furthermore the Audit Committee shall review and oversee the quality and integrity of the annual report and interim reports and monitors the financial position of the company. 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. Audit Committee additionally reviews and monitors the operations, plans and reports of the internal audit function and meets with the internal auditor, the external auditor and the management of the company on agreed intervals.

The 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.

The 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 audits of business units and subsidiaries, process reviews, and targeted audits on specific areas to ensure compliance with internal company policies, guidelines and laws and regulations.

## **6.2 Risk assessment**

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

- a) ensuring, that objectives for financial reporting have been set up.
- b) identifying and mitigating risks that might hinder the achievement of set objectives.

The objectives are set both in the 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.

## **6.3 Control activities**

The 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.

## **6.4 Information and communication**

The Group's Finance 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.

The Group Accounting and Reporting function maintains a common chart of accounts which is applied in all units. A common enterprise resource planning (ERP) system supports harmonised 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 consolidation system.

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.

## **6.5 Monitoring**

Ongoing monitoring of the financial reporting process occurs locally in each organisational unit as part of the daily operations. On Group level, the responsibility lies within the Group Accounting and 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.

## **6.6 Internal control and risk management in the financial reporting process in 2013**

The Company has 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 integrated Group-wide control framework was started in 2009.

In order to monitor the status of these matters, internal controls and risk management in the financial reporting process have been a focus area in the internal audit plans since the year 2010. In 2013, the focus areas of internal audit included audits of Uponor's foreign subsidiaries, corporate functions and group-level processes. The audits of foreign subsidiaries concentrated on compliance with group policies, changes in business operations as well as review of business processes, risks and controls.