



Uponor Corporation Corporate governance statement 2015

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. Company deviates from recommendation 22, in relation to the Personnel and Remuneration Committee, which has two members instead of three members as stated in the recommendation. Uponor considers that sufficient expertise for the Personnel and Remuneration Committee is secured with two members, and the Committee may also obtain views from outside of 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 by the Board of Directors.

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 9 February 2016.

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 Chair and a Deputy Chair for one year at a time from amongst its members.

In March 2015, the AGM elected the following six members to the Board:

- Mr Jorma Eloranta, born 1951, M. Sc. (Tech.), Doctor of Science in Technology h.c., member of the Board since 2005
- Mr Timo Ihamuotila, born 1966, Licentiate of Science (Finance), Executive Vice President and Group Chief Financial Officer, Nokia, member of the Uponor Board since 2013
- Ms Eva Nygren, born 1955, Architect, Director, Investments, Swedish Transport Administration, member of the Board since 2011
- Ms Annika Paasikivi, born 1975, B.A, M.Sc. (global politics), Chief Operating Officer, Oras Invest Ltd and CEO, Finow Ltd, member of the Uponor Board since 2014
- Mr Jari Rosendal, born 1965, M. Sc. (Tech.), President & CEO, Kemira Oyj, member of the Uponor Board since 2012
- Dr Markus Lengauer, born 1965, Master of Engineering, Doctorate in Mechanical Engineering, member of the Uponor Board since 2015.

Mr Jorma Eloranta was elected Chair of the Board and Ms Annika Paasikivi Deputy Chair of the Board. All the current Board members are independent of the Company. The Chair of the Board, Mr Eloranta, has served as a member in the Uponor Board since 2005, as a deputy Chair since 15 March 2012 and as a Chair since 19 March 2014. The Board has concluded unanimously and based on an overall evaluation and factual circumstances, that Mr Jorma Eloranta is still independent of the company irrespective of the fact, that he has served as a member in the Board of the company for more than 10 years. All the current Board members, with the exception of Ms Annika Paasikivi, 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 Chair;
- u) approve key Group operational policies, such as compensation policy;
- v) deal with other issues raised by the Chair 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 2015, the Board held ten meetings in total, two at a business unit and three in the form of teleconference meeting. Eight non-attendances were recorded (Eva Nygren four, Timo Ihamuotila three and Jari Rosendal one), four of which were partial (Timo Ihamuotila two, Eva Nygren one and Jari Rosendal one). Further, the Board made eight decisions without having a meeting.

3. Board Committees

3.1 Audit Committee

The Board decided to re-establish the Audit Committee on 17 March 2015, with the same charter as earlier. The members of the Audit Committee are Timo Ihamuotila, Annika Paasikivi, Jari Rosendal and Markus Lengauer, with Timo Ihamuotila acting as the committee chair.

According to the charter of the Audit Committee 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 2015, the Committee held four meetings, one of which was a teleconference meeting. No non-attendances were recorded. Further, the Audit Committee made one decision without having a meeting.

3.2 Personnel and Remuneration Committee

The Board decided to re-establish the Personnel and Remuneration Committee on 17 March 2015, with the same charter as earlier. The members of the Personnel and Remuneration Committee are Jorma Eloranta (chair) and Annika Paasikivi.

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

- preparing the appointments of the President and CEO and the members of the Executive Committee, and the terms and conditions of their employment
- preparing matters to be brought to the Board relating to personnel, evaluation of top management and succession planning as needed
- 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 Personnel and Remuneration Committee held six meetings in 2015, with zero non-attendances.

4. Nomination Board

In March 2012, the AGM established a permanent 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 nominated in September 2015 are Pekka Paasikivi (Oras Invest Oy), Reima Rytsölä (Varma Mutual Pension Insurance Company), Antti Kasi (Nordea Funds Oy) and Chair of the Board Jorma Eloranta (expert member), who in turn elected Pekka Paasikivi as Chair.

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 chair 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 2015 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 chair of the Board of Directors. Members of the Nomination Board elect a chair from amongst themselves.

The Nomination Board held one meeting during 2015. No non-attendances were recorded.

5. Chief Executive Officer

Mr Jyri Luomakoski, MBA, born 1967, acted as President and CEO of the Company during 2015.

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 Chair 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 regular management business review 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 Director, Group Accounting and Controlling 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 2015

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 2015, the focus areas of internal audit included audits of Uponor's foreign and domestic subsidiaries, corporate functions and group level processes. The audits of subsidiaries concentrated on compliance with group policies, changes in business operations as well as review of business processes, risks and controls.