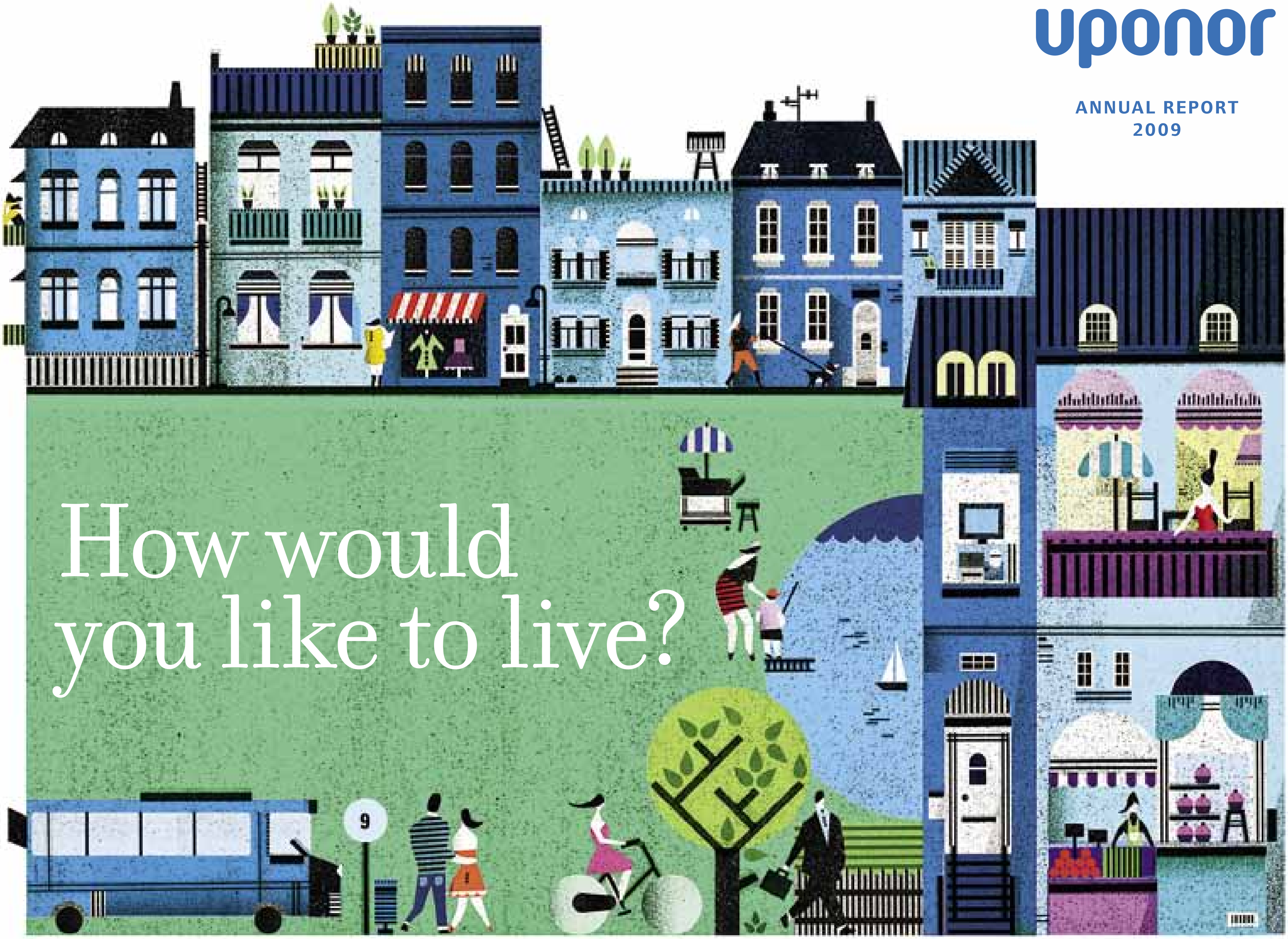
uponor

ANNUAL REPORT
2009

# How would you like to live?



# Uponor in brief

**UPONOR IS A LEADING INTERNATIONAL PROVIDER OF PLUMBING AND INDOOR CLIMATE SOLUTIONS FOR THE RESIDENTIAL AND COMMERCIAL BUILDING MARKETS.**

Uponor is present in key European and North American markets, while its products are sold in over a hundred countries. In the Nordic countries, Uponor is also a prominent regional supplier of infrastructure pipe systems.

Uponor offers its customers solutions that are technically advanced, ecologically sustainable, and safe and reliable to own and operate.

## UPONOR BUSINESS GROUPS

### INDOOR CLIMATE SOLUTIONS

Integrated radiant heating, cooling and ventilation to create a healthy and comfortable indoor climate that brings savings on your energy bill and helps optimise the use of renewable energy.

### PLUMBING SOLUTIONS

Complete systems for a healthy and durable indoor plumbing, featuring a quick and reliable installation and a long service life.

**BUILDING SOLUTIONS**

### INFRASTRUCTURE SOLUTIONS

Systems for a reliable and leak-proof transportation of fresh and used water that give savings in installation and operation.

**INFRASTRUCTURE SOLUTIONS**

## INFORMATION FOR SHAREHOLDERS

**Annual General Meeting**
Uponor Corporation's Annual General Meeting is to be held on Wednesday, 17 March 2010 at 5 p.m. at the Helsinki Exhibition and Convention Centre, Messuaukio 1, Helsinki, Finland.

**Important dates in the year 2010**

- Financial accounts bulletin for 2009 10 February
- Financial Statements for 2009 10 February
- Annual General Meeting 17 March at 5 p.m.
- Record date for dividend payment 22 March*
- Date for dividend payment 30 March*
- Interim report: January–March 28 April at 8 a.m.
- Interim report: January–June 12 August at 8 a.m.
- Interim report: January–September 26 October at 8 a.m.

* Proposal of the Board of Directors

info More information available at www.uponor.com

# What is a good living environment like?

The human living environment is everything around us. It includes where we live, where we work and what we do in between. Uponor's mission is to create better human environments, in partnership with other professionals.

# It is made of the dreams of its inhabitants.

“A better human environment is a green one. Energy consumption should be kept to the minimum.”

**Marek Plaamus, Estonia**

“No more pollution. Water is treated as the precious source of life and not wasted.”

**Sara Colognesi, Italy**

“I hope we will use more natural resources in the energy consumption – sunlight, wind, rain, tides, and geothermal heat.” **Mikael Söderström, Sweden**

“I hope we will have cleaner sea areas and greener cities. There will be no effluents from any industry. We will have electric cars and better public transport.”

**Pirjo Heinonen, Finland**

“I just want to have a clean, healthy environment with less stress and more time for friends and family.”

**Annika Engström Andersson, Sweden**

“I’m looking for comfort: the right temperature, fresh air, furniture that fits what I’m currently doing.”

**Keith Clasen, USA**

# Dreams are the building blocks for a better human environment.

Dreams are the first step for improving the standards of everyday life. Everyone has their own vision – is one of these yours?

1. **Safe and comfortable surroundings** both at home and at work, e.g. fresh air, cosy temperature, allergy-free and fire safety
2. **Life without burdening the natural environment** around you, e.g. sustainable solutions, proper handling of waste, and recycling made easy
3. **Wide range of energy solutions** utilising power from natural resources, e.g. sunlight, wind, rain, and geothermal energy
4. **Appreciation of water** as a limited natural resource, e.g. containment of fresh water, securing clean water resources and reclaiming used water
5. **An environment that enriches** people's way of life

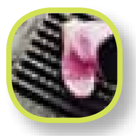

3
5
4
1

# We play our part in realising these visions.

Uponor's innovative solutions add to the quality of life. We can provide comfort and safety for better human environments.

**Our modern indoor climate solutions** help create a comfortable and healthy environment, both in residential and non-residential premises.

**Our plumbing solutions** for transporting water are designed for all types of buildings and feature ease of installation and reliability second to none.



**Our infrastructure solutions** enable the environmental-friendly handling of fresh and used water in urban and non-urban surroundings.

# We are here to help create better human environments.

# Contents

# Year 2009 in brief

## In 2009, Uponor's operating environment remained challenging, because of the slowdown in the international housing construction markets.

### IMPORTANT STOCK EXCHANGE AND PRESS RELEASES

| | |
|---|---|
| 8 Jan | Uponor plans further staff reductions in Sweden and continues with savings initiatives |
| 28 Jan | Uponor enters a EUR 14.5m provision in the 2008 Financial Statements to cover for product replacement costs in the U.S. |
| 6 Feb | Changes in the Executive Committee at Uponor Corporation |
| 10 Feb | Financial Statements 1-12/2008: Uponor failed to reach targets as markets contracted |
| 18 Mar | Resolutions by Uponor Corporation's Annual General Meeting |
| 17 Apr | Uponor introduces new savings initiatives |
| 22 Apr | Ms. Riitta Palomäki appointed CFO at Uponor Corporation |
| 29 Apr | Q1/2009: Bleak outlook continues in Uponor's key markets |
| 12 Aug | Q2/2009: Uponor continues to face challenging markets |
| 9 Sep | Uponor plans to boost performance through a new supply chain structure for the Nordic Infrastructure business |
| 27 Oct | Q3/2009: Markets gaining some stability after several quarters of decline |
| 1 Dec | Uponor acquires radiant heating and cooling company in the UK |

Furthermore, demand for commercial and public applications as well as infrastructure solutions continued to slacken. Requirements for improved energy-efficiency in buildings were tightened, which contributes to enhanced business opportunities for Uponor's innovative indoor climate systems.

### STRATEGY

As part of its growth strategy, Uponor made a major acquisition to improve the growth opportunities for project business in international commercial and public building – for heating and cooling systems, in particular.

To enhance our operational excellence, we launched various reorganisation projects. On account of the weak market conditions, we were forced to launch a number of adjustment and streamlining efforts, including layoffs and dismissals. Operations were centralised and warehouses closed in Sweden, Denmark and Lithuania. In Germany, a logistics centre was closed. Our strategic focus was on short-term projects and achieving set targets for cost savings.

### MAJOR EVENTS

In the autumn, the decision was made to develop the supply chain of Nordic infrastructure business. As a result, the factory in Hadsund, Denmark, was closed and operations divided between Uponor's two major production units in Fristad, Sweden, and Nastola, Finland.

We opened a new distribution centre in the USA, in Minnesota. In its design, special attention was given to reduced environmental load. The building has received "LEED® Certified" status by the U.S. Green Building Council.

In Germany, we signed a significant partnership agreement with a local heating equipment manufacturer.

### NEW PRODUCTS AND SERVICES

Uponor's unique automatically adjusting indoor climate control system is among the most interesting novelties launched over the past year. In addition to saving energy, the system contributes to the ease of implementing radiant underfloor heating and indoor climate control. It can also be installed in buildings that are being renovated or remodelled.

In Finland, we launched a marketing campaign to promote an easy plumbing renovation for homeowners.

In North America, we introduced the first fully lead-free brass fitting and valve product family, which meets the requirements of California's lead-free regulations as well as the national bill on safe potable water. We also introduced a solution to help home and commercial building professionals incorporate sustainable building practices into their work. This system filters water captured from sinks and showers to be redistributed to laundry, toilet, and irrigation systems.

To improve our customer relationships and company image, we launched our new international web portal, which will gradually replace the existing national websites.

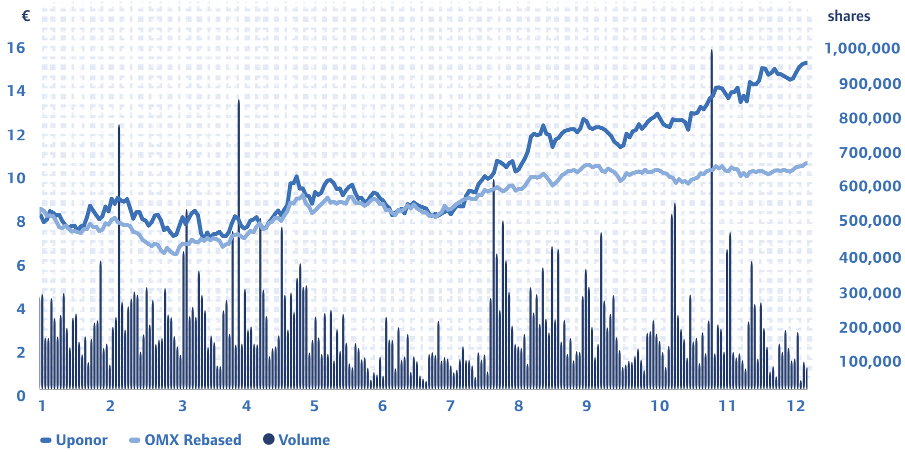
### THE NEW ORGANISATION IN PRACTICE

The reorganisation process, initiated near the end of 2008, progressed well in 2009. In addition to significant savings, a new level was reached in production and distribution channel efficiency through the implementation of Europe-wide supply chain management. Dividing Uponor's building solutions into business divisions focusing on offering management and dedicated sales organisations improved and clarified our operations in the markets. Our plumbing and indoor climate businesses focused on product harmonisation along with development of our product offering, while the sales organisations focused on improved customer relationship management. Our new organisational structure enhances our capacity for future growth.

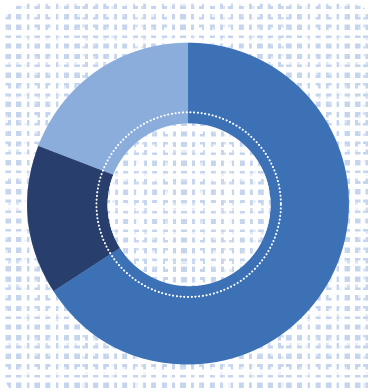
### SHARES AND SHAREHOLDING

No major changes took place among major shareholders, but the proportion of small investors increased significantly. The number of shareholders reached an all-time high in the autumn: over 20,000 shareholders.

## SHARE PERFORMANCE AND TRADING 2009

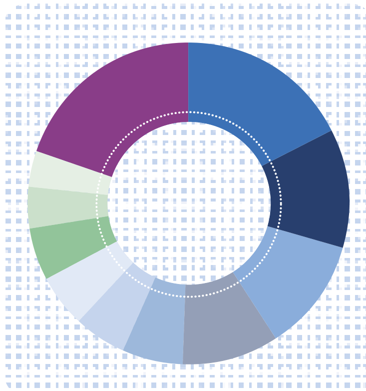



## NET SALES BY SEGMENT



- Building Solutions - Europe 66%
- Building Solutions - North America 15%
- Infrastructure Solutions 19%

## BREAKDOWN OF NET SALES BY COUNTRY*



* Countries with largest net sales

- Germany 17.5%
- Finland 12.1%
- USA 11.4%
- Sweden 9.7%
- Spain 6.0%
- Denmark 5.4%
- Italy 5.3%
- Netherlands 5.2%
- Norway 4.2%
- Canada 3.5%
- Other 19.7%

## KEY FIGURES

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Net sales, MEUR *) | 734.1 | 949.2 | 1,047.4 | 1,003.7 | 905.6 |
| Change in net sales, % *) | -22.7 | -9.4 | 4.4 | 10.8 | -0.4 |
| Operating profit, MEUR *) | 41.2 | 51.2 | 135.7 | 132.9 | 115.3 |
| Operating profit, % *) | 5.6 | 5.4 | 13.0 | 13.2 | 12.7 |
| Profit before taxes, MEUR *) | 28.5 | 41.0 | 133.1 | 130.9 | 112.9 |
| Profit for the period, MEUR *) | 11.5 | 72.5 | 101.9 | 96.5 | 82.7 |
| Return on Equity (ROE), % | 4.1 | 22.7 | 30.1 | 25.3 | 20.3 |
| Return on Investment (ROI), % | 8.1 | 22.2 | 39.2 | 35.8 | 28.1 |
| Solvency, % | 51.8 | 51.4 | 50.2 | 53.6 | 63.2 |
| Gearing, % | 25.0 | 19.8 | 25.4 | 6.3 | -6.4 |
| Net interest-bearing liabilities, MEUR | 64.6 | 60.6 | 84.5 | 21.7 | -26.9 |
| Personnel (FTE) at 31 December | 3,316 | 3,678 | 4,581 | 4,325 | 4,126 |
| Investments, MEUR *) | 25.9 | 39.0 | 52.0 | 50.2 | 44.6 |

## SHARE-SPECIFIC KEY FIGURES

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Market value of share capital at year-end, MEUR | 1,098.1 | 563.7 | 1,260.6 | 2,076.6 | 1,338.9 |
| Earnings per share (fully diluted), EUR | 0.16 | 0.99 | 1.39 | 1.32 | 1.12 |
| Dividend, MEUR | 36.5[3] | 62.1 | 102.5 | 102.5 [2] | 166.0 [1] |
| Dividend per share, EUR | 0.50[3] | 0.85 | 1.40 | 1.40 [2] | 2.27 [1] |
| Effective share yield, % | 3.3[3] | 11.0 | 8.1 | 4.9 | 12.6 |
| Issue-adjusted share prices | | | | | |
| - highest, € | 15.10 | 18.91 | 31.45 | 29.35 | 19.78 |
| - lowest, € | 6.80 | 6.10 | 15.31 | 18.00 | 13.72 |
| Number of shareholders | 20,214 | 18,629 | 12,564 | 7,799 | 6,766 |

*) Continuing operations

The definitions of key ratios are presented in the financial statements.

Notes to the share-specific key figures:
[1] includes an extra dividend payment 1.37 euros per share
[2] includes an extra dividend payment 0.25 euros per share
[3] proposal of the Board of Directors.

# Foreword by the CEO

## The year 2009 was a challenging time for all of us. Without much preamble, construction activity slowed at an unprecedented speed across Uponor's key markets and, consequently, demand for our products and services declined significantly.

The worst-case scenarios we drafted in the autumn of 2008, while preparing the annual plan for 2009, more or less materialised. Fortunately, the scenarios we had prepared helped us rapidly launch activities in an effort to counter the decline. These plans involved both rightsizing the company to match the current slow economic environment and making Uponor ever more agile and scalable.

We have executed most of the plans drafted at that time. In hindsight, 2009 was a busy period during which our colleagues and various teams showed true commitment in carrying out the agreed actions, some of which involved significant cuts in personnel: nearly one out of every five Uponorians has had to leave the company since the outbreak of the financial crisis in the autumn of 2008. These cuts made their mark in our annual personnel survey, the results of which clearly spelled out that the work load amongst the remaining staff has greatly increased. The other areas surveyed remained at earlier levels, despite the tough times.

Our main focus in 2009 was on cost and efficiency management, where we achieved some good results. Simultaneously, we implemented our new European organisation, aiming at integrating the company further and creating structures in support of our growth in the years to come. Growth is a key requirement for any company hoping to prosper in the long run; we recognise this and growth remains a key item on our agenda in 2010. Since we do not expect the external business environment, or construction activity more specifically, to develop very favourably during 2010, our ambition to grow our business depends more on our own actions, innovations and the favourable trends supporting demand for our offerings in a marketplace where competition remains tough.

Favourable trends do not always start by themselves; sometimes one needs to be active and plant seeds to help create them. In past decades, Uponor has been a front runner in creating wider acceptance for hydronic underfloor heating. Today, underfloor heating is generally recognised as the most comfortable form of heat distribution, which can also help you save energy and choose low energy heat sources. In the area of plumbing, conversion from traditional materials to modern plastics has very much been accelerated by the innovative and reliable solutions Uponor has developed.

While all of these historical developments are still blooming, we need to remain proactive in creating new trends. For example: increasing energy costs and the need to reduce carbon footprints everywhere are crying out for new practical innovations to help create better, sustainable human environments. Radiant cooling is an excellent example, which helps us create a convenient indoor climate without noise and draughts, while saving considerable amounts of energy compared to traditional air conditioning.

Energy usage is generally recognised to be one of the key sustainability challenges facing mankind. Shortage of clean water is another and is already a major problem in some developed countries. By providing reliable infrastructures for utilities and buildings, we help conserve clean water and reduce the energy needed for providing these services to people.

It should be no surprise to anyone that we in Uponor view the year 2010 as an exciting one for developing Uponor and our businesses further. Despite the still challenging building and construction markets, we see positive opportunities around us. Our three-pillar strategy has remained intact, and we will be focussing determinedly on its execution. Apart from our growth target explained above, we will further consolidate Uponor's position as the leading global brand in plumbing and indoor climate. We will also offer unparalleled supply and logistics to our customers. Finally, we will work towards our long-term financial targets. While it is obvious that, due to sluggish markets, we will not achieve all of these financial targets in 2010, we will keep working towards them nevertheless.

I am proud of the achievements of our people in the difficult year behind us and wish to express my deepest gratitude to them. We all appreciate the business from our loyal customers — it has been a pleasure to serve you in 2009. You can be assured of our dedication to striving for the highest customer satisfaction in 2010 and onwards. And finally, my sincere thanks also go to our shareholders for your patience in these volatile times.

Vantaa, February 2010

Jyri Luomakoski
President and CEO

# Uponor solutions

## Uponor offers its customers technologically advanced and energy-efficient comprehensive solutions which enhance comfort, reduce costs and are easy to control and maintain.

Our indoor climate, plumbing and infrastructure systems can be readily used on newbuilding sites as well as in renovations and modernisation work on construction sites ranging from small single-family houses to extensive building projects.

We focus on providing our customers with comprehensive solutions. This enables us to better respond to the needs of our customer segments and hence provide more added value. For the last few years, we have focused on the development of radiant underfloor heating and cooling systems, and launched solutions in which a comfortable room temperature is generated by using renewable energy sources.

### OUR CUSTOMERS

The customers of our distribution business include HPVAC installers and heating and plumbing contractors, who obtain their Uponor products mainly from wholesalers.

Our growing project business increasingly attracts large construction companies and property developers. In this segment, architects and engineers play a major role.

In our infrastructure solutions, municipalities and public utility corporations, with their contracted design and construction agencies, form the core customer base.

### SIGNIFICANT ENERGY SAVINGS WITH NEW UPONOR INNOVATION


In the spring of 2009, Uponor launched a new underfloor heating control system that utilises dynamic energy management (DEM), elevating comfortable living to a new level while saving energy. Dynamic energy management is based on accurate, rapid-response control and energy distribution. It adapts to room-specific climates, releasing only a sufficient amount of energy, thus maintaining a comfortable, balanced temperature in the room and on floors. Energy savings with DEM can reach several percentage points compared to traditional underfloor heating control systems.

## IMPROVING INDOOR CLIMATES

Uponor's integrated heating, cooling and ventilation offering is the basis for a healthy and pleasant indoor climate. Our objective is to offer solutions, optimised in terms of comfort, health, cost level, productivity and energy consumption, for controlling indoor temperature and air quality. Our indoor climate solutions help to reduce energy consumption and efficiently utilise renewable energy sources.

## EASILY INSTALLED PLUMBING SYSTEMS

Our plumbing systems portfolio includes solutions suitable for a variety of needs. Our portfolio includes potable water pipes and other water pipes used in buildings, including radiator connections. Uponor's hygienic PEX and composite pipe systems are corrosion resistant, with extended life cycles. Compared to metal pipes, the advantages of plastic pipe systems include easy installation, secure fittings and improved tolerance of fluctuations in water quality. Plastic pipes are also highly suitable for renovation and modernisation projects.

## RELIABLE INFRASTRUCTURE SYSTEMS

The Nordic infrastructure business is one of Uponor's core businesses. Its emphasis is on water and sewer pipes, and providing wastewater treatment systems for non-urban areas. Over their extended life cycle, our reliable and secure systems for the transport and storage of clean water, rain water and sewage help reduce costs during installation and while in use.


We help
increase
comfort at home
and at work

# Strategy and business

## Global recession continuing for three years has imposed challenges for the construction industry. Despite the world economic turmoil, Uponor has been determined to plough forward in its chosen strategic areas, although the recession has forced us to switch our focus toward short-term objectives.

Our ultimate goal is partnership with professionals to create better human environments, and we have a strategy that will guide us in our decision-making and help us select the correct alternatives to achieve that goal.

Since 2003, Uponor's corporate strategy has rested on three main pillars: growth, the corporate brand, and operational excellence. In 2009, our strategic focus was on the last of these.

### UPONOR'S THREE MAIN STRATEGIC PILLARS

#### 1. Growth

Entering new markets creates growth opportunities. This year, our geographical target areas included eastern and south-east Europe, countries in the Persian Gulf area, and China. New offices were opened in Turkey, Slovakia, Croatia and Beijing. Various measures are also aimed at markets with growth potential, in which we have a small market share, such as North America, France, Italy, and the UK.

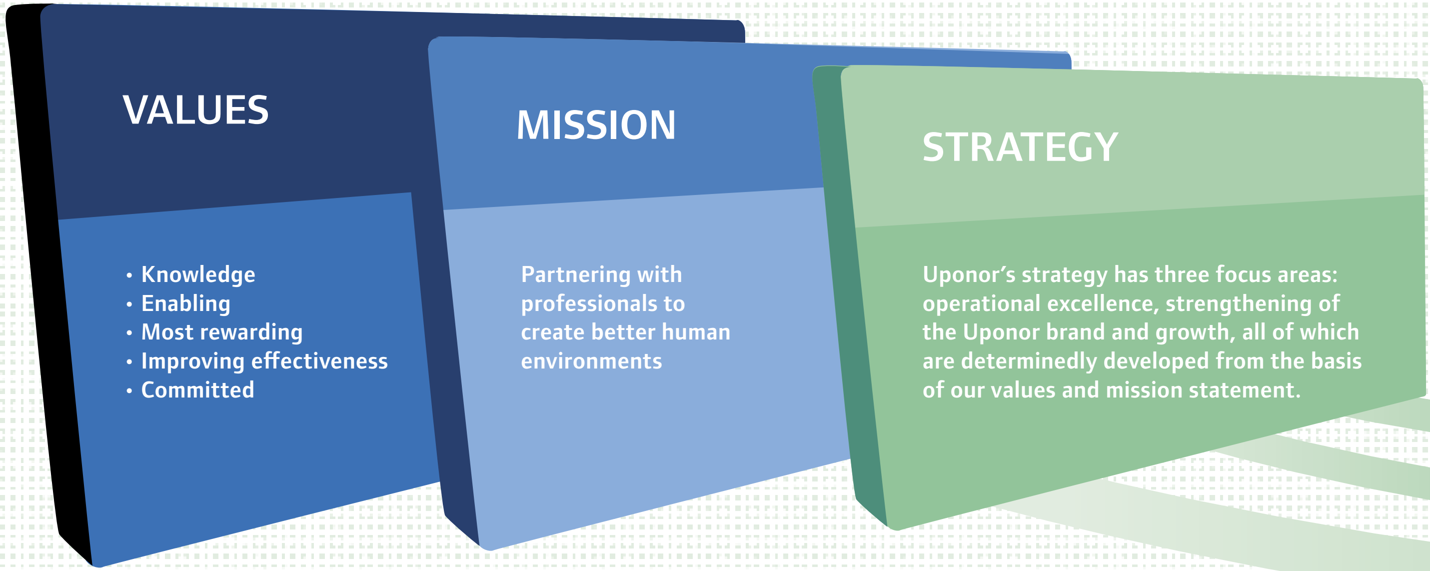
In Europe, Uponor's building solutions operations were divided into business divisions focusing on offering management and dedicated sales organisations. This major reorganisation improved and clarified our operations in the markets. Our plumbing and indoor climate business groups focus on product harmonisation along with the development of our product offering, whereas our sales organisations are developing our customer relationship management. Our new organisational structure enhances our capacity for future growth, which is especially important for Uponor's indoor climate business on account of the new growth opportunities created by changing requirements concerning quality, the environment, and comfort during the construction phase of modern projects and throughout their service life.

Development ventures were particularly targeted at the renovation and modernisation market, whose significance has only been emphasised during the recession while representing a growing sector in the long run. Uponor's project business is strategically important, and in order to boost its future growth we acquired a British company specialising in commercial and public building.

#### 2. Operational excellence

Operational excellence has two dimensions: we focus on doing the right things, and we do them efficiently.

Dividing our organisation in Europe into business units and sales organisations focusing on customer relationships has improved our efficiency. In the long run, our new organisational structure will further contribute to our capacity for enhanced operations and future growth, by enabling our specialisation in the plumbing and indoor climate business. With our uniform, Europe-wide organisations, we can utilise and share our wealth of knowledge and skills irrespective of national borders. Product and service harmonisation will further enhance and accelerate product development, since we can focus on solutions on the European scale instead of having multiple sets




of R&D efforts, scattered across several countries.

*Uponor's supply chain contributing to operational excellence*

The strategic aims of Uponor's supply chain include improved delivery reliability, reduced operation costs, and maintaining customer satisfaction. The objectives are set for 3–5-year periods, and we measure our progress at regular intervals.

Delivery reliability is measured against the number of deliveries. It is high when items are delivered on time to the customer in a single run. Cost effectiveness is measured through factors such as inventory values and turnover. Quality issues are tracked according to the number of customer complaints filed.

*Improvements in the supply chain in 2009*

We proceeded with implementation of our Europe-wide ERP system. At the moment, the system has been rolled out for 70% of our building solutions operations in Europe. For 2010, our objective is to have 90% coverage. The next step is to implement the system in Nordic Infrastructure Solutions, then continue with the smaller European divisions.

Delivery reliability in terms of single runs delivered on time as ordered has improved, thanks to our centralised supply chain management. Simultaneously, we have been able to markedly reduce our inventory, which has resulted in considerable savings.

To improve our operational performance and delivery reliability, we focused on our warehousing and logistics systems. We closed warehouses in Sweden, Denmark, Lithuania, and Germany, which contributed to accelerated inventory turnover and reductions in capital invested in stock, while improving our service level. A new distribution centre was opened in the USA's Lakeville, Minnesota and we decided on a new distribution centre close to our production facility in Spain. In order to streamline production, the manufacture of metal components was transferred from Kungsör, Sweden, to our facilities in Germany. Uponor Infrastructure closed the Hadsund factory in Denmark, and its production work was moved to our other Nordic factories. The production facilities in Hadsund were emptied by the end of 2009, but the sales and administration departments will continue to operate as before.

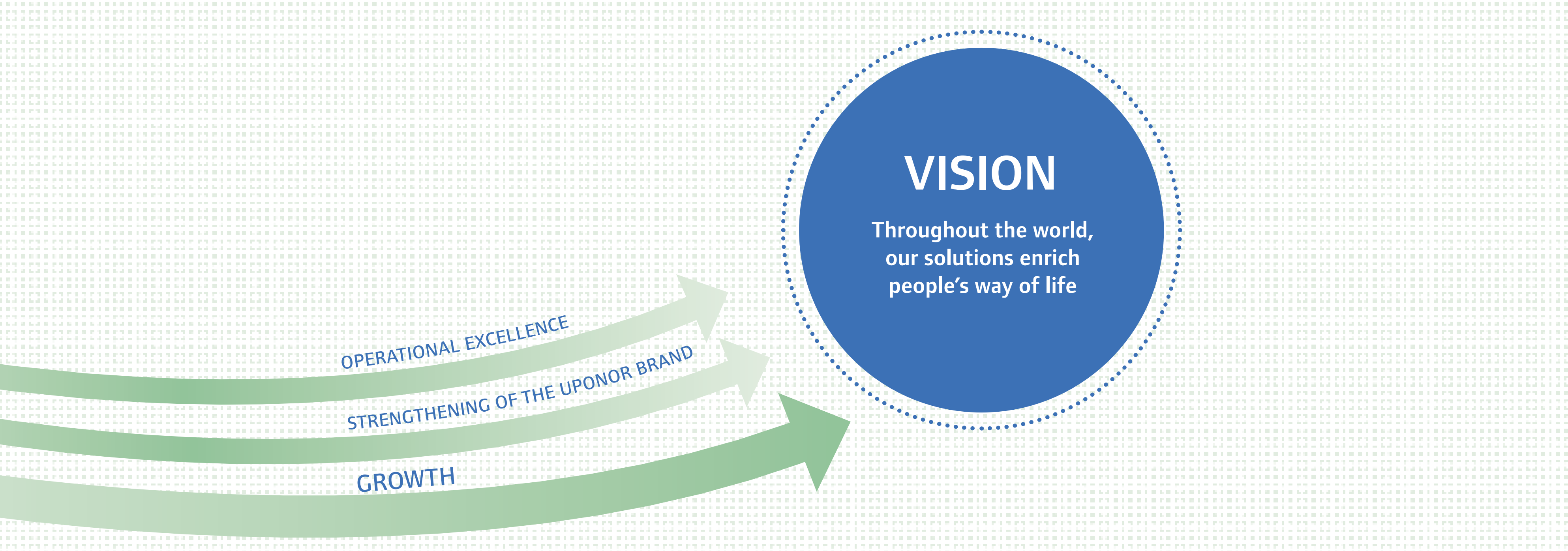
### 3. The corporate brand

Efforts to establish a uniform Uponor brand continued in 2009. Our primary objective was to improve cost-efficiency both in marketing and in the management and development of our product portfolio. A working group to support the corporate brand and Uponor's marketing efforts, as well as for managing cost savings, was appointed to monitor operations on the European level.

To our various interest groups, the uniform Uponor brand is visible in our unified operations. General sales and marketing messages are harmonised across all countries, yet local needs and construction policies are taken into consideration. In the course of 2009, new product management and communication tools were developed to be shared with everyone.

Our new website launched in June serves as a visible demonstration of the new, unified Uponor to all of our interest groups. Our new international site will gradually replace national web pages, offering a larger range of services and tools to a larger variety of professionals.

Participating in trade fairs is part of building Uponor's brand and increasing corporate visibility. Trade fairs also provide an excellent forum to meet customers and introduce novelties. In 2009, one of the trade fairs Uponor took part in was the international ISH




trade fair, held in Frankfurt, Germany. This is the largest and most prominent international trade fair in the field. Our new control system based on dynamic energy management (DEM) introduced at the ISH fair attracted enthusiastic attention.

We also wish to attach a positive environment-related image to the Uponor brand. It is important for us to be able to respond to our customers' need to assess the environmental impact of our operations and solutions. Environmental impact assessment requires a considerable amount of study, and Uponor engages in research efforts alongside other actors in our sector through the European Plastic Pipes and Fittings Association, TEPPFA, for example.

### UPONOR'S ROLE IN INTERNATIONAL ASSOCIATIONS OF THE INDUSTRY

TEPPFA (The European Plastic Pipes and Fittings Association) promotes the industry in Europe. Uponor has been involved for several years and will chair the association until spring 2010. Additionally, Uponor has also been active on the association's building technology working group, of which Uponor is the chair. TEPPFA invests in studies on environmental issues and sustainable development.

REHVA (the Federation of European Heating, Ventilating and Air-conditioning Associations) is the umbrella organisation representing HVAC professionals in Europe. Uponor is a supporting member of REHVA. Energy-efficiency of buildings is one of REHVA's areas of focus. The association has actively monitored legislative progress and strives to improve communications between its members and various interest groups.

Uponor is also a member of the ECTP (the European Construction Technology Platform), an organisation covering the whole of the construction sector in Europe, as well as of the Green Building Council, which involves several countries. The information we receive from these helps us detect trends in the construction business and build development networks.

### COMPETITIVE EDGE THROUGH PIONEERING SPIRIT

Uponor's new structure aims at improved competitiveness. The reorganisation offered new challenges and new opportunities for many Uponorians, enabling their skills and tacit knowledge to travel across national or organisational borders.

In the indoor climate business, part of improving competitiveness is to improve the sales of comprehensive energy-efficient solutions. Much effort has been vested in developing the necessary know-how in 2009, and some of it has been acquired beyond the organisation's borders.

Our sales organisations have developed various customer relationship management models and customer loyalty programmes. The year has seen us implement policies and business models that allow increased attention to a variety of customer groups. For example, our wholesale business has been developing logistics operations with our key customers operating throughout Europe. We also continued to invest in our customer training and education programmes in 2009 despite the economic situation.

Over the last couple of years, the share of R&D has increased to approximately 2% of total net sales, which represents a good level in this business. Despite the recession, we have striven to keep investments in important development projects stable, because we believe a market leader must continuously reinvent itself. To maintain our competitive edge, we ceaselessly improve our product and service palette by developing novel solutions such as low-energy and geothermal systems.

With the decline in construction of new housing, the importance of renovation and

## EXPERIENCE CLIMATE CHANGE AT THE KLIMAHAUS

Photo: Jan Rathke ©Klimahaus® Bremerhaven 8° Ost

### Partnership with professionals

THE KLIMAHAUS BREMERHAVEN in Germany is a science centre that presents climate and climate change topics in a comprehensible manner.

The exhibition represents nine locations from seven countries on four continents, and the most important climate zones, ranging from Antarctica (-6 °C) to the desert (+38°C).

Technologies such as concrete core activation and natural ventilation have been put to optimal use in this holistically planned object. For heating and cooling, the developers opted for the Uponor stapler system, which comes with heat and sound insulation. In total, 10 kilometres of PEX pipes inserted in stapler panels were installed in the floor.

Uponor worked in close contact with other professionals in the project, providing them with assistance throughout the construction work. In addition, the project utilised Uponor's planning software from preplanning to implementation. The CAD programme enables rapid and easy calculation for heating surface design, heat input, heating pipe networks and drinking water, helping professionals perform their work correctly.

modernisation has increased significantly, affecting the development of our product and service portfolio. In 2009, emphasis was also placed on the integration of indoor climate systems to create comprehensive solutions with improved energy-efficiency. Our third area of focus is the continued improvement of our product performance, including delivery reliability, durability, safety, reliability, and — in plumbing solutions — hygiene.

## UPONOR'S INDOOR CLIMATE SOLUTIONS

Uponor's heating, cooling, ventilation and energy solutions create the basis for a healthy and pleasant indoor climate. These systems are able to efficiently utilise renewable energy sources and reduce energy consumption. Our solutions are intended for residential and commercial construction, in new building sites as well as renovation and modernisation projects.

### Business objectives and major development ventures

In 2009, we initiated a development project to define and create a harmonised Uponor Indoor Climate offering. Our primary goal is to create a harmonised solution family available throughout Europe that is unique in its energy-efficiency and indoor climate properties.

Several initiatives were launched to achieve this goal. The foundation for the future development of the indoor climate solutions offered throughout Europe is laid by the harmonisation of current underfloor heating solutions.

### Market launch of new solutions

Energy-efficiency and indoor climate solutions are at the core of our offering development efforts. In 2009, our most important new product was a heating and cooling control system based on dynamic energy management (DEM). Investments were also made to introduce Uponor TABS (Thermally Active Building Structures) to new markets. In Germany, TABS is already very popular. The TABS system is based on utilisation of the concrete structure of a building to store and use energy. It is one of the best methods to control indoor temperatures.

In Germany, a significant partnership agreement was signed with a local heating equipment manufacturer. The objective is to offer customers a comprehensive solution for heat generation and distribution in residential and commercial buildings that is both energy efficient and environmentally friendly.

Additionally, we are developing our systems forward to better integrate underfloor heating with low energy buildings. This is a part of our response to the new EU directives and tighter energy-efficiency requirements. The new system concepts will be launched in the first part of 2010.

### Energy-efficiency and environmental impact are the drivers of success

In addition to improved energy-efficiency, the development trends in our sector address factors related to the classification of environment-friendliness and envi-

> "Energy-efficiency and indoor climate solutions are at the core of our offering development efforts."

ronmental impact of buildings and properties. We are confident that the increased awareness of environmental issues will have a positive effect on our operations, since we offer environmentally sound and safe, energy efficient solutions to all of our customers.

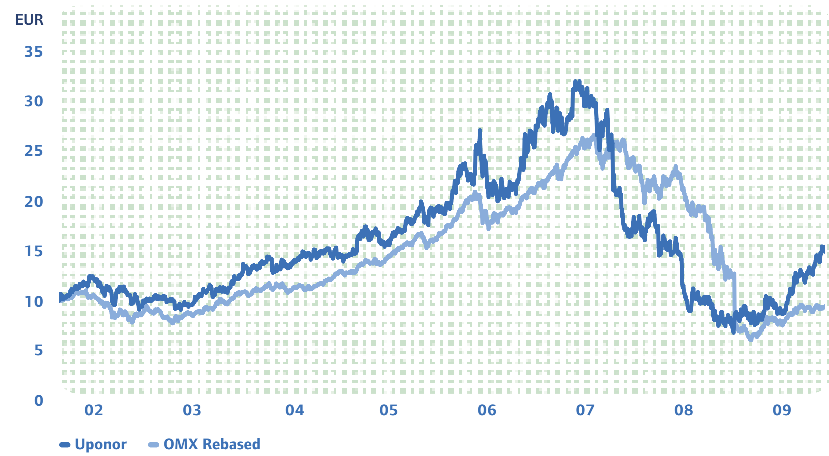
Many customers are increasingly interested in the environmental impact of their buildings. They are interested in energy consumption and other energy-related issues, as well as in waste and emissions caused during construction and use of the building. Therefore, the construction industry needs a uniform and transparent measurement system to determine the environmental effects of buildings, and that can also serve as a basis for comparisons and estimates and provide methods for improvement of existing practices. Green Building Councils emerging in many of our main markets provide an example of a body that grants certificates to 'green' buildings.

As a result of increased health-awareness, greater demands are being imposed for comfortable living and work environments. At the moment, the indoor climate quality tends to be insufficient even in countries with a higher standard of living. Expenses caused by illnesses and sick leave due to poor indoor climate in offices are considerable when compared to other office expenses. Health and indoor climate issues are taken into consideration in commercial buildings, but in many residential building projects they have been largely ignored. However, this is clearly changing and explicit requirements on high quality indoor climate are also emerging in residential developments.

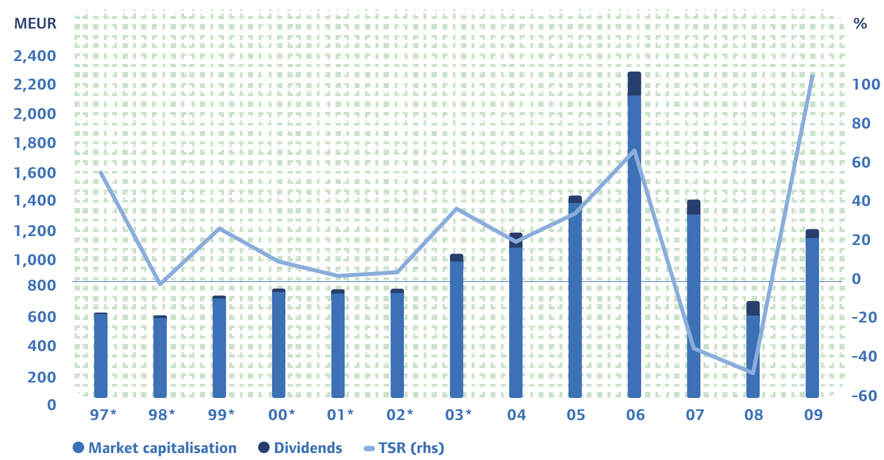
## UPONOR'S LONG-TERM FINANCIAL TARGETS

| Target | Scale | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| Annual organic net sales growth (over the cycle) | > 6% | -22.7% | -9.4% | 6.2% |
| Operating profit margin | ~ 15% | 5.6% | 5.4% | 12.4% |
| Return on investment (ROI) | > 30% | 8.1% | 22.2% | 39.2% |
| Gearing (average across quarters) | 30–70 | 45.2 | 46.4 | 43.9 |
| A growing ordinary dividend payout | > 50% of earnings | 316.3% | 85.7% | 100.7% |

### SHARE PERFORMANCE 2002-2009




### SHAREHOLDER VALUE DEVELOPMENT 1997–2009



**MY PART:** Eric Fiedler, USA

Question: How can you as an Uponorian contribute to making better human environments?

Answer: I should think about the end goal and not focus just on the product, and continue to ask the question "What problem is our company trying to solve? "

### The EU directive on energy-efficiency, greatly affecting the future of construction

The Energy Performance of Buildings Directive (EPBD) was revised and adopted in autumn 2009. This directive is important for Uponor and for the entire industry, since it is an impressive demonstration of the political will to improve the energy-efficiency of new and existing buildings. According to the directive, EU member states must issue action plans to implement the programme, and, for example, all new buildings in Europe should be net zero energy consumers within 10 years. The directive is likely to have the strongest effect on building technology and processes.

The implementation of the directive brings with it several European and international standards for the design of buildings and building services systems, and for unified methods of evaluating energy-efficiency. These standards will aid in assessing the energy-efficiency of the entire industry, clarifying the competitive environment, and facilitating comparisons between the various players in the field.

### Prefabrication and virtual construction solutions

Our operations are heavily influenced by trends that appeared 2–3 years ago. The long-term trends are primarily related to the development of processes and solutions used in the construction industry. One of the clearest construction process trends is the increased level of prefabrication. We have developed several prefabricated modules and component systems that minimise the work load on work sites and the risk of installation errors leading to quality issues.

Virtual construction solutions represent another long-term trend. In virtual construction, the design, construction, and long-term management of buildings and property are based on the use of building information modelling (BIM). With BIM, the effects of alternative options on indoor environment and energy consumption, for example, can be assessed and evaluated already in the design phase. Furthermore, modelling ensures that technical specifications are smoothly transferred between processes and between actors.

Demographic changes and the diminishing consumer interest in 'do-it-yourself' types of applications affect our industry. For us, these trends spell increased investments in user-friendly interfaces implemented for buildings and other properties, because these systems are implemented increasingly in residential buildings as well.

## UPONOR'S PLUMBING SOLUTIONS

Plumbing solutions comprise reliable and versatile household plumbing systems allowing clean water to run safely to its destination. Plumbing solutions also include other pipes used in buildings, such as radiator connections using state-of-the-art, corrosion-resistant plastic and composite pipes. Uponor's plumbing solutions are suitable for both new-building and renovation applications.

### Business objectives

The development objectives for Uponor's plumbing business can be described in terms of the three main pillars of Uponor's strategy.

Growth is supported by development work on fittings technologies. These results can then be applied in Indoor Climate systems as well. By expanding our range of pipe and fitting sizes, we can set ourselves apart from our competitors; a further competitive edge is gained through being able to offer products for use in new applications. Another key aim is to establish a uniform and comprehensive product offering in a larger market area. Additionally, we intend to increase the share of large-scale projects in our sales by developing product systems and components suitable for applications with a broader scope.

Operational excellence is improved through product and system harmonisation.

Improving the corporate brand – the third main pillar in Uponor's strategy – is achieved through the visual properties of the products. Uponor's brand is visible in packaging materials, product labels, and the product itself. Over the last year, significant material strategic decisions were made concerning Uponor's plumbing systems.

### Major development ventures in 2009

One of the priorities in our operations was to develop system solutions suitable for use in large scale construction projects. An additional goal was to increase the sale of products related to renovation and modernisation projects where the distribution channel plays an important role.

Through product harmonisation, we have been able to reduce the number of individual items by 20%. Having a smaller number of items decreases production costs and improves distribution efficiency while our sales remain stable. This is one of the advantages of product harmonisation.

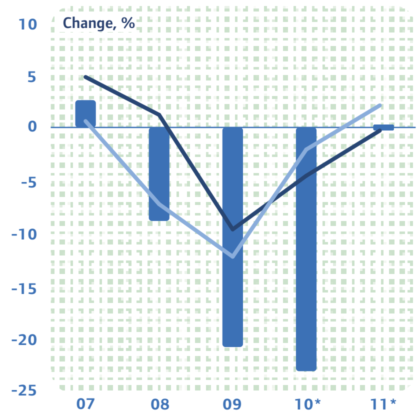
We also launched a new composite pipe strategy in response to the fierce competition in Central Europe. According to the new strategy, we differentiate ourselves from our competitors by offering different pipes in different solutions. As a result of the riser development, we introduced pipes and fittings with a larger diameter. This improved the competitive position of our systems in high-rise buildings.

We also expanded our range of PPSU (polyphenylsulphide) fittings, especially in the smaller sizes. We now offer composite fittings in 40 and 50 mm sizes. The intensive R&D process was completed in 2009, and the new products will be launched in 2010.

### Tap water quality and water conservation creating business opportunities for Uponor

When one is choosing a plumbing system, the selection criteria include operational safety, water consumption and savings, water quality and recycling, and chlorine treatment. As the number of standards increases, these factors become even more important. Our objective is to develop our product offering accordingly in order to improve our business opportunities.

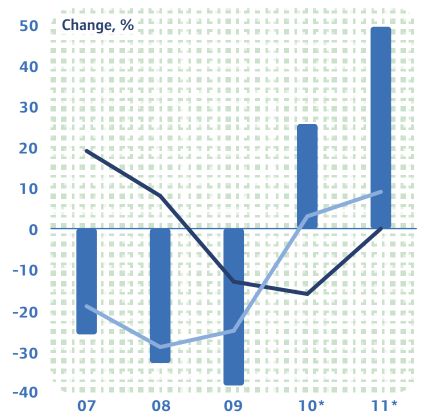
CONSTRUCTION ACTIVITY: EUROPE (EUROCONSTRUCT COUNTRIES)




* Forecast Source: Euroconstruct (11/09)

- Non-residental spending
- Residental spending
- Housing completions

CONSTRUCTION ACTIVITY: USA




* Forecast Source: NAHB (12/09) and FMI (Q3/09)

- Non-residental spending (excl. industrial)
- Residental spending
- Housing starts

## CREATING A LANDMARK IN NORTHERN IRELAND

Partnership with professionals

OBEL TOWER, located on Donegal Quay in Belfast, Northern Ireland, will soon be the tallest building in the country, measuring 85 metres in height. The tower will contain 233 unique studio apartments, perfect for modern living or as an alternative to hotel suites for business.

The use of natural resources and energy throughout the building's lifecycle has been enabled through high-quality design and construction.

The project had already been initiated by January 2006, and Uponor has been involved since the beginning, providing the tower with an MLCP modular system and fittings. Since the recent establishment of a partnership with the construction company, Uponor has had even closer involvement in the project, offering on-site training and after sales technical support. Obel Tower will be completed in 2010.

**MY PART:** Riitta Palomäki, Finland

Question: How can you as an Uponorian contribute to making better human environments?

Answer: I want to challenge myself and my fellow Uponorians to always seek for more sustainable product offering, and to strive for environmentally friendly decisions in our work.

Requirements concerning water quality and purity affect the demand for durable and hygienic pipes that can withstand chlorine. Increased use of chlorine in water treatment processes poses a challenge for pipe service life. Fortunately, our offering already meets these challenges.

In addition to the Nordic building regulation committee's standard, the Nordic countries have now decided to also introduce the ISO standard for water pipes. As a result, the relevance of the ISO standard will increase also in the Nordic region. Thus, in 2010, we intend to extend our Nordic offering with ISO-compliant products and services.

Plastic pipes continue to replace metal pipes in the markets. This has been an obvious trend for several years. The advantages of plastic pipes over metallic versions include easy and fast installation, corrosion-resistance, light weight, and easy handling.

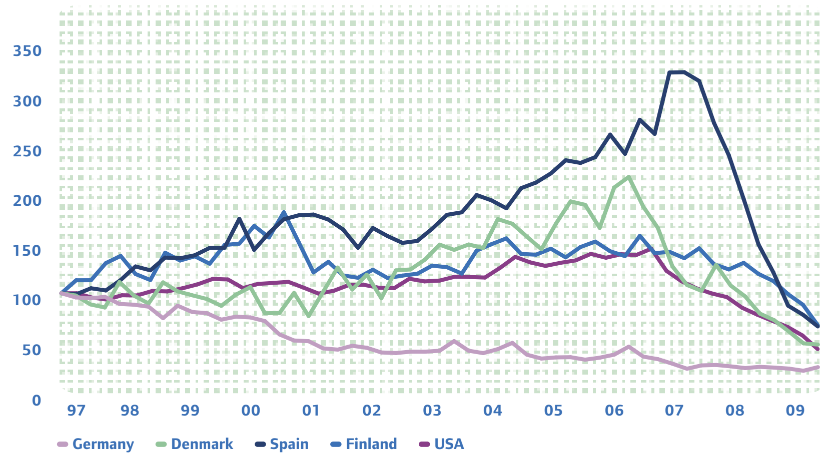
Growing demand for prefabricated and preinstalled solutions is evident also in the plumbing markets, because they decrease on-site work time. We respond to this with our pre-manufactured components and bespoke, even partly preinstalled products, if necessary.

## INFRASTRUCTURE SOLUTIONS

Uponor offers a variety of infrastructure solutions in the Nordic countries. Some are primarily offered to home-builders in connection with our building solutions. This is one example of the type of comprehensive product and service solutions we have been marketing over the past year in addition to remodelling our product offerings so that they are more readily accessible to our customers. Uponor's solutions can be applied to connect a single-family house to shared sewers and district heating systems, for example.

New, stricter regulations on wastewater treatment in rural and sparsely populated areas will enter into force in all of the Nordic countries, and this will increase demand for wastewater systems designed for use in rural areas. In this area, Uponor can offer a variety of options. Strong brand recognition and the company's presence in all of the Nordic markets together contribute to customer loyalty and strong faith in our product and service solutions ensuring the availability of suitable products and services also in the long run. On the communal level, the replacement of concrete pipes with plastic solutions opens further opportunities for Uponor.

LONG-TERM DEVELOPMENT OF RESIDENTIAL BUILDING ACTIVITY
(index of building permits in selected countries)



# Businesss review 2009

## BUILDING SOLUTIONS, EUROPE

### Business environment

In Europe, it is estimated that buildings use up to 40% of total energy consumption, half of which is spent on heating and cooling. Demographic trends, such as birth rates and migration, affect the construction business. In Europe, these trends are turning downwards, but the decrease in the average number of people per residence is helping to balance this development.

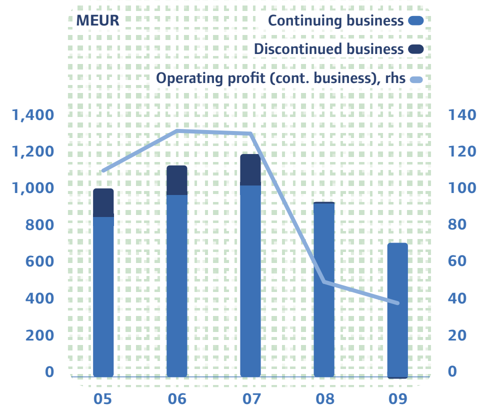
With increasing heating costs, interest in energy-efficiency is growing also. Governments encourage energy savings and support the implementation of energy-efficient systems. The EU directive on the energy-efficiency of buildings requires the national implementation of energy-efficiency regulations concerning new housing construction as well as renovation and modernisation projects. In practice, the new regulations require energy-efficient heating and cooling, which describes Uponor's solutions perfectly. Regulations on a national level are expected to be stricter in Central Europe and more relaxed in Eastern Europe.

Thinking green benefits especially Uponor's indoor climate solutions. In Northern, Southern and Western Europe, consumers are increasingly conscious of the environmental impact of the choices they make. This tendency is clearly evident in the Nordic countries, but local administrations elsewhere have also taken note of the opportunities presented by energy saving solutions in buildings. As a result of the crisis of the world economy, people are tending to stay home more than before and are investing increasingly in comfort for their homes. This trend is clearly visible, especially in Germany. In Eastern Europe, the positive effects of environmentalism have so far been modest. The impact of the economic crisis is manifested mainly in slackening of construction business.

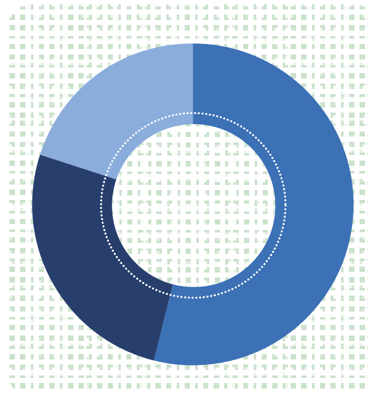
Efficient use of floor space has become a significant factor which also affects the choice of systems - as prices keep rising, each square metre must be efficiently used. Thus, freeing up floor space by removing radiators and air conditioners is considered an asset.

Demand for Uponor's solutions is further boosted by consumers' ever-increasing desire for comfort. The share of buildings equipped with cooling and heating systems is on the rise. Simultaneously, the demand for improved, healthier indoor air quality is increasing.

GROUP NET SALES AND OPERATING PROFIT




GROUP NET SALES BY BUSINESS GROUP



- Plumbing 54%
- Indoor climate 26%
- Infrastructure 20%

## SUSTAINABLE LUXURY AT CRYSTALS IN LAS VEGAS

Partnership with professionals

UPONOR'S RADIANT HEATING AND COOLING solution was selected for Crystals in Las Vegas, the U.S. This 46,500 square metres (500,000 square foot) retail and entertainment district is part of the 1,700,000 square metres (18 million square foot) metropolis known as CityCenter — one of the world's largest sustainable communities.

Crystals is the largest retail district to receive Leadership in Energy and Environmental Design (LEED®) Gold certification from the U.S. Green Building Council (USGBC).

Creating a comfortable environment in commercial structures is a critical design and construction consideration for sustainable building practices. Uponor's radiant heating and cooling system is fast becoming the preferred choice for creating such comfort efficiently and effectively.

As part of Uponor's 'partnering with professionals' philosophy, the commercial design team worked closely with the international consulting engineering firm, to provide the most energy-efficient tubing layout and design of our system. Additionally, the company's commercial technical field representatives provided onsite training and technical support for the mechanical contractors.

### Market situation

We are a market leader in underfloor heating solutions in Europe, and our solutions are also penetrating the radiator segment. In terms of energy efficiency and comfortable living conditions, our solutions have a distinct edge over traditional radiator-based heating systems. Furthermore, we have been able to increase our market share through marketing.

In 2006 and 2007, years of economic prosperity, Central Europe invested heavily in construction. These long-term investments continue to affect Uponor's operations positively, especially in the German-speaking countries. In Eastern Europe, the peak was sharper than in the West, and after a rapid decline many investments made during the construction boom lost their impact. In 2009, the market had already slackened.

As a result of the economic crisis, the majority of construction projects today are renovation and modernisation projects in both Central and Eastern Europe. In Central Europe, for example, cooling solutions installed in old office buildings offer Uponor a range of opportunities. Modernisation projects such as these have become increasingly popular, primarily because of the demand for comfort and high-quality living and working environments. In Eastern Europe, acute renovation and modernisation needs arise as a result of the poor condition of many buildings.

In Central Europe, governments have initiated several programmes to encourage modernisation and renovation work. The effects of these initiatives are distributed over several years. The impact of this support is expected to show more clearly this year than in 2009, although on the scale of the total market it will be modest.

In the German-speaking countries, the large number of local actors affects competition in the field of residential heating systems. Smaller contractors are not tied to traditional distribution channels, and they often work on a turnkey basis. On the other hand, large and complex commercial building projects prefer partnering with large actors such as Uponor. With our cooling systems we compete against air-conditioning solutions.

In Eastern Europe, Uponor's heating solutions mainly compete with traditional radiator based heating systems. For now, the role of cooling solutions in Eastern European markets is small.

Our plumbing solutions compete with copper and other plastic pipes in several Central European markets, and in Germany also with stainless steel pipes. In Eastern Europe, we compete mainly with copper and low-price plastic materials, and in Russia also with ordinary steel pipes.

Our market share has increased in Italy and France, and we have also penetrated the markets with our new solutions.

The construction business has been slow, particularly on the Iberian Peninsula and in the UK. In Spain, the large number of unsold houses on the market is hindering the launch of new building projects. In Southern and Western Europe, ongoing and new projects have encountered financial difficulties. In combination with the unsold items available on the market, this is putting a brake on the activities of construction companies and property developers. In France, the decline in demand has been slower than in other countries.

Over the last year, the construction markets have shown few signs of recovery. In Spain and Italy, governments have launched repairs of public buildings while offering incentives to private homeowners in order to motivate repairs and renovations improving energy efficiency. These projects are providing Uponor with promising opportunities, because our solutions can be used to replace older, less efficient ones. Furthermore, there is room for increasing our market share in the large European economies, where the penetration of the radiant heating and cooling is still very modest.

Public support for renovation and modernisation projects had a favourable effect as early as 2009, and this is expected to continue in the coming years 2010 and 2011. This is most clearly visible in the Nordic countries. In some markets, improving the heat and sound insulation between floors in multiple storey buildings has been providing new opportunities for renovation and modernisation projects, since Uponor's underfloor systems can be easily installed together with the new insulation layer.

### Business in 2009

With the decline in the construction business, turnover decreased from the 2008 level.

In Germany, net sales remained nearly stable. Net sales of indoor climate systems grew, but the increase was countered by a decrease in the net sales of plumbing solutions. A similar trend was seen in Benelux and Austria.

In Eastern Europe, a rapid decline in sales was evident in most countries. In Russia, Poland, and Hungary, net sales in euro terms

> "In Uponor's project business, investments were directed into marketing and skills development in 2009."

were in addition negatively influenced by the unfavourable exchange rates.

Despite the weak market situation, we were able to increase our market share in Central and Eastern Europe. In Germany, the newly regrouped sales organisation enabled effective exploitation of opportunities that had arisen in various customer sectors. Profitability and performance were improved through cost reductions, and satisfactory gross margins were preserved.

Silent radiant heating and cooling technology based on low energy consumption is becoming a prominent trend in office and industrial building in the German-speaking countries. In the construction of large commercial buildings, radiant underfloor heating solutions are clearly gaining popularity.

Uponor's brand recognition was further enhanced and visibility improved by a Uponor conference, which took place in Austria. The conference was primarily intended for designers, with its programme emphasising energy issues and green construction.

Over the last year, we have actively improved our customer loyalty programmes. In Germany, the new programme was well received and attracted a large number of members.

The Berlin-Schönefeld airport was one of the most important new projects in 2009. Construction work is scheduled to start in 2010.

Thanks to efficient marketing and close co-operation with our customers, we did increase our share in the plumbing and indoor climate segments in North, South and West Europe.

In Uponor's project business, investments were directed into marketing and skills development in 2009. The acquisition of The Underfloor Heating Company Ltd at the end of the year was aimed to contribute to improved project business at European level. In addition, our new modular riser systems have gained in popularity and support the growth of our project business.

Renovation and modernisation marketing targeted at end-users and installers was intensified. In Finland, for example, the related campaign was very successful. In France and Italy, marketing efforts were mainly directed at installers and distributors. Marketing efforts are backed up by training and education opportunities – in 2009, thousands of people across Europe took part in Uponor's training programmes.

In Madrid, Uponor won two important contracts by offering the energy-efficient

## BUILDING SOLUTIONS – EUROPE

| MEUR | **2009** | 2008 |
|---|---|---|
| Net sales | **485.4** | 632.7 |
| Operating profit (EBITA) | **32.4** | 65.6 |
| EBITA ratio | **6.7** | 10.4 |
| Assets | **398.2** | 417.0 |
| Investments | **10.5** | 16.0 |
| Personnel, 31 Dec. | **2433** | 2803 |

## BUILDING SOLUTIONS – NORTH AMERICA

| MEUR | **2009** | 2008 |
|---|---|---|
| Net sales | **109.0** | 130.8 |
| Operating profit (EBITA) | **3.9** | -16.0 |
| EBITA ratio | **3.6** | -12.2 |
| Assets | **118.1** | 121.8 |
| Investments | **5.1** | 14.4 |
| Personnel, 31 Dec. | **422** | 532 |

## INFRASTRUCTURE SOLUTIONS

| MEUR | **2009** | 2008 |
|---|---|---|
| Net sales | **139.7** | 185.7 |
| Operating profit (EBITA) | **14.4** | 10.0 |
| EBITA ratio | **10.3** | 5.4 |
| Assets | **75.2** | 67.5 |
| Investments | **10.1** | 4.7 |
| Personnel, 31 Dec. | **510** | 605 |

## UPONOR'S MARKET POSITION 2009

| | Building solutions | | Infrastructure |
|---|---|---|---|
| | Indoor climate solutions [1] | Plumbing solutions [2] | Infrastructure solutions |
| Central Europe | ● | ◐ | — |
| North Europe | ● | ● | ● |
| South and West Europe | ● | ◔ | — |
| Eastern Europe | ◐ | ◔ | — |
| North America | ● | ◐ | — |

● In top 1 to 2 ◐ In top 3 to 5 ◔ Market presence — Not present

[1] Only hydronic systems considered [2] All materials considered

THE RETURN OF
THE WORKER AND KOLKHOZ WOMAN MONUMENT

Photo: ©Garanger/Corbis/SKOY

Partnership with professionals

THE UPONOR SNOW-MELTING SYSTEM has now been installed around "The Worker and Kolkhoz woman" statue in Moscow, Russia. It is one of the most important symbols of Muscovite architecture.

The sculpture was created in 1937 for the Soviet pavilion at the World exhibition in Paris. Two years later, it was transported to the USSR and installed in front of the All-Russian Exhibition Centre.

Uponor's snow-melting system was installed in the area during its restoration. Automatic system control enables temperature maintenance at the required level in all seasons. According to the installer, one of the key factors for choosing Uponor was the technical consulting the company offers its partners, making it even easier to work with Uponor's products.

Uponor TABS heating and cooling technology. These projects received a great deal of public attention. One of the projects was a public building, in which TABS technology was implemented for the first time in Spain. In Spain and Portugal, we managed to increase our share of the project segment's heating and cooling solutions.

In international sales, we have managed to hold on to our market position in most export markets despite the economic crisis. New trends in environmentally friendly and energy efficient construction have presented us with interesting new opportunities in the Middle East and China. Implemented in buildings, radiant cooling in particular has attracted increasing international attention.

## BUILDING SOLUTIONS, NORTH AMERICA

### Business environment

In North America, attempts to reduce oil consumption and achieve energy self-sufficiency have sparked a growing interest in conservation, with a particular emphasis on developing alternative energy sources. In addition, the dwindling water supply, particularly in the southern U.S., is generating increased demand for systems supporting water reuse and recovery.

### Market situation

Due to the economic crisis, residential building markets continued to decline in North America, and new home construction reached its lowest level in over 50 years. Prices of detached houses have decreased 25% from peak levels and unemployment rates are at near-historic highs. Although the commercial construction market has not been as adversely affected as the residential sector, it too has seen a decline in overall building activity. This is largely due to the inability to secure financing as well as a high level of building vacancies caused by the general economic decline.

Partly due to tax incentives for first-time buyers, homebuilders have switched their focus to entry-level homes. The overall effect on homebuilding has been positive, although entry-level homes tend to be smaller, requiring fewer plumbing system solutions and, in most cases, they do not incorporate underfloor heating systems.

Despite the decline in the construction markets, we have increased our market share in North America by offering our customers - installers and construction companies in particular - benefits which reduce total building costs. Furthermore, our advanced potable system solutions benefit builders facing strict regulations concerning potable water usage.

When markets are dwindling, sales prices become an increasingly important competitive factor. Uponor has responded to this challenge by focusing its efforts on comprehensive system solutions, launching products and services characterised by greater differentiation, and rationalising its cost structure. Tighter requirements concerning pipe manufacturing processes and materials work in our favour, as our products already match these new requirements.

In the North American market, we are competing for market share with copper pipe plumbing as well as PEX and plastic pipes from other manufacturers. In the systems market, our competitors include forced air heating and air conditioning and control and sprinkler systems from other providers.

### Business in 2009

In North America, Uponor's operating profit increased in both dollars and euro compared to 2008. Continued cost savings and cost control, together with operational streamlining, greatly influenced this development.

Over the last year, Uponor has launched significant new products in the North American market, including lead-free brass fittings, pre-insulated and flexible district heating and heat pipes, large-dimension tubing for plumbing and radiant heating and cooling, and an engineered plastic manifold for underfloor heating systems, among others.

In recognition of its innovative activities, Uponor has received several industry awards for its products, such as reclaimed water tubing. This tubing is used in a greywater system, where filtered water captured from sinks and showers is distributed to laundry, toilets and irrigation systems. Our reclaimed water tubing helps home and commercial building professionals incorporate sustainable building practices and earn points under the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED®).

Building on more than 35 years of proven PEX-a process know-how, we developed new patent-pending, oxygen-barrier technology for our PEX heating tubing. It was also certified to meet the latest dimensional requirements. To the best of our knowledge, Uponor is the only PEX manufacturer in the U.S. to meet these new requirements.

Additionally, new technology ensures that Uponor tubing for plumbing and fire sprinkler systems meets the latest oxidative-resistance (chlorine-resistance) requirements for continuous recirculation in the U.S.

In addition to our focus on innovative and sustainable products, we also look to sustainable relationships. In 2009, we reached an agreement with one of the leading U.S. homebuilders, which is installing our plumbing systems in its residential projects.

In addition to opening a new distribution centre in Calgary, Alberta to serve our western Canadian customers, we built a new facility for our North American distribution and technical/customer-service operations in Lakeville, Minnesota. The award-winning centre features many sustainable building solutions, including radiant floor heating and cooling in office areas and snow and ice melting in sidewalks and dock ramps.

During the final period of 2009, we also remodelled and expanded our Uponor Academy training centre. The revamped facility offers an expanded class curriculum, a hands-on application lab, an expanded controls learning station, and new plumbing, fire safety and radiant system work stations, to name but a few.

## INFRASTRUCTURE SOLUTIONS, NORDIC

### Business environment

General interest in energy-efficiency is on the rise, and Uponor is ready to respond to the needs created by this new trend also in Infrastructure Solutions in the Nordic countries. Even the quality of pipes plays a role in energy saving, as leaking pipes require additional pumping at the water utility.

Although water supply is not a problem in the Nordic countries, we will need solutions for water reuse and water heat recovery in the future. Water treatment processes impose costs and tax our resources; therefore, we do not wish to squander water.

Increased rainfall due to climate change will create demand for improved storm sewers and surface water flow management on both lot property and communal level. In addition to increased demand for infrastructure solutions, this development is likely to increase demand from private homeowners as well.

### Market situation

In the Nordic countries, several growth opportunities exist for Uponor's infrastructure solutions, but business is slow because of the economic recession. Building and construction business has declined, and the impact of government initiatives supporting construction recovery projects, while positive, has been modest in terms of the overall business landscape.

### Business in 2009

Net sales for infrastructure solutions decreased in the Nordic countries as a direct result of the economic crisis. The number of construction projects was clearly lower than normal, although Uponor's market share is expected to remain intact. In the Nordic countries, net sales in euros were also negatively influenced by the unfavourable exchange rates. Thanks to tight cost control and saving measures, we were able to achieve a fairly good level of profitability despite the tough market situation and increasing price competition.

The most important new products include a wastewater treatment system equipped with wireless control and Optonet fibre technology, reducing the installation costs of data transmission cables. Over the past year, we have improved our holding tank solutions, double-walled pipes, and storm drain systems. Interest in the Uponor Academy increased.

In the autumn, it was decided to divide all infrastructure production between two of the main factories, one in Fristad (in southern Sweden) and the other in Nastola (in southern Finland). The project went according to plan, and production ceased at Denmark's Hadsund factory towards the end of the year. Thanks to improved performance, the production capacity serving the entire area remained stable.

Furthermore, we have launched preparations to implement the Europe-wide enterprise resource planning (ERP) system for infrastructure solutions operations in the course of 2010.

Our solutions enable more eco-efficient and sustainable living

# Corporate responsibility

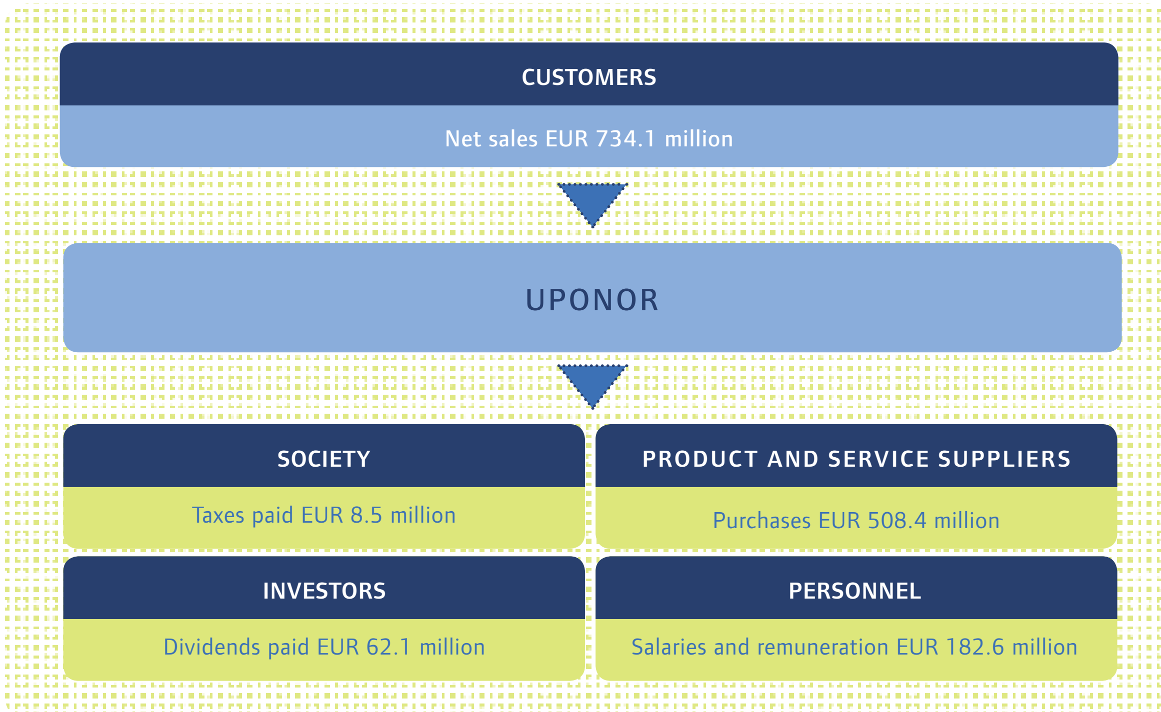
## To Uponor, corporate responsibility includes the development of environmentally friendly and energy-efficient solutions.

We offer a wide range of advanced products and systems to help reduce the environmental impact of construction work and housing. For us, corporate responsibility also includes taking the needs of our customers, our personnel, and our other stakeholders seriously.

Uponor seeks to be a good corporate citizen, an attractive employer and an esteemed partner. To satisfy the needs and wishes of ourselves and our partners, we aim at straightforward and transparent co-operation with all stakeholders, and flexible co-operation with public authorities, media and educational institutions.

At Uponor, corporate responsibility also includes personnel development and occupational wellbeing, and is manifest in the respect we have for our partners, consumers and society. We always abide by the applicable laws and regulations, and it is important to us that our partners also conduct their operations responsibly.

FINANCIAL IMPACT ON STAKEHOLDERS



**MY PART:** Russell Hopkins, UK

Question: How can you as an Uponorian contribute to making better human environments?

Answer: I can share our knowledge and experience across the organisation so that we can learn from each other and innovate new solutions for the market more rapidly.

"Co-operation is the starting point of sustainable development."

In Europe, all our production units hold an ISO 14000 environmental certificate and all of our factories an ISO 9000 quality certificate. Uponor's operations are conducted according to the principles of these systems. Traditionally, operations have been managed on local level. However, harmonisation efforts have led to a shift towards centralised management. Furthermore, our production facilities each compose annual plans for the minimisation of their environmental impact.

One of the major challenges our industry faces today lies in transferring sustainable and environmentally friendly construction ideals to everyday routines in construction work. The construction value chain incorporates several links which need to be improved to achieve this goal. In Uponor, for example, we strive to enhance our level of expertise. Our goal is to be at the forefront of building solutions. Achieving that goal will require a high level of expertise in everything we do - from sales to technical support, and from design to production. We must be able to design our solutions so that they form part of an energy-efficient whole; and we need to guide others working on the same construction projects in the same direction.

## CO-OPERATION AND SUSTAINABLE DEVELOPMENT

Co-operation is the starting point of sustainable development. We partner with other professionals to create better human environments. Through TEPPFA, The European Plastic Pipes and Fittings Association, we participate in environmental research and work. We will chair the Association until the spring of 2010. One of the major projects during Uponor's period in the chair has been TEPPFA's Sustainability Programme. The targets set out in the Programme include creating a universal system for documenting products and solutions, in order to unambiguously determine their ecological footprint. The first results will be available in early 2010.

To improve and enhance professional skills, we initiated a two-year project with two local companies. This project is entitled "Industrial co-operation in Virsbo", and has received SEK1.5 million in EU-funding.

In 2008 and 2009, our German subsidiary Hewing GmbH in Ochtrup participated in the Ecoprofit partnership programme. The basic idea behind Ecoprofit is to mutually benefit both businesses and the local environment by investing in ecologically efficient solutions which reduce the consumption of energy and raw materials. Experiences have been positive. Investments reduced company costs as well as the amount of emissions and waste. Furthermore, the project provided a means of communication between member companies, consultants and local authorities.

In December, the Board made a decision to support Finland's new Aalto University, which began operating on 1 January 2010, with a monetary endowment of EUR 400,000.

## EFFICIENT SOLUTIONS SAVE THE NATURAL ENVIRONMENT AND COSTS

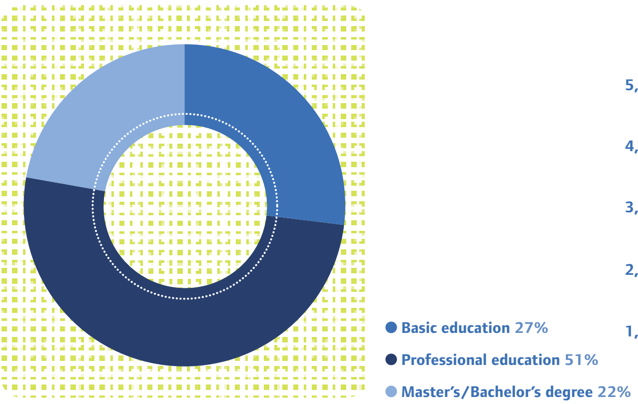
Energy-efficiency is prioritised in the development of many of Uponor's products and system solutions. Our goal is to create systems that will improve the energy-efficiency of construction work and housing in general. This will benefit people as well as the environment. For Uponor, energy-efficiency provides a competitive edge.

Using natural resources and the exploiting of existing sources of energy is an important factor in curbing climate change. In our R&D, we focus on technologies enabling the use of alternative sources of energy. Uponor's heating and cooling systems operate on large surface areas with relatively small temperature differences. Hence, heating and cooling is conducted close to room temperature, rendering the system's operating efficiency high.

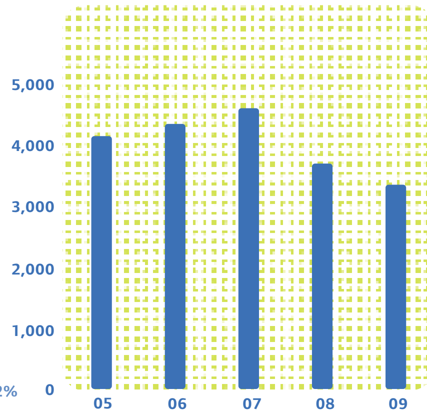
Compared to traditional radiators with a small surface area and high temperatures, Uponor's solutions cover the complete floor or wall area, a few degrees above room temperature being sufficient to provide sufficient heat. Consequently, solar and geothermal heat and other forms of latent heat which produce low-temperature heating water can be efficiently applied. To complement our underfloor heating system suitable for low-energy building, we have introduced a cooling system which operates according to similar principles. In addition, we are currently developing new alternative applications for geothermal energy. In the future, demand for these solutions is expected to increase significantly.

In current housing starts, consideration is usually taken of environmental aspects. However, housing starts only cover around one percent of the total building stock. Hence, a major challenge - and opportunity – lies in transforming our existing buildings. To reduce total energy consumption, the energy-efficiency of existing buildings needs to be improved. We therefore view it as vital that systems be developed which can be readily installed in existing structures.

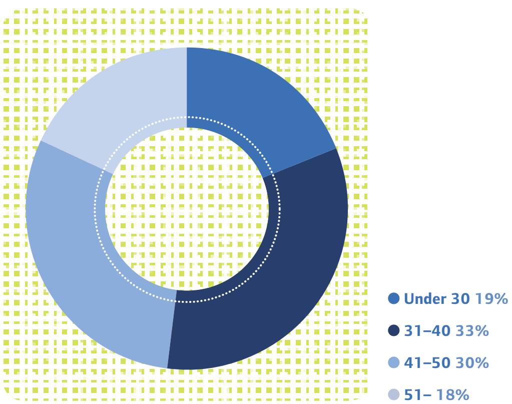
## EMPLOYEES BY EDUCATION



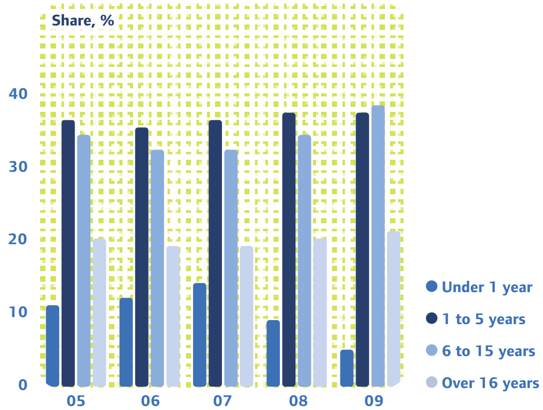

## PERSONNEL (FTE) AT YEAR-END




## EMPLOYEE AGE DISTRIBUTION




## EMPLOYEE SERVICE AGE




## UPONOR PARTICIPATES IN BUILDING HAPPY VILLAGE

Photo: EKE Group/SkyFoto

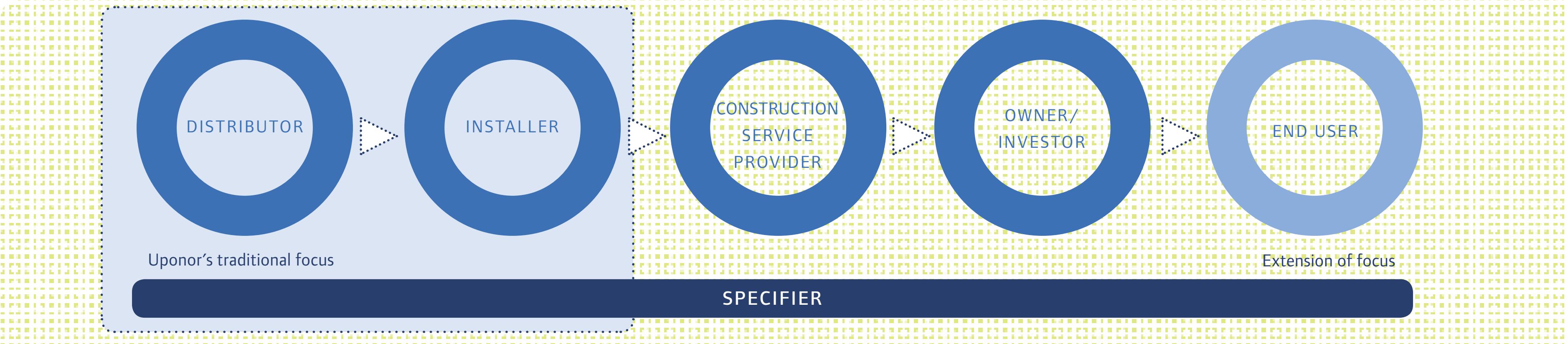
Partnership with professionals

THE SUNDSBERG AREA IN KIRKKONUMMI, Finland is also known as Happy Village. This contemporary residential area resembles a small town built in a historical milieu, much like a densely populated, old-fashioned village.

Never before have town planning areas of this extent been built in Finland. When completed, the area will house approximately 3,000 persons in a total of 800 residences. The inhabitants have actively participated in developing their living area. Emphasis has been placed on energy efficiency including heat recovery and, more recently, also low energy solutions.

Partnering with a leading developer in southern Finland, Uponor has supplied solutions for single-family houses as well as infrastructure. For three years, Uponor's hydronic heating systems have kept the homes warm. Uponor has also supplied the area with PEX plumbing systems and pre-insulated heating and plumbing pipes installed underground outside the buildings. Furthermore, Uponor played a central role in laying the area's infrastructure systems during different stages of construction.

## MOVING FORWARD IN THE VALUE CHAIN




Extending the value chain positioning, thus complementing the traditional distributor and installer-driven model.

### ACTIONS IN NORTH AMERICA

We developed a relationship with the Make it Right foundation, a project designed to build 350 green, affordable housing solutions for victims of Hurricane Katrina in New Orleans, Louisiana. These homes feature Uponor's plumbing and multipurpose fire sprinkler systems.

We created Uponor's new Distribution Centre in Lakeville, Minnesota. The centre is LEED® certified. The facility is 30% more energy-efficient than typical warehouse construction under the existing code. It yields water savings which are 32% in excess of code requirements and 35% of its electricity is provided by wind power. All of this emphasises the importance of energy and environmental aspects, together with improved indoor climate quality in the design, construction and use of the building.

### OPTIMISED PRODUCTION AND SUPPLY

The environmental load of our products is small throughout their life-cycle, because we have paid special attention to their energy-efficiency and environmental impact, from delivery and installation to the end of the product life-cycle. When studying the environmental impact, our objective is to take comprehensive consideration of the ecological footprint. For example, optimising our deliveries saves not only on logistics costs, but also reduces our carbon dioxide emissions. Furthermore, we require that our suppliers also observe environmental considerations.

The high quality of our products further contributes to a reduced environmental impact. Our pipes have a standard lifecycle of at least 50 years, which means that they seldom need to be replaced. An extended usable life reduces the amount of primary energy and raw materials used in Uponor products during their lifecycle. Furthermore, our pipes have an excellent seal which reduces clean water loss or soil pollution caused by leaking wastewater, depending on the pipe application.

We make continuous efforts to reduce production loss. For example, where we previously directed our building solutions operations by unit, in 2009 all such production in Europe was measured as a single entity, using the same indicators. This generated promising results: we were able to reduce our total waste by 11 percent, recycling most (96%) waste as energy or raw materials. We were also able to dramatically reduce the amount of waste, now representing just under one percent of total waste, making its way to dumps.

Uponor's most significant environmental effects stem from the use of raw materials, energy consumption and transportation. Uponor's manufacture of resin-based products does not generate major emissions or other hazards to the environment, and raw materials are used efficiently. Our environmentally friendly polyolefin products can be recycled and reused.

### NEW MANAGEMENT POLICIES IN A NEW ORGANISATION

Uponor's success lies in the well-being of its highly skilled and motivated staff. Job satisfaction is important. Hence, our target is to find the right people for the right tasks. When everyone is doing their best, we can also expect the best possible results.

The reorganisation which took place at the end of 2008 also resulted in new man-

“ Uponor’s success lies in the well-being of its highly skilled and motivated staff.”

agement processes. In the new organisation, performance management is increasingly important since the teams are often geographically dispersed and work in different sites and countries. In 2009, we focused our efforts on providing support and guidance to those holding management positions in the new organisation.

Being responsible for our personnel includes reducing the number of occupational accidents, and we have set our target at zero. In 2009, the number of occupational accidents fell by over 20%.

An annual personnel survey covering our entire organisation was conducted at the end of 2009 to study the motivation, competence and working environment of our employees. This survey provides us with vital information, and the results are discussed in teams and units. Our targets for the following year are based on the results, the fulfilment of these targets being monitored thereafter.

The result of our 2009 personnel survey diminished only slightly compared to the previous year. However, considering the harsh economic realities and reductions in the number of personnel, we find the results satisfactory. The survey also reinforced the impression that employees who had participated in development discussions were significantly more satisfied with their work than others. Hence, we view the continuous rise in the participation percentage in development discussions as a positive development.

As part of the reorganisation and to improve our efficiency, warehouse operations in Germany and Denmark, for example, were merged in 2009. As a direct result of the merging of operations, our need for personnel has been reduced. In Uponor, layoffs are not the primary means of reducing costs. However, due to the difficult market situation we were forced to take this measure too.

To alleviate the consequences, we have made specific arrangements in those units where personnel layoffs have been realised. For example, we have organised training and outplacement guidance. Assistance has been offered to everyone who has been laid off. Support has also been made available to those employees whose job descriptions or working environment saw changes due to the layoffs.

## CREATING A HOME ACCORDING TO FENG SHUI

Photo: Architect Giuseppe Maria Padoan

### Partnership with professionals

UPONOR PARTICIPATED IN A UNIQUE project in Isola Vicentina, Italy, where it was asked to provide indoor climate solutions for a sustainable house. Built with natural materials, the house was designed to comply with state-of-the-art bio-architecture parameters and to save energy. The aim was to create the most comfortable house possible for the family. Moreover, the plans for the house were laid following feng shui principles, which is an Asian philosophy combining natural elements and energy flows.

Uponor’s role was to create a perfect indoor climate for the house. Following the wishes of the architect and the inhabitants, Uponor’s technical team decided to insert the MLCP pipes on tracks into biologically pure cork panels. This approach also complied with the feng shui principles, as the panels were then used as flooring material, leaving spaces free of hindering objects.

The collaboration between Uponor and the other professionals involved in the project was one of the key factors in overcoming the project’s challenges. Joining forces and innovative thinking helped Uponor provide a solution designed especially for this house.


We take responsibility with good corporate governance

# Corporate governance

## Pursuant to the Finnish Companies Act and the Articles of Association of Uponor Corporation (hereinafter 'the Company'), the control and management of the Company is divided among the shareholders, the Board of Directors ('the Board') and the Chief Executive Officer ('CEO'). The Company's shares are quoted on the NASDAQ OMX Helsinki Ltd, and the Company observes its rules and regulations for listed companies.

Furthermore, the Company complies with the Finnish Corporate Governance Code 2008 issued by the Securities Market Association from which it 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. Said Code is available on the website www.cgfinland.fi.

### GENERAL MEETINGS OF SHAREHOLDERS

Shareholders exercise their rights in general meetings of shareholders, which constitute the Company's highest decision-making body. Under the Finnish Companies Act, decisions made by general meetings of shareholders include:

- Amendments to the Articles of Association
- Adoption of the annual accounts
- Dividend distribution
- Share issues
- Buyback and disposal of the Company's shares
- Share and stock option plans
- Election of members of the Board and decision on their emoluments
- Election of the Company's auditor and decision on audit fees

Under the Finnish Companies Act, a shareholder has the right to require that an issue to be addressed by the general meeting of shareholders be included on the agenda of the general meeting of shareholders, if (s)he submits his/her demand in writing to the Board well in advance so that the matter can be included in the notice of meeting.

Shareholders who alone or jointly with others hold a minimum of 10 per cent of the Company's shares have the right to demand in writing that an extraordinary general meeting of shareholders be convened for the purpose of dealing with a specific matter.

Shareholders are entitled to exercise their rights at the general meeting of shareholders via an authorised representative, and the shareholder or the representative authorised by the shareholder may use an assistant at the meeting.

Shareholders wishing to participate in and exercise their voting rights at the general meeting of shareholders must notify the Company of their intention to attend the meeting by the date mentioned in the notice of meeting.

### BOARD OF DIRECTORS

#### 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

> "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."

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.

For more detailed information on Uponor's Board members, please see page 37 in the annual report or visit www.uponor.com.

The Company complies with the recommendations on issues related to Board members, their independence and non-executive position, issued by the Securities Market Association. 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.

The AGM determines Board emoluments and fees. Based on the 2009 AGM's decision, the annual Board emoluments are as follows: Chairman EUR 71,000, Deputy Chairman EUR 49,000 and ordinary Board members EUR 44,000. The AGM further decided that approximately 40 per cent of the annual emoluments be paid in company shares acquired on behalf and in the name of the Board members, and approximately 60 per cent in cash.

The AGM also decided that a remuneration per meeting shall be paid to the members of the committees of the Board of Directors amounting to EUR 600 for Finnish residents, EUR 1,200 for persons residing elsewhere in Europe, and EUR 2,400 for non-European members.

The table below shows the total annual remuneration paid to the current Board members during 2009:

| Board member | Annual emoluments, € | Remuneration per meeting, € |
|---|---|---|
| Paasikivi, Jari, Chairman | 71,000 | 3,600 |
| Rajahalme, Aimo, Deputy Chairman | 49,000 | 4,200 |
| Eloranta, Jorma | 44,000 | 3,000 |
| Silfverstolpe Nordin, Anne-Christine | 44,000 | - |
| Simon, Rainer S. | 44,000 | - |
| Total | 252,000 | 10,800 |

According to Uponor's policy, emoluments and fees are paid only to non-executive Board members.

The Board members are not involved in the Company's share-based incentive scheme.

### 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,

## LESS ENERGY, MORE COMFORT

Partnership with professionals

UPONOR HAS BEEN CONDUCTING a number of tests to prove the energy-saving potential of its new control system, which is based on dynamic energy management (DEM). One of these tests took place at the Ramundberget ski resort in Sweden.

The resort has a total of five houses, each split into two or three apartments. The test was conducted in two identical apartments in separate houses, with Uponor's underfloor heating system being installed in both. During the test, one system used dynamic energy management to control heating while the other utilised Uponor's traditional balancing system. After a few weeks, the balancing methods were swapped between the two apartments, to produce accurate and reliable data on energy consumption.

The test was a success that confirmed an energy saving of eight per cent compared to the old system. Thanks to these excellent results, all 14 apartments at the ski resort have now been provided with Uponor's dynamic energy management, making visitors' stays even more comfortable.

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 non-attendances were recorded, two of which were partial.

The CEO shall prepare the Board meeting agenda for the review by the Chairman. Any Board member may recommend the inclusion of a specific agenda item, such recommendations being accommodated to the extent practicable. Material for Board meetings shall be distributed to the members well in advance of each meeting.

The CEO and the Secretary to the Board shall attend Board meetings on a regular basis, while other members of the corporate management shall attend at the Chairman's invitation.

Board members shall have complete access to members of the ExCom and vice versa. Any non-routine communications shall be reported to the CEO.

The Board constitutes a quorum when more than half of the members are present. Decisions shall be made on a simple majority basis, with the Chairman casting the deciding vote should the votes be even.

## 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.

In 2009, the remuneration paid to the CEO, Mr Jyri Luomakoski, totalled EUR 411,357.80, including fringe benefits. He also received EUR 35,000 in bonuses, i.e. a total of EUR 446.357,80.

Under the terms of the written service contract with the CEO, the contract may be terminated by either the CEO or the Company at six months' notice. If the Company terminates the contract, it shall pay the CEO, in addition to the statutory compensation for the notice period, an amount equivalent to the remuneration paid to the CEO for 12 months preceding the termination. The Company may also terminate the agreement with immediate effect by paying and indemnification equivalent to his 18-month remuneration. The CEO retires at the age of 63, with a pension accrued in accordance with the Employees' Pensions Act (TyEL). Furthermore, the Company has taken a defined contribution pension insurance for the CEO, to which the Company annually pays EUR 40,000.00.

## EXECUTIVE COMMITTEE

### Duties

The Executive Committee is mainly responsible for formulating and implementing the Group's strategy. It also discusses and decides on significant operational issues, while each of its members is responsible for the Group's day-to-day management with respect to his/her field of responsibility.

The ExCom shall, among other things, attend to the following:

a) the Group's strategy and its implementation throughout the Group,
b) budgets, business plans and their implementation,
c) significant organisational changes and any changes in employment conditions affecting large numbers of employees such as:
   - the composition of area/regional management teams,
   - major structural changes within the organisation,
   - all major redundancy programmes,
d) the appointment or removal of Senior Officers and Unit Managers belonging to the reporting chain of any ExCom member,
e) annual salary and incentive structures of the management (excluding those of ExCom members),
f) investments and leasing arrangements with net present value of leases being in the limits specified in the Signing and Authorisation Policy,
g) acquisitions, joint ventures, partnerships and licensing arrangements and, should these exceed the limit specified in the Signing and Authorisation Policy, the ExCom shall submit a proposal to the Board
h) incorporation or dissolution of legal entities,
i) asset divestments – including real estate, legal units and shares in the limits specified in the Signing and Authorisation Policy,
j) performance by region/unit including analysis of market trends and the competitive environment, as well as significant corrective actions (to be discussed in each meeting),
k) R&D and new business development priorities and resources,
l) items related to the Group's brand architecture,

m) legal disputes and claims of a significant nature including matters at regional/unit level,
n) other matters, upon the Board's request.

ExCom prepares proposals to the Board on matters which require a resolution of the Board.

### Membership

The ExCom comprises of the CEO and the number of executives determined by the Board, with the CEO acting as the Chairman. (For more information on ExCom members and their responsibilities, please refer to page 39 or visit our website at www.uponor.com.)

### Meetings and decision-making

The ExCom meets 8–12 times a year, with informal records being kept of its meetings. In 2009, the ExCom held 8 meetings.

The target is to achieve a unanimous view among the members of the ExCom on the issues under discussion. The decisions shall be confirmed by the Chairman.

## BOARD AND CEO EVALUATION

The Board conducts an annual evaluation of the CEO's performance with respect to, for example, strategic planning, management skills and financial performance, based on a special evaluation form. In addition, the Board conducts a separate evaluation of its performance and that of the Chairman, while each director also assesses his/her personal performance.

## COMPENSATION

The Group's compensation system consists of the basic salary, fringe benefits and a profit and performance-based bonus, which is subject to an individual employee's position. The superior of an employee's immediate supervisor is responsible for approving an individual employee's compensation.

The members of the ExCom have a long-term incentive programme. To be eligible to participate in the scheme, an ExCom member had to acquire Uponor shares of a specific total value, as defined under the scheme, by the end of August 2008. Depending on the cumulative operating profit of Uponor during 2007–2011, and the number of shares acquired within the scheme, each member is eligible for being awarded Uponor shares in the spring of 2012.

In October 2008, the Company's Board decided to extend the incentive scheme to part of the Company's international management. To be eligible to participate in the scheme, a person must acquire Uponor shares of a specific total value, as defined under the scheme, by the end of August 2009. Depending on the achievement of the Company's financial targets for 2009–2011, and the number of shares acquired within the scheme, these persons are eligible for being awarded Uponor shares in the spring of 2012.

A Group employee is not entitled to a separate fee for a board membership within a Group company.

The Board determines the CEO's employment terms and conditions and annual compensation, and approves ExCom members' annual compensation, based on the CEO's proposal.

## INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

### Internal control

The Board is responsible for the principles of internal control in Uponor. Uponor'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:

- operations are effective, efficient and aligned with the strategy
- financial reporting and management information is reliable, comprehensive and timely
- the Group is in compliance with applicable laws and regulations.

Uponor'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 ethical values, good corporate governance and risk management practices
- ensure compliance with laws, regulations and Uponor's internal policies, and
- assure production of reliable financial reporting to support internal decision-making and to serve the needs of external stakeholders.

The base for the internal control environment and integrity of the employees is set in Uponor's Code of Conduct and values.

Uponor'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 interests are identified and eliminated. Examples of existing control mechanisms include group policies, accounting and reporting instructions and management meetings. Additionally, as an example, responsibilities for communication with external parties, such as customers, suppliers, regulators and shareholders are clearly set.

Ongoing monitoring occurs locally in each organisational unit, during the course of daily operations. Groupwide, the responsibility lies within the Finance and Administration function.

Whether separate evaluations are needed, and their scope and frequency, will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies shall be reported upstream, with serious matters to be reported to the top management and the Board. Any separate evaluations are performed by the internal audit function and may be initiated by the Board.

### Risk Management

Risk Management is a systematic way of protecting business assets and income against losses in order to achieve the Company's targets without unnecessary interruption. In addition, management of risk also includes

## ENERGY SAVING MADE FUN AT THE CAMPUS FUTURA

Partnership with professionals

Photo: Architekturbüro Frei & Wurzrainer ZT GmbH

JUGEND & FAMILIENGÄSTEHÄUSER (JUFA)
Campus Futura in Bleiburg, Austria is Europe's first JUFA guesthouse, whose establishment has been wholly based on a low energy approach. In addition to providing tourist accommodation with 150 beds, it is the home of the "Energy Cube" education and training centre for renewable energy, which holds workshops and training sessions on buildings and future-oriented life.

In Campus Futura, energy saving is fun. Guests can experience energy and its use in a new way. For instance, the water in the fountain turns cold on warm days, providing additional cooling. In total, the guest house makes energy savings of up to 80% per year compared to a conventional building.

Uponor provided Campus Futura with a complete plumbing system, utilising more than 3,000 metres of MLCP pipe in total. Uponor was introduced to this project by a long-term indoor climate business partner. Teaming up with Uponor has now entered a new chapter, this co-operation having expanded into the plumbing business as well.

risk-taking i.e. utilisation of opportunities taking risk vs. return into account.

The objective of risk management is to enable the Company to implement its strategy, to ensure it achieves its financial targets and to protect it from operative incidents, which might prevent it from achieving its targets. A further objective is to ensure the continuity of the operations even in an exceptional business environment.

The main risk areas of the Company have been identified, with each ExCom member being allocated his/her own area of responsibility with regard to identified risks. These responsibilities include the management and proper organisation of such areas throughout the Group.

Group Risk Management Team, comprising the CFO, EVP Supply Chain, EVP Offering & Business Group Management, General Counsel and Vice President Treasury and Risk Management, is responsible for the monitoring of Group-level risks and mitigation actions, and for informing the ExCom and the Board.

Vice President Treasury and Risk Management is responsible for providing support to the members of the ExCom in developing risk policies and guidelines, as well as for establishing assessment, monitoring and reporting procedures. He/she provides support to the Regions/Sub-regions, units and functions by providing assistance and training. He/she is also responsible for establishing and maintaining the company's global insurance programmes.

A summary of risks associated with business are described in the section "Review by the Board of Directors" (page 42).

Financial Risk Management related notes can be found in the section "Notes to the consolidated financial statements" (page 54).

### Internal Audit

Internal Audit is an integrated part of Uponor's internal control framework. It supports the Board and the management in following up the effectiveness of internal control and corporate governance. Internal Audit shall focus on the key risk areas of business. To achieve its objectives, it carries out independent process reviews, including special investigations, to give the ExCom and the Board assurance that effective controls are in place. Moreover, Internal Audit performs reviews to ensure compliance with internal company policies, guidelines and laws and regulations.

Internal auditing is an independent, objective assurance and consulting activity designed to add value to and improve the Company's operations. It helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The purpose, authority, and responsibilities of Internal Audit are defined in the Internal Audit Charter approved by the Board, to which Internal Audit is subordinated. The annual audit plan is approved by the Board. Internal Audit reports at least once a year to the Board, presenting a summary of the most significant findings, while it also has the obligation and authority to report on any significant audit findings both to the ExCom and to the Board. Internal Audit has unrestricted access to the Board, and to all Uponor's records, personnel, and physical properties relevant to the performance of its engagement.

Administratively, Internal Audit reports to the Chief Financial Officer ('CFO'). Uponor has outsourced its internal auditing to PricewaterhouseCoopers Oy.

## EXTERNAL AUDIT

Assisted by the Audit Committee, the Board prepares a proposal on the external auditor and presents it to the AGM for election. The external auditor must be a corporation of authorised public accountants accredited by the Central Chamber of Commerce of Finland. In co-operation with the auditor, the corporate management organises the audit of the Group's subsidiary companies, as required by applicable local legislation. Auditors of these subsidiary companies report directly to the legal unit they have audited, submitting a copy of each report to the Group's financial administration for inclusion in the Company's audit log.

The 2009 AGM appointed KPMG Oy Ab, a corporation of authorised public accountants, as the Company's auditor for the financial year 2009, with Lasse Holopainen, Authorised Public Accountant, acting as the principal auditor. Audit fees paid in 2009 to the external auditor for statutory audit services totalled EUR 475,000, for audit related services EUR 13,000, for tax services EUR 274,000, and for other services EUR 84,000, in total EUR 846,000.

## INSIDER GUIDELINES

The Company complies with the guidelines for insiders issued by the OMX Nordic Exchange Helsinki Ltd, the standards issued by the Financial Supervision Authority of Finland as well as other authorities. The Company also has its own insider regulations.

The Company's public insiders comprise of Board members, the CEO, ExCom members and the auditor. The Company maintains its public insider register in Finnish Central Securities Depository Ltd's SIRE system.

The Company also maintains a company-specific, non-public register of its permanent insiders including, among others, employees within the Group's administration. A project-specific insider register is established whenever the Company runs a project falling within the scope of insider regulations, and those involved in the special project on the basis of their employment contract or another contract gain insider information on the Company. Typically, such a project is a thematic entity or arrangement not forming part of the Company's normal business activities due to its nature or size. The Group's internal insider rules are published on the Group intranet, and information on them has been distributed, for instance, in the Group's internal web magazine. Group employees are required to act in accordance with these rules.

Trading in the Company's shares and other securities is subject to prior approval by the Company's General Counsel. The Company applies an absolute trading prohibition that starts at the end of the reporting period, however, no later than three weeks prior to the disclosure of annual accounts or interim reports, and lasts until the disclosure of the annual accounts or an interim report.

The attached table shows the shares owned by the public insiders in 2009 (including any holdings of corporations controlled by them and any holdings of their immediate circle).

## SHARES HELD BY PUBLIC INSIDERS IN 2009

### THE BOARD OF DIRECTORS AND THE AUDITOR

| Name | Position | Date | Shares |
|---|---|---|---|
| Eloranta, Jorma | Board member | 1 Jan. | 12,096 |
| | | 31 Dec. | 29,882 |
| Paasikivi, Jari | Chairman of the Board | 1 Jan. | 520,114 |
| | | 31 Dec. | 539,207 |
| Rajahalme, Aimo | Deputy Chairman of the Board | 1 Jan. | 8,510 |
| | | 31 Dec. | 26,410 |
| Silfverstolpe Nordin, Anne-Christine | Board member | 1 Jan. | 14,724 |
| | | 31 Dec. | 32,411 |
| Simon, Rainer S. | Board member | 1 Jan. | 11,842 |
| | | 31 Dec. | 29,787 |
| Holopainen, Lasse | Auditor | 18 Mar. | - |
| | as of 18 March 2009 | 31 Dec. | - |

### THE EXECUTIVE COMMITTEE

| Name | Position | Date | Shares |
|---|---|---|---|
| Bondestam, Sebastian | ExCom member | 1 Jan. | 2,735 |
| | | 31 Dec. | 2,735 |
| Folgmann, Heiko | ExCom member | 1 Jan. | 2,735 |
| | | 31 Dec. | 2,735 |
| von Graevenitz, Georg | ExCom member | 1 Jan. | 10,875 |
| | | 31 Dec. | 10,875 |
| Kallioinen, Jukka | ExCom member | 1 Jan. | 12,500 |
| | | 31 Dec. | 12,500 |
| Luomakoski, Jyri | President and CEO | 1 Jan. | 16,660 |
| | | 31 Dec. | 17,000 |
| Palomäki, Riitta | ExCom member | 1 June | - |
| | as of 1 June 2009 | 31 Dec. | 2,000 |
| Roses, Fernando | ExCom member | 1 Jan. | 2,735 |
| | | 31 Dec. | 2,735 |
| Tollsten, Anders | ExCom member | 1 Jan. | 10,874 |
| | | 31 Dec. | 10,874 |

### INSIDER STATUSES TERMINATED DURING 2009

| Name | Position | Date | Shares |
|---|---|---|---|
| Nyman, Sixten | Auditor | 1 Jan. | - |
| | until 18 March 2009 | 18 Mar. | - |
| Aarnio, Paula | ExCom member | 1 Jan. | 10,875 |
| | until 22 April 2009 | 22 Apr. | 10,875 |

Jari Paasikivi, Anne-Christine Silfverstolpe Nordin, Rainer S. Simon, Jorma Eloranta and Aimo Rajahalme

# Board of Directors, 1 January 2010

### JARI PAASIKIVI
*b. 1954, Finnish citizen*
*M.Sc. (Econ.)*
*President and CEO, Oras Invest Oy*

- Chairman of the Board from 13 March 2008 (Member of the Board from 13 March 2007)
- Member of the Audit committee and expert member of the Nomination committee
- Uponor shareholdings: 539,207

Affiliations:
- Member of the Board, Oras Oy
- Member and Deputy Chairman of the Board, Tikkurila Oy
- Member of the Board, Technology Industries of Finland
- Member and Deputy Chairman of the Board, Finland Central Chamber of Commerce
- Member and Chairman of the Board, Vakka-Suomi Youth Foundation
- Member of the Supervisory Board, Partiosäätiö–Scoutstiftelsen rs

Career highlights:
- President and CEO, Oras Ltd, 2002–2007
- Managing Director, Oras Ltd, 1994–2001
- Plant Director, Oras Ltd, 1989–1994
- Marketing Manager, Oras Armatur A/S, Norway, 1987–1989
- Marketing Manager, Oras Ltd, 1983–1986

### AIMO RAJAHALME
*b. 1949, Finnish citizen*
*M.Sc. (Econ.)*

- Deputy Chairman of the Board from 15 March 2005 (Member of the Board from 17 March 2003)
- Chairman of the Audit committee
- Uponor shareholdings: 26,410

Career highlights:
- Member of the Executive Board, KONE Corporation, 1991–April 2009
- CFO, KONE Corporation, 1991–April 2009
- Executive Advisor, KONE Corporation, May 2009–December 2009
- Employed by KONE Corporation 1973–2009

### JORMA ELORANTA
*b. 1951, Finnish citizen*
*M.Sc. (Tech.)*
*President and CEO, Metso Corporation*

- Member of the Board from 15 March 2005
- Member of the Audit committee
- Uponor shareholdings: 29,882

Affiliations:
- Chairman of the Supervisory Board, Ilmarinen Mutual Pension Insurance Company
- Chairman of the Supervisory Board, Gasum Oy
- Chairman of the Board, The Federation of Finnish Technology industries
- Vice Chairman of the Board, Confederation of Finnish Industries (EK)
- Member of the Supervisory Board, The Finnish Fair Corporation
- Member of the Board, Research Foundation of Helsinki University of Technology

Career highlights:
- President and CEO, Kvaerner Masa-Yards Inc., 2001–2004
- President and CEO, Patria Industries Group, 1997–2001
- Deputy CEO, Finvest Group and Jaakko Pöyry Group, 1996–1997
- President, Finvest Oyj, 1985–1995

### ANNE-CHRISTINE SILFVERSTOLPE NORDIN
*b. 1950, Swedish citizen, M.A. (Soc.)*
*Partner and Senior Consultant of Neuhauser & Falck AB*

- Member of the Board from 17 March 2003
- Uponor shareholdings: 32,411

Affiliations:
- Member of the Board, Neuhauser & Falck AB
- Member of the Board and owner, Chorda Management AB

Career highlights:
- Senior Vice President, Swedish Post (Posten AB) 1997–2002
- Various positions in Human Resources in different companies 1984–1997

### RAINER S. SIMON
*b. 1950, German citizen*
*Dr.Sc.(Econ.)*
*Managing Director, BirchCourt GmbH*

- Member of the Board from 17 March 2004
- Uponor shareholdings: 29,787

Career highlights:
- President and CEO, Sanitec Corporation, 2002–2005
- Member of the Executive Board, Friedrich Grohe AG, 1995–2002
- Senior Vice President, Europe, Continental AG, 1993–1995
- Managing Director, Keiper-Recaro, 1991–1993
- Various national and international marketing and general management positions, Continental AG, 1979–1990

Sebastian Bondestam, Anders Tollsten, Georg von Graevenitz, Heiko Folgmann, Fernando Roses, Jukka Kallioinen, Riitta Palomäki and Jyri Luomakoski

# Executive Committee, 1 January 2010

## JYRI LUOMAKOSKI
*President and CEO*
*MBA*
*b. 1967, Finnish citizen*

- Employed by Uponor since 1996
- Uponor shareholdings: 17,000

### Career history
- Deputy CEO, Uponor Corporation, 2002–2008
- CFO, Uponor Corporation (Asko Corporation), 1999–2008
- Corporate controller, Oy Uponor Ab, 1997–1999
- Controller, Oy Uponor Ab, 1996–1997
- Deputy Managing Director and CFO, Oy Lars Krogius Ab, 1991–1996
- Director and Manager positions in Germany and Finland, Datatrans, 1987–1991

## HEIKO FOLGMANN
*Executive Vice President,*
*Central & Eastern Europe*
*M.Sc. (Bus.) (Diplom–Kaufmann)*
*b. 1967, German citizen*

- Employed by Uponor since 1999
- Uponor shareholdings: 2,735

### Career history
- Executive Vice President, Uponor Europe – East & International, 2007–2008
- Vice President, Uponor Europe – East & International, 2006–2007
- Vice President, Sales and Marketing, Uponor Central Europe, 2003–2006
- Director Sales & Marketing, Unicor Holding AG, 2000–2003
- Managing Director, Unicor S.r.l, Italy, 1999–2000
- Sales Manager Export, Unicor Rohrsysteme GmbH, 1996–1999

## JUKKA KALLIOINEN
*Executive Vice President,*
*Development and Technology*
*M.Sc. (Eng.), eMBA*
*b. 1958, Finnish citizen*

- Employed by Uponor since 1984
- Uponor shareholdings: 12,500

### Career history
- Executive Vice President, Uponor Europe – West, East, South, Uponor Corporation 2004–2006
- President, Infrastructure & Environment Europe, Uponor Corporation, 2002–2004
- Director, Building & Construction Division, Uponor Corporation, 1999–2001
- Director, Municipal Engineering, Oy Uponor Ab, 1998–1999
- Managing Director, Uponor Anger GmbH, 1995–1998
- Business Area Manger, Ecoflex, 1988–1995

## FERNANDO ROSES
*Executive Vice President, North, South & West Europe eMBA, M.Sc. (Marketing), B.Sc. (Eng.) (Ingeniero Técnico en Química Industrial)*
*b. 1970, Spanish citizen*

- Employed by Uponor since 1994
- Uponor shareholdings: 2,735

### Career history
- Executive Vice President, Uponor Europe South, West, 2007–2008
- Vice President, Uponor Europe – South, West, 2006–2007
- Vice President, Uponor HS Spain & Portugal, 2003–2006
- Marketing, Sales & Operations Manager, Wirsbo Spain & Portugal, 2002–2003
- Marketing & Sales Manager, Wirsbo Spain & Portugal, 1999–2002
- Technical, Logistic, Purchasing Manager, Wirsbo Spain, 1996–1999
- Quality Assurance Manager, Wirsbo Spain, 1996
- Technical Manager, Wirsbo Spain, 1994–1996

## SEBASTIAN BONDESTAM
*Executive Vice President, Supply Chain*
*M.Sc. (Eng.)*
*b. 1962, Finnish citizen*

- Employed by Uponor since 2007
- Uponor shareholdings: 2,735

### Career history
- Director, Packaging Material Supply Chain EU, Tetra Pak, 2006–2007
- Director, Converting EU, Tetra Pak Market Operations, 2004–2006
- Vice President, Converting Americas, Tetra Pak Asia & Americas, 2001–2004
- Various managerial positions in Sweden, Singapore, China, UK and Italy, Tetra Pak, 1991–2000
- R&D Engineer, Tilgmann, 1989–1991

## GEORG VON GRAEVENITZ
*Executive Vice President, Marketing and Infrastructure M.Sc.(Eng.)*
*b. 1947, Finnish citizen*

- Employed by Uponor since 2004
- Uponor shareholdings: 10,875

### Career history
- Executive Vice President, Uponor Nordic & Group Marketing, Uponor Corporation 2006–2008
- Executive Vice President, Marketing & Development, Uponor Corporation 2004–2006
- Executive Vice President, Marketing, Uponor Corporation, 2004
- Vice President, Marketing, Sulzer Pumps, 2000–2004
- Vice President, Marketing, Ahlstrom Pumps Oy, 1997–2000
- Various marketing and general management positions in different companies in Finland and abroad, 1974–1997

## RIITTA PALOMÄKI
*CFO*
*M. Sc. (Econ)*
*b. 1957, Finnish citizen*

- Employed by Uponor since 2009
- Uponor shareholdings: 2,000

### Career history
- CFO, Kuusakoski Group Oy, 2003–2009
- Vice President, Controlling, ABB Oy, 2001–2003
- Financial Director, Standard Lifting Equipment, Konecranes Oyj, 1997–2001
- Financial Director, ABB Service Oy, 1991–1997
- Various managerial positions within ICT, ABB Industry Oy, 1983–1991

## ANDERS TOLLSTEN
*Executive Vice President, Uponor North America*
*M.Sc. (Eng.) (Civil Ingenjor)*
*b. 1962, Swedish citizen*

- Employed by Uponor since 2004
- Uponor shareholdings: 10,874

### Career history
- Executive Vice President, Uponor Nordic, 2004–2006
- CEO, ABB Building Systems AB, 2002–2003
- CEO, NorhtNode AB, 2001–2002
- Head of LV Motor Division, ABB Motors AB, 1996–2001
- Sub–division Manager, ABB Installation AB, 1994–1996

# Group structure, 1 January 2010

**PRESIDENT & CEO**
Jyri Luomakoski

**GLOBAL FUNCTIONS**

**Development and Technology**
*Jukka Kallioinen*

**Group Marketing and Communications**
*Georg von Graevenitz*

**Supply Chain Management**
*Sebastian Bondestam*

**Finance & Administration**
*Riitta Palomäki*

**BUILDING SOLUTIONS – EUROPE**

**Sales and Marketing - Central & Eastern Europe**
*Heiko Folgmann*
- Central Europe
- Eastern Europe
- International sales

**Sales and Marketing - North, South & West Europe**
*Fernando Roses*
- Nordic countries
- South & West Europe

**Supply Chain**
*Sebastian Bondestam*

**Offering & Business Group Management**
*Jukka Kallioinen*

**BUILDING SOLUTIONS – NORTH AMERICA**

*Anders Tollsten*
- USA
- Canada

**INFRASTRUCTURE SOLUTIONS**

*Georg von Graevenitz*

The geographic responsibilities of the Executive Committee members are given in the above chart.

The global responsibilities of the Executive Committee members are as follows:
- Jyri Luomakoski, President and CEO: human resources; legal services
- Riitta Palomäki, CFO: treasury and risk management; investor relations; IT services
- Sebastian Bondestam, Executive Vice President, Supply Chain: global supply chain development; ERP programme
- Jukka Kallioinen, Executive Vice President, Offering and Development: strategic planning; global development and technology co-ordination

# Financial report 2009

# Review by the Board of Directors

## OVERVIEW

The year 2009 turned out to be a difficult one, as expected, with the decline in construction continuing from the previous year. Demand in the construction markets throughout Uponor's main markets reached a historical low, except for Germany, where the markets also weakened but remained at a reasonable level.

In 2009, all of Uponor's major end markets – residential new building, public and commercial construction, and infrastructure solutions – were characterised by low activity levels. An increase in renovation and modernisation projects was seen in countries where recovery initiatives were targeted at consumers. This stimulated demand for certain product groups.

Uponor carried out extensive savings, cost-efficiency and development projects to secure control over its cost development. The Group's ongoing integration process progressed successfully and the new organisational structure introduced in the autumn of 2008 contributed to the significantly improved performance of Uponor's supply chain, in particular.

## NET SALES

In 2009, Uponor's net sales from continuing operations fell to EUR 734.1 million (in 2008: EUR 949.2 million), a fall of 22.7% year on year, and decidedly below the long-term target growth of 6 per cent. Net sales decreased in all segments, reflecting the overall weakening of demand. Fluctuations in foreign currencies, mainly the US dollar, the Swedish krona and the UK pound, adversely affected net sales by approximately EUR 8.3m.

The biggest drops in net sales were recorded in Spain, the USA and Finland, while in Germany and Netherlands the decrease was more moderate. This was partly due to the successful progress of Uponor's indoor climate solutions in Central Europe.

The largest geographical markets and their share of consolidated net sales in 2009 were as follows: Germany 17.5% (15.0), Finland 12.1% (11.8), USA 11.4% (11.1), Sweden 9.7% (9.1), Spain 6.0% (8.3), Denmark 5.4% (6.1), Italy 5.3% (5.5) and the Netherlands 5.2% (4.3).

## NET SALES BY SEGMENT FOR 1 JAN.–31 DEC. 2009:

| MEUR | 1–12/2009 | 1–12/2008 | Reported change, % |
|---|---|---|---|
| Building solutions – Europe | **486.9** | 635.3 | -23.4% |
| Building solutions – North America | **109.0** | 130.8 | -16.6% |
| (Building solutions – North America, USD | **151.8** | 191.5 | -20.7%) |
| Infrastructure solutions – Nordic | **143.4** | 192.1 | -25.4% |
| Eliminations | **-5.2** | -9.0 | |
| Group (continuing operations) | **734.1** | 949.2 | -22.7% |

## RESULTS

Uponor's consolidated gross profit from continuing operations came to EUR 271.1m (341.8m), a fall of 20.7 per cent year on year. Despite the decreased net sales, the gross profit margin improved from the previous year. Improved profitability is due to greater production efficiency, among other things. Furthermore, the gross profit for the comparison year was affected by the rapid increase in raw material prices, which could not be passed onto sales prices.

Continuing operations generated an operating profit of EUR 41.2m (51.2m), down 19.4 (-62.3) per cent on the previous year. Profitability, or operating profit margin, improved slightly, as the profit margin rose to 5.6 (5.4) per cent of net sales.

The fall in operating profit in euro can be attributed to slackening markets. In 2009, this decline was significantly smaller than in the previous year. The fall in operating profit can be primarily attributed to the sharp decline in the net sales of Building solutions – Europe. Operating profit from Infrastructure solutions and Building solutions – North America strengthened considerably.

As a result of savings, streamlining and cost reduction measures carried out over the last year, costs were reduced in warehousing, marketing and administration. These efficiency initiatives incurred a non-recurring expense of EUR 12.5m, of which, purchasing and manufacturing costs accounted for EUR 8.9m, and fixed expenses for EUR 3.6m.

Other income and expenses includes a property insurance claim compensation of EUR 2.9m attributable to the fire which affected infrastructure solutions production in Denmark.

Expenses from discontinued operations include unanticipated costs due to environmental clean-up measures associated with the factory property for sale in Ireland, which were previously referenced in the January–June interim report. According to the expert estimates obtained, the clean-up work is approaching completion. The estimated costs of the remaining clean-up measures are provided for in the 2009 results of discontinued operations, which totals EUR -5.7m.

Consolidated profit before taxes decreased by 30.5 per cent, to EUR 28.5m (41.0m). Consolidated net financial expenses increased to EUR 12.7m (10.2m), of which EUR 6.3m (1.7m) was due to currency translation.

At a tax rate of 39.6 (26.6) per cent, income tax totalled EUR 11.3m (10.9m). The rise in tax rate is primarily attributable to the occurrence of taxable income in 2009 in countries with relatively higher tax rates. Additionally, the relative amount of non-deductible expenses decreased, year on year. Profit for the financial year totalled EUR 11.5m (72.5m), of which continuing operations accounted for EUR 17.2m (30.1m).

Return on equity stood at 4.1 (22.7) per cent and return on investment at 8.1 (22.2) per cent, while the long-term target is a minimum of 30 per cent.

Consolidated earnings per share were EUR 0.16 (0.99), and EUR 0.24 (0.41) for continuing operations. Equity per share stood at EUR 3.53 (4.18). For other share-specific information, please see the tables section.

To maintain a solid financial position, the company paid particular attention to cash flow management over the last year. Due to lower net sales, cash flow from operations did not, however, reach the 2008 level. Efficient net working capital management measures were continued and cash flow before financing improved from the previous year, excluding one-time items. In 2008, cash flow before financing included the proceeds from the disposal of the UK/Irish infrastructure business, which amounted to EUR 76.4m.

Consolidated cash flow from operations was EUR 78.8m (95.4m) while cash flow before financing came to EUR 60.6m (133.6m).

Key figures are reported for a five year period in the financial accounts.

## INVESTMENTS, RESEARCH AND DEVELOPMENT, AND FINANCING

Uponor's long-term investment and development programme was fundamentally revised due to the weak business environment. Most investments were targeted at process development and measures to improve efficiency. Major single investments included the acquisition of the UK company The Underfloor Heating Company Ltd and investments related to infrastructure production transfers in the Nordic countries. Subcontracted production of metal fittings in Kungsör, Sweden, was divested in the spring and panel production by Hewing GmbH in Ochtrup, Germany, at the year-end.

The European ERP system was implemented on six further business units.

Gross investments totalled EUR 27.4m (39.0m), down by EUR 11.6m year on year. Net investments totalled EUR 22.7m (36.4m). The figures include replacement investments covered by the insurance refund of EUR 2.9m due to the fire in Denmark.

As part of the effort at system harmonisation, in Europe in particular, investment activity was directed into larger development projects, resulting in decreased investment requirements in euro, without compromising the value of output. Research and development costs totalled EUR 15.5m (18.6m), or 2.0 (1.9) per cent of net sales.

As market uncertainty continued, the safeguarding of liquidity was set as the main goal of the financing activities. The commercial paper market, which Uponor has heretofore actively utilised, remained weak during the spring, making this an uncertain means of securing financing. Uponor replaced a syndicated credit loan of EUR 120m, due in February 2010, with several committed bilateral loans with its main banks. They total EUR 190m and will mature in 2012. Additionally, the company has signed an agreement with a Finnish pension insurance company borrowing back EUR 80m of its pension contributions falling mature in 2010–2013, of which EUR 64m was outstanding at year-end.

On the balance sheet date, the Group did not utilise the above mentioned bilateral credit limits. Moreover, a domestic commercial paper programme worth EUR 150m continues to be available.

Consolidated net interest-bearing liabilities increased slightly to EUR 64.6m (60.6m). The solvency ratio was 51.8 (51.4) per cent and gearing came to 25.0 (19.8) per cent. The average quarterly gearing was 45.2 (46.4), compared to the range of 30–70 set in the company's financial targets.

### OPERATING PROFIT BY SEGMENT FOR 1 JAN.–31 DEC. 2009:

| MEUR | 1–12/2009 | 1–12/2008 | Reported change, % |
|---|---|---|---|
| Building solutions – Europe | **32.4** | 65.6 | -50.6% |
| Building solutions – North America | **3.9** | -16.0 | 124.5% |
| (Building solutions – North America, USD | **5.5** | -23.4 | 123.3%) |
| Infrastructure solutions – Nordic | **14.4** | 10.0 | 45.0% |
| Other | **-9.3** | -9.5 | |
| Eliminations | **-0.2** | 1.1 | |
| Group (continuing operations) | **41.2** | 51.2 | -19.4% |

## KEY EVENTS

In Europe, Uponor introduced its unique dynamic heating and cooling control system at ISH, a major international fair within the HPAC industry, held in Frankfurt in the spring. The new control system was well received by customers. This system can significantly reduce the energy consumption of new and existing underfloor cooling and heating systems without lowering the level of comfort.

In Germany, a significant partnership agreement was signed with a local heating equipment manufacturer. The objective is to offer customers a comprehensive solution for heat generation and distribution in residential and commercial buildings that is both energy efficient and environmentally friendly.

In Europe, both the building solutions' and infrastructure solutions' supply chain was enhanced through centralised warehouses and improved service networks. In Hadsund, Denmark, infrastructure production was closed down and production equipment moved to factories in Sweden and Finland. The UK company Underfloor Heating Company Ltd was acquired to strengthen Uponor's expertise in the international project business.

To strengthen its market position in Eastern Europe and Asia, Uponor opened new sales offices, for example, in Turkey, Slovakia, Croatia, and in Beijing, China.

In December, the Board made a decision to support Finland's new Aalto University, which began operating on 1 January 2010, with a monetary endowment of EUR 400,000. Half of the sum was paid and recorded as a tax-deductible cost in the 2009 financial statements.

## PERSONNEL

At the end of the year, the Group had 3,316 (3,678) employees. In full-time equivalents, this is 362 fewer than at the end of 2008. The annual average number of employees was 3,426 (4,211).

The decline in staff numbers is attributable to the adjustment programme implemented in all regional organisations. In terms of personnel groups, the largest reductions were involved in production, warehousing, dispatching and in marketing.

The geographical breakdown of the Group's personnel was as follows: Germany 1,113 (33.5%), Sweden 495 (14.9%), Finland 463 (14.0%), the USA 386 (11.6%), Spain 195 (5.9%), the UK 128 (3.9%), Denmark 103 (3.1%), other countries 433 (13.1%).

A total of EUR 182.6m (EUR 203,3m) was paid in wages and other remunerations during the financial period.

Riitta Palomäki, M.Sc. (Econ.) was appointed Chief Financial Officer and a member of the Executive Committee from 1 June 2009. Ms. Paula Aarnio, Executive Vice President, Human Resources, and a member of the Executive Committee, resigned in April 2009.

## RISKS ASSOCIATED WITH BUSINESS

Uponor's financial performance may be affected by several strategic, operational, financial and hazard risks. A detailed analysis of these risks is available in the Annual Report.

### Market risks

Uponor's business is concentrated in Europe and North America, where exposure to political risks is low. Since Uponor's net sales are divided among a large number of customers, the majority of which are distributors (wholesalers), end market demand for the company's products is distributed across a wide customer base. The largest single customer generates approximately 10 per cent of Uponor's net sales.

Demand for Uponor's end products depends on business cycles in the construction sector. Traditionally, Uponor's main end market has comprised single-family housing, but today, the company's products are increasingly being supplied also to multi-family residential, commercial and public construction. Demand fluctuations often differ between these segments. Fluctuations are also being offset to a certain degree by demand for renovation projects, which is not always as discretionary as new housing projects. A fifth of the company's net sales are generated by infrastructure technology.

### Operational risks

The prices of raw materials used in the manufacture of plastic pipe systems are susceptible to other petrochemical and metal product price fluctuations. In recent years, Uponor has been capable of passing the effects of such fluctuations onto its selling prices with a reasonable delay, in such a way that this has not resulted in any major income losses. Uponor manages the risk of fluctuations in the price of metals and plastics raw material through supply agreements with fixed prices. Uponor manages the risk of fluctuations in electricity prices at Nordic level by using financial instruments.

Uponor manages its organisational and management risks, such as employee turnover, distortion of age distribution and unnecessary recruitment, by continuously analysing its human resources and ensuring that its organisational structure supports efficient operations. Personnel development programmes focus on enhancing management skills in particular.

Uponor observes an ISO 9000 quality system and an ISO 14000 environmental management system, or comparable systems, in the production facilities, which enhance production safety and productivity.

With respect to component and raw material suppliers, Uponor aims to use supplies and raw materials available from several suppliers. Any sole supplier used must have at least two production plants manufacturing goods used by Uponor. Uponor implements systems for material and raw material quality control and supplier accreditation.

### Financial risks

The uncertainty of financial markets has considerably increased risks related to the availability of financing. Uponor aims to ensure the availability and flexibility of financing through sufficient credit limit reserves and a well-balanced maturity distribution of loans, as well as by using several banks and various forms of financing.

The Group manages its liquidity through efficient cash management solutions and by investing solely in low-risk targets that can be liquidated rapidly and at a clear market price.

Part of Uponor's net sales are created in currencies other than the euro. Subsequently, expenses allocated to these net sales are also denominated in the same local currencies. The international nature of its operations exposes the Group to currency risks associated with different currencies. The Group Treasury function is responsible for hedging Group-level net currency flows in external currency markets, mainly by using currency forward contracts and currency options as hedging instruments.

Moreover, Uponor is exposed to currency translation risk, which manifests itself in the translation of non-euro area results into euro. According to the company's hedging policy, non-euro area balance sheet items are not hedged.

### Hazard risks

Uponor runs 10 production plants in 5 countries, and products manufactured in these plants generate a major proportion of the company's net sales. Uponor co-ordinates indemnity and business interruption insurance at Group-level on a centralised basis, in order to achieve extensive insurance coverage neutralising the financial damage caused by any risks associated with machine breakdowns, fire etc. Another major hazard risk is associated with product liability related to products manufactured and sold by Uponor. Product liability is also insured at Group level.

Various measures are taken to manage risks of indemnity and business interruptions, including safety training for personnel, adherence to maintenance schedules and maintaining the availability of major spare parts.

### Risk management in 2009

The global economic recession affected demand for Uponor's products. As market risks grew in 2009, the focus of risk management was turned towards the adjustment of operations in the changed market situation.

In the beginning of 2009, the Board of Directors approved the Group's new risk management policy. As part of this comprehensive policy, Uponor issued instructions on continuity management. In addition to this, several risk management guidelines were implemented in 2009, supporting overall risk management.

In the first half of the year, risks were comprehensively mapped and risk management plans updated accordingly. During the autumn of 2009, the impact of business interruptions was analysed in all production units.

In 2009, Uponor assessed the functionality of risk management in five production units. The results showed that risk management was on a sound level in all units.

Because of the economic crisis, the focus on financial risks was shifted to maintaining liquidity by securing sufficient credit limit reserves and through efficient cash flow management. Credit risks received special attention due to the weak market situation, and an updated credit risk policy was implemented.

Product replacement repair in the U.S., related to clamps from a third party supplier which were previously sold under a brand which has since been withdrawn, was initiated at the end of 2008, and proceeded according to plan in 2009. This product replacement programme has almost been completed. Product replacement costs were recorded in full in the 2008 financial statements. Uponor has initiated measures to recover the costs of the replacement programme from the clamp supplier and the company's insurance company of that time.

In the spring of 2009, there was a fire in the Danish production unit. Uponor's property and business interruption insurance covers the resulting damage.

Uponor is involved in several judicial proceedings in various countries. The year saw no other materialised risks, pending litigation or other legal proceedings or measures by the authorities that might have been of material significance to the Group.

## ADMINISTRATION AND AUDIT

The Annual General Meeting (AGM) of 18 March re-elected the following Board members for a term of one year: Anne-Christine Silfverstolpe Nordin, Jorma Eloranta, Jari Paasikivi, Aimo Rajahalme and Rainer S. Simon. It elected Jari Paasikivi Chairman of the Board and Aimo Rajahalme Deputy Chairman. The AGM elected KPMG Oy Ab, Authorised Public Accountants, as the company's auditor, with Lasse Holopainen, Authorised Public Accountant, acting as the principal auditor.

## SHARE CAPITAL AND SHARES

In 2009, Uponor's share turnover on NASDAQ OMX Helsinki Stock Exchange was 45.8 (99.2) million, totalling EUR 455.8m (EUR 1,195.1m). The share quotation at the end of 2009 was EUR 15.00 (7.70) and the market capitalisation of the outstanding shares was EUR 1,098.1m (EUR 563.7m). At the end of the year, Uponor reported a total of 20,214 (18,629) shareholders. Foreign shareholding accounted for 23.7 per cent (22.6 per cent) of all shareholding at the end of the report period.

At the beginning of 2009, Uponor Corporation's share capital totalled EUR 146,446,888 and the number of shares stood at 73,206,944. The share capital did not change during the year.

No notifications on changes in holdings were made during the year. Further information on shares and shareholdings is reported in the financial statements.

### Board authorisations

The AGM of 18 March 2009 authorised the Board to decide on the buyback of the company's own shares, using unrestricted equity. The number of shares to be bought back will be no more than 3,500,000 shares, representing approximately 4.8 per cent of the company's shares. The authorisation is valid for one year from the date of the AGM.

### Treasury shares

By the end of the year, Uponor held 160,000 treasury shares, representing approximately 0.2 per cent of the company's shares and voting rights.

### Management shareholding

The members of the Board of Directors and the CEO, as well as corporations known to the company, in which they exercise control, held a total of 674,357 (620,615) Uponor shares on 31 December 2009. These shares accounted for 0.9 per cent of all company shares and total votes.

### Share-based incentive programme

Over the years 2007 and 2008, Uponor Corporation's Board of Directors launched long-term incentive schemes for members of the company's Executive Committee and persons holding international executive positions. Shares based on both schemes will be awarded in the spring of 2012. More information on these schemes is available in the Corporate Governance section of the annual report and on the company's website.

## EVENTS AFTER THE FINANCIAL YEAR

The corporate governance statement was on the agenda of the meeting of Uponor Corporation's Board of Directors' Audit Committee on 5 February 2010. This statement is filed as a separate section in the annual report and can also be read at www.uponor.com.

## OUTLOOK FOR 2010

The decline in the market which started in the autumn of 2007 has stabilised in the last few months. This decline is no longer as steep as before and some areas have seen growth. However, the future growth opportunities of national economies remain weak, and demand in Uponor's market sectors is not expected to improve in 2010.

The public recovery programmes initiated in 2008 and 2009 continue to support demand. However, no significant new recovery initiatives are anticipated. In some countries, support programmes are affected by the poor public financial situation. Although investment activity among consumers is growing, caution exercised by the financial markets is holding back development.

The market shares of several of Uponor's product systems continued to develop favourably in 2009. Increased energy costs and a general awareness of environmental issues have benefited Uponor's indoor climate solutions, i.e. heating and cooling systems, in particular. This trend is expected to continue. New product and service solutions, recently introduced to customers, are supporting Uponor's growth.

Uponor has taken considerable restructuring measures to adapt operations to the current low level of demand, and day-to-day development will continue. Significant benefits have been achieved through Uponor's new organisational structure, especially in Europe, and it is anticipated that these benefits will be of a permanent nature. This year, modest investment needs and a decrease in the amount of capital invested in inventories will generate additional benefits, despite the fact that there will be a targeted spend on growth after the lengthy savings programme.

In the current business environment, Uponor's net sales in 2010 are expected to remain level with 2009, and operating profit is expected to improve from last year's reported operating profit. The Group's fixed-asset investments are not expected to exceed depreciation, and efficient net working capital management measures will help retain the Group's cash flow at a reasonable level.

# Group key financials figures

| | 2009 IFRS | 2008 IFRS | 2007 IFRS | 2006 IFRS | 2005 IFRS |
|---|---|---|---|---|---|
| **Consolidated income statement (continuing operations), MEUR** | | | | | |
| Net sales | **734.1** | 949.2 | 1,047.4 | 1,003.7 | 905.6 |
| Operating expenses | **665.1** | 868.0 | 888.1 | 845.8 | 772.6 |
| Depreciation and impairments | **32.0** | 31.4 | 29.5 | 28.5 | 23.7 |
| Other operating income | **4.2** | 1.4 | 5.9 | 3.5 | 6.0 |
| Operating profit | **41.2** | 51.2 | 135.7 | 132.9 | 115.3 |
| Financial income and expenses | **-12.7** | -10.2 | -2.6 | -2.0 | -2.4 |
| Profit before taxes | **28.5** | 41.0 | 133.1 | 130.9 | 112.9 |
| Profit from continuing operations | **17.2** | 30.1 | 91.4 | 88.8 | 76.7 |
| | | | | | |
| Profit for the period | **11.5** | 72.5 | 101.9 | 96.5 | 82.7 |
| | | | | | |
| **Consolidated balance sheet, MEUR** | | | | | |
| Fixed assets | **223.1** | 239.1 | 270.3 | 263.7 | 267.5 |
| Goodwill | **73.0** | 70.0 | 70.2 | 70.2 | 70.2 |
| Inventories | **74.3** | 104.5 | 150.6 | 128.1 | 111.4 |
| Cash and cash equivalent | **13.2** | 53.2 | 6.3 | 12.4 | 48.9 |
| Accounts receivable and other receivables | **115.0** | 128.1 | 166.9 | 169.5 | 165.3 |
| Shareholders' equity | **258.0** | 305.6 | 333.0 | 344.4 | 418.4 |
| Provisions | **18.4** | 30.0 | 16.2 | 15.5 | 14.8 |
| Non-current interest bearing liabilities | **60.2** | 77.0 | 14.7 | 17.2 | 19.4 |
| Current interest-bearing liabilities | **17.6** | 36.8 | 76.1 | 16.9 | 2.6 |
| Non-interest-bearing liabilities | **144.4** | 145.5 | 224.3 | 249.9 | 208.1 |
| Balance sheet total | **498.6** | 594.9 | 664.3 | 643.9 | 663.3 |

| | 2009 IFRS | 2008 IFRS | 2007 IFRS | 2006 IFRS | 2005 IFRS |
|---|---|---|---|---|---|
| **Other key figures** | | | | | |
| Operating profit (continuing operations), % | **5.6** | 5.4 | 13.0 | 13.2 | 12.7 |
| Profit before taxes (continuing operations), % | **3.9** | 4.3 | 12.7 | 13.0 | 12.5 |
| Return on Equity (ROE), % | **4.1** | 22.7 | 30.1 | 25.3 | 20.3 |
| Return on Investment (ROI), % | **8.1** | 22.2 | 39.2 | 35.8 | 28.1 |
| Solvency, % | **51.8** | 51.4 | 50.2 | 53.6 | 63.2 |
| Gearing, % | **25.0** | 19.8 | 25.4 | 6.3 | -6.4 |
| | | | | | |
| Net interest-bearing liabilities, MEUR | **64.6** | 60.6 | 84.5 | 21.7 | -26.9 |
| - % of net sales | **8.8** | 6.4 | 8.1 | 2.2 | -3.0 |
| Change in net sales, % | **-22.7** | -9.4 | 4.4 | 10.8 | -0.4 |
| Exports from Finland, MEUR | **23.0** | 34.1 | 42.3 | 36.7 | 30.0 |
| Net sales of foreign subsidiaries, MEUR | **644.7** | 836.5 | 931.3 | 897.8 | 803.2 |
| Total net sales of foreign operations, MEUR | **645.3** | 837.5 | 932.2 | 898.9 | 805.2 |
| Share of foreign operations, % | **87.9** | 88.2 | 89.0 | 89.6 | 88.9 |
| Personnel at 31 December | **3,316** | 3,678 | 4,581 | 4,325 | 4,126 |
| Average no. of personnel | **3,426** | 4,211 | 4,497 | 4,260 | 4,169 |
| Investments (continuing operations), MEUR | **25.9** | 39.0 | 52.0 | 50.2 | 44.6 |
| - % of net sales | **3.5** | 4.1 | 5.0 | 5.0 | 4.9 |

# Share-specific key figures

| | 2009 IFRS | 2008 IFRS | 2007 IFRS | 2006 IFRS | 2005 IFRS |
|---|---|---|---|---|---|
| Share capital, MEUR | **146.4** | 146.4 | 146.4 | 146.4 | 148.8 |
| Number of shares at 31 December, in thousands | **73,207** | 73,207 | 73,207 | 73,223 | 74,383 |
| Number of shares outstanding, in thousands | | | | | |
| - at end of year | **73,067** | 73,047 | 73,207 | 73,135 | 73,135 |
| - average | **73,049** | 73,187 | 73,201 | 73,135 | 73,941 |
| Shareholders' equity, MEUR | **258.0** | 305.6 | 333.0 | 344.4 | 418.4 |
| Share trading, MEUR | **455.8** | 1,195.1 | 2,362.0 | 964.0 | 477.7 |
| Share trading, in thousands | **45,815** | 99,227 | 99,423 | 42,417 | 29,090 |
| - of average number of shares, % | **62.7** | 135.6 | 135.8 | 58.0 | 39.3 |
| Market value of share capital, MEUR | **1,098.1** | 563.7 | 1,260.6 | 2,076.6 | 1,338.9 |
| Adjusted earnings per share (fully diluted), EUR | **0.16** | 0.99 | 1.39 | 1.32 | 1.12 |
| Equity per share, EUR | **3.53** | 4.18 | 4.55 | 4.71 | 5.72 |
| Dividend, MEUR | [1] **36.5** | 62.1 | 102.5 | 102.5 | 166.0 |
| Ordinary dividend per share, EUR | [1] **0.50** | 0.85 | 1.40 | 1.15 | 0.90 |
| Extra dividend per share, EUR | **-** | - | - | 0.25 | 1.37 |
| Dividend per share, total, EUR | [1] **0.50** | 0.85 | 1.40 | 1.40 | 2.27 |
| Effective share yield, % | **3.3** | 11.0 | 8.1 | 4.9 | 12.6 |
| Dividend per earnings, % | **316.3** | 85.9 | 100.7 | 106.1 | 202.7 |
| P/E ratio | **94.9** | 7.8 | 12.4 | 21.5 | 16.1 |
| Issue-adjusted share prices, EUR | | | | | |
| - highest | **15.10** | 18.91 | 31.45 | 29.35 | 19.78 |
| - lowest | **6.80** | 6.10 | 15.31 | 18.00 | 13.72 |
| - average | **9.95** | 12.04 | 23.76 | 22.73 | 16.39 |

The definitions of key ratios are shown on page 48.

Notes to the table:
[1] Proposal of the Board of Directors
The average number of shares allows for the effect of treasury shares.

# Definitions of key ratios

| | | |
|---|---|---|
| Return on Equity (ROE), % | = | $\dfrac{\text{Profit before taxes – taxes}}{\text{Shareholders' equity + minority interest, average}} \times 100$ |
| Return on Investment (ROI), % | = | $\dfrac{\text{Profit before taxes + interest and other financing costs}}{\text{Balance sheet total – non-interest-bearing liabilities, average}} \times 100$ |
| Solvency, % | = | $\dfrac{\text{Shareholders' equity} \pm \text{minority interest}}{\text{Balance sheet total – advance payments received}} \times 100$ |
| Gearing, % | = | $\dfrac{\text{Net interest-bearing liabilities}}{\text{Shareholders' equity + minority interest}} \times 100$ |
| Net interest-bearing liabilities | = | Interest-bearing liabilities – cash, bank receivables and financial assets |
| Earnings per share (EPS) | = | $\dfrac{\text{Profit for the period}}{\text{Number of shares adjusted for share issue in financial period excluding treasury shares}}$ |
| Equity per share ratio | = | $\dfrac{\text{Shareholders' equity}}{\text{Average number of shares adjusted for share issue at end of year}}$ |
| Dividend per share ratio | = | $\dfrac{\text{Dividend per share}}{\text{Profit per share}}$ |
| Effective dividend yield | = | $\dfrac{\text{Dividend per share}}{\text{Share price at end of financial period}} \times 100$ |
| Price-Earnings ratio (P/E) | = | $\dfrac{\text{Share price at end of financial period}}{\text{Earnings per share}}$ |
| Share trading progress | = | Number of shares traded during the financial year in relation to average value of the said number of shares |
| Market value of shares | = | Number of shares at end of financial period x last trading price |
| Average share price | = | $\dfrac{\text{Total value of shares traded (EUR)}}{\text{Total number of shares traded}}$ |

# Consolidated statement of comprehensive income

| MEUR | Note | 2009 | 2008 |
|---|---|---|---|
| | | | |
| **Continuing operations** | | | |
| | | | |
| **Net sales** | 2 | **734.1** | 949.2 |
| Cost of goods sold | | **463.0** | 607.4 |
| **Gross profit** | | **271.1** | 341.8 |
| | | | |
| **Other operating income** | 5 | **4.2** | 1.4 |
| | | | |
| Dispatching and warehousing expenses | | **32.4** | 30.2 |
| Sales and marketing expenses | | **140.1** | 175.0 |
| Administration expenses | | **45.0** | 50.8 |
| Other operating expenses | 5 | **16.6** | 36.0 |
| **Expenses** | | **234.1** | 292.0 |
| | | | |
| **Operating profit** | 2 | **41.2** | 51.2 |
| | | | |
| Financial income | 8 | **11.7** | 15.0 |
| Financial expenses | 8 | **24.4** | 25.2 |
| | | | |
| **Profit before taxes** | | **28.5** | 41.0 |
| | | | |
| Income taxes | 9 | **11.3** | 10.9 |
| | | | |
| **Profit from continuing operations** | | **17.2** | 30.1 |
| | | | |
| **Discontinued operations** | | | |
| Profit from discontinued operations | | **-5.7** | 42.4 |
| | | | |
| **Profit for the period** | | **11.5** | 72.5 |

| MEUR | Note | 2009 | 2008 |
|---|---|---|---|
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| Translation differences | | **2.4** | 5.2 |
| Cash flow hedges | | **0.5** | -1.4 |
| Other comprehensive income for the period | | **2.9** | 3.8 |
| | | | |
| **Total comprehensive income for the period** | | **14.4** | 76.3 |
| | | | |
| | | | |
| Earnings per share, EUR | 10 | **0.16** | 0.99 |
| - Continuing operations | | **0.24** | 0.41 |
| - Discontinued operations | | **-0.08** | 0.58 |
| | | | |
| Diluted earnings per share, EUR | | **0.16** | 0.99 |
| - Continuing operations | | **0.24** | 0.41 |
| - Discontinued operations | | **-0.08** | 0.58 |

# Consolidated balance sheet

| MEUR | Note | 31 Dec 2009 | 31 Dec 2008 |
|---|---|---|---|
| **Assets** | | | |
| **Fixed assets** | | | |
| **Intangible assets** | | | |
| Intangible rights | | 28.4 | 30.4 |
| Goodwill | | 73.0 | 70.0 |
| Other intangible assets | | 0.1 | 0.2 |
| Investment in progress | | - | 0.7 |
| **Total intangible assets** | 11 | 101.5 | 101.3 |
| **Tangible assets** | | | |
| Land and water areas | | 9.8 | 10.2 |
| Buildings and structures | | 54.3 | 57.8 |
| Machinery and equipment | | 87.4 | 92.4 |
| Other tangible assets | | 7.7 | 7.0 |
| Construction work in progress | | 15.9 | 17.1 |
| **Total tangible assets** | 12 | 175.1 | 184.5 |
| **Securities and long-term investments** | | | |
| Other shares and holdings | 15 | 0.4 | 0.2 |
| Other investments | 16 | 7.1 | 6.1 |
| **Total securities and long-term investments** | | 7.5 | 6.3 |
| **Deferred tax assets** | 21 | 12.0 | 17.0 |
| **Total fixed assets** | | 296.1 | 309.1 |

| MEUR | Note | 31 Dec 2009 | 31 Dec 2008 |
|---|---|---|---|
| **Current assets** | | | |
| **Inventories** | 17 | 74.3 | 104.5 |
| **Current receivables** | | | |
| Accounts receivable | | 88.2 | 91.4 |
| Loan receivable | | 0.0 | 0.0 |
| Current income tax receivable | | 8.5 | 11.2 |
| Accruals | | 14.7 | 15.3 |
| Other receivable | | 3.6 | 10.2 |
| **Total current receivables** | 18, 19 | 115.0 | 128.1 |
| **Cash and cash equivalent** | | 13.2 | 53.2 |
| **Total current assets** | | 202.5 | 285.8 |
| **Total assets** | | 498.6 | 594.9 |

| MEUR | Note | 31 Dec 2009 | 31 Dec 2008 |
|---|---|---|---|
| | | | |
| **Shareholders' equity and liabilities** | | | |
| | | | |
| **Shareholders' equity** | 20 | | |
| Share capital | | **146.4** | 146.4 |
| Share premium | | **50.2** | 50.2 |
| Other reserves | | **1.3** | 0.8 |
| Translation differences | | **-14.0** | -16.4 |
| Retained earnings | | **74.1** | 124.6 |
| **Total shareholders' equity** | | **258.0** | 305.6 |
| | | | |
| **Liabilities** | | | |
| | | | |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 24 | **60.2** | 77.0 |
| Employee benefit obligations | 22 | **20.5** | 20.2 |
| Provisions | 23 | **5.7** | 7.7 |
| Deferred tax liabilities | 21 | **9.7** | 8.1 |
| Other non-current liabilities | | **1.6** | 1.1 |
| **Total non-current liabilities** | | **97.7** | 114.1 |
| | | | |
| **Current liabilities** | | | |
| Interest bearing liabilities | 24 | **17.6** | 36.8 |
| Accounts payable | | **45.0** | 50.1 |
| Current income tax liability | | **3.6** | 0.7 |
| Provisions | 23 | **12.7** | 22.3 |
| Other current liabilities | 25 | **64.0** | 65.3 |
| **Total current liabilities** | | **142.9** | 175.2 |
| | | | |
| **Total liabilities** | | **240.6** | 289.3 |
| | | | |
| **Total shareholders' equity and liabilities** | | **498.6** | 594.9 |

# Consolidated cash flow statement

| MEUR | Note | 1 Jan–31 Dec 2009 | 1 Jan–31 Dec 2008 |
|---|---|---|---|
| **Cash flow from operations** | | | |
| **Net cash from operations** | | | |
| Profit for the period | | 11.5 | 72.5 |
| Adjustments for: | | | |
| Depreciation | | 32.0 | 31.8 |
| Income taxes | | 11.3 | 10.9 |
| Interest income | | -1.3 | -1.7 |
| Interest expense | | 4.3 | 8.0 |
| Sales gains/losses from the sale of businesses and fixed assets | | -2.7 | -41.0 |
| Share of profit in associated companies | | -0.2 | -0.2 |
| Other cash flow adjustments | | 10.8 | 4.7 |
| **Net cash from operations** | | 65.7 | 85.0 |
| **Change in net working capital** | | | |
| Receivables | | 23.0 | 59.5 |
| Inventories | | 31.3 | 59.1 |
| Non-interest-bearing liabilities | | -28.4 | -62.9 |
| **Change in net working capital** | | 25.9 | 55.7 |
| Income taxes paid | | -8.5 | -39.8 |
| Interest paid | | -5.2 | -6.8 |
| Interest received | | 0.9 | 1.3 |
| **Cash flow from operations** | | 78.8 | 95.4 |

| MEUR | Note | 1 Jan–31 Dec 2009 | 1 Jan–31 Dec 2008 |
|---|---|---|---|
| **Cash flow from investments** | | | |
| Share acquisitions | 4 | -1.9 | - |
| Proceeds from disposal of subsidiaries and businesses | 3 | - | 76.4 |
| Purchase of fixed assets | | -24.0 | -39.0 |
| Proceeds from sale of fixed assets | | 7.3 | 0.4 |
| Dividends received | | 0.2 | 0.2 |
| Loan repayments | | 0.2 | 0.2 |
| **Cash flow from investments** | | -18.2 | 38.2 |
| **Cash flow before financing** | | 60.6 | 133.6 |
| **Cash flow from financing** | | | |
| Borrowings of debt | | - | 19.1 |
| Repayments of debt | | -36.4 | - |
| Dividends paid | | -62.1 | -102.5 |
| Purchase of own shares | | - | -1.2 |
| Payment of finance lease liabilities | | -2.0 | -2.0 |
| **Cash flow from financing** | | -100.5 | -86.6 |
| **Conversion differences for cash and cash equivalents** | | -0.1 | -0.1 |
| **Change in cash and cash equivalents** | | -40.0 | 46.9 |
| Cash and cash equivalents at 1 January | | 53.2 | 6.3 |
| Cash and cash equivalents at 31 December | | 13.2 | 53.2 |
| **Changes according to balance sheet** | | -40.0 | 46.9 |

# Statement of changes in shareholders' equity

| | Number of shares outstanding (1,000) | Share capital | Share premium | Other reserves | Unrestricted equity | Hedge reserve | Treasury shares | Translation differences | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2008** | 73,207 | 146.4 | 50.2 | 1.6 | 0.1 | 0.5 | - | -24.1 | 158.3 | **333.0** |
| Total comprehensive income for the period | | | | | | -1.4 | | 5.2 | 72.5 | **76.3** |
| Purchase of own shares | -160 | | | | | | -1.2 | | | **-1.2** |
| Dividend paid | | | | | | | | | -102.5 | **-102.5** |
| Transfers between reserves and other adjustments | | | | | | | | 2.5 | -2.5 | **-** |
| **Balance at 31 December 2008** | 73,047 | 146.4 | 50.2 | 1.6 | 0.1 | -0.9 | -1.2 | -16.4 | 125.8 | **305.6** |
| | | | | | | | | | | |
| **Balance at 1 January 2009** | 73,207 | 146.4 | 50.2 | 1.6 | 0.1 | -0.9 | -1.2 | -16.4 | 125.8 | **305.6** |
| Total comprehensive income for the period | | | | | | 0.5 | | 2.4 | 11.5 | **14.4** |
| Dividend paid | | | | | | | | | -62.1 | **-62.1** |
| Transfers between reserves and other adjustments | | | | 0.0 | | | | | 0.0 | **-** |
| Share based incentive plan | | | | | | | | | 0.1 | **0.1** |
| **Balance at 31 December 2009** | 73,207 | 146.4 | 50.2 | 1.6 | 0.1 | -0.4 | -1.2 | -14.0 | 75.3 | **258.0** |

For further information see note 20.

# Notes to the consolidated financial statements

## 1. ACCOUNTING PRINCIPLES

### Company profile

Uponor is an international industrial Group providing building and municipal infrastructure solutions. The Group's segment structure consists of the following three reporting segments: Building Solutions – Europe, Building Solutions – North America and Infrastructure Solutions – Nordic. The segment business risks and profitability factors differ them from each other in the respects of market and business environment, offering, services and customers. Group management, control and reporting structures are organised according to the business segments.

Uponor Group's parent company is Uponor Corporation domiciled in Helsinki in the Republic of Finland. The registered address is:
Uponor Corporation
P.O.Box 37, Robert Huberin tie 3 B
FI-01511 Vantaa
Finland
Tel. +358 (0)20 129 211, Fax +358 (0)20 129 2841

The Annual Report will also be available on the company website at www.uponor.com and can be ordered from Uponor Corporation, using the above-mentioned address.

Uponor Corporation's Board of Directors has approved the publication of these financial statements in its meeting of 9 February 2010. According to the Finnish Limited Liability Companies Act, the shareholders have the opportunity to approve or reject the financial statements at the Annual General Meeting held after their publication. Furthermore, the Annual General Meeting can decide on the modification of the financial statements.

### Basis of preparation

Uponor Group's consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and their SIC and IFRIC interpretations valid on 31 December 2009. In the Finnish Accounting Act and ordinances based on the provisions of the Act, IFRS refer to the standards and to their interpretations adopted in accordance with the procedures laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The consolidated financial statements include also additional information required by the Finnish Accounting Act and the Limited Liability Companies Act. The consolidated financial statements are presented in millions of euros (MEUR), and they are based on the historical cost convention unless otherwise specified in the accounting principles section below.

The Group has adopted the following new or amended standard(s) and interpretations as of 1 January 2009; comparative figures have been amended as required:

- IAS 1 (Revised) Presentation of Financial Statements. The revised standard changed the format and content of the financial statements.
- IFRS 7 Financial Instruments (Revised). As a result of the new standard, fair values will be presented using a three-level hierarchy for fair valuation of financial instruments. The changes have increased the amount of detail regarding financial instruments.
- IAS 23 (revised) Borrowing costs. The revised standard required that certain asset investments, like factories, acquisition costs include the directly attributable borrowing costs for purchasing, building or manufacturing. The Group as earlier booked in an allowed manner borrowing costs as expense for those periods when they have incurred.
- IFRS 2 Share based payments – Vesting Conditions and Cancellations. Effective 1.1.2009 onwards. Standard change did not have any impact on Group financials.
- IFRS 8 Operating Segments. The standard requires segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker. The Group has changed its reporting segments to match the organisation structure which was published on 1 September 2008, but this change did not relate to the IFRS 8 requirements.
- Improvements to IFRS (Annual Improvements), effective mainly for annual periods beginning on or after 1 January 2009. The improvement impacts vary by standard, but they did not have significant impacts on reported figures.
- Other changes did not have a material impact on the Group financials.

### Use of estimates

The preparation of consolidated financial statements under IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of financial statements, as well as the reported amounts of income and expenses during the report period. In addition the use of judgement is needed in the application of accounting policies. Although these estimates are based on the management's best judgement of current events and actions, actual results may ultimately differ from those estimates.

### Consolidation principles

The consolidated financial statements include the parent company, Uponor Corporation, and all companies in which the parent company holds more than half of the voting rights, either directly or through its subsidiaries. Subsidiaries include those companies in which Uponor Corporation has direct or indirect control of over 50 per cent of the voting rights or otherwise has power to govern the financial and operating policies, with the purpose of gaining financial benefit from their operations. Subsidiaries acquired or established during the year are included from the date the Group has obtained control. Divested companies have been included up to their date of sale.

Intra-Group shareholdings are eliminated using the acquisition cost method. Accordingly, the assets and liabilities of an acquired company are measured at fair value at the date of acquisition. The excess of the acquisitions cost over fair value of the net assets has been recorded as goodwill. Based on the First-Time-Adoption of IFRS 1, any company acquisitions made prior to the IFRS transition date (1 January 2004) are not adjusted for IFRS, but goodwill amounts apply book value according to FAS. Intra-Group transactions, receivables, liabilities, unrealised gains and dividends between Group companies are eliminated in the consolidated financial statements. Unrealised losses are not eliminated in case of impairment.

Associated companies are entities over which the Group has 20–50 per cent of the voting rights, or over which the Group otherwise exercises significant influence. Holdings in associated companies are included in the consolidated financial statements using the equity method. Accordingly, the share of the post-acquisition profits and losses of associated companies is recognised in the income statement to the extent of the Group's holding in the associated companies. When the Group's share of losses of an associated company exceeds the carrying amount, it is reduced to nil and any recognition of further losses ceases, unless the Group has an obligation to satisfy the associated company's obligations.

### Foreign currency translations

Each company translates their foreign currency transactions into their own functional currency using the rate of exchange prevailing at the transaction date. Outstanding monetary receivables and payables in foreign currencies are stated using the exchange rates at the balance sheet date. Exchange rate gains and losses on actual business operations are treated as sales adjustment items or adjustment items to materials and services. Exchange rate gains and losses on financing are entered as exchange rate differences in financial income and expenses.

In the consolidated financial statements, the income statements of the Group's foreign subsidiaries are converted into euros using the average exchange rates quoted for the reporting period. All balance sheet items are converted into euros using the exchange rates quoted at the reporting date. The resulting conversion difference and other conversion differences resulting from the conversion of subsidiaries' equity are shown as separate item in the equity. In addition, exchange rate differences in the loans granted by the parent company to foreign subsidiaries to replace their equity are treated as conversion differences in the consolidated financial statements. Realised conversion differences in connection with the divestment of subsidiaries and the redemption of material shares in subsidiaries are recognised as income or expense in the income statement.

### Non-current assets held for sale and discontinued operations

Non-current assets held for sale and assets related to discontinued operations are formed once the company, according to a single co-ordinated plan, decides to dispose of a separate significant business unit, whose net assets, liabilities and financial results can be separated operationally and for financial reporting purposes. Non-current assets held for sale are shown separately in the consolidated balance sheet. Profit or loss from a discontinued operation and gains or losses on its disposal are shown separately in the consolidated income statement. Assets related to non-current assets held for sale and discontinued operations are assessed at book value or, whether it is lower, at fair value. Depreciation from these assets has been discontinued at the date of classifying assets as non-current assets held for sale and discontinued operations. The Group does not have any assets classified either non-current assets held for sale at the end of the financial period or comparable period. The disposal of business operation in Ireland has been classified as discontinued operation. A year before, the discontinued operations covered additionally the sold businesses in the UK and Germany.

### Revenue recognition

Sales of products are recognised as income once the risks and benefits related to ownership of the sold products have been transferred to the buyer, according to the agreed delivery terms, and the Group no longer has possession of, or control over, the products. Sales of services are recognised as income once the service has been rendered. Net sales comprise the invoiced value for the sale of goods and services net of indirect taxes, sales rebates and exchange rate differences.

### Research and development

Research costs are expensed as incurred and they are included in the consolidated income statement under other operating expenses. Development costs are expensed as incurred, unless the criteria for capitalising these costs as assets are met. Product development costs are capitalised as intangible assets and are depreciated during the useful life of the asset if future economic benefits are expected to flow to the entity and certain other criteria, such as the product's technical feasibility and commercial usability, are confirmed. The Group does not have any capitalised development costs in the balance sheet.

### Employee benefits

The Group's pension schemes comply with each country's local rules and regulations. Pensions are based on actuarial calculations or actual payments to insurance companies. The Group applies defined contribution and defined benefit pension plans.

Within the defined contribution plan, pension contributions are paid directly to insurance companies and once the contributions have been paid, the Group has no further payment obligations. These contributions are recognised in the income statement for the accounting period during which such contributions are made.

For defined benefit plans, the liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for actuarial gains/losses and past service cost. The pension obligation is defined using the projected unit credit method. The discount rate applied to calculate the present value of post-employment benefit obligations is determined by the market yields of long-term corporate bonds or government bonds. Costs resulting from the defined benefit pension plans are recognised as expenses for the remaining average period of employment.

The portion of actuarial gains and losses for each defined benefit plan entered in the profit and loss account is the excess that falls outside the higher of the following: 10% of the present value of the pension obligation or fair value of pension plan assets divided by the expected average remaining working lives of the employees participating in the plan.

## Operating profit

Operating profit is an income statement item, which is calculated by deducting expenses related to the operating activities from net sales.

## Borrowing costs

Borrowing costs are recognised in the income statement as they accrue. Direct transaction expenses due to loans, clearly linked to a specific loan, are included in the loan's original cost on an accrual basis and recognised as interest expenses using the effective interest method. Interest costs on borrowings to finance the construction of assets are capitalised as part of the cost during the period required to prepare and complete the property for its intended use. According to IAS 23, the Group companies have not capitalised any borrowing costs in 2009.

## Income taxes

Income taxes in the consolidated income statement comprise taxes based on taxable income recognised for the period by each Group company on an accrual basis, according to local tax regulations including tax adjustments from the previous periods and changes in deferred tax. Deferred tax assets or liabilities are calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, using the tax rate effective at the balance sheet date. Deferred tax assets are recognised to the extent that it appears probable that future taxable profit will be available against which the temporary differences can be utilised.

## Intangible assets

### Goodwill

Goodwill represents future economic benefits arising from assets that are not capable of being individually identified and separately recognised by the Group on an acquisition. Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired company at the date of acquisition. Goodwill is allocated to the business segments. Goodwill is not amortised, but it is tested for impairment annually. Gains and losses on the disposal of a Group entity include any goodwill relating to the entity sold.

### Other intangible assets

Other intangible assets include trademarks, patents, copyrights, capitalised development costs and software licenses. Intangible assets are recognised in the balance sheet at historical costs less accumulated depreciation according to the expected useful life and any impairment losses.

## Property, plant and equipment

Group companies' property, plant and equipment are stated at historical cost less accumulated depreciation according to the expected useful life and any impairment losses. Interest costs on borrowings to finance the construction of these assets are capitalised as part of the cost during the period required to prepare and complete the property for its intended use.

Ordinary repair and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the asset's carrying amount when it is probable that the Group will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset.

Gains or losses on disposal, divestment or removal from use of property, plant and equipment are based on the difference between the net gains and the balance sheet value. Gains are shown under other operating income and losses under other operating expenses.

## Depreciations

Group companies' intangible assets and property, plant and equipment are stated at historical cost less accumulated straight-line depreciation according to the expected useful life and any impairment losses. Land is not depreciated as it is deemed to have an indefinite life, but otherwise depreciation is based on estimated useful lives as follows:

| | Years |
|---|---|
| Buildings | 20–40 |
| Production machinery and equipment | 8–12 |
| Other machinery and equipment | 3–15 |
| Office and outlet furniture and fittings | 5–10 |
| Transport equipment | 5–7 |
| Intangible assets | 3–10 |

The residual value and useful life of assets are reviewed at each balance sheet date and, if necessary, adjusted to reflect any changes in expectations of economic value.

## Government grants

Any grants received for the acquisition of intangible or tangible assets are deducted from the asset's acquisition cost and recorded on the income statement to reduce the asset's depreciation. Other grants are recognised as income for the periods during which the related expenses are incurred. Such grants are shown as deductions from expenses related to the target of the grant.

## Impairment

The balance sheet values of assets are assessed for impairment on a regular basis. Should any indication of an impaired asset exist, the asset's recoverable amount shall be assessed. The asset's recoverable amount is its net selling price less any selling expenses, or its value in use, whichever is higher. The value in use is determined by reference to discounted future net cash flow expected to be generated by the asset. Discount rates correspond to the cash generating unit's average return on investment. Impairment is measured at the level of cash generating units, which is the lowest level that is primarily independent of other units and whose cash flows can be distinguished from other cash flows.

Whenever the asset's carrying amount exceeds its recoverable amount, it is impaired, and the resulting impairment loss is recognised in the income statement. An impairment of property, plant and equipment and other intangible assets, excluding goodwill, will be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Impairment is not reversed over the balance sheet value that existed before the recognition of impairment losses in the previous financial periods. Any impairment loss on goodwill is not reversed.

Goodwill is assessed for impairment on a yearly basis.

### Leases

Lease liabilities, which expose the Group to risks and rewards inherent in holding such leased assets, are classified as finance leases. These are recognised under tangible assets on the balance sheet and measured at the lesser of the fair value of the leased property at the inception of the lease or the present value of the minimum lease payments. Similarly, lease obligations, from which financing expenses are deducted, are included in interest bearing liabilities. Financing interests are recognised in the income statement during the lease period. An asset acquired under finance lease is depreciated over its useful life or within the shorter lease term.

Leases, which expose the lessor to risks and rewards inherent in holding such leases, are classified as other leases. These rents are recognised as expenses during the lease period.

The assets leased by the Group, where the lessee bears the risks and rewards inherent in holding such leases, are treated as finance leases and recognised as receivables on the balance sheet at their present value. The Group has no finance lease receivables.

### Inventories

Inventories are stated at the lower of cost or net realisable value, based on the FIFO principle. The net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and sale. In addition to the cost of materials and direct labour, an appropriate proportion of production overheads are included in the inventory value of finished products and work in progress.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation or if the settlement of obligation will cause a legal loss and a reliable estimate of the amount of obligation can be made. Provisions can include warranty provisions, restructuring costs and onerous contracts. Changes in provisions are included in relevant expenses on the income statement.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at bank and other short-term, highly liquid investments, whose maturity does not exceed three months. Cash and cash equivalents are carried in the balance sheet at cost. The bank account credit limit in use is recognised under short-term interest-bearing liabilities.

### Financial assets

**Financial assets are classified as follows: financial assets at fair value through profit and loss**, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Sales and purchase of financial assets are recognised at their trading date.

Financial assets at fair value through profit and loss include financial assets held for trading and measured at fair value. Financial assets at fair value through profit and loss have been acquired principally for the purpose of generating a profit from short-term fluctuations in market prices. Derivative instruments, for which hedge accounting is not applied, are included in financial assets at fair value through profit and loss. Interest and currency derivatives, for which no hedge accounting is applied, are recognised in the balance sheet at historical cost and valued at fair value at each balance sheet date. Fair value is determined using market prices at the balance sheet date or the present value of estimated future cash flows. Changes in the fair value of financial assets at fair value through profit and loss, and unrealised and realised gains and losses are included in financial income and expenses in the period in which they occur. Financial assets at fair value through profit and loss are presented under the other current assets in the balance sheet.

**Held-to-maturity investments** are assets with fixed maturity, which the enterprise has the positive intent and ability to hold to maturity. Held-to-maturity assets are measured at amortised cost using the effective interest rate method. The Group did not have any held-to-maturity investments during the financial period.

**Loans and receivables** are non-derivative assets with fixed or determinable payment dates that are not quoted in the active markets nor held for trading purposes. Loan and receivables are measured at amortised cost. Accounts receivable are carried at expected fair value, which is the original invoice amount less the provision made for impairment of these receivables. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probable bankruptcy of the debtor or default in payments are considered as probable indicators for the impairment of accounts receivable.

**Available-for-sale financial assets** consist of holdings in listed and non-listed companies and investments. Available-for-sale assets are measured at fair value based on market prices on the balance sheet date, or using the net present value method of cash flows, or another revaluation model. If the fair value of a holding or investment cannot be measured reliably, it will be measured at cost. Changes in the fair value of available-for-sale assets are recognised in the fair value reserve under shareholders' equity, taking tax consequences into account. Changes in the fair value will be re-entered from shareholders' equity to the income statement, when the asset is disposed of or it has lost its value to the extent that an impairment loss must be recognised for the asset.

### Financial liabilities

Financial liabilities at fair value through profit and loss are measured at their fair value. This group includes those derivatives for which hedge accounting is not applied and whose fair value is negative.

Other financial liabilities are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Transaction costs are included in the original book value of financial liabilities. Other financial liabilities include non-current and current interest-bearing liabilities and accounts payable.

### Derivative contracts and hedge accounting

The Group uses derivative contracts to decrease currency, interest and price risks.

Financial derivatives are used for the hedging purpose, and they are classified as financial assets at fair value through profit and loss. Hedge accounting has not been applied for financial derivatives, like currency and interest derivatives, until end of 2009. A decision has been made start hedge accounting from the beginning of 2010 for part of the foreign currency internal loans separately decided by Treasury Committee.

Commodity derivatives are initially recognised in the balance sheet at cost and are subsequently re-measured at fair value at each balance sheet date. The fair values of commodity derivatives are determined on the basis of publicly quoted market prices. The unrealised and realised gains and losses attributable to the changes in fair value are recognised under cost of goods sold.

Hedge accounting is applied to those commodity derivatives that meet the requirements of IAS 39. Hedge programmes are documented according to the requirements of IAS 39, and the efficiency of commodity derivatives is tested both at the inception of the hedge and during the hedge. Fair value changes of derivatives, which are designated as cash flow hedges, are recognised directly in equity to the extent that the hedge is effective. Such accumulated fair value changes are released into the income statement in the period, in which the hedged cash flow affects the result. The ineffective portion of the gain or loss of the hedging instrument is recognised immediately in the income statement, under cost of goods sold.

Uponor Group has applied hedge accounting for electricity derivatives since September 2007.

### Share based payments – Management incentive scheme

In September 2007, Uponor Corporation's Board of Directors decided to launch a long-term incentive scheme for the members of the company's Executive Committee. To be eligible to participate in the scheme, an Executive Committee member must acquire a specific number of Uponor shares, as defined under the scheme, by the end of August 2008. Depending on the cumulative operating profit of Uponor during 2007–2011, and the number of shares acquired within the scheme, each Executive Committee member is eligible for being awarded Uponor shares in the spring 2012. The Executive Committee members have acquired the Uponor shares as defined under the scheme.

In November 2008, the Board of Directors approved a 3-year incentive scheme for a group of managers with international business responsibility. To be eligible to participate in the scheme, a manager must acquire a specific number of Uponor shares, as defined under the scheme, by the end of August 2009. Depending on the achievement of the company's cumulative operating profit during the years 2009–2011, and the number of shares acquired within the scheme, each manager is eligible to be awarded Uponor shares in the spring 2012. The selected international business managers have acquired Uponor shares as defined under this scheme.

Both management incentive schemes have an in-built and cumulative operating profit related multiplier factor. In addition, the international business responsible scheme includes a limit to its share based payment maximum value.

Uponor will use part of the Treasury shares as incentive scheme payout in spring 2012.

### Treasury shares

The parent company held treasury shares during the financial year and the comparative period. Treasury shares are presented in the financial statements as reduction of shareholders' equity. Treasury shares are taken into account in calculating key figures and ratios according to IFRS 33.

### Dividends

Dividends proposed by the Board of Directors are not recognised in the financial statements until their payment is approved by the shareholders in the Annual General Meeting.

### Accounting policies requiring consideration by management, and essential factors of uncertainty associated with estimates

Estimates and assumptions regarding the future have to be made during preparation of the financial statements, and the outcome may differ from the estimates and assumptions. Furthermore, the application of accounting principles requires consideration.

Group management needs to make decisions regarding the selection and application of accounting principles. This applies in particular to those cases in which the IFRS in force provide the opportunity to choose between various accounting, valuation or presentation methods.

The estimates made in connection with preparing the financial statements reflect the best judgement of the management at the time of closing of the accounts. These estimates are affected by historical experience and assumptions regarding future developments, which are regarded as well-founded at the time of closing of the accounts. The Group monitors the realisation of these estimates and assumptions through internal and external information sources on a regular basis. Any changes in estimates and assumptions are recognised in the financial statements of the period during which such corrections are made and all subsequent financial periods.

Estimates have been used in determining the size of items reported in the financial statements, including, among other things, the realisability of certain asset items, such as deferred tax assets and other receivables, economic useful life of property, plant and equipment, provisions, pension liabilities and impairment on goodwill.

From the Group's perspective, the most significant uncertainty factors are related to the impairment testing on goodwill and the defined benefit-based pension obligations. The application of the related accounting policies requires the use of estimates and assumptions that also have a large impact. Uncertainty factors in connection with impairment testing on goodwill relate to the assumptions made on future cash flows and determining the discount rate. The Group's weighted average capital cost rate (WACC), determined by currency areas, is used as discount rate in the impairment tests. Book value of defined benefit-based pension obligation is based on the actuarial calculations, which are based on the assumptions and estimates of discount rate used for assessing plan assets and obligations at present value, expected rate of return on plan assets and development of inflation and salary and wage level.

### Application of new IFRS standards

As of 2010, the Group will apply following amended and new standards and interpretations:

- IFRS 3 Business combinations, effective for annual periods beginning on or after 1 July 2009. This has an impact on any potential mergers and acquisitions bookings.
- IAS 27 (Revised 2008) Consolidated and Separate Financial Statements, effective for annual periods beginning on or after July 2009.
- IAS 39 Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items, effective for annual periods beginning on or after 1 July 2009. The Group estimates that this standard will not have a material impact on its reported figures.
- Improvements to IFRS (Annual Improvements May 2008), effective mainly for annual periods beginning on or after 1 January 2010. The Group foresees that improvement impacts will vary by standard, but they should not have significant impacts on reported figures.
- The Group foresees that the other published amended and new standards and interpretations should not have any material impact on reported figures.

## 2. SEGMENT INFORMATION

Uponor's segment structure is from 1 January 2009 onwards based on business and geographical segments in accordance with the organisation structure which was published on 1 September 2008. The reporting segments are Building Solutions – Europe, Buildings Solutions – North America and Infrastructure Solutions – Nordic. The business risks and profitability factors differ from each other in the respects of market and business environments, product offering, services and customers. Group management, control and reporting structures are organised according to the business segments.

Building Solutions – Europe is in charge of European markets and sales to those non-European countries where Uponor does not have own operations. Buildings Solutions – North America is responsible for the business operations in USA and Canada. Buildings Solutions in Uponor refers mainly to residential and non-residential buildings' heating, cooling and plumbing solutions. Major part of the Building solution customers are HVAC installers and building companies.

Infrastructure Solutions – Nordic's business is located in Nordic countries. Its products and services, like infrastructure high-pressure pipes and sewage and waste water treatment systems are sold to construction and renovation customers.

Others segment includes Group functions and non-operative companies.

Financial target setting and monitoring focuses mainly on segment sales, operating profit, operative costs and net working capital amount figures. Group resources are managed for instance by allocating investments to attractive businesses and balancing human resources and competencies to match with business processes' requirements.

Segment consolidation is based on Group accounting principles. All transactions between segments are market-based and internal sales and margins are eliminated from consolidated figures.

The year 2008 financials have been revised to reflect the new segment structure. Income statement consists of continuing operations by segment, and balance sheet items match the Group structure at closing dates. The continuing operations in 2008 did not include the sold infrastructure businesses in the Germany, which was sold in April 2008, and in the United Kingdom and Ireland, which were sold in June 2008. During 2009 discontinued operations figures relate solely to Ireland.

Segment assets include items directly attributable to a segment and items which can be allocated on a reasonable basis. They are mostly non-interest bearing items like intangible assets, property, plant and equipment, inventories, accruals, accounts receivables and other receivables. Unallocated assets consist of non-current receivables, cash and interest-bearing items.

The result share of associated companies 0.2 (0.2) million euros is allocated to Building solutions – Europe segment.

| MEUR | | 2009 | |
|---|---|---|---|
| **Segment revenue, continuing operations** | External | Internal | **Total** |
| Building solutions – Europe | 485.4 | 1.5 | **486.9** |
| Building solutions – North America | 109.0 | - | **109.0** |
| Infrastructure solutions – Nordic | 139.7 | 3.7 | **143.4** |
| Eliminations | - | -5.2 | **-5.2** |
| **Uponor Group** | 734.1 | - | **734.1** |

| MEUR | | 2008 | |
|---|---|---|---|
| **Segment revenue, continuing operations** | External | Internal | **Total** |
| Building solutions – Europe | 632.7 | 2.6 | **635.3** |
| Building solutions – North America | 130.8 | - | **130.8** |
| Infrastructure solutions – Nordic | 185.7 | 6.4 | **192.1** |
| Eliminations | - | -9.0 | **-9.0** |
| **Uponor Group** | 949.2 | - | **949.2** |

| MEUR | **2009** | 2008 |
|---|---|---|
| **Segment result, continuing operations** | | |
| Building solutions – Europe | **32.4** | 65.6 |
| Building solutions – North America | **3.9** | -16.0 |
| Infrastructure solutions – Nordic | **14.4** | 10.0 |
| Others | **-9.3** | -9.5 |
| Eliminations | **-0.2** | 1.1 |
| **Uponor Group** | **41.2** | 51.2 |

| MEUR | **2009** | 2008 |
|---|---|---|
| **Segment depreciation and impairments, continuing operations** | | |
| Building solutions – Europe | **16.2** | 15.3 |
| Building solutions – North America | **6.1** | 5.6 |
| Infrastructure solutions – Nordic | **5.5** | 5.9 |
| Others | **4.1** | 4.1 |
| Eliminations | **0.6** | 0.5 |
| **Uponor Group** | **32.5** | 31.4 |

| MEUR | **2009** | 2008 |
|---|---|---|
| **Segment investments, continuing operations** | | |
| Building solutions – Europe | **10.5** | 16.0 |
| Building solutions – North America | **5.1** | 14.4 |
| Infrastructure solutions – Nordic | **10.1** | 4.7 |
| Others | **1.7** | 3.9 |
| **Uponor Group** | **27.4** | 39.0 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Segment assets** | | |
| Building solutions – Europe | 398.2 | 417.0 |
| Building solutions – North America | 118.1 | 121.8 |
| Infrastructure solutions – Nordic | 75.2 | 67.5 |
| Others | 509.9 | 611.9 |
| Eliminations | -602.8 | -623.3 |
| **Uponor Group** | 498.6 | 594.9 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Segment liabilities** | | |
| Building solutions – Europe | 281.6 | 290.3 |
| Building solutions – North America | 69.7 | 90.3 |
| Infrastructure solutions – Nordic | 59.7 | 59.1 |
| Others | 451.2 | 490.9 |
| Eliminations | -621.6 | -641.4 |
| **Uponor Group** | 240.6 | 289.2 |

| | 2009 | 2008 |
|---|---|---|
| **Segment personnel, continuing operations, average** | | |
| Building solutions – Europe | 2,433 | 2,803 |
| Building solutions – North America | 422 | 532 |
| Infrastructure solutions – Nordic | 510 | 605 |
| Others | 61 | 66 |
| **Uponor Group** | 3,426 | 4,006 |

## Reconciliations

| MEUR | 2009 | 2008 |
|---|---|---|
| **Segment revenue, continuing operations** | | |
| Total revenue for reportable segments | 739.3 | 958.2 |
| Eliminations | -5.2 | -9.0 |
| **Uponor Group** | 734.1 | 949.2 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Segment result, continuing operations** | | |
| Total result for reportable segments | 50.7 | 59.6 |
| Others | -9.3 | -9.5 |
| Eliminations | -0.2 | 1.1 |
| Uponor Group | 41.2 | 51.2 |
| Unallocated amounts | -12.7 | -10.2 |
| **Profit before taxes** | 28.5 | 41.0 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Segment assets** | | |
| Total assets for reportable segments | 591.5 | 606.3 |
| Others | 509.9 | 611.9 |
| Eliminations | -602.8 | -623.3 |
| **Uponor Group** | 498.6 | 594.9 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Segment liabilities** | | |
| Total liabilities for reportable segments | 411.0 | 439.7 |
| Others | 451.2 | 490.9 |
| Eliminations | -621.6 | -641.4 |
| Segment liabilities | 240.6 | 289.2 |
| Unallocated amounts | 258.0 | 305.7 |
| **Uponor Group** | 498.6 | 594.9 |

## Entity-wide information

### Information about products and services

| MEUR | 2009 | 2008 |
|---|---|---|
| **External revenue, continuing operations** | | |
| Building solutions | 587.1 | 751.1 |
| Infrastructure solutions | 147.0 | 198.1 |
| **Uponor Group** | 734.1 | 949.2 |

### Information about geograhpical areas

| MEUR | 2009 | 2008 |
|---|---|---|
| **External revenue, continuing operations** | | |
| Finland | 88.8 | 111.7 |
| Germany | 128.6 | 142.6 |
| USA | 83.9 | 105.2 |
| Sweden | 71.2 | 86.2 |
| Spain | 44.3 | 78.5 |
| Italy | 39.0 | 52.2 |
| Denmark | 39.3 | 57.7 |
| Others | 239.0 | 315.1 |
| **Uponor Group** | 734.1 | 949.2 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Finland | 90.9 | 145.0 |
| Germany | 139.6 | 154.1 |
| USA | 75.1 | 88.7 |
| Sweden | 64.3 | 57.3 |
| Denmark | 29.7 | 34.7 |
| Spain | 23.9 | 36.2 |
| Others | 75.1 | 78.9 |
| **Uponor Group** | 498.6 | 594.9 |

## 3. DISCONTINUED OPERATIONS

The infrastructure business disposals during 2008 in the UK and Ireland have been classified as discontinued operations according to the IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. Uponor Ltd and its subsidiary Radius Plastics Ltd in the UK, and the business assets of Uponor Ltd in Ireland, were divested in June 2008. In addition, the Group sold its German subsidiary Uponor Klärtechnik GmbH in 2008. The Group did not sell any subsidiaries in 2009.

The discontinued operations include 5.7 million euro costs in regard to the sold Irish infrastructure business. These costs have occurred from soil cleaning operations, which were started in 2008.

| MEUR | 2009 | 2008 |
|---|---|---|
| Net sales | - | 8.9 |
| Expenses | 5.7 | 10.0 |
| Profit before taxes | -5.7 | -1.1 |
| Income taxes | 0.0 | 0.0 |
| Profit after taxes | -5.7 | -1.1 |
| | | |
| Net profit from divestment of discontinued operations | - | 43.5 |
| Income taxes | - | - |
| Profit from divestment of discontinued operations | - | 43.5 |
| | | |
| Result for the period from discontinued operations | -5.7 | 42.4 |
| | | |
| Cash flow from discontinued operations | | |
| Cash flow from operations | -5.2 | -3.4 |
| Cash flow from investments | - | 76.4 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Book value of disposed assets** | | |
| Tangible assets | - | 33.7 |
| Deferred tax assets | - | 1.9 |
| Inventories | - | 17.8 |
| Accounts receivable and other receivables | - | 25.1 |
| Cash and cash equivalent | - | 1.1 |
| Total Assets | - | 79.6 |
| | | |
| Deferred tax liabilities | - | 3.1 |
| Pension obligations | - | 4.3 |
| Accounts payable and other liabilities | - | 33.2 |
| Total liabilities | - | 40.6 |
| | | |
| **Net assets** | - | 39.0 |
| | | |
| Cash received from sale | - | 77.5 |
| Cash and cash equivalents disposed of | - | 1.1 |
| Cash flow effect | - | 76.4 |

In addition to the payment in cash from the sale of the UK and Ireland businesses in June 2008, the Group booked a vendor loan note worth 4.0 million pounds sterling, which converted at the date of sale into 5.0 million euros, as a non-current interest-bearing receivable. This is included in the overall sales value amounting to 82.5 million euro.

## 4. ACQUIRED SUBSIDIARIES

On 30 November 2009, Uponor Group acquired the entire shareholding in the radiant heating and cooling system company The Underfloor Heating Company Limited, based in Skelmanthorpe in Yorkshire in the UK. The original total purchase consideration was GBP 3.3 million, of which 50 per cent represents the initial purchase consideration at agreement date and 50 per cent an operating profit based potential earn-out consideration for each year separately during 2009–2011. The acquisition cost at end of 2009 is GBP 2.9 million, after the 2009 non-realised earn-out consideration of GBP 0.4 million reduced the maximum purchase consideration. The entire purchase consideration has been booked as goodwill, since the purchased net assets were negative at the acquisition data and the asset fair values did not excess their carrying values for any identifiable item.

| MEUR | Carrying value 30 Nov 2009 | Book value 30 Nov 2009 |
|---|---|---|
| Fixed assets | 0.1 | 0.1 |
| Inventories | 0.4 | 0.4 |
| Accounts receivable and other receivables | 2.5 | 2.5 |
| Cash and cash equivalent | 0.0 | 0.0 |
| Total Assets | 3.0 | 3.0 |
| | | |
| Accounts payable | 3.1 | 3.1 |
| Other current liabilities | 0.0 | 0.0 |
| Total liabilities | 3.1 | 3.1 |
| | | |
| Net assets | -0.1 | -0.1 |
| | | |
| Acquisition cost | 3.2 | |
| | | |
| Goodwill | 3.3 | |
| | | |
| **Cash outflow on aquisition** | | |
| Acquisition cost total | 3.2 | |
| of which Earn-out consideration | -1.4 | |
| Acquisition cost paid in cash | 1.8 | |
| Cash and cash equivalent | 0.0 | |
| Net cash outflow arising on aquisition | 1.8 | |

The Group did not purchase any subsidiaries or associates in 2008.

## 5. OTHER OPERATING INCOME AND EXPENSES

| MEUR | 2009 | 2008 |
|---|---|---|
| **Other operating income** | | |
| Gains from sales of fixed assets | 3.3 | 0.5 |
| Royalties | 0.1 | 0.7 |
| Earnings share from associated companies | 0.2 | 0.2 |
| Other items | 0.6 | 0.0 |
| Total | 4.2 | 1.4 |
| | | |
| **Other operating expenses** | | |
| Losses from sales of fixed assets | 0.6 | 2.9 |
| Research and development expenses | 15.5 | 18.6 |
| Impairments | 0.5 | - |
| Other expenses | - | 14.5 |
| Total | 16.6 | 36.0 |

The main part of the other operation income in 2009 originates from fixed assets sales. Other operating income includes 0.5 million euro goodwill impairment for the sale of the German panel business which became effective as of 1 January 2010. A year before, the Group booked a provision converting to 14.5 million euro to cover for the costs of residential plumbing product replacements to be carried out in the United States in 2008. A majority of these provisions, in total 12.1 million euro, has been utilised during 2009.

## 6. EMPLOYEE BENEFITS

| MEUR | 2009 | 2008 |
|---|---|---|
| Short-term employee benefits: | | |
| - Salaries and bonuses | 145.9 | 164.9 |
| - Other social costs | 24.6 | 28.4 |
| Post-employment benefits: | | |
| - Pension expenses – defined contribution plans | 6.8 | 7.9 |
| - Pension expenses – defined benefit plans | 1.3 | 0.7 |
| Other long-term employee benefits | 0.0 | 0.0 |
| Termination benefit expenses | 3.9 | 1.4 |
| Share based payments | | |
| - Equity settled share-based payment transactions | 0.1 | - |
| Total | 182.6 | 203.3 |

Information on the management's employee benefits is presented in the note 32 Related party transactions.

## 7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

| MEUR | 2009 | 2008 |
|---|---|---|
| **Depreciation and amortisation by asset category** | | |
| Intangible rights | 4.6 | 4.7 |
| Other intangible assets | 0.1 | 0.0 |
| Land and water areas | 0.1 | 0.1 |
| Buildings and structures | 3.9 | 4.1 |
| Machinery and equipment | 19.4 | 19.4 |
| Other tangible assets | 3.9 | 3.1 |
| Total | 32.0 | 31.4 |
| | | |
| **Depreciation and amortisation by function** | | |
| Cost of goods sold | 21.5 | 20.7 |
| Dispatching and warehousing | 1.8 | 1.5 |
| Sales and marketing | 2.2 | 2.8 |
| Administration | 5.8 | 5.5 |
| Other | 0.7 | 0.9 |
| Total | 32.0 | 31.4 |

In addition to depreciation, the Group booked in 2009 a goodwill impairment amounting to 0.5 million for the sale of the German panel business effective as of 1 January 2010. This expense is reported in other operating income.

## 8. FINANCIAL INCOME AND EXPENSES

| MEUR | 2009 | 2008 |
|---|---|---|
| **Financial income** | | |
| Dividend income on available-for-sale financial assets | 0.0 | 0.0 |
| Interest income from loans and other receivables | 1.2 | 1.7 |
| Change in fair value of financial assets designated at fair value through profit and loss | | |
| - foreign currency derivatives, not under hedge accounting | 3.4 | 9.1 |
| Exchange differences | 7.0 | 4.1 |
| Other financial income | 0.1 | 0.1 |
| Total | 11.7 | 15.0 |
| | | |
| **Financial expenses** | | |
| Interest expense for financial liabilities measured at amortised cost | 5.5 | 9.2 |
| Change in fair value of financial liabilities designated at fair value through profit and loss | | |
| - foreign currency derivatives, not under hedge accounting | 11.1 | 1.4 |
| Exchange differences | 5.4 | 13.5 |
| Other financial costs | 2.4 | 1.1 |
| Total | 24.4 | 25.2 |

In addition to financial income and expenses, exchange rate gains and losses are included in sales corrections totalling 0.1 million (exchange rate losses 0.0 million) euros and correspondingly exchange rate losses are included in operating expenses totalling 0.3 million (loss of 1.1 million) euros. Interest expenses include the interest part of finance lease payments 1.1 million (1.2 million) euros.

## 9. INCOME TAXES

| MEUR | 2009 | 2008 |
|---|---|---|
| **Current year and previous years taxes** | | |
| For the financial period | 5.5 | 15.2 |
| For previous financial periods | -0.7 | 0.9 |
| Change in deferred taxes | 6.5 | -5.2 |
| Total | 11.3 | 10.9 |
| | | |
| **Tax reconciliation** | | |
| | | |
| Profit before taxes | 28.5 | 41.0 |
| | | |
| Computed tax at Finnish statutory rate | 7.4 | 10.7 |
| Difference between Finnish and foreign rates | 3.3 | -1.3 |
| Non-deductible expenses | 1.3 | 1.3 |
| Tax exempt income | -0.1 | -0.5 |
| Use of previously unrecognised tax losses | 0.0 | -0.2 |
| Change in tax legislation | -0.2 | -0.2 |
| Previous years taxes | -0.7 | 0.9 |
| Other items | 0.3 | 0.2 |
| Total | 11.3 | 10.9 |
| | | |
| Effective tax rate, % | 39.6 | 26.6 |

During the year 2009 there were not any significant national tax legislation changes which would have affected the Group results other than the Swedish tax rate from 28 to 26.3 per cent as of January 2009. The Group recalculated the Swedish deferred tax on 31 December 2008 in accordance with the new tax rate reduced the Group's tax burden for the period immaterially. The effective tax rate in 2009 has increased to 39.6 per cent from previous year's 26.6 per cent due to the increased share of taxable profits in high tax burden countries, increased amount of taxable losses in lower tax burden countries, decreased tax-exempt income and rise in relative share of non-deductable expenses in comparison to profit before taxes.

There is an on-going tax audit for some of the Group's Finnish subsidiaries concerning tax years 2004–2007. These companies have received preliminary tax audit reports and the companies have a different interpretation related to the transfer pricing of Group management services than the tax authorities. As the final outcome of the tax audits is unclear, the Group has not made any material provisions in the 2009 financials.

## 10. EARNINGS PER SHARE

| | 2009 | 2008 |
|---|---|---|
| Profit from continuing operations | 17.2 | 30.1 |
| Profit from discontinued operations | -5.7 | 42.4 |
| Profit for the period | 11.5 | 72.5 |
| | | |
| Shares, in thousands | | |
| Weighted average number of shares *) | 73,049 | 73,187 |
| Diluted weighted average number of shares | 73,049 | 73,187 |
| | | |
| Basic earnings per share, EUR | 0.16 | 0.99 |
| - Continuing operations | 0.24 | 0.41 |
| - Discontinued operations | -0.08 | 0.58 |
| | | |
| Diluted earnings per share, EUR | 0.16 | 0.99 |
| - Continuing operations | 0.24 | 0.41 |
| - Discontinued operations | -0.08 | 0.58 |

*) Weighted average number of shares does not include own shares.

## 11. INTANGIBLE ASSETS

| **2009**<br>MEUR | Intangible rights | Goodwill | Other intangible assets | Investment in progress | **Intangible assets** |
|---|---|---|---|---|---|
| Acquisition costs 1 Jan | 56.7 | 70.0 | 0.3 | 0.7 | **127.7** |
| Conversion difference | 0.3 | 0.2 | - | - | **0.5** |
| Increases | 1.4 | 3.3 | 0.0 | 0.7 | **5.4** |
| Decreases | 1.2 | - | 0.0 | - | **1.2** |
| Transfers between items | 2.0 | - | - | -1.4 | **0.6** |
| Acquisition costs 31 Dec | 59.2 | 73.5 | 0.3 | - | **133.0** |
| | | | | | |
| Accumulated depreciations and impairments 1 Jan | 26.3 | - | 0.1 | - | **26.4** |
| Conversion difference | 0.4 | - | - | - | **0.4** |
| Acc. depreciation on disposals and transfers | -1.1 | - | 0.0 | - | **-1.1** |
| Depreciation for the financial period | 4.6 | - | 0.1 | - | **4.7** |
| Transfers between items | 0.6 | - | - | - | **0.6** |
| Impairments | - | 0.5 | - | - | **0.5** |
| Accumulated depreciations and impairments 31 Dec | 30.8 | 0.5 | 0.2 | - | **31.5** |
| | | | | | |
| **Book value 31 December** | 28.4 | 73.0 | 0.1 | - | **101.5** |

| 2008<br>MEUR | Intangible rights | Goodwill | Other intangible assets | Investment in progress | **Intangible assets** |
|---|---|---|---|---|---|
| Acquisition costs 1 Jan | 54.2 | 70.2 | 0.8 | - | **125.2** |
| Structural changes | -1.0 | - | - | - | **-1.0** |
| Conversion difference | -0.9 | -0.2 | - | - | **-1.1** |
| Increases | 3.6 | - | 0.0 | 0.7 | **4.3** |
| Decreases | 0.0 | - | 0.0 | - | **0.0** |
| Transfers between items | 0.8 | - | -0.5 | - | **0.3** |
| Acquisition costs 31 Dec | 56.7 | 70.0 | 0.3 | 0.7 | **127.7** |
| | | | | | |
| Accumulated depreciations and impairments 1 Jan | 22.8 | - | 0.8 | - | **23.6** |
| Structural changes | -1.0 | - | - | - | **-1.0** |
| Conversion difference | -1.0 | - | 0.0 | - | **-1.0** |
| Acc. depreciation on disposals and transfers | 0.0 | - | - | - | **0.0** |
| Depreciation for the financial period | 4.7 | - | 0.0 | - | **4.7** |
| Transfers between items | 0.8 | - | -0.7 | - | **0.1** |
| Accumulated depreciations and impairments 31 Dec | 26.3 | - | 0.1 | - | **26.4** |
| | | | | | |
| **Book value 31 December** | 30.4 | 70.0 | 0.2 | 0.7 | **101.3** |

According to the IFRS 3 standard goodwill is not depreciated. Goodwill is tested annually for any impairment.

In 2009 and 2008, the investments in intangible assets have almost entirely related to the ERP system and to the goodwill which arises from the purchase of The Underfloor Heating Company Limited in the UK. The new goodwill is allocated in full to Buildings Solutions – Europe.

The largest part of the Group goodwill (23.4 million euros) is generated by the Uponor minority share acquired by Asko Oyj, which due to Oy Uponor Ab's merger into Asko Oyj has been moved to present Uponor Oyj, and acquired Unicor businesses (43.2 million euros). The goodwill has been allocated to segments as follows: Building Solutions – Europe 63.5 (60.5) million euros, Infrastructure Solutions – Nordic 9.5 (9.5) million euros.

Impairment tests are carried out on each separate cash-generating unit. The cash flow forecasts related to goodwill cover a period of ten years, including cash flow forecasts for the next five years and a residual value that corresponds to the sum total of five years' cash flow forecasts. A cash-generating unit's useful life has been assumed to be indefinite since these units have been estimated to impact the accrual of cash flows for an undetermined period. The discount rate used is based on the interest rate level that reflects the average yield requirement for the cash generating unit in question. Discount rates varied between 10.9 and 12.0 per cent. The Group recorded 0.5 million impairment loss for the sale of the German panel business which became effective as of 1 January 2010, but did not record any such losses in 2008. A sensitivity analysis verified that a three (3) per cent sales reduction compared to the forecasted long-term levels would not expose the Group to an impairment risk. A discount rate increase by five (5) percentage points would not lead into any impairment either, provided that other business factors are kept unchanged.

The Group does not have any capitalized development costs.

## 12. PROPERTY, PLANT AND EQUIPMENT

| **2009**<br>MEUR | Land and water areas | Buildings and structures | Machinery and equipment | Other tangible assets | Construction work in progress | **Tangible assets** |
|---|---|---|---|---|---|---|
| Acquisition costs 1 Jan | 12.7 | 127.6 | 302.3 | 27.2 | 17.1 | **486.9** |
| Structural changes | - | 0.0 | 0.2 | - | - | **0.2** |
| Conversion difference | -0.1 | 0.6 | 2.2 | -0.2 | 0.1 | **2.6** |
| Increases | 0.1 | 0.9 | 12.5 | 2.1 | 6.4 | **22.0** |
| Decreases | 0.9 | 4.4 | 22.3 | 1.3 | 0.0 | **28.9** |
| Transfers between items | - | 1.6 | -1.1 | 6.6 | -7.7 | **-0.6** |
| Acquisition costs 31 Dec | 11.8 | 126.3 | 293.8 | 34.4 | 15.9 | **482.2** |
| | | | | | | |
| Accumulated depreciations and impairments 1 Jan | 2.6 | 69.8 | 209.9 | 20.2 | - | **302.5** |
| Structural changes | - | 0.0 | 0.1 | - | - | **0.1** |
| Conversion difference | - | 0.4 | 1.9 | -0.1 | - | **2.2** |
| Acc. depreciation on disposals and transfers | -0.7 | -2.1 | -20.4 | -1.2 | - | **-24.4** |
| Depreciation for the financial period | 0.1 | 3.9 | 19.4 | 3.9 | - | **27.3** |
| Transfers between items | - | - | -4.5 | 3.9 | - | **-0.6** |
| Accumulated depreciations and impairments 31 Dec | 2.0 | 72.0 | 206.4 | 26.7 | - | **307.1** |
| | | | | | | |
| **Book value 31 December** | 9.8 | 54.3 | 87.4 | 7.7 | 15.9 | **175.1** |
| | | | | | | |
| Balance sheet value of production plant and machinery | | | 78.7 | | | |

| 2008<br>MEUR | Land and water areas | Buildings and structures | Machinery and equipment | Other tangible assets | Construction work in progress | **Tangible assets** |
|---|---|---|---|---|---|---|
| Acquisition costs 1 Jan | 14.3 | 137.4 | 406.1 | 27.4 | 26.0 | **611.2** |
| Structural changes | -2.6 | -17.4 | -92.8 | -2.8 | -3.0 | **-118.6** |
| Conversion difference | 0.0 | -2.3 | -8.7 | 0.3 | -0.7 | **-11.4** |
| Increases | 1.2 | 8.7 | 22.7 | 2.3 | -0.2 | **34.7** |
| Decreases | 0.0 | 1.1 | 27.1 | 0.4 | 0.1 | **28.7** |
| Transfers between items | -0.2 | 2.3 | 2.1 | 0.4 | -4.9 | **-0.3** |
| Acquisition costs 31 Dec | 12.7 | 127.6 | 302.3 | 27.2 | 17.1 | **486.9** |
| | | | | | | |
| Accumulated depreciations and impairments 1 Jan | 2.6 | 76.6 | 293.2 | 19.9 | - | **392.3** |
| Structural changes | -0.1 | -8.4 | -73.7 | -2.8 | - | **-85.0** |
| Conversion difference | -0.1 | -1.8 | -6.8 | 0.3 | - | **-8.4** |
| Acc. depreciation on disposals and transfers | 0.0 | -0.8 | -22.2 | -0.5 | - | **-23.5** |
| Depreciation for the financial period | 0.1 | 4.2 | 19.7 | 3.1 | - | **27.1** |
| Transfers between items | - | - | -0.3 | 0.2 | - | **-0.1** |
| Accumulated depreciations and impairments 31 Dec | 2.5 | 69.8 | 209.9 | 20.2 | - | **302.4** |
| | | | | | | |
| **Book value 31 December** | 10.2 | 57.8 | 92.4 | 7.0 | 17.1 | **184.5** |
| | | | | | | |
| Balance sheet value of production plant and machinery | | | 83.2 | | | |

The North American distribution centre investment was finalised in 2009, which shows as an increase in buildings and structures. The production asset divestments include the sale of St John production plant in Canada. A year before, the largest investment was the expansion of the North American production plant.

During 2009 the biggest property, plant and equipment increases relate to machinery and equipment, and major part of those have been replacement investments. The reductions in machinery and equipment result mainly from supply restructuring in Nordic countries and Germany.

Also a year before majority of the investments focused on replacements. The 2008 reductions in the Group's machinery and equipment relate mainly to the sold infrastructure businesses in the UK and Ireland. Furthermore, the factory closures in Canada and Sweden increased the disposals.

The majority of the unfinished investments which originated from projects started in 2008 were finalised in 2009.

Tangible assets include property that is acquired under finance lease arrangements as follows:

## Finance lease arrangements

| **2009**<br>MEUR | Land and water areas | Buildings and structures | Others | **Finance lease arrangements total** |
|---|---|---|---|---|
| Acquisition costs 1 Jan | 0.9 | 15.9 | 0.2 | **17.0** |
| Conversion difference | - | 0.1 | 0.0 | **0.1** |
| Increases | - | - | 0.0 | **0.0** |
| Decreases | - | - | 0.0 | **0.0** |
| Acquisition costs 31 Dec | 0.9 | 16.0 | 0.2 | **17.1** |
| | | | | |
| Accumulated depreciations and impairments 1 Jan | - | 7.4 | 0.1 | **7.5** |
| Conversion difference | - | 0.0 | 0.0 | **0.0** |
| Acc. depreciation on disposals and transfers | - | - | 0.0 | **0.0** |
| Depreciation for the financial period | - | 0.6 | 0.0 | **0.6** |
| Accumulated depreciations and impairments 31 Dec | - | 8.0 | 0.1 | **8.1** |
| | | | | |
| **Book value 31 December** | 0.9 | 8.0 | 0.1 | **9.0** |

| 2008<br>MEUR | Land and water areas | Buildings and structures | Others | **Finance lease arrangements total** |
|---|---|---|---|---|
| Acquisition costs 1 Jan | 1.1 | 16.8 | 0.2 | **18.1** |
| Conversion difference | - | -0.2 | 0.0 | **-0.2** |
| Increases | - | - | 0.0 | **0.0** |
| Transfers between items | -0.2 | -0.7 | - | **-0.9** |
| Acquisition costs 31 Dec | 0.9 | 15.9 | 0.2 | **17.0** |
| | | | | |
| Accumulated depreciations and impairments 1 Jan | - | 7.2 | 0.0 | **7.2** |
| Conversion difference | - | -0.2 | 0.0 | **-0.2** |
| Depreciation for the financial period | - | 0.6 | 0.1 | **0.7** |
| Transfers between items | - | -0.2 | - | **-0.2** |
| Accumulated depreciations and impairments 31 Dec | - | 7.4 | 0.1 | **7.5** |
| | | | | |
| **Book value 31 December** | 0.9 | 8.5 | 0.1 | **9.5** |

## 13. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORIES

| **2009** MEUR | Derivative contracts, under hedge accounting | Financial assets/ liabilities at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Financial liabilities measured at amortised cost | **Carrying amounts by balance sheet item** | IFRS 7 Fair value hierarchy level | Note |
|---|---|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | | | |
| Other shares and holdings | | | | 0.4 | | **0.4** | | 15 |
| Non-current receivables | | | 6.9 | | | **6.9** | | 16 |
| Derivative contracts | 0.1 | | | | | **0.1** | 2 | 16 |
| **Current financial assets** | | | | | | | | |
| Interest-bearing receivable | | | 0.0 | | | **0.0** | | 18 |
| Accounts receivable and other receivables | | | 91.2 | | | **91.2** | | 19 |
| Derivative contracts | 0.1 | 0.6 | | | | **0.7** | 2 | 19 |
| Cash and cash equivalent | | | 13.2 | | | **13.2** | | |
| **Carrying amount by category** | 0.2 | 0.6 | 111.3 | 0.4 | | **112.5** | | |
| | | | | | | | | |
| **Non-current financial liabilities** | | | | | | | | |
| Interest-bearing liabilities | | | | | 60.2 | **60.2** | | 24 |
| Derivative contracts | 0.2 | | | | | **0.2** | 2 | |
| **Current financial liabilities** | | | | | | | | |
| Interest-bearing liabilities | | | | | 17.6 | **17.6** | | 24 |
| Derivative contracts | 0.6 | 1.2 | | | | **1.8** | 2 | 25 |
| Accounts payable and other liabilities | | | | | 48.0 | **48.0** | | 25 |
| **Carrying amount by category** | 0.8 | 1.2 | | | 125.8 | **127.8** | | |

| 2008 MEUR | Derivative contracts, under hedge accounting | Financial assets/ liabilities at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Financial liabilities measured at amortised cost | **Carrying amounts by balance sheet item** | IFRS 7 Fair value hierarchy level | Note |
|---|---|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | | | |
| Other shares and holdings | | | | 0.2 | | **0.2** | | 15 |
| Non-current receivables | | | 6.1 | | | **6.1** | | 16 |
| Derivative contracts | 0.0 | | | | | **0.0** | | 16 |
| **Current financial assets** | | | | | | | | |
| Interest-bearing receivable | | | 0.0 | | | **0.0** | | 18 |
| Accounts receivable and other receivables | | | 93.3 | | | **93.3** | | 19 |
| Derivative contracts | 0.0 | 8.3 | | | | **8.3** | 2 | 19 |
| Cash and cash equivalent | | | 53.2 | | | **53.2** | | |
| **Carrying amount by category** | 0.0 | 8.3 | 152.6 | 0.2 | | **161.1** | | |

| 2008<br>MEUR | Derivative contracts, under hedge accounting | Financial assets/ liabilities at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Financial liabilities measured at amortised cost | **Carrying amounts by balance sheet item** | IFRS 7 Fair value hierarchy level | Note |
|---|---|---|---|---|---|---|---|---|
| **Non-current financial liabilities** | | | | | | | | |
| Interest-bearing liabilities | | | | | 77.0 | **77.0** | | 24 |
| Derivative contracts | 1.0 | 0.1 | | | | **1.1** | 2 | |
| **Current financial liabilities** | | | | | | | | |
| Interest-bearing liabilities | | | | | 36.8 | **36.8** | | 24 |
| Derivative contracts | 0.4 | 0.6 | | | | **1.0** | 2 | 25 |
| Accounts payable and other liabilities | | | | | 54.1 | **54.1** | | 25 |
| **Carrying amount by category** | 1.4 | 0.7 | | | 167.9 | **170.0** | | |

Carrying value of financial assets and liabilities is considered to approximate their fair value. All Group's financial instruments at fair value are classified to level two in the IFRS7 fair value hierarchy.

## 14. INVESTMENT IN ASSOCIATED COMPANIES

| MEUR | **2009** | 2008 |
|---|---|---|
| Acquisition costs 1 Jan | **-** | 0.0 |
| Decreases | **-** | 0.0 |
| Book value 31 December | **-** | - |

The associated company shares of Punitec do not have any book value. The Group divested its associated company share in Nrg2 as part of the infrastructure business sales during 2008.

## 15. OTHER SHARES AND HOLDINGS

| MEUR | **2009** | 2008 |
|---|---|---|
| Other non-current investments | **0.4** | 0.2 |
| Book value 31 December | **0.4** | 0.2 |

Other non-current investments include other unlisted shares which were measured at cost since it was not possible to determine their fair value reliably.

## 16. NON-CURRENT RECEIVABLES

| MEUR | **2009** | 2008 |
|---|---|---|
| Other loan receivables | **5.4** | 4.7 |
| Derivatives contracts | **0.2** | 0.0 |
| Other receivable | **1.5** | 1.4 |
| Book value 31 December | **7.1** | 6.1 |

The non-current receivables increased a year ago due to the sale of the infrastructure businesses in the UK and Ireland. In addition to the payment in cash, the Group agreed to 4.0 million sterling pound vendor loan note with a fixed interest rate and maturity in 2015. This receivable, including capitalised interest of 0.3 million pounds (sterling), is valued at 4.9 million euros at the closing date.

## 17. INVENTORIES

| MEUR | **2009** | 2008 |
|---|---|---|
| Raw materials and consumables | **11.8** | 16.7 |
| Finished products / goods | **61.4** | 86.1 |
| Advance payments | **1.1** | 1.7 |
| Book value 31 December | **74.3** | 104.5 |

Inventories are stated at the lower of cost or likely net realisable value, based on the FIFO principle. In 2008, the inventories were scrapped or written down below cost by 8.7 (4.7 million) euro. The inventory write-down reversals totalled 0.0 (0.1) million euro.

## 18. INTEREST-BEARING CURRENT ASSETS

| MEUR | **2009** | 2008 |
|---|---|---|
| Other loan receivable | **0.0** | 0.0 |
| Book value 31 December | **0.0** | 0.0 |

## 19. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

| MEUR | 2009 | 2008 |
|---|---|---|
| Accounts receivable | 88.8 | 92.9 |
| Doubtful accounts receivables | -0.6 | -1.5 |
| Current income tax receivable | 8.5 | 11.2 |
| Prepayments and accrued income | 14.7 | 15.3 |
| Derivative contracts | 0.6 | 8.3 |
| Other receivable | 3.0 | 1.9 |
| Book value 31 December | 115.0 | 128.1 |

According to the Group's assessment, the carrying value of non-interest-bearing current receivables, except for commodity contracts receivable, is considered to approximate their fair value.

The group recorded 0.6 (1.5) million euros of doubtful accounts receivables as expenses during the financial period. The Group is not aware of any factors which would cause possible additional write-downs.

Aging of accounts receivable is presented in the note 28 Financial risk management.

| MEUR | 2009 | 2008 |
|---|---|---|
| **Accrued income** | | |
| Taxes | 8.9 | 6.3 |
| Discounts received | 0.1 | 0.2 |
| Interest | 0.2 | 0.4 |
| Other | 5.5 | 8.4 |
| Book value 31 December | 14.7 | 15.3 |

## 20. SHAREHOLDERS' EQUITY

Uponor Corporation's share capital was during 2009 unchanged at EUR 146,446,888 and the number of shares totalled 73,206,944. Each share entitles its holder to one vote at the shareholders' meeting. The share does not have any nominal value. Additionally, it does not have any minimum or maximum share capital. All issued shares have been paid in full.

The company had 160,000 treasury shares in 2009, which the company bought during the period 17.11–5.12.2008 at 1.2 million euro cost. The treasury shares were acquired according to the Board of Directors decision on 6 November 2008. The Board's decision was based on the authorisation granted by the Annual General Meeting on 13 March 2008. The justification of the buy-back was the use of the shares as consideration in connection with the company's share based incentive programmes. Treasury shares are presented as a reduction in retained earnings and they do not have any asset value in the financial statements.

In 2007, a reserve for invested unrestricted equity complying with the new Limited Liability Companies Act and hedge reserve, in which the changes in fair value of derivative contracts under hedge accounting are recorded, were added to shareholders' equity.

At present, other reserves include legal reserves required by statutes.

## 21. DEFERRED TAXES

| MEUR | 2009 | 2008 |
|---|---|---|
| **Deferred tax assets** | | |
| Internal profit in inventory | 0.7 | 1.0 |
| Provisions | 3.2 | 8.7 |
| Unrecognised tax losses | 1.4 | 1.4 |
| Tangible assets | 0.7 | 0.4 |
| Employee benefits | 1.2 | 1.5 |
| Fair valuation of available-for-sale investments and financial instruments | 0.2 | 0.4 |
| Other temporary differences | 4.6 | 3.6 |
| Total | 12.0 | 17.0 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Deferred tax liabilities** | | |
| Accumulated depreciation difference and untaxed reserve | 5.1 | 4.9 |
| Tangible assets | 4.1 | 2.6 |
| Other temporary differences | 0.5 | 0.6 |
| Total | 9.7 | 8.1 |

The Group has recognised a deferred tax asset for its net operating loss carry-forwards, which probably can be utilised against future profits in the relevant tax jurisdictions. On 31 December 2009 the Group had losses carried forward of 5.1 million euros (5.6 million euros), of which the Group has recognized deferred tax receivable. With respect to confirmed losses, 3.9 million euros (3.9 million euros) had no expiry date while 1.2 million euros will expire in 2010. In 2009 there is a non-material amount of loss carry-forwards for which no deferred tax asset is recognized due the uncertainty of the utilization of these loss carry-forwards. A year before the Group did not have any such losses.

No deferred tax liability has been recognised for the undistributed earnings of Finnish subsidiaries as such earnings may be transferred to the Parent Company without any tax consequences. The Group does not provide for deferred taxes on undistributed earnings of non-Finnish subsidiaries to the extent that such earnings are intended to be permanently reinvested in those operations and repatriation would cause tax expenses.

## 22. EMPLOYEE BENEFIT OBLIGATIONS

The Group has a number of pension plans for its operations. The Group's pension schemes comply with each country's local rules and regulations. The Group applies defined contribution and defined benefit pension plans. Pensions are based on actuarial calculations or actual payments to insurance companies. Independent authorized actuaries prepared the actuarial calculations. The discount rate for actuarial calculations is determined by the reference to market yields of high quality corporate bonds or government bonds. Pension benefits are normally based on the number of working years and the salary. Most of the defined benefit plans are located in Germany and Sweden, constituting about 90% of the defined benefit pension liability in the Group's balance sheet. In Finland, pensions are handled according to TyEL system, which is a defined contribution pension plan.

| MEUR | 2009 | 2008 |
|---|---|---|
| Post-employment benefit obligations: | | |
| – Pensions – defined benefit plans | **19.8** | 19.5 |
| Other long-term employee benefit liability | **0.7** | 0.7 |
| Total | **20.5** | 20.2 |

The Group's defined benefit plans decreased during the financial year 2008 in connection with the sale of the infrastructure business in the United Kingdom and Ireland, whose pension liabilities were settled.

## Pension obligations

| MEUR | 2009 | 2008 |
|---|---|---|
| **Reconciliation of assets and liabilities recognised in the balance sheet** | | |
| Present value of funded obligations | **1.1** | 3.1 |
| Present value of unfunded obligations | **19.7** | 18.6 |
| Fair value of plan assets | **-0.6** | -2.1 |
| Unrecognised actuarial gains (+) and losses (-) | **-0.4** | -0.1 |
| Net liability in the balance sheet | **19.8** | 19.5 |
| | | |
| | | |
| **Expenses recognised in the income statement** | | |
| Current service costs | **0.2** | 1.0 |
| Interest costs | **0.8** | 1.4 |
| Expected return on plan assets | **0.0** | -0.6 |
| Actuarial gains (-) and losses (+) | **0.0** | -0.2 |
| Past service costs | **0.1** | - |
| Effect of any curtailments and settlements | **0.2** | -0.9 |
| Total | **1.3** | 0.7 |
| | | |
| Actual return on plan assets | **0.2** | -0.4 |
| | | |
| **Expenses recognised in the income statement by function** | | |
| Cost of goods sold | **-0.1** | 0.1 |
| Dispatching and warehousing | **0.1** | 0.1 |
| Sales and marketing | **0.7** | 0.6 |
| Administration | **0.5** | -0.2 |
| Other | **0.1** | 0.1 |
| Total | **1.3** | 0.7 |

| MEUR | 2009 | 2008 |
|---|---|---|
| **Movements in obligation** | | |
| Obligation at 1 January | **21.7** | 87.9 |
| Sale of businesses | **0.0** | -43.2 |
| Current service cost | **0.3** | 0.9 |
| Interest cost | **0.9** | 1.4 |
| Actuarial gains (-) and losses (+) | **0.7** | -1.5 |
| Gains (-) and losses (+) on curtailments | **0.0** | -0.3 |
| Member contributions | **0.0** | 0.0 |
| Benefit payments | **-0.6** | -4.6 |
| Settlements | **-2.9** | -4.5 |
| Conversion difference | **0.7** | -14.4 |
| Obligation at 31 December | **20.8** | 21.7 |
| | | |
| | | |
| **Movements in fair value of plan assets** | | |
| Fair value of plan assets at 1 January | **2.1** | 57.6 |
| Sale of businesses | **0.0** | -36.4 |
| Expected return on plan assets | **0.1** | 0.6 |
| Actuarial gains (+) and losses (-) | **0.1** | -1.0 |
| Contributions by employer | **0.6** | 1.4 |
| Member contributions | **0.0** | 0.0 |
| Settlements | **-1.9** | -5.3 |
| Conversion difference | **0.2** | -10.3 |
| Benefit payments | **-0.5** | -4.5 |
| Fair value of plan assets at 31 December | **0.7** | 2.1 |
| | | |
| **Major categories of plan assets as % of total plan** | **%** | % |
| Equities | **-** | 4.1 |
| Bonds | **-** | 40.7 |
| Other | **100.0** | 55.2 |
| Total | **100.0** | 100.0 |

Principal actuarial assumptions

| | Nordic countries | | Germany | | Other countries | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Discount rate (%) | **4,00–5,50** | 4,00–6,25 | **5,25–5,50** | 6,25 | **5,25–5,50** | 6,25 |
| Expected rate of return on plan assets (%) | **5,50** | 5,50 | **n/a** | n/a | **n/a** | n/a |
| Expected rate of salary increase (%) | **3,00–3,75** | 3,00–3,75 | **3,00** | 3,00 | **n/a** | 3,25 |
| Expected rate of pension increase (%) | **2,00** | 2,00–2,25 | **2,00** | 2,25 | **2,00** | 2,25 |

The expected rate of return on plan assets is 5.50 per cent. When determining the expected long-term rate of return on plan assets, the Group has considered historical returns and future expectations for each asset class. Transaction expenses and any applicable yield taxes have been deducted from the return on plan assets.

| MEUR | 2009 | 2008 |
|---|---|---|
| **Amounts for the current and previous period** | | |
| Present value of obligation | **20.8** | 21.7 |
| Fair value of plan assets | **-0.7** | -2.1 |
| Surplus (+)/Deficit (-) | **20.1** | 19.6 |
| | | |
| Experience adjustments on plan assets | **-0.1** | 0.6 |
| Experience adjustments on plan liabilities | **0.0** | -1.3 |

Group expects to contribute 0.8 million euros to its defined benefit pension plans in 2010.

## 23. PROVISIONS

| MEUR | Guarantee and warranty obligations | Environ-mental obligations | Restruc-turing | Other provisions | Total |
|---|---|---|---|---|---|
| Provisions at January 1, 2009 | 22.0 | 5.2 | 1.0 | 1.8 | **30.0** |
| Conversion difference | -0.6 | - | 0.0 | 0.0 | **-0.6** |
| Additional provisions | 2.3 | 1.5 | 2.6 | 0.7 | **7.1** |
| Utilised provisions | -14.5 | -2.0 | -1.0 | -0.3 | **-17.8** |
| Unused amounts reversed | -0.1 | - | - | -0.2 | **-0.3** |
| **Provisions at December 31, 2009** | 9.1 | 4.7 | 2.6 | 2.0 | **18.4** |
| | | | | | |
| Current provisions | 7.6 | 1.8 | 2.6 | 0.7 | **12.7** |
| Non-current provisions | 1.5 | 2.9 | 0.0 | 1.3 | **5.7** |

Warranty provisions were 9.1 (22.0) million euro at the end of the period. They increased in 2008 due to the USA warranty provision booking by 14.5 million euro to cover for the costs of residential plumbing replacements, and 12.1 million euros of it was used during 2009. Warranty provisions are based on previous years' experience of defective goods. The aim is to be prepared for future warranty expenses. Warranty periods vary from country to country, depending on the local legislation and commercial practice.

At period end, the environmental provision related to a divested domestic real estate business was 3.8 (5.2) million euro and related to Ireland discontinued operations 0.9 million euro. Roughly 1.9 million euro of these provisions is expected to realise during 2010.

## 24. INTEREST BEARING LIABILITIES

| MEUR | 2009 | 2008 |
|---|---|---|
| **Non-current interest bearing liabilities** | | |
| Loans from financial institutions | **48.0** | 64.0 |
| Finance lease liability | **12.2** | 13.0 |
| Total | **60.2** | 77.0 |
| | | |
| **Current interest-bearing liabilities** | | |
| Loans from financial institutions | **16.9** | 36.2 |
| Finance lease liability | **0.7** | 0.6 |
| Total | **17.6** | 36.8 |

| MEUR | 2011 | 2012 | 2013 | 2014 | 2015– |
|---|---|---|---|---|---|
| **Maturity of non-current interest bearing liabilities** | | | | | |
| Loans from financial institutions | 16.0 | 16.0 | 16.0 | - | - |
| Finance lease agreements | 0.8 | 1.1 | 0.8 | 1.8 | 7.7 |
| Total | 16.8 | 17.1 | 16.8 | 1.8 | 7.7 |

| | 2009 | 2008 |
|---|---|---|
| **The interest rate ranges of interest-bearing liabilities, % pa** | | |
| Loans from financial institutions | **3.45** | 3.45 |

The Group increased its borrowings in 2008 by 80 million euros with a pension insurance company's reborrowing loan facility. It has a fixed interest rate and will be paid back during the next five (5) years. The remaining capital amount of that loan is 64 million euros, of which the short-term part comprises 16 million euros. The carrying value of the interest bearing liabilities is considered to approximate their fair value.

| MEUR | 2009 | 2008 |
|---|---|---|
| **Finance lease liability** | | |
| Minimum lease payments | | |
| In less than one year | **1.8** | 1.8 |
| 1–5 years | **8.0** | 7.0 |
| Over 5 years | **11.6** | 13.4 |
| Total | **21.4** | 22.2 |
| Future finance charges | **8.5** | 8.6 |
| Finance lease liabilities – the present value of minimum lease payments | **12.9** | 13.6 |
| | | |
| The present value of minimum lease payments | | |
| In less than one year | **0.7** | 0.6 |
| 1–5 years | **4.5** | 3.2 |
| Over 5 years | **7.7** | 9.8 |
| Total | **12.9** | 13.6 |

The Group's finance lease agreements are mainly related to office, factory and warehouse premises. On 31 December 2009, the total amount of activated costs for finance lease agreements in the Group was 9.0 (9.5) million euros, which was included in property, plant and equipment in the balance sheet. The corresponding depreciations in 2009 were 0.6 (0.6) million euros. The total amount of finance lease payments in 2009 was 1.8 (1.8) million euros, which included 1.1 (1.1) million euros of interest expenses.

The most significant leasing liability is the finance lease agreement signed in connection with the purchase of the Unicor business in 1999. In 2009, the Group did not enter into any significant new finance lease agreements.

## 25. ACCOUNTS PAYABLE AND OTHER LIABILITIES

| MEUR | 2009 | 2008 |
|---|---|---|
| Accounts payable | **45.0** | 50.1 |
| Current income tax liability | **3.6** | 0.7 |
| Accrued liabilities | **59.0** | 59.9 |
| Advances received | **0.2** | 0.4 |
| Derivative contracts | **1.8** | 1.0 |
| Other current liabilities | **3.0** | 4.0 |
| Total | **112.6** | 116.1 |
| | | |
| **Accrued liabilities** | | |
| Personnel expenses | **18.3** | 18.2 |
| Bonuses | **8.7** | 7.4 |
| Taxes | **2.1** | 3.3 |
| Interest | **0.0** | 0.0 |
| Others | **29.9** | 31.0 |
| Total | **59.0** | 59.9 |

## 26. CONTINGENT LIABILITIES

| MEUR | 2009 | 2008 |
|---|---|---|
| - on own behalf | | |
| Pledges at book value | **0.0** | 0.0 |
| Mortgages issued | **0.0** | 0.0 |
| Guarantees issued | **0.1** | 0.0 |
| | | |
| - on behalf of others | | |
| Guarantees issued | **7.4** | 7.8 |

Letter of Comfort commitments undertaken on behalf of subsidiaries are not included in the above figures.

| | | |
|---|---|---|
| Pledges at book value | **0.0** | 0.0 |
| Mortgages issued | **0.0** | 0.0 |
| Guarantees issued | **7.5** | 7.8 |
| Total | **7.5** | 7.8 |

Contingent liabilities are recorded in accordance with the best estimate of the amount of liability. The Group has entered into agreements with third parties (former group or associated companies) to provide them with financial or performance assurance services. The Group does not have any collateral or other recourse provisions related to these guarantees. The maximum amounts of future payments on behalf of others under these guarantees are disclosed under "Guarantees issued – on behalf of others".

## 27. OPERATIVE LEASING COMMITMENTS

| MEUR | 2009 | 2008 |
|---|---|---|
| Future minimum lease payments | | |
| In less than one year | **9.4** | 9.2 |
| 1–5 years | **13.9** | 14.7 |
| Over 5 years | **6.8** | 8.0 |
| Total | **30.1** | 31.9 |

The Group has rented office and warehouse premises with various agreements. In addition, rental agreements, which are not finance lease agreements, are classified as other rental agreements. The rents of operative leasing commitments are booked as expenses during the maturity.

## 28. FINANCIAL RISK MANAGEMENT

Financial risk management aims to minimise the adverse effects caused by the uncertainties in financial markets to the Group's financial performance and to ensure sufficient liquidity in a cost-efficient manner. The general operating principles of financial risk management are defined in the Group's financing policy approved by the Board of Directors.

Chaired by the Group's President and CEO, the Treasury Committee is responsible for steering and supervising practical financial risk management. For risk management, Uponor employs only financial instruments whose market value and risk profile it can monitor reliably and continuously. Hedging transactions related to, for instance, currency, interest rate, liquidity and counterparty risks are carried out in accordance with the written risk management principles approved by the Group management.

Group Treasury operates as the Group's internal bank, centralised at the Corporate Head Office. Its financial risk management duties include identifying, assessing and covering the Group's financial risks. The internal bank is also responsible for external market transactions related to asset and risk management, and providing Group subsidiaries with consultation and services within financing.

### Currency risk

Due to its international operations, the Group is exposed to currency risks arising from, for instance, currency-denominated accounts receivable and payable, intra-Group transactions as well as currency-denominated financing, deposits and bank account balances. According to the Group hedging policy, subsidiaries hedge all major transaction risks with Group's internal forward transactions. Group Treasury is responsible for assessing net positions and hedging them in external currency markets. Currency forward agreements are mainly used as hedging instruments, but also options can be used. The currency contracts have duration of less than 1 year.

Subsidiaries forecast their foreign currency cash flows for the following 12 month periods and according to Group's hedging policy they are responsible to hedge 50–100% of the monthly net cash flow up to 6 months. This mitigates against the effect of currency fluctuations to margin and allows time for adjustments. In addition to the euro, the main invoicing currencies are the US dollar (USD), the Swedish krona (SEK), and the Norwegian krona (NOK). On 31 December 2009 these currencies accounted for approximately 33 per cent of the Group's external accounts receivable. Costs arising from the Group's own production in the United States and Sweden balance the open risk positions denominated in the said currencies.

**Group's currency transaction risk position at 31 Dec 2009**

| Currency | SEK | GBP | USD | NOK |
|---|---|---|---|---|
| Net position | 56.8 | 5.6 | 9.7 | 19.3 |
| External hedges | -56.8 | -5.3 | -8.8 | -17.6 |
| Open position | 0.0 | 0.3 | 0.9 | 1.7 |
| | | | | |
| Hedge level, % | 100% | 95% | 91% | 91% |

**Group's currency transaction risk position at 31 Dec 2008**

| | SEK | GBP | USD | NOK |
|---|---|---|---|---|
| Currency | 54.3 | 4.3 | 28.7 | 22.6 |
| Net position | -54.2 | -3.9 | -28.7 | -19.1 |
| External hedges | 0.1 | 0.4 | 0.0 | 3.5 |
| | | | | |
| Hedge level, % | 100% | 90% | 100% | 85% |

Because the factory in Canada was closed in the end of 2008 and Canada now buys the products from Uponor's factory in the USA, the Group now has substantial currency risks from the USD/CAD cash flows that are hedged. As the open position is small, the sensitivity to currency fluctuations is immaterial.

Translational risks arise when the currency denominated assets and liabilities of subsidiaries located outside the euro area are exposed to currency fluctuations when the assets and liabilities are translated into the parent company's reporting currency, the euro. The most important net investments are in the United States and Sweden. Translational risk affects the reported profit and key ratios through changes in the balance sheet, but not the cash flow. According to the Group hedging policy, these non-euro denominated balance sheet items are not hedged. The cash flows from non-euro denominated internal loans have, however, been hedged up to five years. Starting from 2010 the Group has decided to change the hedging policy so that the principal of non-euro denominated internal loans are hedged in full. In addition hedge accounting will be applied from the beginning of 2010 for certain loans defined by the Group's Treasury Committee. Thereby the fair value changes of theses loans and the loan hedges will not impact the profit but will instead be recognised in equity to the extent that the hedge is effective.

### Interest rate risk

The Group is exposed to interest rate risks in the form of, on the one hand, changes in the value of balance sheet items (i.e. price risks) and, on the other hand, risks related to the restructuring of interest income and expenses necessitated by changes in interest rates. Group Treasury is responsible for managing interest rate risks within the framework specified by Group financing policy with the aim of balancing the interest rate position and minimising interest rate risks.

In order to manage interest rate risks, Uponor spreads Group funding across fixed and floating interest rate instruments. The duration of the interest rate position is regulated by choosing loans with different interest rate periods. Different derivative instruments, such as interest rate swaps, forward rate agreements and interest rate options can also be used. Group Treasury is also responsible for matching external financial items and the duration of balance sheet items funded by such items. Short-term money market investments expose the Group to cash flow interest rate risks, but the overall impact of the said investments is insignificant. At the end of the period Group had mainly long-term loans with fixed interest rate.

The Group had no open interest rate swaps or other interest rate derivatives on the balance sheet date.

Financial instruments' sensitivity to fluctuations in market interest rates, as stated in IFRS 7 -standard, is presented in the following sensitivity analysis. The impact of interest rate increase or decrease by one per cent on the income statement after taxes is +/- 0.1 million euros (+/- 0.2 million euros). The interest position consists of floating rate interest-bearing financial liabilities and assets. As the Group's only financial liability at year-end was fixed rate, a change in interest rates would only affect the financial assets.

### Liquidity and refinancing risk

The Group's liquidity is managed through efficient cash management and by investing solely in low-risk objects that can be liquidated rapidly and at a clear market price.

Uponor seeks to ensure the availability and flexibility of financing through a balanced distribution of loan maturities as well as adequate credit limit reserves and by acquiring financing from several banks and using various types of financing.

Group Treasury is responsible for the co-ordination of Group funding through the parent company. In exceptional cases, mainly for practical or legal reasons, Group Treasury may establish local working capital credit lines in the name of a subsidiary, guaranteed by the parent company.

The Group's credit facilities were renegotiated during 2009. The Revolving Credit Facility of 120 million euros that would have matured in 2010 was cancelled and replaced by bilateral revolving credit facilities with the Group's main banks.

The most significant existing funding programs on 31 December 2009 included:

- Pension insurance company's reborrowing loan of 64 million euros, maturing in 2009–2013
- Several committed bilateral revolving credit facilities of totally 190 million euros, maturing in 2012

At the end of the financial period, the revolving credit facilities were not utilised.

In addition, the Group has a Finnish commercial paper program totalling 150 million euros.

**Contractual maturity of financial liabilities at 31 Dec 2009**

| MEUR | 2010 | 2011 | 2012 | 2013 | 2014– |
|---|---|---|---|---|---|
| Loans from financial institutions | 18.1 | 17.5 | 17.0 | 16.4 | - |
| Finance lease liability | 1.8 | 1.8 | 2.0 | 1.7 | 14.1 |
| Accounts payable | 45.0 | | | | |
| | | | | | |
| **Derivative contracts** | | | | | |
| Foreign currency derivatives | | | | | |
| - cash outflow | 1.2 | | | | |
| - cash inflow | 0.6 | | | | |
| Commodity derivatives | 0.6 | 0.1 | -0.1 | 0.0 | |
| Guarantees issued on behalf of others | 0.5 | | 6.9 | | |

**Contractual maturity of financial liabilities at 31 Dec 2008**

| MEUR | 2009 | 2010 | 2011 | 2012 | 2013– |
|---|---|---|---|---|---|
| Commercial papers | 19.0 | | | | |
| Loans from financial institutions | 20.0 | 18.1 | 17.5 | 17.0 | 16.4 |
| Finance lease liability | 1.8 | 1.8 | 1.9 | 1.7 | 15.0 |
| Accounts payable | 50.1 | | | | |
| | | | | | |
| **Derivative contracts** | | | | | |
| Foreign currency derivatives | | | | | |
| - cash outflow | 0.6 | | | | |
| - cash inflow | 8.3 | | | | |
| Commodity derivatives | 0.4 | 0.8 | 0.3 | 0.0 | |
| Guarantees issued on behalf of others | 7.8 | | | | |

## Counterparty and credit risk

The counterparty risk related to financial instruments has been defined as a risk that the counterparty is unable to fulfil its contractual obligations.

In order to minimise counterparty risks, the Group invests its cash reserves and makes derivative contracts only with parties who meet the Group's criteria for creditworthiness. The Group did not suffer any credit losses in its operations during the financial year. The maximum counterparty risk is the book value of financial assets on 31 December 2009.

Potential concentrations of credit risk with respect to trade and other receivables are limited due to the large number and geographic dispersion of companies that comprise the Group's customer base. The single-largest European business segments' customer generated 11 per cent (less than 10 per cent) of the Group's revenue and its insured accounts receivable at the closing date was 22 (20) per cent of the Group's open balance at the closing. Customer credit limits are established and monitored, and evaluation of customers' financial conditions is performed on-going continuously. Trade receivables are credit insured when it is applicable. The Group recorded 0.6 million euros (1.5 million euros) of doubtful accounts receivables as expenses.

| MEUR | **2009** | 2008 |
|---|---|---|
| **The aging of accounts receivable** | | |
| Undue | **71.0** | 69.4 |
| Due 1–30 days | **8.1** | 15.0 |
| Due 31–60 days | **5.7** | 3.5 |
| Due 61–90 days | **1.2** | 1.9 |
| Due over 90 days | **2.2** | 1.6 |
| Total | **88.2** | 91.4 |

## Price risk

The Group is exposed to raw material price risks, such as plastics, aluminium, copper, zinc, and electricity price risk in its business operations. Raw material price risks are managed through long term fixed price supply contracts. Group Treasury is responsible managing the electricity price risks on Nordic level within the frame defined in the Group hedging policy. The hedging level according to the policy is for the coming 12 months 70–100 per cent and the following 12 months 25–80 per cent.

The table below presents the sensitivity of open electricity derivatives to fluctuations in electricity price should the market price of electricity increase or decrease by 10 per cent. The figures include the impact of taxes while other factors are expected to remain unchanged. Electricity derivatives recorded at fair value affect the profit after tax. Any changes in the value of electricity derivatives that meet the criteria for hedge accounting as set forth in IAS 39 have an impact on shareholders' equity.

| MEUR | **2009** | 2008 |
|---|---|---|
| Change in the income statement | **+/- 0,1** | +/- 0,0 |
| Change in shareholders' equity | **+/- 0,6** | +/- 0,4 |

## 29. DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING

| MEUR | 2009 | 2008 |
|---|---|---|
| **Nominal value** | | |
| Foreign currency derivatives: | | |
| Forward agreements | 115.1 | 128.9 |
| | | |
| Commodity derivatives: | | |
| Forward agreements | | |
| - not under hedge accounting | 0.7 | 0.7 |
| - under hedge accounting | 6.5 | 6.7 |

| Fair value | 2009 | 2009 | 2009 | 2008 | 2008 | 2008 |
|---|---|---|---|---|---|---|
| | Positive fair value | Negative fair value | Net fair value | Positive fair value | Negative fair value | Net fair value |
| Foreign currency derivatives: | | | | | | |
| Forward agreements | 0.6 | -1.2 | -0.6 | 8.3 | -0.6 | 7.7 |
| | | | | | | |
| Commodity derivatives | | | | | | |
| - not under hedge accounting | 0.0 | -0.1 | -0.1 | 0.0 | -0.1 | -0.1 |
| - under hedge accounting | 0.2 | -0.8 | -0.6 | 0.0 | -1.4 | -1.4 |

Uponor has applied hedge accounting for electricity derivatives since September 2007. The Group uses electricity derivatives in order to hedge against the price risk arising from fluctuations in the market price of electricity. Those electricity derivatives that meet the criteria for hedge accounting have been defined as hedging for inbound cash flow.

Changes in the fair values of electricity derivatives which are designated as inbound cash flow hedges are recognised in equity to the extent that the hedge is effective. A profit of 1.0 million euros (loss of 1.7 million euro) was entered directly into equity during the financial period. The impact of the ineffective portion on the profit for the financial period was a gain of 0.1 million euros (a loss of 0.1 million euros in 2008). With respect to the hedging fund, a loss of 0.5 million euros (a gain of 0.3 million euros) was recorded in the income statement during the financial period, under costs of goods sold.

The Group has decided to start applying hedge accounting in 2010 for certain internal non-euro denominated loans defined by the Group's Treasury Committee.

## 30. CAPITAL MANAGEMENT

The purpose of the Group's capital management is to create an efficient capital structure in order to ensure normal operational preconditions and growth opportunities and, thereby, to increase long-term shareholder return.

In addition to investment decisions, dividend distribution is a key factor affecting the capital structure. The Group's long-term goal is to pay an annually-growing basic dividend which represents at least 50 per cent of the earnings per share.

The Group's capital structure developments are monitored by means of gearing. Gearing is calculated by dividing net interest-bearing liabilities by shareholders' equity. Net interest-bearing liabilities include interest bearing liabilities less cash and cash equivalents. The Group target is to keep its gearing between 30 and 70 per cent across quarters.

| MEUR | 2009 | 2008 |
|---|---|---|
| Interest-bearing liabilities | 77.8 | 113.8 |
| Cash and cash equivalent | 13.2 | 53.2 |
| Net interest-bearing liabilities | 64.6 | 60.6 |
| | | |
| Shareholders' equity | 258.0 | 305.6 |
| | | |
| Gearing, % | 25.0 | 19.8 |
| | | |
| Gearing across quarters, % | 45.2 | 46.4 |

Group's financial agreements include typical covenant clauses regarding gearing and interest cover ratio. The realised ratio levels have fulfilled the covenant clauses clearly.

## 31. MANAGEMENT INCENTIVE SCHEME AND SHARE BASED PAYMENTS

The Group has two management incentive schemes which are addressed to Executive Committee and international business management. According to the agreement conditions, the Group parent company will grant the shares without any cash payments. Both of the management incentive schemes are conditional. The conditions are based on the Group's cumulative operating profit and the share amounts which the management scheme participants have personally acquired.

Management incentive scheme participants have acquired in total 34,952 shares. Based on the actual 2009 and estimated 2010–2011 operating profits the share based payment volume is 20,170 shares. The management incentive scheme valuation impact on Group's operating profit is 0.2 (0.0) million euros, on equity 0.1 (0.0) million euros and the liability reserved for paying any related income taxes for scheme participants 0.1 (0.0) million euros. The management incentive scheme income statement and balance sheet impacts have been calculated on accrual basis.

## 32. RELATED PARTY TRANSACTIONS

Uponor Group's related parties include subsidiaries and associates as well as Board members, the CEO, deputy CEO and Executive Committee members.

| MEUR | 2009 | 2008 |
|---|---|---|
| **Transactions with associated companies** | | |
| | | |
| Continuing operations | | |
| Purchases | 1.7 | 2.0 |
| | | |
| Balances at the end of period | | |
| Accounts payable and other liabilities | 0.0 | 0.0 |

| TEUR | 2009 | 2008 |
|---|---|---|
| **Executive Committee remuneration** | | |
| Remuneration | 2,115.0 | 2,341.3 |
| Termination expenses | - | 470.0 |
| Post-employment benefit expenses | 40.0 | 69.0 |
| Total | 2,155.0 | 2,880.3 |
| | | |
| **Executive Committee remuneration: CEO and his Deputy** | | |
| Luomakoski Jyri, CEO (in 2008 Deputy CEO and CFO until 27 October 2008/ CEO from 27 October 2008) | 446.4 | 255.8 |
| Lång Jan, CEO until 27 October 2008 | - | 411.4 |
| | | |
| The CEO's retirement age is 63. | | |
| | | |
| **Board remuneration** | | |
| Paasikivi Jari, Chairman (elected 13 March 2008) | 74.6 | 71.0 |
| Rajahalme Aimo, Deputy Chairman | 53.2 | 49.0 |
| Eloranta Jorma | 47.0 | 44.0 |
| Silfverstolpe Nordin Anne-Christine | 44.0 | 44.0 |
| Simon Rainer S. | 44.0 | 44.0 |
| Total | 262.8 | 252.0 |

### Loans to management

The Group had not issued any loans to the management and Board members on 31 December 2009 or 31 December 2008.

The shareholdings of the management and Board members are presented under the Corporate Governance section of the Annual Report 2009.

### Subsidiaries

| Name | Country and domicile |
|---|---|
| Uponor Beteiligungs GmbH | Germany, Hassfurt |
| Uponor Hispania, S.A. | Spain, Móstoles |
| Uponor (Deutschland) GmbH | Germany, Hassfurt |
| Hewing GmbH | Germany, Ochtrup |
| Uponor GmbH | Germany, Hassfurt |
| Uponor S.A.R.L. | France, St. Etienne de St. Geoirs |
| Karhu Deutschland GmbH i.L. | Germany |
| Trak GmbH i.L. | Germany, Kiefersfelden |
| Uponor A/S | Denmark, Hadsund |
| Uponor Eesti Oü | Estonia, Tallinn |
| Jita Oy | Finland, Virrat |
| Nereus Oy | Finland, Uusikaupunki |
| Uponor Business Solutions Oy | Finland, Vantaa |
| Uponor Suomi Oy | Finland, Nastola |
| Uponor Texnikes Lyseis gia Ktiria AE | Greece, Athens |
| Uponor Kft. | Hungary, Budapest |
| Uponor Limited | Ireland, Bishopstown |
| Cork Pipe Plant Limited | Ireland, Bishopstown |
| Uponor (Ireland) Ltd | Ireland, Bishopstown |
| Uponor S.r.l. | Italy, Badia Polesine |
| SIA Uponor Latvia | Latvia, Riga |
| UAB Uponor | Lithuania, Vilnius |
| Uponor B.V. | The Netherlands, Amsterdam |
| Uponor s.r.o. | Czech, Prague |
| Uponor AS | Norway, Vestby |
| Uponor Sp. z o.o. | Poland, Plonie |
| Uponor Portugal – Sistemas para Fluidos, Lda. | Portugal, V.N. Gaia |
| Uponor Construcão e Ambiente – Sistemas de Tubagens, S.A. | Portugal, V.N. Gaia |
| Uponor AG | Switzerland, Pfungen |
| AO Asko-Upo (Spb) | Russia, St.Petersburg |
| ZAO Uponor Rus | Russia, St.Petersburg |
| Uponor Innovation AB | Sweden, Borås |
| Uponor AB | Sweden, Wirsbo |
| Uponor Vertriebs GmbH | Austria, Guntramsdorf |
| Uponor Limited | UK, England and Wales |
| The Underfloor Heating Company Limited | UK, Skelmanthorpe |
| Uponor NA Holding, Inc. | USA, Delaware |
| Uponor NA Asset Leasing, Inc. | USA, Delaware |
| Uponor North America, Inc. | USA, Delaware |
| Hot Water Systems North America, Inc. | USA, Delaware |
| Uponor, Inc. | USA, Illinois |
| Uponor Ltd | Canada, Saskatchewan |
| Radiant Technology, Inc. | USA, Delaware |
| Tulsa Pipe Plant, Inc. (former Uponor Aldyl Company, Inc.) | USA, Delaware |

### Associated companies

| Name | Shareholding % | Country and domicile |
|---|---|---|
| Punitec GmbH & Co. KG | 36 | Germany, Gochsheim |
| Punitec Verwaltungs GmbH | 36 | Germany, Gochsheim |

## 33. EVENTS AFTER THE BALANCE SHEET DATE

There have not been any material events after the balance sheet date.

# Shares and shareholders

The volume of Uponor shares traded on the NASDAQ OMX Helsinki Exchange in 2009 totalled 45,815,310, valued at EUR 455.8 million. The share closed at EUR 15.00 and the market capitalisation came to EUR 1,098.1 million. The yearend number of shareholders totalled 20 214 of which foreign shareholders accounted for 23.7 per cent (22.6 per cent).

**Major shareholders on 31 December 2009**

| Shareholder | Shares | % of shares | % of votes |
|---|---|---|---|
| Oras Invest Ltd | 16,571,780 | 22.6 | 22.7 |
| Varma Mutual Pension Insurance Company | 5,162,072 | 7.1 | 7.1 |
| Mandatum Life Insurance Company Limited | 1,580,336 | 2.2 | 2.2 |
| Tapiola Mutual Pension Insurance Company | 1,356,500 | 1.9 | 1.9 |
| Ilmarinen Mutual Pension Insurance Company | 1,349,773 | 1.8 | 1.8 |
| State Pension Fund | 925,000 | 1.3 | 1.3 |
| Sigrid Juselius Foundation | 773,200 | 1.1 | 1.1 |
| Nordea Life Assurance Finland Ltd | 748,499 | 1.0 | 1.0 |
| Paasikivi Jari | 539,207 | 0.7 | 0.7 |
| Paasikivi Jukka | 538,173 | 0.7 | 0.7 |
| Finnish Cultural Foundation | 500,670 | 0.7 | 0.7 |
| Paasikivi Pekka | 443,096 | 0.6 | 0.6 |
| Others | 42,558,638 | 58.1 | 58.2 |
| Total | 73,046,944 | 99.8 | 100.0 |
| | | | |
| Treasury shares held by the company | 160,000 | 0.2 | - |
| Grand total | 73,206,944 | 100.0 | 100.0 |
| | | | |
| **Nominee registered shares on 31 December 2009** | | | |
| Nordea Bank Finland Plc | 7,582,497 | 10.4 | 10.4 |
| Skandinaviska Enskilda Banken AB | 7,197,118 | 9.8 | 9.9 |
| Svenska Handelsbanken AB (publ.) | 2,037,433 | 2.8 | 2.8 |
| Others | 114,436 | 0.1 | 0.1 |
| Total | 16,931,484 | 23.1 | 23.2 |

The maximum number of votes which may be cast at the Annual General Meeting is 73,046,944 (status on 31 December 2009).
At the end of the financial period the company held a total of 160,000 own shares corresponding to the same number of votes.
These shares do not entitle to vote in the Annual General Meeting.

### Share capital development 2005–2009

| | Date | Reason | Change, euro | Share capital, euro | Number of shares |
|---|---|---|---|---|---|
| 2009 | 31 Dec. | | | 146,446,888 | 73,206,944 |
| 2008 | 31 Dec. | | | 146,446,888 | 73,206,944 |
| 2007 | 31 Dec. | | | 146,446,888 | 73,206,944 |
| | 7 May | Reduction (cancellation of own shares) | - | 146,446,888 | 73,206,944 |
| 2006 | 31 Dec. | | | 146,446,888 | 73,223,444 |
| | 16 Mar. | Reduction (cancellation of own shares) | 2,320,000 | 146,446,888 | 73,223,444 |
| 2005 | 31 Dec. | | | 148,766,888 | 74,383,444 |
| | 23 Mar. | Reduction (cancellation of own shares) | 874,000 | 148,766,888 | 74,383,444 |
| 2004 | 31 Dec. | | | 149,640,888 | 74,820,444 |

### Shareholders by category on 31 December 2009

| Category | Number of shares | % of shares |
|---|---|---|
| Private non-financial corporations | 20,059,167 | 27.4 |
| Public non-financial corporations | 263,570 | 0.4 |
| Financial and insurance corporations | 4,199,618 | 5.7 |
| General government | 10,275,841 | 14.0 |
| Non-profit institutions | 4,470,299 | 6.1 |
| Households | 16,592,719 | 22.7 |
| Foreign (including nominee registrations) | 17,344,876 | 23.7 |
| Other (joint account) | 854 | 0.0 |
| Total | 73,206,944 | 100.0 |

### Shareholders by size of holding on 31 December 2009

| Shares per shareholder | Number of shares, total | % of share capital | Number of shareholders | % of shareholders |
|---|---|---|---|---|
| 1–100 | 315,587 | 0.4 | 4,555 | 22.6 |
| 101–1,000 | 5,230,378 | 7.1 | 12,081 | 59.8 |
| 1,001–10,000 | 8,770,288 | 12.0 | 3,271 | 16.2 |
| 10,001–100,000 | 7,412,260 | 10.1 | 271 | 1.3 |
| 100,001–1,000,000 | 8,640,922 | 11.8 | 28 | 0.1 |
| 1,000,001– | 42,837,509 | 58.6 | 8 | 0.0 |
| Total | 73,206,944 | 100.0 | 20,214 | 100.0 |

# Parent company financial statement (FAS)

## PARENT COMPANY INCOME STATEMENT

| MEUR | Note | 2009 | 2008 |
|---|---|---|---|
| **Net sales** | | 15.4 | 12.6 |
| | | | |
| Other operating income | 3 | 0.1 | 64.0 |
| Personnel expenses | 4 | 5.2 | 4.6 |
| Depreciation and impairments | 5 | 0.3 | 0.2 |
| Other operating expenses | 3 | 17.6 | 13.7 |
| | | | |
| **Operating profit** | | -7.7 | 58.1 |
| | | | |
| Financial income and expenses | 6 | 35.1 | 87.0 |
| | | | |
| **Profit before extraordinary items** | | 27.4 | 145.1 |
| | | | |
| Extraordinary items | 7 | 6.1 | 3.7 |
| | | | |
| **Profit before appropriations and taxes** | | 33.5 | 148.8 |
| | | | |
| Appropriations | | -0.1 | 0.1 |
| Income taxes | 8 | 0.8 | 1.1 |
| **Profit for the period** | | 32.6 | 147.7 |

## PARENT COMPANY BALANCE SHEET

| MEUR | Note | 31 Dec 2009 | 31 Dec 2008 |
|---|---|---|---|
| **Assets** | | | |
| | | | |
| **Fixed assets** | | | |
| | | | |
| **Intangible assets** | | | |
| Other capitalised long-term expenditure | | 1.4 | 0.3 |
| Investment in progress | | - | 0.7 |
| **Intangible assets** | 9 | 1.4 | 1.1 |
| | | | |
| **Tangible assets** | | | |
| Machinery and equipment | 9 | 0.2 | 0.2 |
| **Tangible assets** | 9 | 0.2 | 0.2 |
| | | | |
| **Securities and long-term investments** | | | |
| Shares in subsidiaries | | 207.1 | 183.7 |
| Other shares and holdings | | 0.1 | 0.1 |
| Loan receivable | | 209.6 | 160.4 |
| **Securities and long-term investments** | 10 | 416.8 | 344.2 |
| | | | |
| **Total fixed assets** | | 418.4 | 345.4 |
| | | | |
| **Current assets** | | | |
| | | | |
| **Current receivables** | | | |
| Accounts receivable | | 4.4 | 5.0 |
| Loan receivable | | 66.1 | 111.4 |
| Accruals | | 0.7 | 1.8 |
| Deferred tax assets | | 0.3 | 0.3 |
| Other receivable | | 19.9 | 39.3 |
| **Current receivables** | 11 | 91.4 | 157.9 |
| | | | |
| **Cash and cash equivalent** | | 11.0 | 49.8 |
| | | | |
| **Total current assets** | | 102.4 | 207.6 |
| | | | |
| **Total assets** | | 520.8 | 553.0 |

| MEUR | Note | 31 Dec 2009 | 31 Dec 2008 |
|---|---|---|---|
| **Liabilities and shareholders' equity** | | | |
| | | | |
| **Shareholders' equity** | | | |
| | | | |
| Share capital | | **146.4** | 146.4 |
| Share premium | | **50.2** | 50.2 |
| Unrestricted equity | | **0.1** | 0.1 |
| Retained earnings | | **103.5** | 17.8 |
| Profit for the period | | **32.6** | 147.7 |
| **Total shareholders' equity** | 12 | **332.8** | 362.2 |
| | | | |
| **Accumulated appropriations** | 13 | **0.1** | 0.1 |
| | | | |
| **Obligatory provisions** | 14 | **1.1** | 1.2 |
| | | | |
| **Liabilities** | | | |
| | | | |
| **Non-current liabilities** | | | |
| Loans from financial institutions | | **48.0** | 64.0 |
| **Non-current liabilities** | | **48.0** | 64.0 |
| | | | |
| **Current liabilities** | | | |
| Loans from financial institutions | | **16.0** | 16.0 |
| Accounts payable | | **2.1** | 1.3 |
| Accruals | | **2.9** | 3.8 |
| Other current liabilities | | **117.8** | 104.4 |
| **Current liabilities** | 15 | **138.8** | 125.5 |
| | | | |
| **Total liabilities** | | **186.8** | 189.5 |
| | | | |
| **Total liabilities and shareholders' equity** | | **520.8** | 553.0 |

## PARENT COMPANY CASH FLOW STATEMENT

| MEUR | 1 Jan–31 Dec 2009 | 1 Jan–31 Dec 2008 |
|---|---|---|
| **Cash flow from operations** | | |
| | | |
| **Net cash from operations** | | |
| Profit before extraordinary items | **27.4** | 145.1 |
| Financial income and expenses | **-7.1** | -11.5 |
| Depreciation | **0.3** | 0.2 |
| Sales gains/losses from the sale of fixed assets | **0.0** | -64.0 |
| Other non-cash items | **2.3** | 5.8 |
| Income taxes | **0.8** | 1.7 |
| Group contributions | **3.7** | 9.6 |
| **Net cash from operations** | **27.4** | 86.8 |
| | | |
| **Change in working capital** | | |
| Receivables | **12.9** | 6.4 |
| Non-interest-bearing liabilities | **12.5** | -59.4 |
| **Change in working capital** | **25.4** | -52.9 |
| | | |
| **Cash flow from operations** | **52.8** | 33.8 |
| | | |
| **Cash flow from investments** | | |
| Share acquisitions | **-23.5** | -35.9 |
| Purchase of fixed assets | **-0.7** | -0.8 |
| Proceeds from sale of fixed assets | **-** | 69.4 |
| Granted loans | **-123.9** | -58.3 |
| Loan repayments | **128.1** | 53.9 |
| Interest received | **9.1** | 16.1 |
| Dividends received | **0.0** | 0.0 |
| Income taxes paid | **-** | -4.2 |
| **Cash flow from investments** | **-10.9** | 40.1 |
| | | |
| **Cash flow before financing** | **42.0** | 74.0 |
| | | |
| **Cash flow from financing** | | |
| Borrowings of debt | **-** | 80.0 |
| Repayments of debt | **-16.0** | - |
| Interest paid | **-2.7** | -3.1 |
| Income taxes paid | **-** | 0.8 |
| Dividends paid | **-62.1** | -102.5 |
| Purchase of own shares | **-** | -1.2 |
| **Cash flow from financing** | **-80.8** | -26.0 |
| | | |
| **Change in cash and cash equivalents** | **-38.8** | 48.0 |
| | | |
| Cash and cash equivalents at 1 January | **49.8** | 1.7 |
| Cash and cash equivalents at 31 December | **11.0** | 49.8 |
| **Changes according to balance sheet** | **-38.8** | 48.0 |

# Notes to the parent company's financial statement (FAS)

## 1. ACCOUNTING PRINCIPLES

The Parent Company's Financial Statement has been prepared according to Generally Accepted Accounting Principals in Finland. Uponor Group´s financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS), and the parent company observes the Group's accounting policies whenever this has been possible. Presented below are principally the accounting policies in which the practice differs from the Group's accounting policies. In other respects, the Group's accounting policies are applied.

### Pension arrangements

The Company's pension liabilities are handled through a pension insurance company. All expenses incurred in pension benefits are recorded as expenses in the period during which the corresponding work was performed.

### Extraordinary income and expenses

Extraordinary income and expenses consist of Group contributions received and given, which are eliminated at the Group level.

### Income taxes

The Group's accounting policies are applied to income taxes and deferred tax assets and liabilities to the extent permitted under Finnish financial statement practice.

### Financial assets, financial liabilities and derivative contracts

Financial assets and liabilities are booked at their acquisition cost or their value less write-downs, except for derivatives, which are measured at their fair value. Changes in the value of financial assets and liabilities, including derivatives, are booked as a credit or charged to income under financial income and expenses. The methods of measuring derivative contracts are presented in the section on the Group's accounting principles.

### Leases

All leasing payments have been treated as rental expenses.

## 2. PARENT COMPANY'S BUSINESS

Parent Company's business consists of Group functions. The parent company turnover consists of the service charges to the Group companies.

## 3. OTHER OPERATING INCOME AND EXPENSES

| MEUR | **2009** | 2008 |
|---|---|---|
| **Other operating income** | | |
| Gains from sales of fixed assets | **0.1** | 64.0 |
| Total | **0.1** | 64.0 |

Other operating income includes mainly capital gains from the reorganisation of the Group's legal structure.

| MEUR | **2009** | 2008 |
|---|---|---|
| **Other operating expenses** | | |
| Environmental expenses | **1.5** | 0.9 |
| Travel expenses | **1.3** | 0.7 |
| Purchased services | **6.1** | 0.0 |
| Other | **8.8** | 12.1 |
| Total | **17.6** | 13.7 |

Other operating expenses include environmental expenses relating to the domestic real estate business divested in 2004, as well as other operating expenses.

## 4. PERSONNEL EXPENSES

| MEUR | 2009 | 2008 |
|---|---|---|
| Salaries and bonuses | **4.0** | 3.6 |
| Pension expenses | **0.4** | 0.5 |
| Other personnel expenses | **0.8** | 0.6 |
| Total | **5.2** | 4.6 |
| | | |
| During financial period company employed: | | |
| Employees, average | **41** | 40 |
| | | |
| Salaries and emoluments paid to the President & CEO and Board Members, TEUR *) | | |
| President & CEO and his deputy | **446.4** | 667.2 |
| Board of Directors | **262.8** | 252.0 |
| Total | **709.2** | 919.2 |

*) specification per persons has been reported in the notes of the consolidated income statement

### Loans to company directors

At 31 December 2009, the company's President & CEO and members of the Board of Directors had no loans outstanding from the company or its subsidiaries.

The retirement age for the parent company's President & CEO is 63 years.

## 5. DEPRECIATION AND IMPAIRMENT

| MEUR | 2009 | 2008 |
|---|---|---|
| Other capitalised long-term expenditure | **0.3** | 0.1 |
| Machinery and equipment | **0.1** | 0.1 |
| Total | **0.3** | 0.2 |

## 6. FINANCIAL INCOME AND EXPENSES

| MEUR | 2009 | 2008 |
|---|---|---|
| Interest income | **0.6** | 0.6 |
| Intercompany interest income | **10.2** | 18.4 |
| Dividend income | **0.0** | 0.0 |
| Dividend income from subsidiaries | **30.4** | 81.5 |
| Total | **41.2** | 100.5 |
| | | |
| Interest expenses | **5.3** | 6.5 |
| Intercompany interest expenses | **1.3** | 3.6 |
| Other financial expenses | **0.1** | 0.3 |
| Exchange differences | | |
| - Realised | **-1.7** | -2.9 |
| - Unrealised | **1.2** | 6.1 |
| Total | **6.1** | 13.5 |
| | | |
| **Financial income and expenses** | **35.1** | 87.0 |

## 7. EXTRAORDINARY INCOME

| MEUR | 2009 | 2008 |
|---|---|---|
| Group contributions | **6.1** | 3.7 |

## 8. TAXES

| MEUR | 2009 | 2008 |
|---|---|---|
| For the financial period | **0.9** | 0.8 |
| For previous financial periods | **-0.1** | 0.2 |
| Change in deferred taxes | **0.0** | 0.1 |
| Total | **0.8** | 1.1 |

## 9. INTANGIBLE AND TANGIBLE ASSETS

| **2009** MEUR | Other capitalised long-term expenditure | Intangible investment in progress | Machinery and equipment | **Intangible and tangible assets** |
|---|---|---|---|---|
| Acquisition costs 1 Jan | 1.3 | 0.7 | 0.6 | **2.6** |
| Increases | 0.0 | 0.6 | 0.1 | **0.7** |
| Decreases | 0.6 | - | 0.1 | **0.7** |
| Transfers between items | 1.3 | -1.3 | - | **-** |
| Acquisition costs 31 Dec | 2.0 | - | 0.6 | **2.7** |
| | | | | |
| Accumulated depreciations and impairments 1 Jan | 1.0 | - | 0.4 | **1.4** |
| Acc. depreciation on disposals and transfers | -0.6 | - | -0.1 | **-0.7** |
| Depreciation for the financial period | 0.3 | - | 0.1 | **0.3** |
| Accumulated depreciations and impairments 31 Dec | 0.6 | - | 0.4 | **1.1** |
| | | | | |
| **Book value 31 December** | 1.4 | - | 0.2 | **1.6** |

| 2008 MEUR | Other capitalised long-term expenditure | Intangible investment in progress | Machinery and equipment | **Intangible and tangible assets** |
|---|---|---|---|---|
| Acquisition costs 1 Jan | 1.3 | 0.2 | 0.4 | **1.9** |
| Increases | 0.0 | 0.7 | 0.0 | **0.8** |
| Decreases | 0.0 | - | 0.0 | **0.0** |
| Transfers between items | 0.0 | -0.2 | 0.2 | **-** |
| Acquisition costs 31 Dec | 1.3 | 0.7 | 0.6 | **2.6** |
| | | | | |
| Accumulated depreciations and impairments 1 Jan | 0.9 | - | 0.3 | **1.2** |
| Acc. depreciation on disposals and transfers | -0.0 | - | 0.0 | **-** |
| Depreciation for the financial period | 0.1 | - | 0.1 | **0.2** |
| Accumulated depreciations and impairments 31 Dec | 1.0 | - | 0.4 | **1.4** |
| | | | | |
| **Book value 31 December** | 0.3 | 0.7 | 0.2 | **1.3** |

## 10. NON-CURRENT INVESTMENTS

| MEUR | **2009** | 2008 |
|---|---|---|
| Shares in subsidiaries 1 Jan | **183.7** | 158.2 |
| Increases | **46.8** | 35.9 |
| Decreases | **23.3** | 10.4 |
| Shares in subsidiaries 31 Dec | **207.1** | 183.7 |
| | | |
| Other shares and holdings 1 Jan | **0.1** | 0.1 |
| Other shares and holdings 31 Dec | **0.1** | 0.1 |
| | | |
| Loans receivables | | |
| - Subsidiaries | **204.7** | 156.2 |
| - Others | **4.9** | 4.2 |
| Total | **416.8** | 344.2 |

## 11. CURRENT RECEIVABLES

| MEUR | **2009** | 2008 |
|---|---|---|
| Accounts receivable | | |
| - from subsidiaries | **4.4** | 5.0 |
| Loan receivable | | |
| - from subsidiaries | **66.1** | 111.4 |
| Accruals | | |
| - from subsidiaries | **0.1** | 0.0 |
| - from others | **0.6** | 1.8 |
| Deferred tax assets | **0.3** | 0.3 |
| Other receivable | | |
| - from subsidiaries | **19.3** | 31.0 |
| - from others | **0.6** | 8.3 |
| Total | **91.4** | 157.9 |

Deferred tax assets are recognized from obligatory provisions in the balance sheet.

| MEUR | **2009** | 2008 |
|---|---|---|
| **Accruals** | | |
| Interest income | **0.3** | 0.4 |
| Taxes | **0.2** | 1.2 |
| Others | **0.2** | 0.2 |
| Total | **0.7** | 1.8 |

## 12. CHANGES IN EQUITY

| MEUR | 2009 | 2008 |
|---|---|---|
| Restricted equity | | |
| | | |
| Share capital on 1 January | 146.4 | 146.4 |
| Share capital on 31 December | 146.4 | 146.4 |
| | | |
| Share premium on 1 January | 50.2 | 50.2 |
| Share premium on 31 December | 50.2 | 50.2 |
| | | |
| Total restricted equity | 196.6 | 196.6 |
| | | |
| Unrestricted equity | | |
| | | |
| Unrestricted equity 1 January | 0.1 | 0.1 |
| Unrestricted equity 31 December | 0.1 | 0.1 |
| | | |
| Retained earnings 1 January | 165.6 | 121.5 |
| Dividend payments | -62.1 | -102.5 |
| Treasury shares | - | -1.2 |
| Profit for financial period | 32.6 | 147.7 |
| Retained earnings 31 December | 136.2 | 165.6 |
| | | |
| Total unrestricted equity | 136.2 | 165.7 |
| | | |
| **Shareholders' equity 31 December** | 332.8 | 362.3 |
| | | |
| **Distributable funds** | | |
| Unrestricted equity | 66,613.56 | 66,613.56 |
| Treasury shares | 1,164,062.80 | 1,164,062.80 |
| Retained earnings | 102,305,664.81 | 16,636,902.14 |
| Profit for the period | 32,631,373.44 | 147,743,548.24 |
| Distributable funds, 31 December | 136,167,714.61 | 165,611,126.74 |

## 13. ACCUMULATED DEPRECIATION DIFFERENCES

| MEUR | 2009 | 2008 |
|---|---|---|
| - Other capitalised long-term expenditure | 0.1 | 0.1 |
| - Plant and machinery | -0.0 | -0.0 |
| Total | 0.1 | 0.1 |

Accumulated depreciation differences include deferred tax liabilities, which have not been recorded in the parent company's financial statement.

## 14. OBLIGATORY PROVISIONS

| MEUR | 2009 | 2008 |
|---|---|---|
| Pension obligation | 0.1 | 0.1 |
| Environmental provision | 1.0 | 1.1 |
| Total | 1.1 | 1.2 |

## 15. NON-CURRENT LIABILITIES

| MEUR | 2009 | 2008 |
|---|---|---|
| Loans from financial institutions | | |
| - Other loans | 48.0 | 64.0 |
| Total | 48.0 | 64.0 |

### Maturity of non-current interest bearing liabilities

| MEUR | 2011 | 2012 | 2013 | 2014 | 2015– |
|---|---|---|---|---|---|
| Loans from financial institutions | | | | | |
| - Other loans | 16.0 | 16.0 | 16.0 | - | - |
| Total | 16.0 | 16.0 | 16.0 | - | - |

## 16. CURRENT LIABILITIES

| MEUR | 2009 | 2008 |
|---|---|---|
| Loans from financial institutions | 16.0 | 16.0 |
| Accounts payable | | |
| - from subsidiaries | 0.9 | 0.3 |
| - from others | 1.2 | 1.0 |
| Accruals | | |
| - from subsidiaries | -0.0 | 0.1 |
| - from others | 2.9 | 3.7 |
| Other current liabilities | | |
| - from subsidiaries | 116.6 | 85.2 |
| - from others | 1.2 | 19.2 |
| Total | 138.8 | 125.5 |
| | | |
| **Accrued liabilities** | | |
| Personnel expenses | 0.7 | 0.6 |
| Taxes | 0.9 | 0.2 |
| Bonuses | 0.8 | 0.2 |
| Interest | 0.3 | 1.1 |
| Others | 0.2 | 1.7 |
| Total | 2.9 | 3.8 |

## 17. CONTINGENT LIABILITIES

| MEUR | 2009 | 2008 |
|---|---|---|
| - on behalf of a subsidiary | | |
| Guarantees issued | **10.0** | 9.0 |
| | | |
| - on behalf of others | | |
| Guarantees issued | **6.9** | 7.0 |
| | | |
| Operating lease commitments | | |
| Operating lease commitments for next 12 months | **0.6** | 0.5 |
| Operating lease commitments over next 12 months | **0.7** | 0.9 |
| | | |
| Guarantees issued | **16.9** | 16.1 |
| Lease commitments | **1.2** | 1.5 |
| Total | **18.1** | 17.5 |

Letter of Comfort commitments undertaken on behalf of subsidiaries are not included in the above figures.

## 18. EXCHANGE AND INTEREST RATE RISK MANAGEMENT

| MEUR | 2009 | 2008 |
|---|---|---|
| Foreign currency derivatives: | | Nominal value |
| Forward agreements | **115.1** | 128.9 |
| Intercompany forward agreements | **22.9** | 39.7 |
| | | |
| Foreign currency derivatives: | | Fair value |
| Forward agreements | **-0.6** | 7.7 |
| Intercompany forward agreements | **0.1** | 1.0 |
| | | |
| Foreign currency derivatives: | Fair value changes recognised in the income statement | |
| Forward agreements | **-1.2** | -0.6 |
| Intercompany forward agreements | **-0.1** | -1.3 |

# Proposal of the Board of Directors

The distributable funds of the parent company Uponor Corporation are EUR 136,167,714.61 of which profit for the period is EUR 32,631,373.44.

The Board of Directors proposes to the Annual General Meeting that

| | |
|---|---|
| - a dividend of EUR 0.50 per share will be paid, totalling | EUR 36,523,472.00 |
| - the remainder be retained in the shareholders' equity | EUR 99,644,242.61 |
| | EUR 136,167,714.61 |

Vantaa, 10 February 2010

| | | | | | |
|---|---|---|---|---|---|
| Jari Paasikivi<br>Chairman | Aimo Rajahalme | Jorma Eloranta | Anne-Christine Silfverstolpe Nordin | Rainer S. Simon | Jyri Luomakoski<br>Managing director |

# Auditor's report

## TO THE ANNUAL GENERAL MEETING OF UPONOR CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Uponor Corporation for the financial period 1 January–31 December 2009. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

### The Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements or the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements or of the report of the Board of Directors, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the report of the Board of Directors in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Vantaa, 10 February 2010
KPMG OY AB

Lasse Holopainen
Authorized Public Accountant

# Corporate governance statement

## 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 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 non-attendances 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:

- promote good business ethics, good 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.

## Read the latest information at the Uponor investor website, www.uponor.com > Investors.


# Uponor's IR contacts

## SILENT PERIOD

Uponor applies the principle of a silent period in its IR communications. During a silent period, Uponor does not comment on market prospects or factors affecting business and performance, nor does the company engage in discussion on events or trends related to the current or unreported fiscal period. Uponor will not pay visits to, or receive them from, investors or representatives of media in which these matters are discussed.

A silent period starts at the end of each reporting period, and not later than three weeks prior to the disclosure of annual accounts or interim reports, and lasts until the release of the annual accounts or an interim report.

## QUESTIONS AND ENQUIRIES

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## INSIDER REGISTER

The public register of Uponor Corporation's insiders may be viewed at the Uponor Legal Department, tel. +358 (0)20 129 2837. The share and stock option holdings of company's permanent insiders are also available on the website at *www.uponor.com > Investors > Shareholders*.

## CHANGE OF ADDRESS

Shareholders are requested to notify their bank, their brokerage firm, or any other financial institution responsible for maintaining their book-entry securities account of any changes in their mailing address.

## PUBLICATIONS

The annual report will be published in Finnish and English and will also be available on the company website at *www.uponor.com > Investors > News & downloads > Annual reports*. Starting 2010, the annual report will only be sent out to shareholders who have ordered it from the company.

The interim reports and corporate releases will be published in Finnish and English on the company website.

### Ordering of publications

You can order Uponor's investor publications conveniently via the company website, at *www.uponor.com > Investors > News & downloads > Subscription services*, where you can also notify us of any changes in your contact information or cancel your subscription.

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*Uponor assumes no responsibility for the presented analyses.*

# Vocabulary

Application A technical entity, such as a radiant underfloor heating or plumbing system.

Building solutions At Uponor, this business area covers the following applications: underfloor heating and cooling, plumbing and radiator pipes, and pre-insulated house connections for heating and tap water.

Business group A set of logically interconnected applications. Uponor's business groups are Indoor climate, Plumbing and Infrastructure.

Commercial construction Construction for commercial purposes, such as shops or offices. Also termed 'non-residential construction'.

Composite pipe A plastic pipe with a metal inner layer designed to provide the best characteristics of both materials. Due to its form stability, it is widely used for surface installations e.g. in renovation projects.

ERP, Enterprise Resource Planning A data system used for managing an enterprise's operations and information flow related to, for example, production, sales, financials, distribution etc.

High-rise building A multi-storey residential, commercial, office or public building. In the Uponor context, high-rise business was earlier used to refer to the public and commercial building segment. Opposite of 'single-family segment'.

HPAC Heating, plumbing, ventilation and air conditioning systems in buildings.

Hydronic cooling A cooling method based on the same principle as hydronic heating. Enables the comfortable and energy-efficient cooling of buildings and dwellings.

Hydronic heating (also 'radiant heating') A heating method in which heat generation and distribution are separated from each other. Any source of energy can be used to produce the heat, which is then distributed in the building through, for example, underfloor pipes circulating heated water.

Indoor climate The business group Indoor climate in Uponor provides applications for heating, cooling and ventilation.

Infrastructure solutions In Uponor, this business group covers the following applications: water and sewer pipe networks; cable protection pipes; on-site wastewater treatment units; soil and waste systems for buildings etc.

Multilayer pipe A pipe consisting of multiple layers. Different layers can have different functions, such as to protect the pipe or prevent oxygen from passing through the pipe wall. The layers are typically made of plastic or adhesives, but a composite pipe also contains a layer of aluminium.

On-site waste water treatment
A waste water cleaning method for buildings that are not connected to the municipal sewerage network.

PEX pipe PEX is an extremely strong plastic that withstands high temperatures and pressure. It is made of polyethylene through cross-linkage that forms a net-like bond structure.

Plastic pipe A general term referring to various types of pipes made of plastic. Compared to other pipe types, plastic pipes offer many benefits, including easy installation, durability and low lifetime cost.

Polyethylene pipe Polyethylene pipes are widely used in municipal infrastructure and also as cold-water plumbing pipes in buildings. Their benefits include versatility and weldability.

Polypropylene pipe Polypropylene pipes are used both for infrastructural purposes and for buildings. Advantages include, for example, weldability and, especially in building use, their low cost.

Renovation Repair, renovation, or replacement of existing buildings, plumbing, etc.

Segment Uponor's three business segments are Building Solutions - Europe, Building Solutions North America, and Infrastructure Solutions - Nordic.

Single-family building/segment In the Uponor context, this segment refers to the residential home market where projects are small and key decision-makers are mainly home-owners and installers.

Sprinkler system An additional feature available for Uponor's plumbing system to protect people and property from fire hazards. A heat-activated sprinkler system sprays water into the area affected by the fire.

Surface installation An installation method used in, for example, renovation and modernisation that involves installing new pipes onto the wall rather than into the wall as is typically the case in new building. Surface installation makes the work quicker and often saves money.

Underfloor heating A heating method in which the floor's thermal storage mass is utilised for heating the space. This can be carried out as a hydronic system (cf. hydronic heating) or by using electric cables.

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