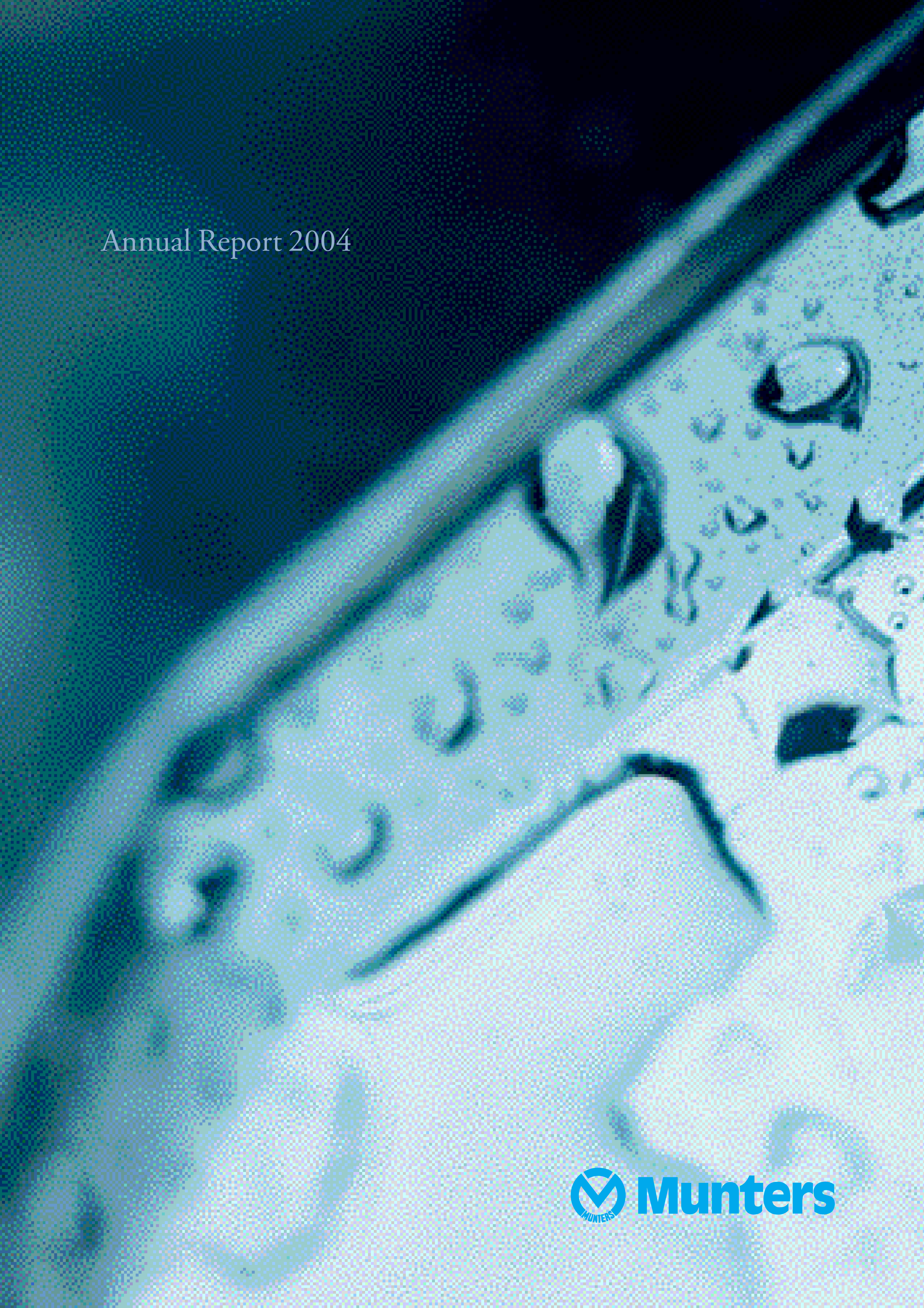
Annual Report 2004



Munters

Contents

The Board of Directors' report includes pages 1, 4, 15-17, 19, 24-29 and 47-48.

The Board of Directors and the President of Munters AB (publ), with corporate registration number 556041-0606 and registered office in Sollentuna, Sweden, hereby submit the report for fiscal year 2004. The results of the year's operations for the Parent Company and the Group are presented in the financial reports, including the notes, on pages 30-46, which will be approved at the Annual General Meeting.

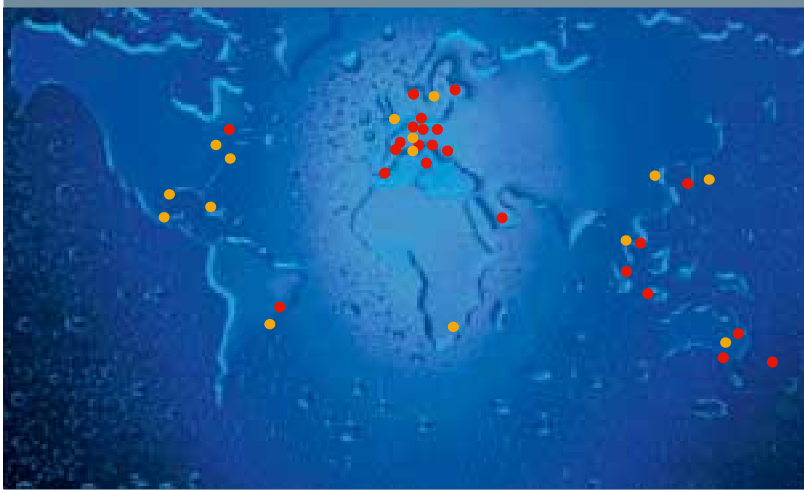
Munters in brief

Munters is the world leader in humidity control, with services and products for water and fire damage restoration and dehumidification, humidification and cooling of air. Munters' business concept is to be a global service and application-oriented niche company for air conditioning from a base within dehumidification and humidification. The insurance and food industries account for an increasing share of sales.

Munters is focused on market segments in which the company can attain strong global positions. Organic growth is in large part generated by working closely with customers on new applications and through increasing sales of service and system solutions.

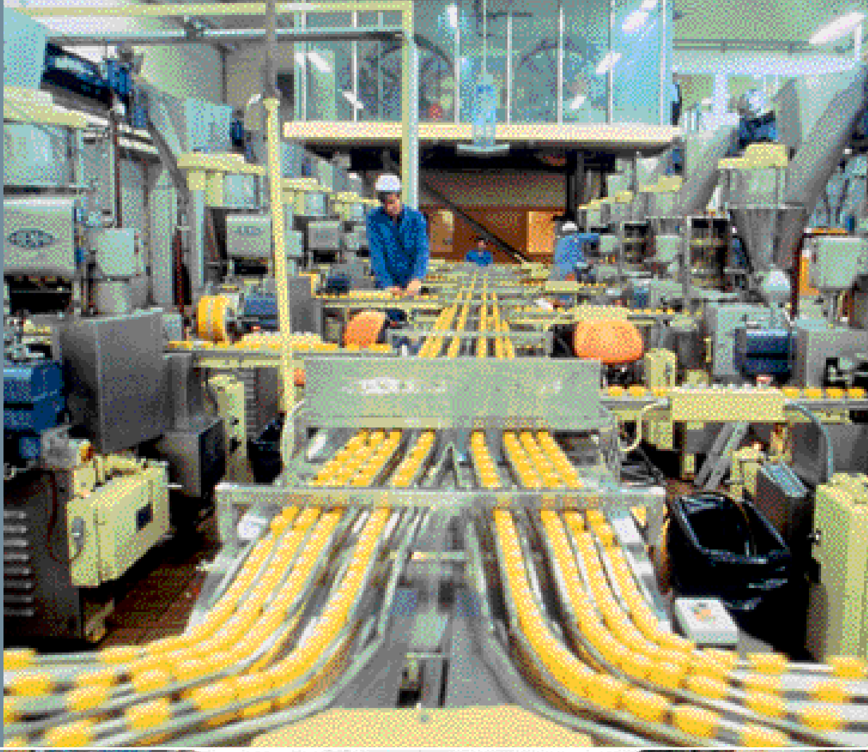
Global Munters

Munters conducts operations in 28 countries. By offering a broad range of services and selling products with several functions, thus increasing the value content, Munters can continuously increase its global market potential. Outside the prioritized markets, Munters works with strategic partners with respect to marketing, sales and service.



- Production facilities, sales and service companies
- Sales and service companies
  (300 service depots not shown on map)

Product areas



Dehumidification

Products and total solutions for controlling humidity. Customer manufacturing and storage processes are made more efficient. Product quality and hygiene are improved. Dehumidification in combination with cooling creates an ideal indoor climate.

MCS (Moisture Control Services)

Services for water and fire damage restoration and temporary climate control. A complete service offering for the insurance industry that lowers costs through drying and renovating rather than rebuilding.

HumiCool

Products and systems for evaporative cooling and humidification. Cooling systems for the poultry and horticulture industries in warm and dry climates. Technology and products for moisture separation and water purification.

Munters 2004

The year in brief

- All regions and product areas reported increased order intake and sales.
- Favorable earnings trend in the Dehumidification product area. Launch of new products and applications.
- Production changes in the HumiCool product area
  – new production facilities in Mexico and Germany
  – CELdek® production relocated from Sweden to Italy.
- Increased efficiency within MCS Europe after completion of action program. Strong volume and earnings growth within MCS Americas and Asia. Improving trend for MCS Europe toward the end of the year.

Key figures	2004	2003	Change, %	Currency-adjusted change, %
Order intake, MSEK	4,598	4,305	7	10
Net sales, MSEK	4,543	4,308	5	9
EBIT, MSEK	298	298	0	4
EBIT margin, %	6.6	6.9		
Earnings after financial items, MSEK	283	280	1	5
Net earnings, MSEK	167	172	–3	0
Net margin, %	3.7	4.0		
Earnings per share, SEK	6.84	7.04		
Operating cash flow, MSEK	121	125	–3	
Total assets, MSEK	2,408	2,365	2	
Equity, MSEK	1,112	1,086	2	
Capital employed, MSEK	1,590	1,553	2	
Return on equity, %	15.0	15.8		
Return on capital employed, %	19.0	19.1		
Capital turnover rate, times	2.9	2.7		
Net debt, MSEK	351	338		
Equity ratio, %	46.3	46.1		

Region Europe Sales 2,705 MSEK 2,056 employees	Region Americas Sales 1,501 MSEK 726 employees	Region Asia Sales 419 MSEK 265 employees	GROUP Sales 4,543 MSEK 3,064 employees
Division Dehumidification Europe Sales 532 MSEK 315 employees	*Division Dehumidification Americas* Sales 687 MSEK 345 employees	*Division Dehumidification Asia* Sales 175 MSEK 114 employees	*Product Area Dehumidification* Sales 1,344 MSEK 773 employees
Division MCS Europe Sales 1,603 MSEK 1,438 employees	*Division MCS Americas* Sales 400 MSEK 127 employees	*Division MCS Asia* Sales 92 MSEK 50 employees	*Product Area MCS* Sales 2,095 MSEK 1,615 employees
Division HumiCool Europe Sales 591 MSEK 303 employees	*Division HumiCool Americas* Sales 427 MSEK 246 employees	*Division HumiCool Asia* Sales 152 MSEK 100 employees	*Product Area HumiCool* Sales 1,138 MSEK 649 employees

Foundation established for growth and profitability

Demand in Munters' principal markets was favorable in 2004, following a weak year in 2003. MCS Europe continued to be affected by unfavorable weather conditions and changes in the insurance industry. The trend improved during the second half of the year. Demand normalized, while implemented measures began to produce results. During the autumn, MCS in the Americas and Asia both reported strong demand, resulting in a strong finish for MCS overall. Dehumidification experienced a good year. New products and applications contributed to increased sales. In particular, the DesiCool™ systems that combine dehumidification and cooling were successful. Sales to the electronics and food industries showed strong growth. Within HumiCool, relocation of three production facilities resulted in high moving and start-up costs that combined with the weakening of the US dollar reduced margins in the product area.

If 2003 was a year of decline, then 2004 was characterized by stabilization and increasingly better growth toward the end of the year. Order intake was strong throughout the year, but it was not until the final quarter that the impact was evident on sales and profit. The fourth quarter was the best in terms of organic growth since the market listing in 1997. Munters' goal is long-term sales growth of 10 percent per year. The strong finish to the year resulted in growth amounting to 9 percent, adjusted for currency effects. The goal for the EBIT margin is 10 percent, which we were not able to achieve in the past two years. The Group's EBIT margin is currently the greatest challenge. A number of measures for improving the EBIT margin were implemented during the year and charged as non-recurring costs against earnings. These measures include rationalization of production, initiatives to increase efficiency in production and logistics and increasing the impact of marketing and sales efforts. The capital turnover rate improved during 2004 to 2.9 times.

Enhancement of Dehumidification product range

Dehumidification reported favorable growth following a sharp decline during 2003. After measures were taken to reduce costs, substantial improvements were noted. The most positive change was noted in the US market, although Europe also showed strong growth during the year. Asia had a weak year. The food industry is an important target market, and the company's DesiCool™ systems were particularly successful. Investments within Dehumidification also include a rapid enhancement of the product range. During 2004 and the current year, the share for new products increased dramatically.

Within production and logistics, the Munters Efficiency Program was established in four plants and will be started in additional units during 2005. The program is based on the principal of continuous improvement with strong commitment among all employees. Benchmarking between units will contribute to increasing efficiency and to the exchange of ideas and experience between different Group units. Results are already evident. Commitment with respect to quality issues and process development is noticeable in the various units.

Within marketing and sales, the focus on prioritized segments was intensified. In the US, a distribution network for DesiCool™ systems was established that will expand market coverage. A new sales function was established to work with the largest customers in the food industry on an international basis.

Promising development within MCS

In Europe, the focus was on MCS. Profitability was weak in some business units in these operations, and action was taken. Capacity adjustments were made so that the organization would be better matched to market needs with respect to both personnel and the service depot network. At the same time, extensive work is in progress to ensure that routines, work methods and technical support systems meet the demands of today's insurance industry, which is an industry in transition where demands on suppliers such as Munters are also changing. These changes include central, long-term contracts in which prices and other terms are regulated. As a supplier, Munters must expand its offering while improving productivity and profitability. During 2003 and 2004 a new IT-based operations system was introduced. Communication between key players, such as insurance companies, policy holders, our own customer service representatives and technicians in the field, was made more effective. This improved support enabled processing of routine tasks faster and simpler and, more importantly, improved quality and service for customers. The changes now taking place create significant opportunities and mean that we believe that Munters is one step ahead of other market players.

In the Americas and Asia, development within MCS was very strong. Munters' broad service concept was well received, and the company signed several central agreements with leading insurance companies. This work also fits well with our growth strategy, in which expansion of services is a key element. In the Americas and Asia, MCS showed stable growth during 2004. This growth was strengthened even more during the fourth quarter when several hurricanes affected the southeastern US. Together with improved efficiency in the European market, this contributed to a strong finish to the year for MCS.

"Strong development in Dehumidification, a normalized market for MCS in Europe and exceptional demand in the US and Asia resulted in the strongest single-quarter growth during the fourth quarter since 1997."

Lower costs

The year 2004 was weak overall for HumiCool. Despite increased sales, particularly of components used for treating emissions from coal-fired power plants, profit declined. The continued outbreak of bird flu affected HumiCool's most important segment, which is cooling of poultry houses. The weakening of the US dollar also created price pressures that had a negative effect on margins. A large proportion of production in Europe is exported to Asia and the Middle East. These products are priced in US dollar, and the negative exchange-rate trend thus created margin pressure in the HumiCool Europe division. To reduce costs and increase productivity, three production plants were relocated during 2004. The production of CELdek® in Europe was moved from Tobo in Sweden and concentrated to the plant in Italy, while at the same time reducing capacity in Europe and shifting a greater share of production to the Asian plants. During the year, a production plant was relocated from Phoenix, Arizona in the US to Monterrey, Mexico. Production of components for mist elimination and water purification in Aachen, Germany were moved to a new plant with a more efficient production system. Costs for these moves totaling 35 MSEK were charged against the year's earnings. The various rationalization measures will gradually produce effects during 2005 and will contribute to improved margins within HumiCool.

Prerequisites for growth

Overall, 2004 was characterized by continued rationalization and cost reductions that will ensure that improved productivity and profitability over the long term but which resulted in substantial costs being charged against earnings. In parallel, work to stimulate growth continued with expansion of service operations, a focus on the food industry, which is a growing and non-cyclical sector, and replication of successful applications. Going forward into 2005, there are a number of factors that are important to emphasize. These include the strong growth in Dehumidification and MCS in the Americas and Asia, the positive trend in MCS in Europe and rationalizations within HumiCool. Normalized demand combined with internal improvements create prerequisites for strong growth in the years to come.

Sollentuna, March 4, 2005

Lennart Evrell
President and CEO

Strategic

Growth strategy focused on selected niche markets

Munters conducts its own operations in 28 countries and is a leading global player with market positions exceeding 50 percent in several segments. Growth is primarily created through a broad service offering and by selling products with several functions. Munters thus makes it possible to redefine or broaden a niche market and thereby increase the scope of its deliveries.

Business concept

Munters' business concept is to be a global service and application-oriented niche company for air conditioning based on dehumidification and humidification.

Financial targets

- Sales growth of 10 percent per year
- EBIT margin of 10 percent
- Capital turnover rate of 3 times

Each region, division and business unit has individual targets for these key figures that are adapted to their special prerequisites.

Outcome in 2004

- Sales growth of 5 percent, 9 percent currency adjusted
- EBIT margin of 6.6 percent
- Capital turnover rate of 2.9

Operative targets

- Products and services should be largely based on global product platforms
- Services (MCS and aftermarket) should account for half of the Group's sales
- Continuous improvement through a focus on cost reductions
- Integrated IT systems that facilitate rapid communication, sharing of information, efficient control and short lead times
- Training programs that result in motivated and skilled employees and make Munters an attractive employer

Strategy

The Group's strategy for achieving its goals can be summarized in the following points:

- Focus on customers with underlying growth and moderate sensitivity to business cycles
- Increase the value added and distribution to end customers through integration forward
- Repeat successful installations
- Increase service sales
- Open new geographic markets

Selected niches

Munters' growth strategy is based on focusing on selected niches that satisfy the following criteria:

- Market potential exceeding 500 MSEK per year
- Underlying growth
- Relatively insensitive to economic cycles
- Global customers
- Opportunities for favorable margins
- Low requirements for capital employed
- Contribute to service sales

SALES GROWTH

EBIT MARGIN

CAPITAL TURNOVER RATE

focus

PRODUCTION IN DEVELOPMENT

Local production results in economical transports. Munters' products are bulky and expensive to transport over long distances. Production is located as close to the customer as possible. Local production currently takes place in 12 countries. The Group conducts manufacturing in Australia, Italy, Japan, China, Mexico, Sweden, Germany and the US, and there are assembly plants in Brazil, the UK, South Africa and Thailand. Local production also results in costs and revenues being generated in the same currency, which reduces exposure to currency fluctuations.

Relocation of products results in lower production costs. An increasing share of Munters' production is located in countries with lower production costs. During the year, major production relocations took place from the US to Mexico and from Sweden to Italy. Production capacity has been gradually expanded in Thailand and China.

Less tied-up capital and flexible production. Sub-suppliers account for a significant portion of Munters' production. The manufacture of key components and final assembly, on the other hand, takes place in the company's own plants. An appropriate balance between purchasing and own production results in less tied-up capital and flexible production while ensuring that quality and performance can be maintained.

Service production standardized. An increasing share of MCS's sales is based on national contracts through which insurance companies are offered fixed prices. MCS is making great efforts to standardize work methods and techniques, as well as administration of project management and follow-ups. In the development of Munters' general business system, special consideration was taken to the specific needs of MCS. This system is being implemented in stages.

DRIVING FORCES IN THE MARKET

Drying and renovating instead of rebuilding. Water damage accounts for a large proportion of an insurance company's costs. Munters' technology results in substantial cost savings. It is based on renovating damaged floors and walls instead of tearing them down and rebuilding. This technique reduces the waste of building materials and fittings. With its broad geographic presence, Munters is an ideal business partner for increasingly larger insurance companies that are also declining in number. Munters is the technology leader, and its services are characterized by high quality, availability and rapid response. These services are largely based on Munters' dehumidifiers. The company offers long-term partnership agreements with fixed price levels that are in increasing demand in the insurance industry.

Increased productivity and quality. The globalization of business is affecting most industries. To ensure high product quality, production environments must be identical, even if the production plants are located in different climate zones. Munters are specialists in systems that create the correct humidity and temperature for manufacturing all over the world.

Better indoor air. Requirements to conserve energy are increasing. Energy savings are often realized through tighter insulation and reduced ventilation. However, this may in turn result in problems with mold, moisture and allergies. Munters can reduce these problems in two different ways, with fixed installations that prevent problems from occurring or through MCS services that can be quickly deployed in affected environments.

Saving energy and the environment. Munters strives to reduce resource consumption in its own applications. Compared with alternative solutions, technology from Munters can result in lower energy consumption and reduce wasted resources. Several of the Group's products are used to reduce emissions of harmful substances, such as sulfur dioxide and nitrogen oxide that contribute to the greenhouse effect. Higher energy prices, in combination with greater environmental awareness, increase demand for environmentally friendly and energy-efficient products and production processes.

Improved hygiene and freshness. The correct humidity prevents the growth of bacteria and mold, reduces the risk of poisoning and extends the shelf life of food products. In addition, the products' freshness, taste and consistency is maintained. Freshness is important, since the packaging's quality and appearance often affect the consumer's choice at the moment of purchase. Munters has solutions for all phases of the food industry, from production and manufacturing to transport, storage and retail sales.

Business

Water, air and energy

Munters' expertise is in the invisible water – the water present in the air around us. Too much humidity, or too little, is not good for people, animals, buildings or plants. Or for such products as food, medicine, cars, electronic components and other high-tech equipment. An inappropriate level of humidity often results in damage due to mold, rust or dehydration. Such damage is both complicated and costly to repair once it has occurred. Munters' technology helps to regulate humidity in widely different applications. Changing the air temperature or humidity releases or consumes large amounts of energy.

Munters' entire business is based on fundamental relationships between water, air and energy. Changes in any of these elements will immediately affect the other two. Such are the laws of nature.

Everything is relative – even humidity

Air consists of 21 percent oxygen, 78 percent nitrogen and small amounts of other gases. It also contains water that varies between different levels. Relative humidity (RH) is the relationship between the amount of moisture that the air contains and the maximum amount that it can hold. As the temperature rises, the amount of water the air can hold increases. Relative humidity of 80 percent therefore feels different in Sweden than it does in Florida. The relative humidity in a container with air will be higher when it is cooled and lower when it is warmed. This means that the relative humidity indoors is lower than the outside air when the premises are heated and higher when they are cooled. In Sweden with its cold climate, indoor humidity is often too low, while in the US and other warm climates, it is often too high. Contrary to what many people believe, air conditioning creates humidity problems in most situations.

Humans can sense changes in temperature of just a few degrees and detect particles in the air in very small concentrations. Variations in humidity, however, are harder to detect. This is an important reason why many companies are not aware that moisture can be a reason for changes in productivity and quality. In the food and pharmaceutical industries, the effect of moisture on the growth of bacteria and mold are powerful motivating factors for regulating humidity.

Various types of moisture problems

Problem	Example
Mold	Affects stored products
Rotting	Hygiene problem in food, damage to buildings
Bacteria growth	Risk of infection, hygiene problem in food
Caking	Sugar and other bulk products become lumpy
Drying	Fruit and vegetables shrivel
Change in dimensions	Quality problem in precision products, wood splits
Electrical resistance	Changed characteristics in electronics
Corrosion	Rust

Munters dehumidifier

The Munters' dehumidifier that was invented by Carl Munters in the 1950s is still the core product in Munters' Dehumidification business area and the foundation for the MCS business area.

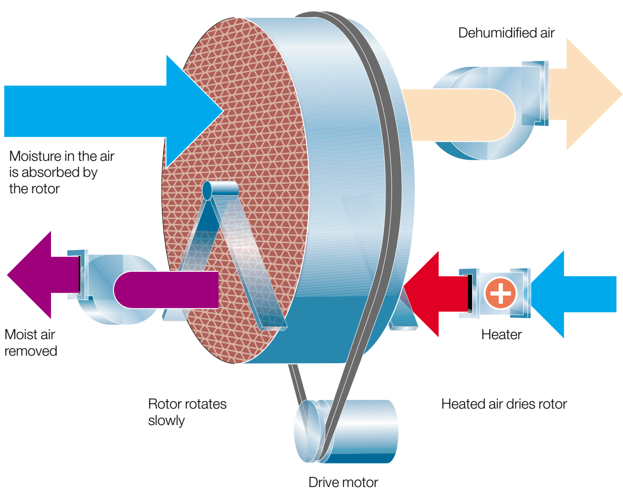
The adsorption dehumidifier's rotor contains small air ducts with a very large surface area. The rotor is treated with substances that retain moisture or other particles in the air that passes through the rotor.

When the dehumidifier is in operation, two streams of air pass through two sections simultaneously. One is the air that will be dehumidified. The

Condensation

Assume that the temperature of the beer is 10° C and that the indoor temperature is 21° C. If condensation forms on the glass, there is at least 8 grams of water per m^3 of air, and the relative humidity is at least 50 percent.

Adsorption dehumidifier



other is hot air that is used to dry the rotor so that it will be able to remove moisture again. The moisture is taken away by the hot and very humid air.

The Munters' method

Munters realized at an early stage that moisture affects rust, mold and various industrial processes, but we also discovered that buildings are also affected by the amount of moisture in the air. As early as the 1960s, experiments were conducted in Sweden and Germany to install dehumidifiers to dry buildings that had suffered water damage. Astounding results were noted. Not only floors, walls and wallpaper could be saved if dehumidifiers were installed directly after the water damage. The spread of mold and other deterioration could be stopped, and fragile furniture could be saved if dry air was provided quickly. The method of installing equipment so that the dry air also reached inaccessible areas of the building came to be called the Munters' method. In collaboration with universities, a training program was developed and establishment of a service organization began in collaboration with insurance companies. Development was relatively slow at first. Munters was a small company, while the insurance companies were large. It took a long time to convince insurance companies that drying was better than ripping out and discarding damaged equipment and building materials. During the 1990s, growth accelerated, and MCS is now Munters' largest area.

Mist elimination – a form of dehumidification

Mist elimination is also a form of dehumidification in which small, undesirable moisture is removed from gas or air. Munters' mist eliminators are based on a unique technology in which the gas passes through small ducts that capture and remove the drops. The most important application area is cleaning emissions from coal-fired power plants. The flue gas is sprayed with water that contains chemicals that capture the contaminants in the smoke. Thereafter, the water containing the contaminants is removed with Munters' mist eliminators.

Evaporative cooling and humidification

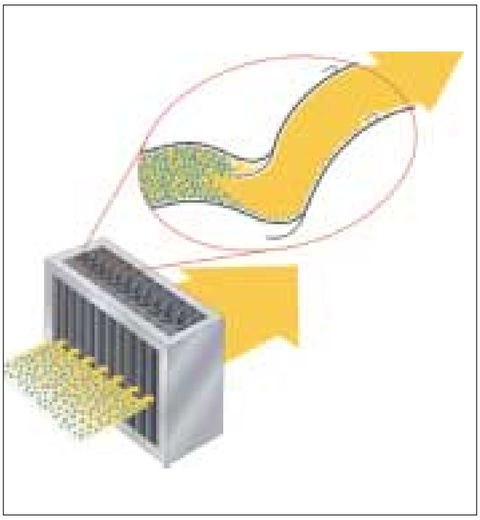
When water is added to air, the temperature decreases. This is the principle used in what is called evaporative cooling. The human body works on the same principle when we sweat. Adding four grams of water to a cubic meter of air lowers the temperature by 10°C. This is a natural cooling method that does not consume any energy. It sounds simple, but it is difficult to realize in practice. We call it nature's own cooling method.

This method is employed in Munters' evaporative cooling systems in which warm and dry air passes over a moist surface. A special material, such as cellulose or fiberglass is given a geometry that maximizes the surface area over which the air passes. Munters' products are called CELdek® and GLASdek®.

Evaporative cooling and humidification are the basis for Munters' HumiCool products, which are primarily used to create a favorable climate for people, animals, food and plants. Munters calls the system the Climate Wall, since CELdek® is often installed along an entire wall where a warm and dry outdoor climate on one side is transformed by CELdek® into a cool and less dry indoor climate.

Water damage

Water that leaks through double flooring and walls can cause major problems that are not detected until long after the damage has occurred. If very dry air is circulated through the damaged areas, molding, rotting and most damaging processes are stopped immediately, resulting in substantial savings.



Mist eliminator

Munters' mist eliminator is based on specially designed ribbing that collects and eliminates drops of moisture.

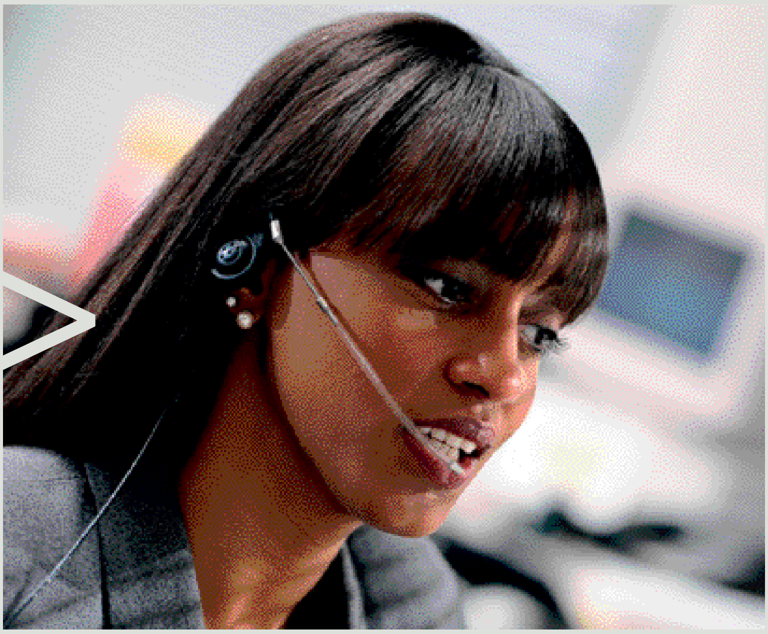
Evaporative cooling

Munters' humidifiers are based on nature's own ingenious solution – evaporation. This technology is used in poultry breeding, in greenhouses and other applications.

Water and fire

Lower costs and faster processing – the strength of MCS

Day 1 09:00 a.m. | A building is damaged



Day 1 10:15 a.m. | Customer phones Munters call center

Drying and renovating instead of rebuilding following water or fire damage can save time and money for insurance companies. It also saves resources in the form of building materials, thus resulting in less environmental impact. MCS offers a variety of services that can be coordinated both nationally and internationally.

Water and fire damage restoration within MCS is traditionally a local operation. Trends indicate, however, that these services are increasingly national or international. Consolidation within the insurance industry results in fewer insurance companies. These companies want to work with suppliers who offer a complete range of services and can demonstrate national and standardized administration. Getting to the site quickly can be crucial for being able to limit the extent of damage. A well developed network of service depots is a competitive advantage for MCS. Munters' concept for handling water and fire damage has become a standard in the industry.

Speed and efficiency

What began as leasing of dehumidifiers has become Munters' largest single product area. MCS technology is suitable for buildings, as well as equipment and fittings. Efficient technical solutions are a key element within MCS, which means that Munters is continuously improving methods and the equipment used, which includes dehumidifiers, fans and heaters with a capacity that is matched to different requirements.

Leaking pipes or ceilings and broken washers and dishwashers are a common source of water damage. As properties become older, the risk for this type of damage increases. Today Munters has extensive experience of handling damage caused by water or moisture. In addition to water damage, MCS also works with fire damage. An extinguished fire results in extensive water damage and creates a need for many supplementary service assignments. MCS works with cleaning, technical reconditioning, odor elimination and small-scale renovations. In general, restoration in comparison with rebuilding is able to reduce costs by half and sometimes more. The methods used in restoration work are as gentle as possible, which is beneficial for the surrounding environment. Work within MCS starts from some 300 service depots in 20 countries around the world. The service is available around the clock throughout the year.

Broader service offering

Although MCS receives many assignments, the value of each assignment is normally relatively small. This creates opportunities for increasing economies of scale and rationalization. By bundling the services in clear concepts, work not only becomes more efficient, but also easier for the customer to monitor. As a large player, Munters also has excellent opportunities for conducting development work in a successful manner. More efficient work methods can mean fewer visits to damage sites, simpler administration and contact paths for the customer and clear documentation.

damage restoration

Day 1 10:30 a.m. | Suitable equipment is prepared at Munters' service depot

Day 22 | Damage restored – documentation prepared – invoicing

Many customers are already requesting more long-term national contracts with a broader service offering in which prices and other terms are fixed. About one third of all contracts within MCS are of this type. Developing MCS includes Munters taking a coordinating role in damage restoration in which many sub-suppliers are involved. For customers, this means fewer contact channels and a professional partner who takes responsibility for all phases of restoration, from the first inspection to the final documentation.

Temporary dehumidification within industry

MCS also supplies services for temporary dehumidification for the construction industry, for example. With more efficient drying, projects are less sensitive to weather, thus shortening and improving the construction process. This applies to both new construction and renovation. Companies working with painting and surface finishing are also dependent on moisture control to ensure the correct finish and quality of paint and lacquer. In sensitive phases of this work, MCS services can save time and money. The petrochemical industry is another in which temporary dehumidification may be desireable during construction and maintenance work on pipelines and cisterns, for example.

Major damage and emergency efforts

A significant but volatile part of MCS' operations is water damage restoration after hurricanes and floods. In markets where these weather phenomenon are common, particularly in the US, the MCS organization has a high level of preparedness and extensive experience in handling damage in these situations. The destruction in the wake of a storm demands rapid measures to clear away junk and rubbish, pump away water and install drying equipment and dehumidifiers to limit the spread of moisture and mold. Emergency work is performed with the help of a large crew of temporary personnel with MCS taking the role of project coordinator and work supervisor.

Market and competition

The goal is to be the preferred service provider to customers that primarily consist of insurance companies. Major customers include Norwich Union, If, Zurich and FM Global.

Competitors are in part global players, such as Belfor and ISS Damage Control, and in part small local contractors. Munters' competitive advantages are primarily its technical expertise, broad service offering, strong brand and local presence in geographically diverse markets.

Dehumidification and cooling

Dehumidification
– improving quality and safety

Munters' technology creates prerequisites for effective and more controlled manufacturing that improves product quality and safety. Within the food and pharmaceutical industries, quality and safety are critical issues. If the safety of food or medicines is compromised, the consequences may be very substantial for the manufacturing company, its products and its brands.

Dehumidification – increased quality and safety

Dehumidification is used to regulate the indoor climate in many different settings – from food and pharmaceutical manufacturing to other demanding production environments, such as stores, schools and warehouses. Controlled humidity also results in a more comfortable indoor environment. For many manufacturing companies, the issue of climate control is fundamental for all operations. Often it is a question of maintaining temperature and humidity at a constant level, since even small changes can result in the growth of bacteria and mold. The very strict hygienic requirements in the food and pharmaceutical industries mean that controlling the indoor climate is a critical issue. Munters' system provides effective control of temperature, humidity and particles in a production environment.

Within the food industry, which is one of the world's largest industries, it must be possible to guarantee the product's taste, consistency, smell and appearance. This is particularly important for global manufacturers that manufacture exactly the same product in plants in varying climate areas. The humidity of the surroundings affects food products in the manufacturing, handling and storage phases. However, variations in quality can be minimized through careful control. This applies particularly to frozen products, for which the challenges are even greater. Munters' dehumidification creates dry air that ensures that the formation of ice and frost can be controlled in manufacturing. This improves product quality and reduces the risk for bacterial growth. Dehumidification also increases productivity, since manufacturing steps such as fermentation, baking or drying can be performed more quickly and with greater control. In kitchens, stores and serving areas, control of moisture is important for maintaining the taste and appearance of food products. It also contributes to extending shelf life when products are stored or displayed.

Customization and specialization – critical success factors

Munters' strengths include global coverage, a high level of technology and an ability to adapt its offering to the shifting needs of customers and their businesses. Munters can satisfy customer requirements in all climate areas. Customers are offered a controlled indoor climate, regardless of whether their plant is in a warm and humid or cold and dry climate. This is a strength as customer operations become increasingly global. Munters' broad application expertise includes both standard products and customized systems in which the technology is matched to customer needs and requirements. The ability to adapt its technology to customer and industry-specific requirements is one of Munters' most important success factors.

Market and competitors

The most important market segments in dehumidification are the food and pharmaceutical industries. Other major customer segments are the electronics and semiconductor industries, defense plants and industrial surface finishing. Customers include world-leading companies, such as Wal-Mart, Pfizer, Nestlé and Fujifilm. Competitors consist primarily of smaller companies active in their local markets or within specific customer segments. Munters' major competitive advantages are extensive application expertise, an established service organization, a global marketing organization and a strong brand.

Munters systems eliminate frost in frozen food counters, which increases product quality.

Humidification and cooling

HumiCool
– increasing productivity

With humidification and cooling, HumiCool creates a controlled indoor climate. The technology makes it possible to grow vegetables or breed poultry in different climate zones. Munters' systems for humidification and cooling are reliable and energy-efficient. A stable and controlled indoor climate contributes to increasing productivity in the customer's business operations.

HumiCool – increased productivity

HumiCool creates the right indoor climate for people, animals and industrial processes. In warm climates, Munters offers cooling, while humidification is offered in cold and dry climates. The technology employed in HumiCool can meet all of these requirements. Within animal and poultry breeding, evaporative cooling is used to control the indoor climate. In greenhouses, an environment is created that is favorable for fruit and vegetables. By installing evaporative cooling, breeding and cultivation can take place in hot and dry climates, where this type of production would not otherwise be possible. HumiCool contributes to increasing productivity. Within the poultry industry, the combination of the correct temperature and humidity means that the breeding cycle often can be reduced by half.

Munters' air cooling is also used in the power industry. The combination of high temperatures and low humidity reduces the power of generators and turbines. With evaporative cooling that cools the intake air to the turbine, the power from a gas turbine can be increased by up to 15 percent. Munters also supplies products to the power industry for mist elimination, an area in which the company is the world leader. The largest application area is cleaning of emissions from coal-fired power plants. The flue gas from the power plant is sprayed with water, which contains chemicals that can absorb the contaminants. Thereafter, Munters' mist eliminators remove the water drops containing the contaminants. Mist eliminators are used in China, for example, where coal is the most common source of energy.

Market and competitors

The most important market segments for HumiCool are the AgHort (Agriculture and Horticulture) industry, air conditioning and power plants. Major customers include GSI Cumberland, Big Dutchman, United Utilities and General Electric. Competitors consist mainly of local players with small-scale production. In selected segments, HumiCool has high market shares. Munters' strengths are its technology and application expertise, global presence and strong brand.

In warm climates, Munters' evaporative cooling systems create an optimal climate for greenhouse cultivation that improves productivity and quality.

Customer case 2004

Munters wins tender from major insurance company

A large British insurance company wanted to change partnerships with suppliers in the area of water and fire damage restoration. The primary requirement was increased efficiency. Munters emerged as the winner in the tender.

Munters already handled 70 percent of the company's water damage restoration and 50 percent of its fire damage restoration. Through a new tender, the insurance company wanted to improve overall cost efficiency. Service contents and service levels were specified in the tender requirements.

Tough requirements

Munters' tender team conducted a comprehensive review of its own services that resulted in new and more efficient techniques being introduced in restoration work. In addition, all administration was centralized to the head office and improved routines were developed. Together with the customer, Munters created online access to relevant documentation, which made working together and taking decisions easier. Munters also established a help desk with the customer to handle routine contacts. In the tender process, Munters emerged as the winner and now handles 80 percent of the insurance company's water and fire damage restoration.

Customer case 2004

"First and fast" after Florida hurricane

St. Joseph's Hospital in Florida was severely damaged by hurricane Charlie. Munters was quickly on hand to handle water damage restoration of both buildings and equipment, as well as the hospital's documents.

On August 13, 2004, Hurricane Charlie swept across southwestern Florida. St. Joseph's Hospital was near the storm's epicenter and was therefore severely affected. The material damage was extensive. Most severely damaged was the main building, where the first floor was flooded. The roof had been torn off, meaning that rain and wind caused substantial damage on other floors of the building.

Controlling moisture

When the hurricane had passed, 50 employees from MCS began their work. As a first step, the first floor of the building was cleared of debris and rubbish, while water was pumped out. Thereafter, six large dehumidifiers were installed in the building. Via a system of pipes, dry air was pumped to all areas of the building. This prevented moisture from spreading and causing further damage. By quickly controlling the moisture problem, valuable equipment could be protected. Dehumidification also allowed reconstruction of damaged walls and roofs to be started. Munters also saved a large volume of documents and X-ray films through a technique based on freeze-drying. In addition, measures were taken to minimize the risks for future mold damage. On September 6, about three weeks after the hurricane, operations at St. Joseph's Hospital could be resumed in full scale again.

Customer case 2004

Munters saves slaughterhouse from closure

Munters' dehumidifiers solved problems with condensation at Claxton Poultry's plant in Claxton, Georgia in the US. The improved indoor climate not only resulted in better hygiene, but also in lower maintenance costs and greater productivity.

At Claxton Poultry's chicken slaughterhouse in Claxton, large amounts of water were being used for cleaning. This enormous consumption of water was causing problems. When the water evaporated, condensation formed on the ceiling, walls and equipment, leading to the company receiving a warning in 2003 from the USDA (US Department of Agriculture). The reason was that there was a risk of the water dripping down on to chicken products which could become contaminated.

Many benefits

In the autumn of 2003, the company contacted Munters, which installed equipment for temporary dehumidification. Dehumidified air absorbed the moisture and brought the formation of condensation under control. The condensation disappeared in a matter of hours. After 90 days, the USDA withdrew its warning.

The company realized several benefits. Hygiene at the plant was improved in that bacterial growth was limited. In addition, efficiency improved. Production planning is performed with greater precision and fewer disruptions. The refrigeration equipment used previously needed to be defrosted four times per day. With Munters' system, once a day is sufficient.

Another benefit was that maintenance costs were reduced. Maintenance requirement for a packaging machine, for example, were cut in half. In May 2004, Munters installed two permanent dehumidification systems in the plant in Claxton.

Customer case 2004

Effective cleaning in China with mist elimination

By cleaning flue gases, the amount of environmentally hazardous emissions can be sharply reduced. Mist elimination from Munters is a part of this process. One example of application of this technology are the coal-fired power plants operated by the Chinese state.

In China, many power plants are fired with coal, which has resulted in problems with air pollution. Sulfur emissions from power plants result in what is called acid rain and is a much debated environmental problem in many countries. The Chinese authorities have therefore introduced stringent regulations to reduce this type of emissions.

Flue gases sprayed

This flue-gas cleaning process uses the mist elimination technology developed by Munters. Several successful projects have been conducted in China in which the flue gas from coal power plants was cleaned. The process, which is called desulfurization, takes place in a process tower through which the flue gases pass before going out through the plant's chimneys.

As a first step, the contaminated flue gases are sprayed with a mixture of water and chemicals that bind the contaminants. Through a combination of speed and friction, Munters' mist eliminators then capture the contaminated drops which fall down and are collected in the bottom of the process tower. Mist elimination also includes a cleaning plant. This means that contaminated water and sledge can be removed from the mist eliminators, thus keeping them clean for the best efficiency. Cleaning via desulfurization is very efficient. More than 90 percent of the contaminating substances are eliminated in this process.

Product development

Advances in world-leading technology

Carl Munters invented the dehumidification rotor and CELdek® to be included in an air conditioning system that would employ new technology not based on compressors and Freon. His efforts were not successful. Over the years, the development of the rotors and CELdek® instead became the foundation for the Dehumidification product area, MCS and HumiCool. The dehumidification rotor, which is the most important component in Munters' dehumidifiers, is being refined in the rotor center of excellence in Amesbury north of Boston in the United States.

The rotor's characteristics are determined by a number of design parameters. The geometry of the rotor material determines the flow characteristics and thus the contact between the air and the rotor material. The rotor is treated with various substances that determine its chemical characteristics and thus its energy consumption and moisture absorption capacity. Munters currently has ten different rotor materials that have been developed for different application areas. Development continues. Munters has special dehumidification materials for applications in which extreme dryness is required and others to minimize energy consumption. There are rotors that are robust and suitable for most applications but which are not optimized for special environments. One of the most recently developed rotors was developed for Munters' DesiCool™ systems. One of the limiting factors for DesiCool™'s success was that the rotors needed to be regenerated at temperatures as low as 55°C. A new rotor had to be developed. The new rotor makes it possible to be able to convert waste heat from industrial processes, district heating, air conditioning and even solar heating with relatively high efficiency. In most cases, electricity is the energy source.

Center of Excellence

The development of Munters' rotors takes place at Munters' Center of Excellence in Amesbury in the US. There are many different climate zones in the US. Munters' customers are also located in many different climate zones and in many different sectors where they often are leaders in high technology, food products and pharmaceuticals. It has therefore been logical to concentrate resources for development of rotors to the US.

Development of the rotors' geometry, chemical characteristics and manufacturing processes also takes place in Amesbury. Special simulation software has been developed for rotor characteristics so that they can be estimated using the finite element method (FEM). With the help of these mathematical models, development of rotors and equipment can be accomplished quickly and at low development cost. In the development lab, rotor characteristics can be measured and verified under the most extreme air conditions.

Examples of dehumidifiers developed in recent years

DesiCool™ is used in applications where the primary requirement is cooling the air (air conditioning) but where it is also advantageous that the air can be dehumidified. This applies in most situations where air conditioning is required. Users are not prepared to pay the increased investment costs and the increased energy consumption that dehumidification entails. With the latest DesiCool™ technology, traditional air conditioning functions are combined with dehumidification technology in energy-efficient systems for cooling and dehumidification of air. The new units, which achieved their definitive breakthrough in 2004, consume only marginally more energy than a conventional air-conditioning unit with the corresponding temperature performance.

MCS needs special dehumidifiers

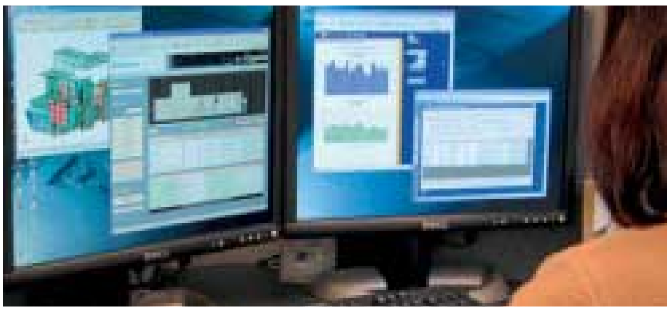
The rapid growth within MCS has resulted in increased requirements for special units with good ergonomics that are very robust. During 2004, a series of dehumidifiers were introduced that are based on a number of modules that can be combined in units for different application areas.

Newly developed units for MCS are robust with excellent ergonomics.

Selection software

In recent years, the development of computer-based tools for sales, product development and production of specially designed dehumidification systems has been rapid. By combining simulation software for rotor characteristics with characteristics for other units in Munters' modular products, sales representatives can configure systems together with the customer that are optimized for the customer's application.

Configuration starts by looking up the climate for the location of the plant in question in a database that contains climate data for the whole world. Thereafter, data is entered for the customer's desired indoor climate. The system can then be configured step by step with dehumidification and cooling modules, fans and filters. Even a complex configuration can be completed in less than an hour. The sales representative can then automatically generate estimates, dimensions, data regarding energy consumption and other information required for a decision.



Selection software

Web-based work stations on which the sales representative's system configuration of a custom-designed unit are entered and software automatically generates CAD drawings for the manufacturing process.

Region Europe

Region Europe comprises Europe, Russia, the Middle East and Africa. MCS is the largest division, followed by Dehumidification and HumiCool.

The year in brief

During the year, the region noted increased order intake and sales. Operating earnings declined, however. The improvement in earnings within Dehumidification was not able to offset the lower earnings within MCS and HumiCool. In the comparison figures, it should be noted that the results for the fourth quarter of the preceding year included a reversal of reserves of 12 MSEK. Currency effects in the comparison with the preceding year were marginal.

Dehumidification

The division's order intake and sales increased somewhat as a result of a strong finish to the year during which the market for dehumidification systems improved. In addition to demand for conventional dehumidification units, demand for DesiCool™ systems (dehumidification combined with cooling) increased. The proportion of large projects increased. Operating earnings improved, in large part a result of the cost-savings programs that were implemented during the fourth quarter of 2003.

MCS

The division's order intake and sales declined somewhat. Operating earnings declined significantly. Due to the initially weak demand within portions of MCS operations in Europe, a decision was taken after the first quarter to implement additional measures to reduce costs in these units. These measures are expected to achieve full effect during the first quarter of 2005. During the fourth quarter, sales to the insurance industry improved, and both order intake and sales improved in comparison with the low level during the fourth quarter of the preceding year. Improved capacity utilization and the implemented cost savings measures resulted in an increased operating margin, which is still not satisfactory, however.

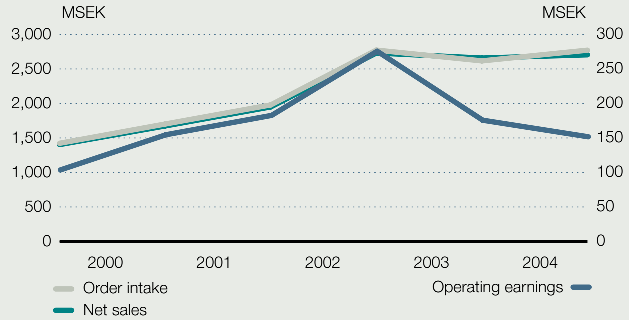
HumiCool

The division reported strong growth in order intake and net sales. Nonetheless, operating earnings were significantly lower. During the second quarter of 2004, a decision was taken to concentrate all European production of CELdek® (components for cooling systems) to the plant in Imperia, Italy. The move took place during the fourth quarter and the start of production is planned for the first quarter of 2005. During the second half of the year, operations for mist elimination and components for water purification in Aachen, Germany were moved to new premises in the same city. This resulted in production disturbances during the fourth quarter. A total of 14 MSEK in non-recurring costs were charged against operating earnings. In addition, earnings were negatively affected by weak demand for components for biological cleaning of waste water. Toward the end of the year, demand continued to be high in most segments, particularly with regard to components (mist elimination) for cleaning emissions from coal-fired power plants. Prices were negatively affected by the low USD exchange rate.

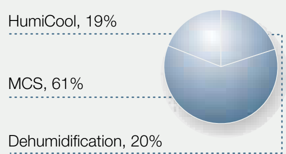
Key figures	2004	2003	Change, %	Adjusted change[1], %
Order intake, MSEK	2,772	2,617	6	6
Net sales, MSEK	2,705	2,658	2	2
Operating earnings, MSEK	151	175	–14	–14
Operating margin, %	5.6	6.6		
No. of employees on Dec. 31	2,056	2,090		
No. of service depots	250	259		

[1] Preceding year recalculated at this year's exchange rates.

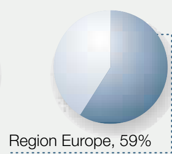
Largest segments	Products/service
Insurance/Water	Water damage restoration
Insurance/Fire	Fire damage restoration
Power industry	Mist elimination, cooling systems
AgHort/Food	Evaporative cooling systems, dehumidifiers



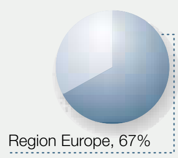
Net sales by division



Share of consolidated sales



Share of Group employees



Controlled climate in the new Infomedia building

Elanders is a leading company within printing and media in the Nordic regions. Paper is a material that is affected by humidity in the surrounding air. To meet increased demands on quality, productivity and the working environment, Elanders needed to maintain a constant indoor climate. The company therefore installed DesiCool™ from Munters to control temperature and relative humidity. The system installed at Elanders uses surplus heat from the printing presses.

Region Americas

Region Americas comprises North and South America. The largest division in the region is Dehumidification, followed by HumiCool and MCS.

The year in brief

The region experienced very high growth in order intake, sales and operating earnings during the year. The USD weakened against SEK during the year, which had a significant effect in comparison with the preceding year.

Dehumidification

Order intake, sales and earnings increased strongly. Demand for Zeol and DesiCool™ systems increased during the year. The market for industrial applications showed favorable growth during most of the year but weaker growth toward the end of the year. In March, Munters was awarded strategic supplier to the processor manufacturer Intel.

MCS

The division's order intake, sales and earnings showed strong growth. Demand was favorable for industrial applications for temporary dehumidification. During the autumn, Florida suffered several severe hurricanes that created strong demand. The resulting sales amounted to 12 MUSD during the fourth quarter. An expanded service offering also had a positive effect on the division's sales.

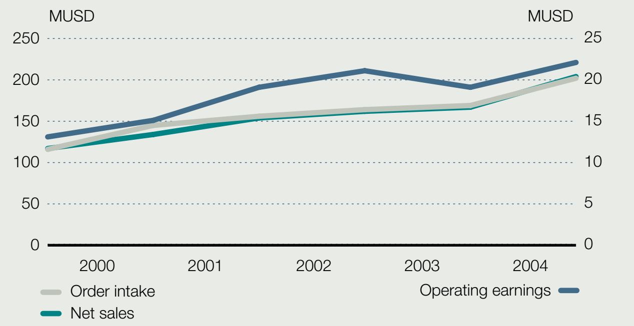
HumiCool

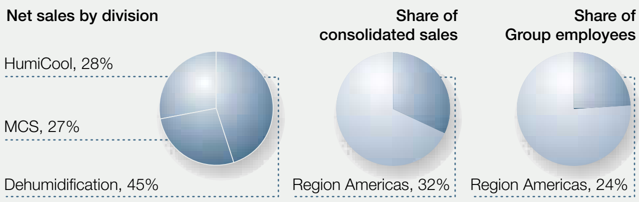
The division's order intake was somewhat lower while sales were somewhat higher compared with the preceding year. Earnings were significantly lower. Demand for cooling systems for the poultry industry were weak during the beginning of the year due to cold weather conditions but improved steadily over the rest of the year. Demand for components for other applications remained weak. During the second quarter, the American production of CELdek® systems was moved from Phoenix, Arizona to Monterrey, Mexico. Costs for the move had a negative effect on earnings. Productivity has not yet reached the planned level.

Key figures	2004	2003	Change, %	Adjusted change[1], %
Order intake, MSEK	1,483	1,367	8	19
Net sales, MSEK	1,501	1,347	11	22
Operating earnings, MSEK	163	150	9	19
Operating margin, %	10.9	11.2		
No. of employees on Dec. 31	726	663		
No. of service depots	26	33		

[1] Preceding year recalculated at this year's exchange rates.

Largest segments	Products/service
Food	Systems for dehumidification and cooling
Food/AgHort	Evaporative cooling systems
Insurance/Water	Water damage restoration





Controlled climate ensures quality

The egg producer Zoet Poultry Farm in Michigan in the US needed to expand its operations. Being able to control the climate in the new plant was extremely important for maintaining quality and productivity in the production from 225,000 chickens. Munters designed and installed a cooling system that controls the indoor temperature to be maintained at a constant level, regardless of the season and creating the right prerequisites for egg production.

Asia

Region Asia

Region Asia includes Munters' operations in Asia and Australia. The largest division in the region is Dehumidification, followed by HumiCool and MCS.

The year in brief

During the year, the region showed favorable growth in order intake, sales and operating earnings. During the fourth quarter, order intake was negatively affected by new outbreaks of bird flu in Southeast Asia. The higher profit within MCS more than compensated the lower earnings in Dehumidification and HumiCool. HumiCool's operating margin remained high.

Dehumidification

The division's order intake and sales increased, but earnings declined. Order intake contained several orders for DesiCool™ systems and industrial dehumidification applications. Demand declined during the fourth quarter, however.

MCS

The division experienced very strong growth in order intake, sales and earnings during the entire year that was primarily attributable to Australia. The action program implemented, an expanded service offering, a broader customer base and favorable weather conditions were contributing factors. Demand stabilized at a high level toward the end of the year.

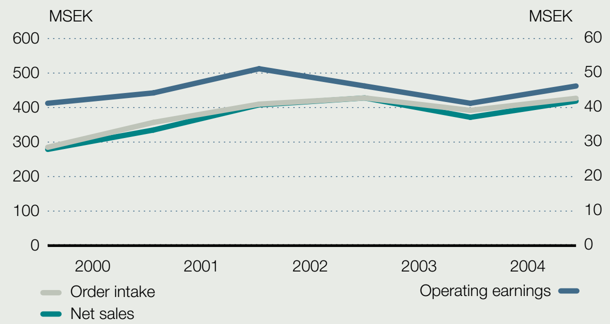
HumiCool

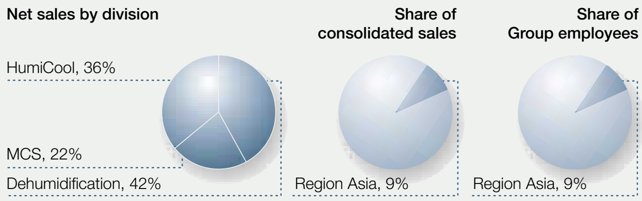
The division increased order intake and sales somewhat, although earnings declined. Activity was low for HumiCool during the final quarter, primarily as a result of the weak AgHort market due to the bird flu in Southeast Asia. Sales of pre-coolers for gas turbines and components for evaporative cooling systems showed positive growth throughout the year.

Key figures	2004	2003	Change, %	Adjusted change[1], %
Order intake, MSEK	427	392	9	11
Net sales, MSEK	419	372	13	15
Operating earnings, MSEK	46	41	13	13
Operating margin, %	11.0	11.0		
No. of employees on Dec. 31	265	299		
No. of service depots	10	8		

[1] Preceding year recalculated at this year's exchange rates.

Largest segments	Products/service
Food/AgHort	Evaporative cooling systems
Electronics	Dehumidifiers
Insurance	Water and fire damage restoration





MCS in Australia – broad service offering

An Australian insurance company wanted to reduce the number of suppliers in the area of water and fire damage restoration primarily to reduce costs, simplify administration and increase efficiency. In its tender, Munters offered a total solution, one-stop shopping, that included responsibility for all phases in restoration work. The benefits for the customer are lower costs, more standardized services and improved quality. For Munters, the partnership meant greater volumes, increased internal efficiency and a positive profiling of the company's services.

Environment
and quality

Within Munters, respect for the environment, health and safety are prerequisites for future growth and sustainable development. Successful growth is also closely linked to quality assurance. As part of its long-term development, the Group has therefore developed common guidelines for its environmental and quality work. These guidelines should provide support and inspiration, but also define the requirements on local operations around the world.

Munters is continuously developing operations toward sustainable solutions that provide economic benefits while limiting impact on the environment. The ability to combine commercial and environmental interests is a significant competitive advantage for the Group. Experience shows that many alternative technologies result in significantly higher environmental impact. Munters systems, unlike other technologies, do not contain Freon or other coolants. Munters' dehumidification technology creates optimal storage conditions in warehouses without requiring heating, which reduces energy consumption. In the DesiCool™ products, surplus heat, waste heat or natural gas are used. This can be compared with conventional air conditioning which requires considerable amount of electricity. Even within MCS, Munters' solutions result in savings. Damaged premises and buildings are dried instead of being torn down and rebuilt from scratch. This means less waste of building materials and fittings. In its own production, Munters strives to reduce resource use and any possible negative environmental impact.

Achieving higher total quality

Munters works to continuously improve quality. The driving force is customers' and the Group's ongoing effort to achieve higher performance and more optimal solutions. This focus includes both products and systems such as sales and service. Quality work is linked to measurable goals that are regularly followed up at various levels within the Group. Practical work is focused on such areas as product quality, delivery times, delivery precision and customer service, which contribute to the overall improvement of operations toward higher total quality.

QUALITY POLICY

Ambition

Munters ambition is to provide products, systems and services with high and consistent quality. This can only be achieved through coordinated and well-planned work processes throughout the Munters Group.

Policy

It is Munters policy to develop, manufacture and market products, systems and services in accordance with agreed requirements and of such quality that they gain the full satisfaction of our customers. High and consistent quality shall be a major factor for customers to buy Munters products. This policy is applicable to all products, systems and services provided by Munters.

Implementation

The implementation of this policy demands that businesses within Munters are managed according to the following principles:

- Every employee within Munters shall be aware of the importance of quality through communication and training.
- The organisation and the distribution of responsibilities and authorities related to all activities, which affect quality, shall be documented.
- Customer focus, cost efficiency and the requirements in ISO 9001/2000 or the equivalent shall be the basis for all activities.
- Research and development of products, systems and services shall be based on customer needs.
- Routines, processes and methods that secure requested quality shall be documented and followed.
- Only suppliers with the ability to fulfil our specified quality requirements shall be used.
- Marketing and sales activities must only create customer expectations that can be satisfied.
- The progress of quality work shall be continuously followed up by information, feedback and quality audits.
- Quality related work shall be directed towards yearly targets for quality improvements.

ENVIRONMENTAL POLICY

Ambition

Munters ambition is to develop all businesses in order to obtain sustainable solutions with regard to both financial and environmental benefits.

When Munters products and services are being used they shall contribute to a better environment. For example through energy savings in Dehumidification and HumiCool and reduced waste of material in the case of MCS restoration services.

It is also Munters ambition to manufacture products in a manner that has minimal impact on the environment.

Policy

It is Munters policy to develop, manufacture and market products, systems and services that contribute to a sustainable world. This policy is applicable to all products, systems and services provided by Munters.

Implementation

The implementation of this policy demands that all businesses in Munters are managed according to the following principles.

- Comply and if possible, exceed current environmental legislation.
- Involve and educate all key personnel in environmental issues.
- Involve our suppliers in environmental questions.
- Measurable improvement of environment issues.
- The environmental benefits of using Munters' products and services should be emphaisized in marketing.
- Not export environmental problems from countries with strict legislation to countries with less strict legislation.
- Munters shall have an open attitude regarding environmental issues.

EXAMPLES OF ENVIRONMENTAL WORK – THE PLANT IN TOBO

The manufacture of products and components in the Swedish factory in Tobo meets both commercial and environmental requirements. Work is conducted according to an environmental management system that assures internal efficiency while creating credibility among customers and other external stakeholders.

The plant in Tobo has been certified since 2000 in accordance with ISO 14001, which is the foundation for the environmental management system employed. This system includes requirements, targets, action plans and evaluation methods. The environmental management system provides an overview that increases the efficiency of various processes with respect to both technical solutions and administration. To ensure credibility in environmental work, an environmental audit is conducted twice each year. The audit is conducted by Det Norske Veritas (DNV), which is a world leader in certification and risk management. In addition, Munters also conducts internal audits of the environmental management system every year.

Environmental aspects documented

The starting point for all environmental work is the Group's environmental policy, the environmental impact that has been identified and prevailing legislation and regulations. On the basis of these prerequisites, goals and action plans for environmental work at the plant in Tobo are formulated. Munters own documentation of the environmental impact of its operations is extensive. More than one hundred environmental aspects of ongoing operations have been identified. Of these, about ten are classified as particularly important and are the focus for environmental goals and action plans. In addition, separate analyses are performed in which possible risk and accident scenarios are identified. Special action plans are also prepared for the most significant risk situations.

Environmental work is coordinated through Munters' quality and environmental department. This department establishes guidelines and ensures that work is conducted in accordance with laws, regulations and the company's own requirements. Practical environmental work is delegated to the respective line managers at the plant in Tobo.

Since the environmental management system was introduced, the environmental impact of the company's operations has been reduced in several important areas. The proportion of sludge in deposited waste has been reduced by 95 percent since 2001. Total water consumption has been decreased by 22 percent since 2000. At the same time, total water consumption per manufactured rotor unit has been reduced by 54 percent since 1999.

Following the latest review of the environmental impact of operations in Tobo which was conducted in December 2004, the following areas were prioritized in environmental work: reducing the volume of waste in the productions of rotor and GLASdek® materials, reducing energy consumption, reducing water consumption and reducing the number of transports for delivery of input materials. Monitoring, measurement and follow-ups of environmental aspects and targets take place once each year.

Greater availability

An important achievement in 2004 was that the environmental management system in Tobo was made available electronically for all employees. Updating environmental information became more efficient, thus ensuring that it was more up-to-date. Availability increased, meaning that seeking information regarding environmental work was both faster and easier.

A specific environmental target for 2004 related to the volume of sludge, which has gradually been reduced at Tobo. In 2001, sludge totaled 383 tons. In 2004, the amount was 20 tons for a production volume that was virtually the same. At the same time, handling of chemicals was improved.

Information on environmental impact in accordance with Swedish law

The Group conducts operations in its subsidiary Munters Europe AB subject to a permit of type B in accordance with the Swedish Environment Code. This permit covers all operations in Tobo and is valid until further notice. The operations for which there are permit and reporting obligations affect the external environment at Munters plant in Tobo through emissions to water and the air. No injunctions have been issued.

Personnel

Focus on expertise and sharing experience

Personnel work must not only guarantee that expertise is available within Munters, but also contribute to ensuring that employees are committed and offered attractive opportunities for development. With the common corporate goals and guidelines as the starting point, the local business units are individually responsible for the development of their own personnel. This development is focused on the entrepreneurial spirit and customer orientation that characterize Munters.

Guiding values

All personnel and skills development within Munters should promote profitable growth. The guiding principles in this work are rooted in the company culture and shared values. Munters' basic values are customer orientation, an entrepreneurial spirit, a young and dynamic attitude and a global perspective with a clear local footing. By taking customer needs and requirements as the starting point, the company culture and values should establish a course that furthers innovative development of the company's products and services. Open and foresighted leadership should ensure a high level of job satisfaction and good career opportunities for the Group's employees.

Personnel development a management responsibility

The business units are supported by corporate rules and guidelines in such areas as leadership, the environment, ethics, equality and operational management that are described in manuals. Managers have a toolbox available that contains instructions, checklists and other practical aids for ongoing personnel work.

Manager development – sharing experience

In the year 2000, the Munters Growth Academy was introduced as a skills and experience-sharing program for the Group's 90 highest executives. This program is focused on profitable growth. To date, the Growth Academy has addressed such issues as strategy, leadership and market orientation.

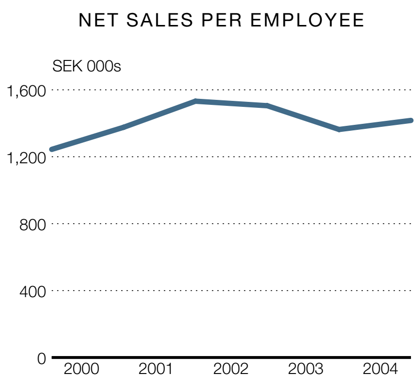
The subject for 2004 was productivity, which was linked to the Munters Efficiency Program that was launched in 2003. Munters' working model for efficiency is based on continuous improvement, follow-ups and refinement. Internal benchmarking has a central role.

Munters arranges regular global and regional management conferences. On these occasions, the sharing of experience is also systematized with the objective of promoting growth and development.

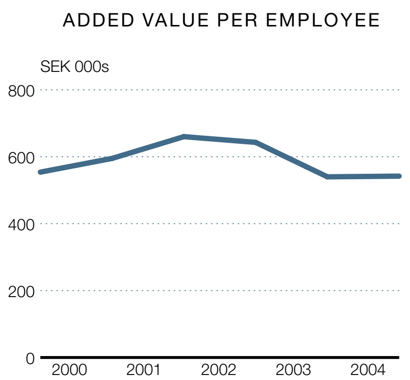
Local skills development

Many training and skills development programs are implemented at the regional and local levels. Munters' ambition is to successively increase product and service expertise among its employees. Munters' training programs must also be modified in pace with changes in products and market conditions. One specific example are services, which are an increasingly important part of the company's business. During 2004, various competence programs were conducted:

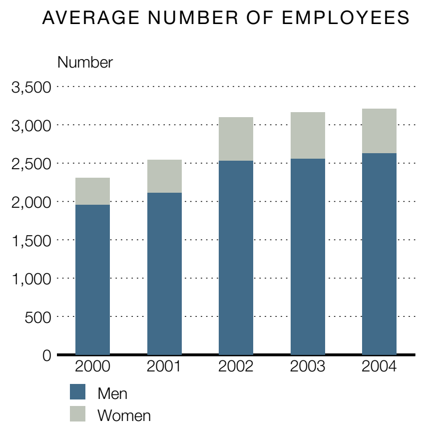
- During 2002/2003, a common business systems was introduced for European operations. As the next step in 2004, MCS began implementing a system module for project administration. Training in the use of this system included all administrative and technical service personnel.
- Munters Efficiency Program was implemented systematically within four production units in Europe and the US. A growing number of units are being included in the program, which also extends to the service depots within MCS. The program is based on productivity and quality principles adopted by many companies around the world.
  – Every work assignment should be standardized. Customer and supplier relations should be regulated between all units, both internally



Despite negative exchange-rate effects, net sales per employee increased by 4 percent.



Added value per employee increased marginally despite negative exchange-rate effects.



Temporary increases in staffing requirements in conjunction with relocation of production facilities in Europe and the US.

and externally. The focus is on primary production flows in which all employees contribute to continuous improvement.

– The program presupposes increased training and support for employees.

- MCS's offering requires knowledgeable and trained employees. Certain types of work require permits from the authorities. Accredited training is conducted regularly in the areas of health and safety, water and fire damage restoration and air purification. During the year, Munters Academy was launched in the UK. The training program, which is based on e-learning, is primarily aimed at supervisory personnel.

Recruitment and regeneration

Internal recruitment is prioritized in the appointment of managers and specialists. In the long-term provisioning of expertise, managers are responsible for identifying motivated and skilled employees and offering them appropriate development opportunities. This work is systematized in the guidelines that Munters has established for replacement planning.

Performance rewarded

Programs for variable compensation are employed within Munters to stimulate the individual's performance. These programs are directed towards senior managers and key persons within the organization and reward growth in the individual's area of responsibility according to given criteria. The most important criterion is increased profit, but the program also takes into consideration such factors as sales growth, capital turnover improvements and individual targets.

Munters regularly offers an opportunity to participate in warrants programs. These programs extend an offer to some 100 persons to purchase stock options. The outstanding warrants programs are described in Note 31.

Employees in figures

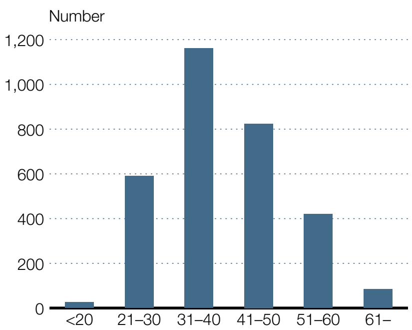
During 2004, the number of employees, including temporary employees, increased by 1 percent to 3,207 (3,162). The reason for the increase was primarily temporary staffing in conjunction with the relocation of production facilities.

Personnel turnover, defined as the number of permanent employees who left the company during the year divided by the average number of employees, increased within MCS in part through personnel reductions and in part through temporary employment during work peaks. Personnel turnover for the Group as a whole declined marginally to 16 percent (17).

The average age was 39, and the age group from 31 to 40 years remained the largest, accounting for 37 percent of the Group's employees at year-end.

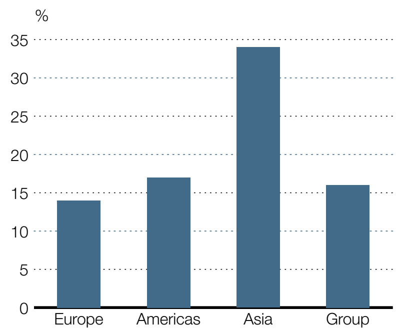
Currency effects during the year had a negative effect on both net sales and added value per employee.

AGE DISTRIBUTION



37 percent of the Group's employees were between the ages of 31 and 40 years, while the average age was 39.

PERSONNEL TURNOVER



Personnel turnover declined marginally for the Group. MCS by nature of its business has a higher turnover rate than other product areas.

The share

At year-end 2004, the Munters share was quoted at 200 SEK, which was an increase of 15 percent during the year. The SIX General Index rose by 17 percent during the same period. The market capitalization amounted to 4.9 billion SEK, compared with 4.3 billion SEK at the close of the preceding year.

Capital stock and number of shares

On December 31, 2004, Munters' capital stock amounted to 125 MSEK distributed among 25,000,000, each with a par value of 5.00 SEK. The company has one class of stock. Each share carries one vote. All shares carry equal rights to the Company's assets and earnings.

Ownership structure

The Munters share has been listed on the O List of the Stockholm Stock Exchange since October 21, 1997. As of year-end, Munters had 5,855 shareholders, compared with 6,285 the preceding year. The ten largest shareholders control approximately 67 percent of capital and votes. About 50 percent of the shares are owned by Swedish institutional investors, while foreign investors hold some 12 percent of the capital.

Shareholder as Dec. 31, 2004	No. of shares	Share of capital and votes, %
Industrivärden	3,219,350	12.9
Latour	3,209,750	12.8
Third National Pension Fund	1,929,449	7.7
Robur funds	1,887,753	7.6
Nordea funds	1,700,715	6.8
AMF Pension	1,300,000	5.2
AMF Pension funds	1,088,000	4.4
SEB funds	957,100	3.8
AFA Insurance	823,840	3.3
Enter funds	517,600	2.1
Total, ten largest shareholders	**16,633,557**	**66.6**
Other	7,744,493	30.9
Shares held by Munters	621,950	2.5
Total	**25,000,000**	**100.0**

Distribution of shares as of December 31, 2004

Shareholding	No. of owners	No. of shares	Share in %
1–500	4,694	961,760	3.8
501–5,000	976	1,419,281	5.7
5,001–50,000	120	1,806,507	7.2
50,001–	65	20,812,452	83.3
Total	**5,855**	**25,000,000**	**100.0**

Total return

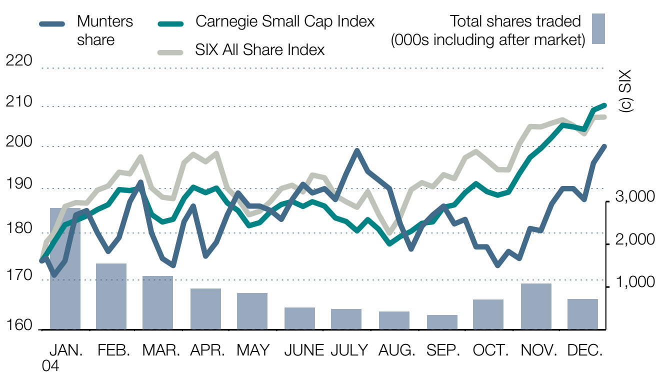
At year-end, the Munters share traded at 200 SEK, which was an increase of 150 percent since the exchange listing at 80 SEK in October 1997. The annual average total return (the share's value including reinvested dividends) since the exchange listing amounted to 15.4 percent. The average growth for the SIX Return Index for the same period was 6.5 percent. An investment in Munters shares thus gave a return that was 8.9 percentage points better per year, compared with an average investment on the Stockholm Stock Exchange.

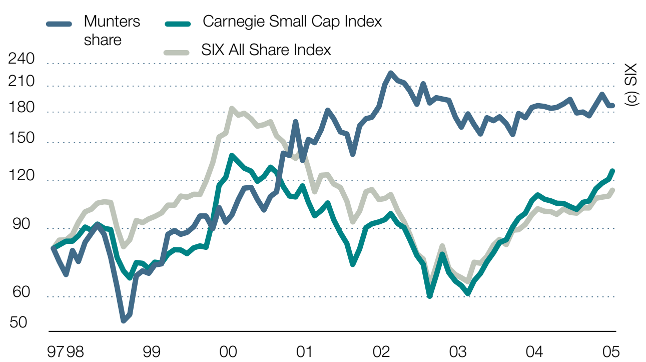
Trading volume

During 2004, 11.8 million Munters shares (19.1) were traded with a total value of 2,129 MSEK (3,295). This means that 44 percent (78) of the total shares changed owners. The average share price during the year was 181.05 SEK (172.00). The highest price paid during the period was 203 SEK on July 15. The lowest price paid was 166.50 SEK on January 13.

The beta value is a relative measure of the risk in the share measured as its compliance with the market index over the past 48 months. On December 31, 2004, the Munters share had a beta value of 0.12, meaning that it had moved 12 percent in relation to the index.

SHARE PRICE TREND





Dividend policy

The Board of Directors' intent is to apply a dividend policy that results in the dividend level being adjusted to the level of earnings, the Company's financial position and other factors that the Board considers relevant. The annual dividend should correspond to approximately one third of net earnings over a period of several years.

Dividend

For the 2004 fiscal year, the Board of Directors proposes that the Annual General Meeting approve a dividend of 4.00 SEK (3.50) per share. The dividend corresponds to 59 percent (50) of net earnings for the year.

Own shares

Buy-back, divestments and holdings are reported in note 22.

Options programs

The outstanding options programs are described in note 31.

Analysts who continually monitor Munters

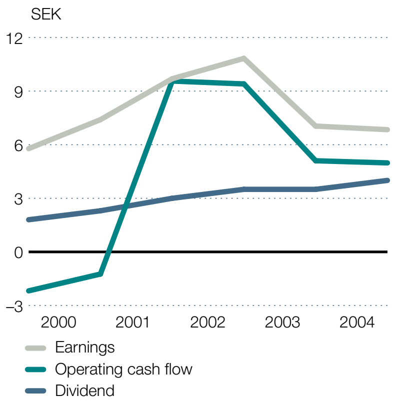
The market analysts listed below monitor Munters continuously. It should be noted that the opinions and forecasts regarding Munters that they express are their own and thus not Munters' own or the opinions and forecasts of its management.

Firm	Analyst	Telephone
ABG Sundal Collier	Erik Ejerhed	+44 20 7905 5600
Carnegie	Björn Enarsson	+46 8 676 88 00
Cazenove & Co	Michael Yates	+44 20 7588 2828
CAI Cheuvreux	Sasu Ristimäki	+44 20 7621 5100
Danske Bank	Søren Samsøe	+45 33 44 04 48
Enskilda Securities	Anders Eriksson	+46 8 522 295 00
Handelsbanken Markets	Markus Almerud	+46 8 701 10 00
Kaupthing Bank	Peter Näslund	+46 8 791 48 00
Merill Lynch	Christer Beckard	+44 20 7996 0824
Swedbank	Mats Larsson	+46 8 585 900 00

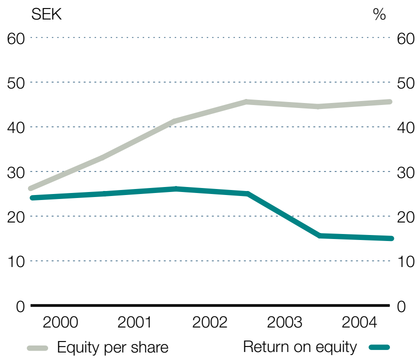
Key figures per share	2004	2003	2002	2001	2000
Earnings per share, SEK	6.84	7.04	10.83	9.69	7.40
Earnings per share after dilution, SEK	6.83	7.03	10.80	9.67	7.40
Average no. of shares, 000s	24,378	24,420	24,518	24,705	24,872
No. of shares on closing date, 000s	24,378	24,378	24,438	24,553	24,800
Holding of own shares, 000s	622	622	562	448	200
Operating cash flow per share, SEK	4.98	5.10	9.40	9.56	-1.24
Equity per share, SEK	45.61	44.53	45.59	41.23	33.10
Dividend per share, SEK	4.00[1]	3.50	3.50	3.00	2.30
Share price on closing date, SEK	200.00	174.00	193.00	174.50	171.00
Market capitalization on closing date, MSEK	4,876	4,242	4,716	4,284	4,241
P/E ratio, times	29.2	24.7	17.8	18.0	23.1
Return on equity, %	15.0	15.8	25.6	26.7	26.0

[1] According to the Board of Directors' proposal.

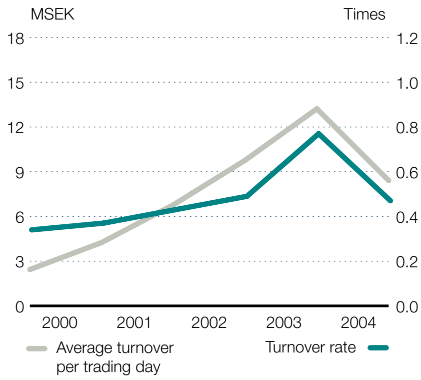
PER-SHARE DATA



EQUITY



LIQUIDITY



Opportunities and risks

Munters largely creates its own growth. A significant share of annual growth is generated by new products, applications and services. Within the largest customer segment, the insurance industry, the potential remains substantial.

Opportunities

The damage restoration industry, which is the largest customer segment, realizes substantial cost savings by employing Munters' service concept. Munters' potential remains substantial, and is further increasing through a broadening of the service concept.

Munters plays an important role in certain portions of the food industry in creating controlled climates for production and distribution, thereby increasing product life, quality and productivity, while bacterial growth is reduced and hygiene improved. The potential market is significantly larger than the market currently served. The combination of air conditioning and dehumidification in the DesiCool™ systems is considered to have substantial potential.

Evaporative cooling is both energy-efficient and environmentally friendly. Many potential segments that do not currently use this technology can be developed. The most important area, AgHort, continues to show good potential.

Risks

Munters is an entrepreneurial company with many small organizational units. The dependency of key persons is relatively great, and employee resignations may therefore be a threat. This applies particularly within MCS and product development within Dehumidification and HumiCool.

A portion of Munters sales consists of components, products and equipment that are used in complex customer processes. Quality and contract obligations can result in warranty claims.

Munters' expansion within MCS increases its exposure to the insurance industry. Changes in insurance products, new supplier relationships and financial problems in the insurance industry could pose a threat to Munters.

Alternative technologies may constitute a risk. Companies currently active in air conditioning could establish operations in Munters' niches.

Strengths and weaknesses

The Group's primary strength is its unique application and service expertise in its own global organization with a strong entrepreneurial spirit. Its weakness is a relatively diversified business that results in high costs.

Strengths and weaknesses for Munters' three product areas are described below under each product area.

Dehumidification product area

Competition consists of smaller local companies. Munters is the leading manufacturer of adsorption rotors, which are one of the company's core components, and has a broad product portfolio in dehumidification. The combination of cooling and dehumidification is considered to have substantial future potential.

A strong brand, long market experience, a global marketing organization with leading application expertise and an established service organization are other strengths.

High indirect costs for creating market growth, a somewhat unstructured product portfolio and many small organizational units are the product area's weaknesses.

MCS product area

Competition comes from both international players, such as Belfor and ISS DamageControl, and small local contractors. MCS is the quality and technology leader with a strong brand and a complete service offering. Broad local presence in geographically diverse markets is a strength.

The product area's weaknesses consist of volatile revenues and a relatively fixed cost structure together with low barriers to entry for competitors. Excessively great dependency on fixed contracts with the insurance industry may also constitute a weakness.

HumiCool product area

Competitors are small companies. Munters has high market shares in selected segments. The product area is characterized by strong brands, technical leadership and broad application expertise.

Weaknesses can be considered to be the many small organizational units and dependency on few OEM customers.

Financial risk management

The Group is exposed to risks related to financial instruments, such as liquid funds, accounts receivable, accounts payable, loans and derivative instruments.

Munters' management and control of financial risks are regulated by a policy established by the Board of Directors. Risk management and financing activities are primarily concentrated to the Parent Company in Sweden.

Details regarding financial instruments are provided in note 15.

Currency risk

Munters' financial reporting is in SEK, but the Group has operations all over the world and is thus exposed to currency risks due to unfavorable changes in exchange rates that can have a negative effect on earnings and equity.

and risks

A significant share of Munters' sales and costs are generated in foreign currencies. The geographic distribution of Munters' production plants results in significant matching of sales and costs in local currencies, which limits currency exposure. The shares of net sales and costs for the most significant currencies during the year are shown below.

Currency	Share of net sales, %	Share of costs, %
EUR	34.9	33.4
USD	32.7	32.4
NOK	7.2	7.5
SEK	6.5	12.3
GBP	6.1	5.3
AUD	3.8	3.0
JPY	2.6	2.4

Transaction exposure

Transaction exposure consists of the net of operative (export/import) and financial (interest/amortization) incoming and outgoing flows in various currencies.

Munters' policy is that currency hedging and trading shall be concentrated to the companies with Group internal sales. The goal of the currency hedging policy is to hedge 100 percent of contracted net flows in foreign currency, 90 percent of forecasted net flows within six months and 50 percent of forecasted net flows within an additional six months.

Translation exposure

Exchange-rate movements also affect the Group's translation of the income statements and balance sheets of foreign subsidiaries, as well as any goodwill in conjunction with acquisitions.

Munters' sensitivity to variations in certain currencies in translating operating income is presented in the table below. The analysis is based on operating earnings for 2004 and assumed that all other factors (e.g. changes in competition) that could affect earnings are unchanged.

SEK +1% compared with	Estimated effect on EBIT	
	MSEK	%
EUR	–2.1	–0.6
USD	–1.6	–0.5
NOK	–0.1	–0.0
GBP	–0.3	–0.1
AUD	–0.4	–0.1
JPY	–0.1	–0.0

The total translation effect on EBIT during 2004 compared with the preceding year's exchange rates amounted to a deficit of 12.5 MSEK, corresponding to 4 percent of the year's EBIT. The effect on Munters' equity in translating the net assets of foreign subsidiaries to SEK amounted to a deficit of 55.5 MSEK (deficit: 88.5) for the year.

Interest risk

Munters' sources of financing are primarily equity, cash flow from operations and borrowing. Borrowing, which is interest-bearing, means that the Group is exposed to interest risk.

Interest risk is the risk that changes in interest rates will negatively affect consolidated interest net or cash flow. Munters' finance policy establishes guidelines for fixed interest for borrowing and the average maturity periods. The Group's policy is that the interest periods for debt should normally be between 6 and 12 months. Interest-bearing debt and maturity periods are presented in note 25.

Interest exposure

Munters' profitability is affected by interest-rate fluctuations. The expected effect on earnings after financial items of a change in interest rates of one percentage point is about 3.6 MSEK (4.0).

Financing risk

Munters' borrowing from banks consists in part of general credit facilities and in part of individually approved bank loans to subsidiaries, of which the latter are generally in conjunction with acquisitions. The average period for which capital is tied up is normally between 3 and 9 months. In order to reduce the financing risk, the Group's ambition is to distribute loan maturity dates over a longer period. When surplus liquidity arises, it is primarily used to pay down loans.

Counterparty risk

Munters only accepts credit-worthy counterparties for financial transactions, such as currency swaps and other derivative transactions. For any given counterparty to be accepted, an approved credit rating is required.

With respect to accounts receivable, the counterparty risk is distributed among a large number of customers, primarily companies in various industries. Within MCS, large insurance companies account for a large share of the counterparties. Solidity assessments are required to sales on credit in order to minimize the risk for customer losses.

Insurable risks

Insurance protection is regulated by central guidelines. Several insurance policies are managed at the global level and handled annually by corporate staff.

10-year review

GROUP	2004	2003	2002	2001	2000	1999	1998	Pro forma[1] 1997	1996	1995
Order intake, sales and earnings										
Order intake, MSEK	4,598	4,305	4,727	3,945	3,322	2,608	2,384	2,265	1,943	1,853
Net sales, MSEK	4,543	4,308	4,666	3,894	3,179	2,594	2,401	2,197	1,927	1,799
Growth, %	5.5	–7.7	19.8	22.5	22.5	8.0	9.3	14.0	7.1	7.0
EBIT, MSEK	298	298	465	401	306[2]	237	205	184	155	81
EBIT margin, %	6.6	6.9	10.0	10.3	9.6[2]	9.1	8.5	8.4	8.1	4.5
Earnings after financial items, MSEK	283	280	436	389	289[2]	231	198	178	146	66
Net earnings, MSEK	167	172	266	239	184	144	124	105	90	41
Return figures and balance sheet										
Equity, MSEK	1,112	1,086	1,114	1,012	821	655	545	437	303	242
Return on equity, %[3]	15.0	15.8	25.6	26.7	26.0	24.8	25.9	28.2	33.2	17.0
Capital employed, MSEK	1,590	1,553	1,617	1,360	1,242	1,006	763	717	594	601
Return on capital employed, %[3]	19.0	19.1	30.8	31.8	28.3[2]	29.9	29.5	30.0	28.1	15.1
Capital turnover rate[3]	2.9	2.7	3.1	3.0	2.8	3.1	3.3	3.4	3.2	2.8
Total assets, MSEK	2,408	2,365	2,732	2,228	1,993	1,689	1,252	1,199	1,027	976
Equity ratio, %	46.3	46.1	41.0	45.4	41.2	38.8	43.6	36.5	29.8	24.8
Net debt, MSEK	351	338	365	196	333	230	135	104	215	300
Net debt/equity ratio, times	0.32	0.31	0.33	0.19	0.41	0.35	0.25	0.24	0.71	1.24
Interest coverage ratio, times	15.8	11.3	14.2	16.3	11.7[2]	13.1	11.6	10.5	7.6	3.2
Other key figures										
Investments in tangible assets, MSEK	108	130	183	140	148	114	109	84	72	88
Operating cash flow, MSEK	121	125	230	236	–31	–55	1	113	–	–
Average number of employees	3,207	3,162	3,100	2,541	2,311	2,086	2,011	1,842	1,779	1,714

REGIONS	2004	2003	2002	2001	2000	1999	1998	Pro forma[1] 1997	1996	1995
Region Europe										
Order intake, MSEK	2,772	2,617	2,773	1,979	1,702	1,423	1,305	1,233	1,099	1,086
Net sales, MSEK	2,705	2,658	2,731	1,950	1,674	1,404	1,325	1,191	1,069	1,067
Growth, %	1.8	–2.7	40.1	16.5	19.3	5.9	11.3	11.4	0.2	2.2
Operating earnings, MSEK	151	175	275	182	154	103	90	92	65	46
Operating margin, %	5.6	6.6	10.1	9.3	9.2	7.4	6.8	7.7	6.1	4.3
Number of employees at year-end	2,056	2,090	2,156	1,662	1,470	1,347	1,153	1,107	1,048	1,128
Region Americas										
Order intake, MSEK	1,483	1,367	1,592	1,611	1,325	956	901	816	671	596
Net sales, MSEK	1,501	1,347	1,577	1,592	1,231	970	885	790	686	561
Growth, %	11.4	–14.6	–0.9	29.4	26.9	9.6	12.1	15.2	22.3	11.6
Operating earnings, MSEK	163	150	205	198	145	104	96	84	87	61
Operating margin, %	10.9	11.2	13.0	12.4	11.8	10.7	10.8	10.6	12.7	10.9
Number of employees at year-end	726	663	701	621	647	559	591	536	505	413
Region Asia										
Order intake, MSEK	427	392	428	410	357	285	231	263	209	213
Net sales, MSEK	419	372	428	408	335	279	239	262	207	204
Growth, %	12.7	–12.9	4.6	21.8	20.3	16.8	–8.9	26.7	1.6	19.2
Operating earnings, MSEK	46	41	46	53	44	41	33	29	20	17
Operating margin, %	11.0	11.0	10.8	12.5	13.1	14.7	13.7	11.1	9.5	8.2
Number of employees at year-end	265	299	316	284	245	227	223	211	175	153

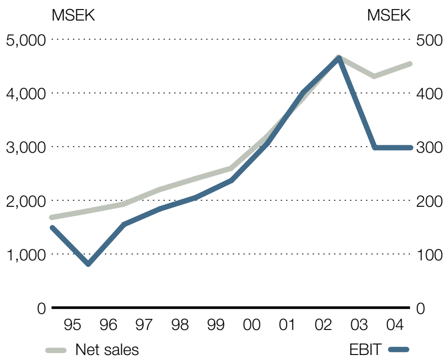
[1] Pro forma refers to the Group structure that was created in conjunction with the exchange listing in October 1997.
[2] Excluding items affecting comparability in an amount of 15 MSEK relating to surplus funds from pension management in Alecta.
[3] Key ratios are now calculated on the average over the past four quarters. Previous years' figures have been updated.

Definitions are presented on page 52.

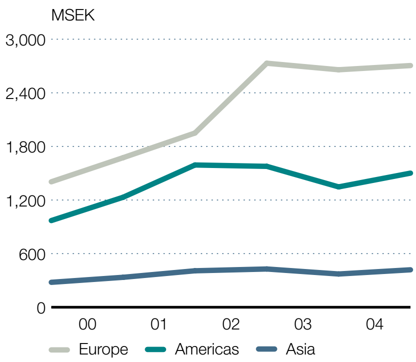
PRODUCT AREAS	2004	2003	2002	2001	2000	1999	1998	Pro forma[1] 1997	Pro forma[1] 1996	Pro forma[1] 1995
Dehumidification										
Order intake, MSEK	1,352	1,275	1,482	1,532	1,346	1,132	1,039	1,017	888	896
Net sales, MSEK	1,344	1,262	1,503	1,501	1,284	1,094	1,067	993	890	849
Growth, %	6.5	–16.0	0.2	16.9	17.4	2.5	7.4	11.6	4.8	10.6
Number of employees at year-end	773	771	816	798	802	739	772	704	695	673
MCS										
Order intake, MSEK	2,102	1,987	2,041	1,331	1,008	835	730	662	585	538
Net sales, MSEK	2,095	1,982	2,004	1,338	961	833	721	659	570	538
Growth, %	5.7	–1.1	49.7	39.3	15.4	15.5	9.3	15.8	6.0	6.7
Number of employees at year-end	1,615	1,618	1,620	1,135	940	827	669	659	599	584
HumiCool										
Order intake, MSEK	1,178	1,080	1,258	1,108	993	669	636	653	492	446
Net sales, MSEK	1,138	1,103	1,215	1,079	966	689	633	612	487	441
Growth, %	3.2	–9.2	12.6	11.8	40.2	8.9	3.4	25.4	10.5	5.3
Number of employees at year-end	649	661	737	634	623	567	489	492	434	393

[1] Pro forma refers to the Group structure that was created in conjunction with the exchange listing in October 1997.

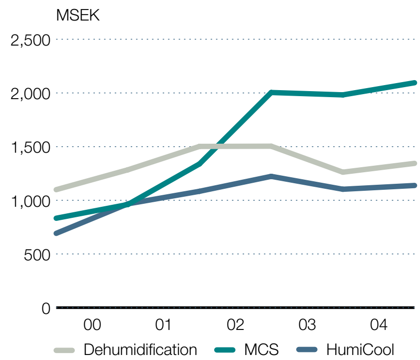
NET SALES AND EBIT



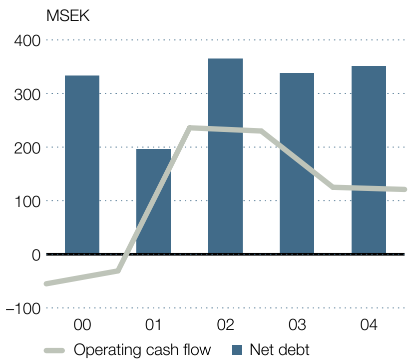
NET SALES BY REGION



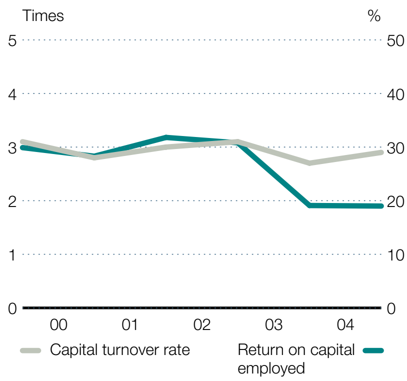
NET SALES BY PRODUCT AREA



OPERATING CASH FLOW AND NET DEBT



CAPITAL TURNOVER RATE AND RETURN ON CAPITAL EMPLOYED



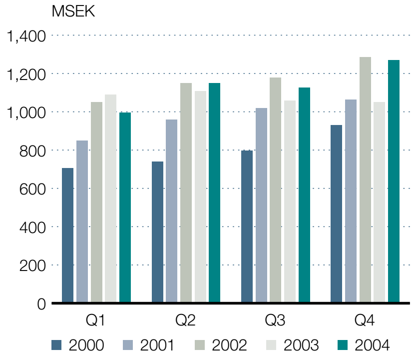
Quarterly review

	2004				2003				2002			
GROUP	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Order intake, net sales and earnings												
Order intake, MSEK	1,089	1,161	1,181	1,167	1,025	1,032	1,114	1,134	1,196	1,228	1,159	1,144
Net sales, MSEK	1,270	1,127	1,150	996	1,052	1,059	1,109	1,089	1,286	1,179	1,149	1,052
Growth, %	20.8	6.4	3.7	–8.5	–18.2	–10.2	–3.5	3.5	20.9	15.6	19.6	23.7
EBIT, MSEK	96	73	75	55	77	76	78	67	147	118	114	86
EBIT margin, %	7.6	6.4	6.5	5.5	7.4	7.2	7.0	6.2	11.5	10.0	9.9	8.2
Net earnings, MSEK	58	40	41	28	56	43	40	33	85	67	65	49
Other key figures												
Investments in tangible assets, MSEK	38	23	25	22	35	28	32	35	48	42	53	40
Operating cash flow, MSEK	47	9	37	28	47	56	14	8	108	52	55	15
Net debt, MSEK	351	389	389	311	338	403	456	383	365	525	381	345
Net debt/equity ratio, times	0.32	0.35	0.36	0.27	0.31	0.38	0.43	0.34	0.33	0.51	0.38	0.33
Interest coverage ratio, times	19.1	17.0	17.7	10.3	14.6	11.3	11.4	8.9	12.0	19.6	13.0	15.1
Number of employees at year-end	3,064	3,003	3,038	3,036	3,070	3,126	3,147	3,164	3,192	3,216	3,043	2,916
Key figures per share												
Earnings per share, SEK	2.39	1.62	1.68	1.15	2.31	1.73	1.66	1.34	3.46	2.71	2.66	2.00
Earnings per share after dilution, SEK	2.39	1.62	1.67	1.15	2.30	1.73	1.66	1.34	3.45	2.70	2.65	2.00
Average number of shares, millions	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.5	24.6	24.6
Number of shares on closing date, millions	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.6	24.6
Equity per share, SEK	45.61	45.23	44.71	47.22	44.53	42.99	43.29	46.08	45.59	42.44	40.38	41.91
Share price on closing date, SEK	200.00	180.00	189.00	186.00	174.00	168.00	174.00	178.00	193.00	190.00	204.00	227.00
Market capitalization on closing date, MSEK	4,876	4,388	4,607	4,534	4,242	4,096	4,252	4,350	4,716	4,643	5,009	5,574

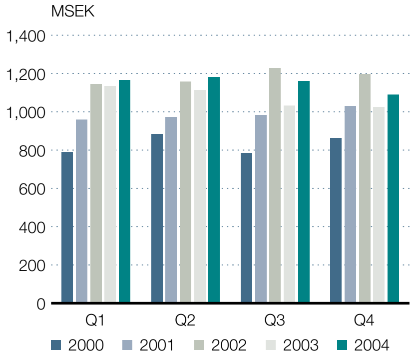
	2004				2003				2002			
REGIONS	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Region Europe												
Order intake, MSEK	662	676	708	726	617	616	669	716	762	720	651	639
Net sales, MSEK	748	658	683	616	675	643	673	667	814	682	630	605
Growth, %	10.8	2.3	1.5	–7.6	–17.2	–5.7	6.8	10.2	45.1	43.3	32.0	39.1
Operating earnings, MSEK	49	35	36	31	51	42	40	42	111	66	51	47
Operating margin, %	6.5	5.3	5.3	5.0	7.6	6.6	5.9	6.3	13.7	9.7	8.1	7.7
Number of employees at year-end	2,056	2,022	2,060	2,068	2,090	2,117	2,131	2,145	2,156	2,181	2,081	1,972
Region Americas												
Order intake, MSEK	346	395	385	357	312	334	366	355	353	425	413	400
Net sales, MSEK	432	387	384	298	287	335	364	361	387	407	419	364
Growth, %	50.8	15.4	5.4	–17.5	–26.0	–17.7	–13.1	–0.7	–6.1	–9.3	4.7	10.0
Operating earnings, MSEK	49	41	45	28	29	39	44	38	51	56	58	40
Operating margin, %	11.3	10.6	11.8	9.5	10.2	11.8	12.0	10.5	13.0	13.6	14.0	11.0
Number of employees at year-end	726	676	673	655	663	685	702	712	701	694	638	643
Region Asia												
Order intake, MSEK	94	114	112	107	113	99	90	90	94	97	116	121
Net sales, MSEK	111	104	107	98	108	96	89	79	103	104	125	96
Growth, %	3.0	7.7	19.7	24.0	5.0	–7.2	–28.6	–18.1	–1.3	–4.8	31.7	–4.1
Operating earnings, MSEK	13	11	11	10	14	10	10	7	9	14	14	9
Operating margin, %	12.1	10.7	10.7	10.4	12.6	10.5	11.3	8.9	9.3	13.1	11.1	9.7
Number of employees at year-end	265	288	288	295	299	306	296	289	316	321	310	289

	2004				2003				2002			
PRODUCT AREAS	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Dehumidification												
Order intake, MSEK	316	356	347	333	324	297	348	306	324	372	379	407
Net sales, MSEK	395	323	350	276	322	315	312	313	393	357	397	356
Growth, %	22.7	2.5	12.1	–11.9	–18.1	–11.7	–21.3	–12.2	–6.7	–2.2	6.2	4.4
MCS												
Order intake, MSEK	547	554	485	516	498	487	458	544	576	591	440	434
Net sales, MSEK	620	512	479	484	506	474	479	523	613	512	438	441
Growth, %	22.5	7.9	0.1	–7.4	–17.4	–7.4	9.5	18.5	67.5	30.7	50.1	52.6
HumiCool												
Order intake, MSEK	235	258	358	327	207	255	321	297	310	278	348	322
Net sales, MSEK	264	300	333	241	231	278	334	260	296	321	332	266
Growth, %	14.8	7.8	–0.5	–7.4	–22.4	–13.2	0.7	–2.0	4.9	20.6	9.5	16.6

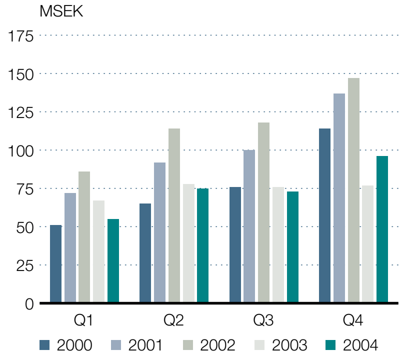
CONSOLIDATED NET SALES



CONSOLIDATED ORDER INTAKE



CONSOLIDATED EBIT



Income statement

Amounts in SEK 000s	Note	GROUP 2004	GROUP 2003	PARENT COMPANY 2004	PARENT COMPANY 2003
Net sales	3	4,543,441	4,308,291	18,443	20,654
Cost of goods sold		–3,256,250	–3,029,418	–1,215	–1,143
Gross earnings		**1,287,191**	**1,278,873**	**17,228**	**19,511**
Selling expenses		–525,379	–546,172	–110	–1,142
Administrative expenses		–387,149	–361,477	–46,755	–48,187
Research and development costs		–39,524	–41,172	–	–
Other operating income	4	353	4,612	3,256	3,447
Other operating expenses	5	–37,807	–38,214	–292	–572
Shares in earnings of associated companies	6	500	1,600	–	–
Earnings before interests and taxes	7, 8	**298,185**	**298,050**	**–26,673**	**–26,943**
Earnings from participations in Group companies	9	–	–	16,148	5,930
Interest income and similar items	10	3,968	6,786	14,180	14,790
Interest expenses and similar items	11	–19,540	–24,769	–7,200	–15,361
Earnings after financial items		**282,613**	**280,067**	**–3,545**	**–21,584**
Taxes	12	–115,269	–108,042	4,467	4,873
Minority share		–601	–99	–	–
Net earnings		**166,743**	**171,926**	**922**	**–16,711**
Earnings per share, SEK	13	6.84	7.04	–	–
Earnings per share after dilution, SEK	13	6.83	7.03	–	–

Comments on development during the year

Order intake and net sales

During the year, the Group's order intake increased by 7 percent (10 percent after currency adjustment) to 4,598 MSEK (4,305). The increase, after currency adjustment, was greatest in Region Americas with 19 percent, followed by the Region Asia with 11 percent and Region Europe with 6 percent. The order backlog increased by 8 percent (12 percent after currency adjustment) and amounted to 585 MSEK (550) at year-end.

Net sales increased by 5 percent during the year (9 percent after currency adjustment) to 4,543 MSEK (4,308). After currency adjustment, the increase was greatest in Region Americas with 22 percent, followed by Region Asia with 15 percent and Region Europe with 2 percent.

During the first quarter, net sales declined, compared with the corresponding quarter during the preceding year. The primary reason was a weak trend within MCS in Region Europe, while demand from the insurance industry was low due to mild and dry weather resulting in low damage levels with respect to water and fire damage. The following quarters resulted in gradually higher growth for the Group. Demand was strong in most areas, particularly for Zeol and DesiCool™ systems. Munters' business has a seasonal variation with net sales and EBIT normally lowest during the first quarter and highest during the fourth quarter. This was also the case during 2004.

Gross earnings

Gross earnings increased by 1 percent (4 percent after currency adjustment) to 1,287 MSEK (1,279). The gross margin declined to 28.3 percent (29.7), primarily as a result of the HumiCool product area, which reported a lower margin due to exchange-rate changes followed by lower sales prices and higher materials costs, the bird flu in Asia and the action programs and the associated production disturbances.

Indirect costs

Selling and administrative expenses were virtually unchanged at 913 MSEK (908), corresponding to 20.1 percent (21.1) of net sales. Research and development costs amounted to 40 MSEK (41), corresponding to 0.9 percent (1.0) of net sales. Development costs in conjunction with customer projects and development costs for service concepts within the MCS product area are reported as a cost for ongoing operations.

EBIT

EBIT remained unchanged at 298 MSEK (298), which was an increase of 4 percent after currency adjustment. Operating earnings declined after currency adjustment by 14 percent in Region Europe, while earnings increased in Region Americas by 19 percent and in Region Asia by 13 percent.

The EBIT margin declined to 6.6 percent (6.9). Depreciation, amortization and write-downs were included in an amount of 179 MSEK (170), of which goodwill and surplus values in acquired assets accounted for 38 MSEK (38). Costs totalling 33 MSEK (20) for action programs were charged against earnings. Of these costs, some 10 MSEK are the effects of production disturbances.

Capital expenditures

The Group's investments in tangible fixed assets amounted to 108 MSEK (130) during the year. The major share, 62 MSEK, related to investments in MCS equipment. Other investments were largely new investments in conjunction with relocation to three new factories.

Financial position

The equity ratio amounted to 46 percent at year-end (46 percent on the opening date). Interest-bearing assets amounted to 123 MSEK (125 on the opening date), while interest-bearing liabilities and provisions amounted to 474 MSEK (463 on the opening date). Net debt increased by 13 MSEK to 351 MSEK since the beginning of the year.

Taxes

Tax costs for the year amounted to 115 MSEK (108), corresponding to an effective tax rate of 40.8 percent (38.6). This exceeds the tax rate of 28 percent in Sweden and is due to the fact that a significant share of the Group's profits are generated in countries with a high tax rate and because amortization of goodwill and surplus values is not deductible for tax purposes. Adjusted for these deductions, the tax rate was 36.6 percent (34.5).

Comments on development in the regions are provided on pages 15 – 17.

Cash-flow statement

Amounts in SEK 000s	Note	GROUP 2004	GROUP 2003	PARENT COMPANY 2004	PARENT COMPANY 2003
CURRENT OPERATIONS					
Earnings after financial items		282,613	280,067	–3,545	–21,584
Reversal of items not affecting cash flow					
Share in earnings of associated companies		–500	–1,600	–	–
Depreciation, amortization and write-downs	7	179,168	169,780	847	769
Unrealized exchange-rate differences		894	696	–	–
Earnings from sales and disposals of fixed assets		–9,246	–469	6,006	–2,972
Provisions for pensions and similar commitments		–2,899	11,120	982	483
Other provisions		–1,168	–31,938	–	–
Other earnings items not affecting cash flow		5,465	615	–	–
		171,714	**148,204**	**7,835**	**–1,720**
Taxes paid		–126,029	–151,634	2,242	–3,668
Cash flow from current operations before changes in working capital		**328,298**	**276,637**	**6,532**	**–26,972**
Cash flow from changes in working capital					
Changes in inventories etc.		–70,228	24,007	–	–
Changes in accounts receivable – trade		–155,330	97,308	–	–
Changes in other receivables		3,756	–6,271	–24,966	231,531
Changes in accounts payable – trade		51,281	–67,907	–1,674	–1,213
Changes in other liabilities		51,303	–66,483	70,277	23,782
		–119,218	**–19,346**	**43,637**	**254,100**
Cash flow from current operations		**209,080**	**257,291**	**50,169**	**227,128**
INVESTING ACTIVITIES					
Acquisitions of enterprises	14	–39,799	–24,796	–	–
Investments in intangible assets	16	–3,183	–3,335	–	–
Investments in tangible assets	17	–108,290	–129,547	–72	–687
Sales of tangible assets		28,413	2,942	–	–
Changes in other financial assets		–4,576	–2,718	–4,694	–14,655
Cash flow from investing activities		**–127,435**	**–157,454**	**–4,766**	**–15,342**
FINANCING ACTIVITIES					
Payment received for issued stock options		842	1,005	842	1,005
Changes in loans		–2,765	–3,215	39,131	–111,214
Dividend paid		–85,323	–85,532	–85,323	–85,532
Buy-back of own shares		–	–10,604	–	–10,604
Cash flow from financing activities		**–87,246**	**–98,346**	**–45,350**	**–206,345**
Cash flow for the year		**–5,601**	**1,491**	**53**	**5,441**
Liquid funds at the beginning of the year		124,990	132,927	10,256	4,815
Exchange-rate difference in liquid funds		–2,234	–9,428	–	–
Liquid funds at the end of the year		**117,155**	**124,990**	**10,309**	**10,256**
OPERATING CASH FLOW		**121,444**	**124,633**	**–**	**–**
NET DEBT STRUCTURE					
Short-term loans		321,205	369,963	129,131	90,000
Long-term loans		46,049	6,664	–	–
Defined benefit pension plans, etc		107,051	86,617	35,434	34,452
Interest-bearing assets		–122,966	–124,990	–10,309	–10,256
Net debt		**351,339**	**338,254**	**154,256**	**114,196**

Interest paid amounted to –11,801 (–22,035) in the Group and 5,545 (4,605) in the Parent Company.

Balance sheet

Amounts in SEK 000s in December 31	Note	GROUP 2004	GROUP 2003	PARENT COMPANY 2004	PARENT COMPANY 2003
ASSETS					
FIXED ASSETS					
Intangible assets	16				
Patents, licenses and similar rights		19,126	21,088	357	467
Goodwill		307,833	350,768	–	–
		326,959	**371,856**	**357**	**467**
Tangible assets	17				
Buildings and land		167,187	196,902	–	–
Plant and machinery		152,158	154,331	–	–
Equipment, tools, fixtures and fittings		197,472	225,084	2,011	2,676
Construction in progress		6,391	23,384	–	–
		523,208	**599,701**	**2,011**	**2,676**
Financial assets					
Participations in Group companies	18	–	–	213,328	208,634
Receivables from Group companies		–	–	434,835	406,101
Participations in associated companies	19	6,334	5,834	–	–
Other long-term securities		144	146	–	–
Deferred tax assets	12	50,292	48,751	9,206	8,176
Interest-bearing assets		5,811	–	–	–
Other long-term receivables		9,417	17,806	–	–
		71,998	**72,537**	**657,369**	**622,911**
TOTAL FIXED ASSETS		**922,165**	**1,044,094**	**659,737**	**626,054**
CURRENT ASSETS					
Inventories etc.					
Raw materials and consumables		153,926	137,217	–	–
Products in progress		32,443	22,483	–	–
Finished products and goods for resale		84,852	69,169	–	–
Work in progress		54,707	44,942	–	–
Advance payments to suppliers		3,267	1,940	–	–
		329,195	**275,751**	**–**	**–**
Current receivables					
Accounts receivable – trade		914,337	791,857	–	–
Receivables from Group companies		–	–	72,741	64,884
Income tax receivables		39,052	38,120	5,659	3,584
Other receivables		46,980	46,791	8,359	9,777
Prepaid expenses and accrued income	20	38,956	43,388	1,269	2,270
		1,039,325	**920,156**	**88,028**	**80,515**
Liquid funds		**117,155**	**124,990**	**10,309**	**10,256**
TOTAL CURRENT ASSETS		**1,485,675**	**1,320,897**	**98,337**	**90,771**
TOTAL ASSETS		**2,407,840**	**2,364,991**	**758,074**	**716,825**
Contingent assets		–	–	–	–
Pledged assets	21	1,097	17,558	–	–

Balance sheet

Amounts in SEK 000s in December 31	Note	GROUP 2004	GROUP 2003	PARENT COMPANY 2004	PARENT COMPANY 2003
EQUITY AND LIABILITIES					
Equity	22				
Restricted equity					
Capital stock		125,000	125,000	125,000	125,000
Restricted reserves		175,507	178,840	76,361	75,519
		300,507	**303,840**	**201,361**	**200,519**
Non-restricted equity					
Non-restricted reserves		644,555	609,875	163,590	256,418
Net earnings		166,743	171,926	922	–16,711
		811,298	**781,801**	**164,512**	**239,707**
Total equity		**1,111,805**	**1,085,641**	**365,873**	**440,226**
Minority interest		**3,703**	**3,792**	**–**	**–**
Provisions					
Provisions for pensions and similar commitments	23	114,265	118,267	35,434	34,452
Deferred tax liabilities	12	28,372	28,211	–	–
Tax provisions		3,729	3,274	–	–
Other provisions	24	38,097	40,230	–	–
		184,463	**189,982**	**35,434**	**34,452**
Long-term liabilities					
Interest-bearing liabilities	25	46,049	6,664	–	–
Liabilities to Group companies		–	–	89,111	94,926
Other liabilities		81	51,628	–	–
		46,130	**58,292**	**89,111**	**94,926**
Current liabilities					
Interest-bearing liabilities	25	321,205	369,963	129,131	90,000
Advance payments from customers		28,309	20,790	–	–
Accounts payable – trade		285,723	245,720	1,104	2,778
Liabilities to Group companies		–	–	128,070	43,499
Income tax liabilities		51,506	53,328	–	–
Other liabilities		114,215	112,698	1,391	867
Accrued expenses and deferred income	26	260,781	224,785	7,960	10,077
		1,061,739	**1,027,284**	**267,656**	**147,221**
TOTAL EQUITY AND LIABILITIES		**2,407,840**	**2,364,991**	**758,074**	**716,825**
Contingent liabilities	27	56,750	61,267	76,134	66,167

Changes in equity

Amounts in SEK 000s	Capital stock	Restricted reserves	Non-restricted reserves	Equity
GROUP				
December 31, 2002	**125,000**	**187,811**	**801,197**	**1,114,008**
Correction of year 2001 effect on changed accounting principle	–	–	–16,644	–16,644
Exchange-rate differences in translating foreign subsidiaries	–	–9,169	–79,349	–88,518
Transfer from restricted to non-restricted reserves	–	–807	807	–
Net earnings	–	–	171,926	171,926
Dividend	–	–	–85,532	–85,532
Buy-back of own shares	–	–	–10,604	–10,604
Payment received for option program	–	1,005	–	1,005
December 31, 2003	**125,000**	**178,840**	**781,801**	**1,085,641**
Effect of the implementation of RR 29	–	–	–557	–557
January 1, 2004	**125,000**	**178,840**	**781,244**	**1,085,084**
Exchange-rate differences in translating foreign subsidiaries	–	–6,487	–49,054	–55,541
Transfer from restricted to non-restricted reserves	–	2,312	–2,312	–
Net earnings	–	–	166,743	166,743
Dividend	–	–	–85,323	–85,323
Payment received for option program	–	842	–	842
December 31, 2004	**125,000**	**175,507**	**811,298**	**1,111,805**
PARENT COMPANY				
December 31, 2002	**125,000**	**74,514**	**351,650**	**551,164**
Group contributions	–	–	904	904
Net earnings	–	–	–16,711	–16,711
Dividend	–	–	–85,532	–85,532
Buy-back of own shares	–	–	–10,604	–10,604
Payment received for option program	–	1,005	–	1,005
December 31, 2003	**125,000**	**75,519**	**239,707**	**440,226**
Group contributions	–	–	9,206	9,206
Net earnings	–	–	922	922
Dividend	–	–	–85,323	–85,323
Payment received for option program	–	842	–	842
December 31, 2004	**125,000**	**76,361**	**164,512**	**365,873**

Additional information about equity is provided in note 22.

Notes

NOTE 1. ACCOUNTING PRINCIPLES

Amounts in SEK 000s unless otherwise specified.

Accounting principles and effects of changes in accounting principles

The consolidated accounts were prepared in accordance with the Annual Accounts Act and the recommendations and statements of the Swedish Financial Accounting Standards Board. The accounts are based on historical acquisition values except as otherwise specified in the accounting principles. Other accounting principles and calculation methods were unchanged compared with the preceding year with the addition of the following.

As of 2004, the new Swedish accounting recommendation RR 29 "Employee benefits" was applied. This recommendation agrees in all significant respects with the international standard IAS 19 "Employee benefits". Through the application of RR 29, defined benefit pension plans and other benefits are reported according to common principles. Prior to 2004, they were reported in accordance with local rules in each country. In accordance with the recommendation's transition rules, a pension liability was established on the opening date of January 1, 2004 that was calculated according to the new principles. The Group's pension liability thus increased by 925. Equity after reduction for deferred tax was reduced by 557. The transition did not have any significant effect on the year's pension costs. In accordance with the recommendation's transition rules, previous years were not recalculated.

Consolidated accounts

The consolidated accounts include the Parent Company, all subsidiaries and associated companies. Subsidiaries are those companies in which the Parent Company directly or indirectly holds more than half of the voting rights or in other respects has a controlling interest.

All acquisitions of subsidiaries are reported in accordance with the purchase method. This means that the assets and liabilities of subsidiaries are reported at market value in the consolidated balance sheet in accordance with an acquisition analysis. If the acquisition price of shares in a subsidiary exceeds the estimated market value of the acquired company's net assets in the acquisition analysis, the difference is reported as Group goodwill. Goodwill is established in local currency. Companies acquired during the year are included in the consolidated income statement as of the acquisition date.

Internal gains are eliminated in conjunction with the preparation of the consolidated accounts. Tax effects of Group eliminations are taken into consideration when calculating tax expenses for the year.

Associated companies

Associated companies refer to companies related to the Group's operations in which the Parent Company directly or indirectly has a long-term investment corresponding to at least 20 percent and at most 50 percent of the voting rights or in some other manner exercises significant influence.

Associated companies are reported according to the equity method. This means that the consolidated balance sheet includes the acquisition cost of the shares plus the Group's share of the associated company's earnings following the acquisition less a reduction for dividends received. The consolidated income statement includes the share of the associated company's pre-tax earnings less goodwill and excess depreciation as applicable. The share of the associated company's tax is reported separately and included in the Group's tax expenses.

Translation of the accounts of foreign subsidiaries

Munters' foreign subsidiaries are classed as independent foreign entities. The current method is therefore applied for translation of their accounts. This means that all assets and liabilities are translated at the year-end rate, while the income statement is translated at the average rate. The translation difference thus arising is booked directly against consolidated equity.

Assets and liabilities in foreign currency

Assets and liabilities in foreign currency are translated at the closing-date rate. In cases where an investment is effectively protected against exchange-rate fluctuations by a corresponding liability in foreign currency, the reported values are not adjusted.

Exchange rates

The following exchange rates were used for translation.

		Average rate		Closing date rate	
Currency	**Country**	**2004**	**2003**	**2004**	**2003**
AUD	Australia	5.41	5.26	5.12	5.43
CAD	Canada	5.65	5.77	5.46	5.56
CNY	China	0.89	0.98	0.80	0.88
DKK	Denmark	1.23	1.23	1.21	1.22
EUR	Euro	9.13	9.13	9.01	9.09
GBP	United Kingdom	13.46	13.19	12.71	12.91
JPY	Japan	0.068	0.070	0.064	0.068
NOK	Norway	1.09	1.14	1.09	1.08
SGD	Singapore	4.35	4.64	4.04	4.28
THB	Thailand	0.18	0.19	0.17	0.19
USD	USA	7.35	8.09	6.61	7.28
ZAR	South Africa	1.14	1.07	1.16	1.09

Revenue recognition

Revenues from the sale of goods are reported upon delivery when all the main risks and rights are transferred to the buyer.

Revenues from major project assignments are reported in proportion to the degree of completion on the closing date, assuming that a reliable calculation of the profit can be made. Completion is determined primarily on the basis of accumulated project costs in relation to estimated total project costs on completion. Anticipated losses are directly expensed.

Within the MCS product area, there are many small projects with short completion times (averaging between 2 and 12 weeks). Revenues from such projects are reported for practical reasons upon project completion in conjunction with sending a final invoice to the customer. This method is applied consistently and thus has no impact on earnings.

Significant revenue types are described in note 3 in which Dehumidification and HumiCool consist of the sale of goods, while MCS consists of service assignments.

Inventories etc.

Inventory is valued at the lower of acquisition cost or net sales value (actual value). Required allocations are made for obsolescence based on each item's age and inventory turnover rate. Acquisition value is determined by applying the first-in, first-out method or weighted average prices. For Munters' own semi-manufactured and wholly manufactured goods, the acquisition value consists of direct manufacturing costs plus a reasonable share of indirect manufacturing costs. Interest expenses are not included in inventories. Normal capacity utilization has been taken into account in valuations.

Work in progress is valued as the sum of direct labor and materials costs plus a reasonable markup for indirect production costs.

Receivables

Receivables are reported in the amounts at which they are expected to be paid.

Liquid funds

Liquid funds are defined as cash and bank balances plus current investments with maturity periods not exceeding three months.

Depreciation/amortization

Depreciation/amortization is based on the original acquisition value of fixed assets and their estimated utilization period.

NOTE 1. cont

Write-downs

The book value of the Group's intangible, tangible and financial fixed assets is continuously assessed through analyses of individual or naturally associated types of assets. If such an analysis indicates that the book value is too high, the asset's recovery value is determined as the higher of net sale value and utility value. Utility value is measured as the discounted expected future cash flow. The asset is then written down by the difference between the book value and the recovery value.

Leasing

Leasing is classified either as financial or operative leasing. Reporting of financial leasing entails booking a fixed asset as an asset item in the balance sheet and reporting a corresponding liability. The asset is depreciated according to plan over its economic lifetime, while the leasing payments are reported as interest and amortization of the liability. For operational leasing, the leasing payments are expensed in the income statement over the leasing period.

Provisions

Provisions are reported when the Group has or may be considered to have an obligation as a result of events that have occurred and where it is probable that payment will be required to fulfill the obligation. An additional prerequisite is that it must be possible to reliably estimate the amount to be paid.

Pensions

Pension and other compensation after the termination of employment are reported as of 2004 in accordance with RR 29 (Employee benefits).

Within the Group there are both defined benefit and defined contribution pension plans, of which there are some with managed assets in special funds or the equivalent. Pension plans are primarily financed through payments from each Group company and the employees. Independent actuaries estimate the magnitude of the obligations for each plan and revalue the pension plans' obligations each year.

With respect to defined benefit plans, the pension cost is estimated using the Projected Unit Credit method in a manner that distributes the cost over the employee's working life. These obligations are valued at the current value of the expected future payments using a discount rate that corresponds to the interest on grade A commercial paper or government bonds with a remaining maturity period approximately matching the obligation in question. For funded plans, the pension commitment is reported as a net amount after deduction of the plan's managed assets. Funded plans with net assets, meaning with assets exceeding obligations, are reported as a financial fixed asset. Actuarial gains and losses outside the 10-percent corridor are distributed over the employee's estimated average employment period. The discount effect is reported as other financial expense.

The Group's payments relating to defined-contribution plans are reported as an expense during the period when the employee has performed the services to which the contribution relates.

Warranty costs

Warranty costs are booked as costs for goods sold. Provisions for warranty costs are made at a standard rate in an amount that corresponds to average warranty costs in relation to sales over the most recent 24-month period with an adjustment for known warranty claims exceeding the standard provision.

Research and development costs

The Group's expenses for research and development do not meet the established requirements for reporting as assets and were thus, as in previous years, expensed as they were incurred during the year.

Borrowing costs

Borrowing costs are reported as costs in the period in which they arise, regardless of how the borrowed funds are employed.

Own shares

Costs for the purchase of own shares reduce equity in the Parent Company and the Group. When these shares are sold, the sale price is included in non-restricted equity.

Taxes

Income taxes in the consolidated accounts consist of current and deferred tax. Current taxes are based on each company's tax return and include an adjustment for current tax attributable to previous periods. Deferred tax is calculated on temporary differences between book values in the balance sheet and residual values for tax purposes. Temporary differences arise in conjunction with acquisitions as the difference between the value of assets and liabilities in the consolidated balance sheet and their value for tax purposes. Deferred tax on loss-carry forwards is reported as an asset in cases where it is probable that it will result in lower tax payments in the future. The amounts are calculated using the tax rates that were in effect or announced on the closing date.

In the Parent Company, untaxed reserves include deferred tax liabilities. In the consolidated accounts, on the other hand, untaxed reserves are divided into deferred tax liability and equity.

Contingent liabilities

Contingent liabilities are reported when there are possible obligations relating to transpired events that will only become actual obligations given the occurrence or non-occurrence of one or more uncertain future events that are completely outside Munters' control. Contingent liabilities may also be an obligation arising from transpired events but which is not reported as a liability or a provision because it is not probable that the obligation will be settled or because the settlement amount cannot be calculated with sufficient reliability.

Parent Company accounts compared with the consolidated accounts

The accounting principles for the consolidated accounts and the Parent Company accounts are the same with the exception of the reporting of defined benefit pension plans, untaxed reserves and provisions. In the consolidated accounts, untaxed reserves are removed, and the tax portion is reported among deferred taxes.

Change of accounting principles in 2005

For a description of the changes in accounting principles for 2005, refer to note 2.

NOTE 2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As of 2005, Munters, like all exchange-listed companies in the European Union (EU), will prepare its consolidated accounts in accordance with the International Financial Reporting Standards (IFRS), which also include the prevailing International Accounting Standards (IAS). The recommendations of the Swedish Financial Accounting Standards Council that were applied by the Munters Group up until 2004 are in large part based on IAS, meaning that the consolidated accounts are largely already adapted to the new regulations.

Effects of transition to IFRS

The Group's financial reporting for 2005 will take place in accordance with IFRS and the comparison figures for 2004 will be recalculated. The rules for how the recalculations will be introduced are found in IFRS 1 (First-time adoption of international financial reporting standards).

The most significant effects for the Group of the transition to IFRS relate to the reporting of company acquisitions, financial instruments and minority interests. IAS 32 and 39 relating to financial instruments will be applied as of the fiscal year 2005 and the comparison data for 2004 in accordance with the transition rules will not be recalculated. The most significant changes in accounting principles for the Munters Group are described below in conjunction with the presentation of the effects on earnings for 2004 and equity as of December 31, 2003 and 2004.

According to the EU, the accounts must be prepared according to the IFRS standards that apply on December 31, 2005. In addition, these standards must be approved by the EU. The effects of the transition to IFRS described below are thus preliminary and based on the currently prevailing IFRS and interpretations of it that may be changed during the period up to December 31, 2005 with the resulting effect on reported amounts. IFRS 1 takes as its starting point that all standards will be applied retroactively, but contains a number of exceptions to that rule. The extent to which Munters utilizes any of these exceptions is described in the comments below.

The Group's reporting of cash flow is not deemed to be affected by IFRS.

	2004 according to previous principles	**2004 according to IFRS (prel.)**	**Effect of introduction of IFRS**
EBIT, MSEK	298	333	35
EBIT margin, %	6.6	7.3	0.7
Earnings per share, SEK	6.84	8.29	1.45

Amounts in MSEK		**2004**
Net earnings, previous accounting principles		167
Effect of transition to IFRS		
Company acquisitions	Note A	35
Minority interests	Note B	1
Net earnings, IFRS (prel.)		203

Amounts in MSEK		**2003**	**2004**
Equity on Dec. 31 according to previous accounting principles		**1,086**	**1,112**
Effect of implementation of RR 29		–1	
Equity on Jan. 1, 2004, according to previous accounting principles		**1,085**	
Company acquisitions	Note A		35
Minority interests	Note B	4	4
Equity on Dec. 31, IFRS (prel.)		**1,089**	**1,151**
Financial instruments	Note C		2
Equity on Jan. 1, 2005, IFRS (prel.)			**1,153**

Note A Company acquisitions

IFRS 3 (Business combinations) entails changes in the method of reporting company acquisitions and that amortization of goodwill does not take place. Notable changes are that a more detailed distribution of the purchase price may be applied in which values may be specified or identifiable intangible assets, such as brands, trademarks, customer relations, techniques, etc. These assets will be depreciated over their useful lifetime, unless it is unlimited, in which case amortization will not take place. Goodwill and other intangible assets that are not currently amortized must be tested at least once a year to determine if there is a need for a write-down. Munters conducted such impairment testing for goodwill values on January 1 and December 31, 2004. In addition, the purchase calculations may not include provisions for restructuring measures resulting from the acquisition. With the support of the transition rules in IFRS 1, company acquisitions before January 1, 2004 were not recalculated. There were no company acquisitions during 2004. For the Munters Group, the application of IFRS 3 means that net earnings for 2004 increases by 35 MSEK as a result of the elimination of goodwill amortization as of January 1, 2004.

Note B Minority interests

IAS 27 (Consolidated accounting) means that minority shares in net earnings will not be deduced from the income statement and that minority shares in equity will constitute a portion of reported consolidated equity. How much of net earnings is attributable to minority interests must be specified in conjunction with the income statement. In calculating earnings per share, a reduction will continue to be made for the portion of net earnings attributable to minority interests. For the Munters Group, net earnings increased by 1 MSEK, while equity increased by 4 MSEK on January 1 and by 4 MSEK on December 31.

Note C Financial instruments

IAS 32 (Financial instruments, disclosure and presentation) and IAS 39 (Financial instruments, recognition and measurement) will be applied as of 2005. With the support of IFRS 1, this will take place without recalculating comparison figures for 2004.

The version of IAS 39 adopted by the EU differs in some respects from the recommendation issued by the IASB. For the Munters Group, these differences have no effect, meaning that the Group's application of IAS 39 is in accordance with the version adopted by the EU and with the text issued by IASB.

IAS 39 requires that financial assets and financial liabilities be classified in different categories and reported and valued according to the principles applying for each category.

Most of the Group's financial assets related to receivables attributable to deliveries of goods and services and for which the maturity periods are short. The Munters Group reports these assets based on their acquisition value. Due to the short maturity period, the time period until payment does not need to be considered, meaning that there is no change, compared with the principles applied to date.

Liquid funds are classified as assets for which valuation is at fair value and for which changes in value are reported in the income statement.

Financial liabilities are valued at the accrued acquisition value, which is calculated such that constant effective interest income is received during the borrowing period unless the maturity period is short and contracted interest is lacking. Accounts payable and similar short-term liabilities are thus reported in nominal amounts.

The Munters Group's policy is to hedge forecast future flows in foreign currency using derivative instruments (forward contracts). These derivatives were not previously reported at fair value. According to IAS 39, all derivatives must be valued at fair value. The hedging instruments currently in use, however, cannot be reported with hedge accounting in accordance with IAS 39. This means that reported earnings will show greater volatility, since changes in value of the hedging instruments will be continuously reported against earnings. In cases where hedge accounting nonetheless may be applied when the formal documentation requirements can be satisfied, these instruments will be booked against equity until such time as the underlying transaction takes place.

The difference in the reported values in accordance with IAS 39 and the previously applied principles will be reported on the balance sheet on January 1, 2005 directly against equity in accordance with the transition rules in IFRS 1. As a result, net equity after deduction for deferred tax is estimated to increase by 2 MSEK relating to currency hedging contracts.

Accumulated translation differences

Translation differences relating to investments in foreign operations must be reported in accordance with IAS 21 (Effects of changes in foreign exchange rates) as a separate item in equity. In conjunction with the sale of foreign operations, accumulated translation differences must be reported as part of the income from the divestment. Munters has elected to set accumulated translation differences at zero as of January 1, 2004 in accordance with the transition rules in IFRS 1. Previously reported translation differences are reported in the balance sheet on the opening date of January 1, 2004 as other equity.

NOTE 3. SEGMENT REPORTING

REGIONS

The Group's operations are managed and reported primarily by regions. The consolidation of regions is presented according to the same principles as for the Group as a whole. Transactions between regions are based on market terms. Region Europe is responsible for operations in Europe, the Middle East and Africa, while Region Americas is responsible for North and South America. Region Asia is responsible for Asia excluding the Middle East and for Australia. No income statement items under operating earnings are allocated to the regions.

	Europe		Americas		Asia		Eliminations, etc.		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Income statement										
External net sales	2,654,039	2,599,794	1,472,701	1,338,517	416,701	369,980	–	–	4,543,441	4,308,291
Internal net sales	51,077	57,907	28,472	8,906	2,354	2,001	–81,903	–68,814	–	–
Net sales	**2,705,116**	**2,657,701**	**1,501,173**	**1,347,423**	**419,055**	**371,981**	**–81,903**	**–68,814**	**4,543,441**	**4,308,291**
Operating earnings by region	**150,872**	**175,055**	**163,288**	**150,425**	**46,106**	**40,752**	**455**	**–2,255**	**360,721**	**363,977**
Amortization of goodwill and surplus values									–37,868	–37,879
Undistributed costs									–24,668	–28,048
EBIT									**298,185**	**298,050**
Balance sheet										
Operating assets	1,089,822	1,063,995	494,382	411,095	208,215	210,301	–6,553	3,006	1,785,866	1,688,397
Participations in associated companies	–	–	–	–	6,334	5,834	–	–	6,334	5,834
Other assets	300,619	281,936	96,356	88,434	98,731	106,623	119,934	193,767	615,640	670,760
Total assets	**1,390,441**	**1,345,931**	**590,738**	**499,529**	**313,280**	**322,758**	**113,381**	**196,773**	**2,407,840**	**2,364,991**
Operating liabilities	191,188	158,356	84,918	71,963	54,416	42,368	–16,490	–6,177	314,032	266,510
Other liabilities	1,036,109	1,075,532	165,197	150,327	91,339	110,509	–314,345	–327,320	978,300	1,009,048
Total liabilities	**1,227,297**	**1,233,888**	**250,115**	**222,290**	**145,755**	**152,877**	**–330,835**	**–333,497**	**1,292,332**	**1,275,558**
Other data										
Capital expenditures	69,460	77,042	39,434	45,053	6,416	9,882	–3,837	896	111,473	132,873
Depreciation and write-downs	94,965	85,115	36,369	36,859	7,955	7,995	39,879	39,811	179,168	169,780
Number of employees at year-end	2,056	2,090	726	663	265	299	17	18	3,064	3,070

PRODUCT AREAS

The Group's operations are managed and reported secondarily by product areas: Dehumidification, Moisture Control Services (MCS) and HumiCool. The Dehumidification product area manufactures and markets products and complete solutions for controlling humidity and indoor climates. The MCS product area provides services for water and fire damage restoration and temporary climate control. The HumiCool product area manufactures and markets products and systems for evaporative cooling and humidification.

	Dehumidifcation		MCS		HumiCool		Eliminations, etc.		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net sales	1,344,194	1,262,470	2,094,762	1,982,130	1,137,881	1,102,883	–33,396	–39,192	4,543,441	4,308,291
Operating assets	495,028	479,768	769,776	655,504	530,129	555,808	–9,067	–2,683	1,785,866	1,688,397
Operating liabilities	133,090	110,577	87,087	75,128	98,236	81,428	–4,381	–623	314,032	266,510
Capital expenditures	18,979	15,908	62,397	84,351	33,921	31,718	–3,824	896	111,473	132,873
Number of employees at year-end	773	771	1,615	1,618	649	661	27	20	3,064	3,070

NOTE 4. OTHER OPERATING INCOME

	Group		Parent Company	
	2004	2003	2004	2003
Insurance compensation	–	3,444	–	–
Damages	353	1,168	–	–
Royalty from Group companies	–	–	3,256	3,447
	353	**4,612**	**3,256**	**3,447**

NOTE 5. OTHER OPERATING EXPENSES

	Group		Parent Company	
	2004	2003	2004	2003
Amortization of goodwill	–35,251	–35,139	–	–
Exchange-rate differences	–2,556	–3,075	–292	–572
	–37,807	**–38,214**	**–292**	**–572**

NOTE 6. SHARES IN EARNINGS OF ASSOCIATED COMPANIES

	Group	
	2004	2003
Aerotech Asia Inc	500	1,600
	500	**1,600**

NOTE 7. DEPRECIATION AND WRITE-DOWNS

Depreciation and amortization of tangible and intangible assets are based on the historical acquisition value and the estimated useful lifetime for various types of assets. For assets acquired during the year, depreciation or amortization is calculated from the acquisition date and deducted primarily linearly over the following periods.

Patents and licenses	3–20 years
Land lease	50 years
Goodwill	5–20 years
Buildings	20–30 years
Machinery and equipment	3–10 years
Equipment within MCS operations	6 years
Improvement measures in leased premises	3–7 years

Goodwill is normally amortized over 5 to 10 years. Goodwill with an amortization period exceeding 10 years is attributable to strategically important acquisitions that are deemed to motivate a longer period for commercial or technical reasons. Amortization of goodwill is reported among other operating expenses.
Depreciation was charged against the year's earnings as shown below.

	Group		Parent Company	
	2004	2003	2004	2003
Cost of goods sold	117,417	105,458	–	–
Selling expenses	6,739	8,832	–	–
Administrative expenses	19,314	20,100	847	769
Research and development costs	447	251	–	–
Other operating expenses	35,251	35,139	–	–
	179,168	**169,780**	**847**	**769**

NOTE 8. LEASING

Operating leases

The year's costs for operating leases of assets, such as leased premises, machinery and major computer and office equipment are reported among operating costs and amounted to 136,867 (138,489).

Future costs for non-revocable operating lease contracts have the following periods.

2005	114,555
2006–2009	177,194
2010 and later	27,388
	319,137

Finance leases

With respect to finance lease contracts, the leased fixed assets are reported as tangible fixed assets and the future payment obligations as a financial liability.

Leased financial assets are included in the asset category plant and machinery as shown below:

Acquistion value	1,621
Accumulated depreciation	–284
Reported value	**1,337**

Payments for the year relating to leased financial assets amounted to 371. Future payment obligations for finance lease contracts have the following periods.

2005	277
2006–2009	435
2010 and later	–
	712

NOTE 9. EARNINGS FROM PARTICIPATIONS IN GROUP COMPANIES

	Parent Company	
	2004	2003
Dividends	22,154	2,959
Divestments	–6,006	2,971
	16,148	**5,930**

The divestments for both years relate to a sale of subsidiaries within the Group. The loss for the year arose as a result of a reduction of the estimated purchase price.

NOTE 10. INTEREST INCOME AND SIMILAR ITEMS

	Group		Parent Company	
	2004	2003	2004	2003
Interest income, Group companies	–	–	13,817	14,138
Other interest income	3,841	5,054	249	469
Other financial income	127	1,732	114	183
	3,968	**6,786**	**14,180**	**14,790**

NOTE 11. INTEREST EXPENSES AND SIMILAR ITEMS

	Group		Parent Company	
	2004	2003	2004	2003
Interest expenses, Group companies	–	–	–4,349	–2,860
Other interest expenses	–13,710	–26,381	–4,171	–5,178
Exchange-rate differences	–454	2,292	3,102	–5,510
Other financial expenses	–5,376	–680	–1,782	–1,813
	–19,540	**–24,769**	**–7,200**	**–15,361**

The increase in other financial expenses is explained by discount effects attributable to defined benefit pension plans, etc. that are reported according to RR 29 as of 2004.

NOTE 12. TAXES

	Group		Parent Company	
	2004	2003	2004	2003
Current tax expense	129,911	120,885	–4,317	765
Tax relating to previous years	–6,602	415	–	12
Deferred tax related to temporary differences and loss carry-forwards	–7,881	–14,079	–150	–5,650
Deferred tax attributable to change in valuation reserves	–26	888	–	–
Deferred tax attributable to changes in tax rates	–133	–67	–	–
Tax expenses	**115,269**	**108,042**	**–4,467**	**–4,873**
Reconciliation of effective tax rate				
Earnings before tax	282,613	280,067	–3,545	–21,584
Tax according to prevailing tax rate for the Parent Company	79,132	78,419	–993	–6,044
Difference attributable to foreign tax rates	33,664	29,469	–	–
Non-deductible expenses	43,499	31,355	2,630	858
Non-taxable income	–38,303	–32,878	–6,211	–1,666
Change in valuation reserves	2,769	889	–	–
Tax relating to previous years	–6,602	415	–	12
Changes in tax rates	205	–81	–	–
Other	905	454	107	1,967
Tax expenses	**115,269**	**108,042**	**–4,467**	**–4,873**

Tax expenses amount to 40.8% (38.6%) of earnings before tax. Adjusted for non-deductible amortization of goodwill and surplus values, the tax rate amounted to 36.6% (34.5%).

	Group	
	2004	2003
Deferred tax assets attributable to		
Buildings	73	52
Machinery and equipment	16,083	10,301
Inventory	3,215	9,813
Accounts receivable	6,726	4,530
Provisions	5,997	6,941
Accrued expenses and deferred income	13,221	16,436
Loss carry-forwards	14,599	12,532
Other	2,624	2,325
Offsetting	–12,246	–14,179
	50,292	**48,751**
Deferred tax liabilities attributable to		
Machinery and equipment	16,160	19,387
Inventory	1,002	404
Untaxed reserves	17,904	18,877
Provisions	3,745	52
Other	1,807	3,670
Offsetting	–12,246	–14,179
	28,372	**28,211**

Deferred tax assets relating to unutilized loss carry-forwards are reported to the extent that it is deemed likely that they will be used to offset taxable surpluses. The unutilized loss carry-forwards amounted to 70 MSEK (75) at year-end, of which 55 MSEK were unlimited in time. Of these, 13 MSEK expire between 2005 and 2009, while 2 MSEK expire thereafter. Loss carry-forward for which deferred tax assets are not reported amounted to 22 MSEK (31). Loss carry-forwards totaling 48 MSEK (44) were thus suitable for reporting as deferred tax assets.

NOTE 13. EARNINGS PER SHARE

	Group	
	2004	2003
Net earnings	166,743	171,926
Weighted average number of shares	24,378,050	24,419,834
– after dilution	24,421,014	24,459,903
Earnings per share, SEK	6.84	7.04
– after dilution	6.83	7.03

The dilution effect is a result of the options program of May 2000. Other option programs do not result in a dilution effect, since the present value of the subscription price exceeded the market price at year end. In calculating the present value, a discount rate of 4.6% (4.0%) was used. The average share price during the year was calculated as 181 SEK (172).

NOTE 14. ACQUIRED OPERATIONS

The effect on liquid funds relating to acquired operations is in both years attributable to payments of supplementary purchase prices that were previously booked as liabilities in conjunction with the acquisition of operations.

NOTE 15. FINANCIAL INSTRUMENTS

A financial instrument is defined as a contract that results in a financial asset in a company and a financial liability or equity instrument in another company. Financial instruments include both primary instruments, such as accounts receivable, accounts payable and shares, as well as derivatives, such as options, forward contracts and interest and currency swaps.

For a description of financial risk management, refer to the section "Opportunities and risks" on pages 24 and 25.

Financial instruments in addition to those that arise in current operations are relatively limited within the Munters Group. In addition to the stock options presented in note 31, they consist primarily of currency hedges and interest-bearing borrowing with banks (see note 25).

Currency hedging

At the end of the year, there were currency hedges within the Group according to the table below. These forward contracts were not reported on the balance sheet. During 2005, however, forward contracts will be reported in accordance with IFRS (see note 2) at fair value.

Currency	Net sales amount in local currency, 000s	Unrealized market value, SEK 000s
EUR	7,844	642
USD	8,311	2,687
NOK	–4,000	35
GBP	503	117
AUD	1,900	–143
JPY	12,177	63
ZAR	4,613	–371
CAD	–1,900	43
DKK	3,042	20
SAR	555	62
SGD	239	16
Unrealized net gain		**3,171**

All forward contracts fall due for payment during 2005. In accordance with the Group's policy, payment in most cases will be due during the first half of 2005.

NOTE 16. INTANGIBLE ASSETS

	Group							Parent Company
	Patents, licenses and similar rights	Goodwill 5 years	Goodwill 10 years	Goodwill 15 years	Goodwill 20 years	Total goodwill	Total intangible assets	Patents, licenses and similar rights
Acquisition value								
Amount on opening date	30,641	41,500	157,840	41,483	243,485	484,308	514,949	550
Capital expenditure for the year	3,183	–	–	9,951	–12,159	–2,208	975	–
Sales and scrapping	–55	–2,280	–	–	399	–1,881	–1,936	–
Translation differences for the year	–1,038	–509	–1,327	–4,777	–1,055	–7,668	–8,706	–
Amount on closing date	**32,731**	**38,711**	**156,513**	**46,657**	**230,670**	**472,551**	**505,282**	**550**
Accumulated amortization								
Amount on opening date	9,553	26,472	58,232	4,140	44,696	133,540	143,093	83
Sales and scrapping	–55	–2,280	–	–	399	–1,881	–1,936	–
Amortization for the year	4,220	8,538	11,816	4,454	10,443	35,251	39,471	110
Translation differences for the year	–113	–345	–639	–826	–382	–2,192	–2,305	–
Amount on closing date	**13,605**	**32,385**	**69,409**	**7,768**	**55,156**	**164,718**	**178,323**	**193**
Reported value	**19,126**	**6,326**	**87,104**	**38,889**	**175,514**	**307,833**	**326,959**	**357**

Patents, licenses and similar rights include 11 MSEK relating to capitalized expenses for business and Group accounting systems, as well as 4 MSEK relating to a lease in China. The negative amounts for capital expenditure for goodwill relate to reduced provisions for supplementary purchase prices for acquisitions where the acquisition price is conditional upon profits from the acquired operations during a number of years from the acquisition date.

NOTE 17. TANGIBLE ASSETS

	Group					Parent Company
	Buildings and land	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total tangible fixed assets	Equipment, tools, fixtures and installations
Acquisition value						
Amount on opening date	331,510	469,290	725,766	23,384	1,549,950	7,657
Capital expenditure for the year	5,750	27,984	66,230	8,326	108,290	117
Sales and scrapping	–43,087	–11,945	–18,924	–	–73,956	–125
Eliminations/Group internal	–	–	–2,979	–	–2,979	–
Reclassifications	275	22,961	3,310	–26,546	–	–
Translation differences for the year	–11,216	–18,961	–28,295	1,227	–57,245	–
Amount on closing date	**283,232**	**489,329**	**745,108**	**6,391**	**1,524,060**	**7,649**
Accumulated depreciation						
Amount on opening date	134,608	314,959	500,682	–	950,249	4,981
Sales and scrapping	–23,365	–11,296	–15,984	–	–50,645	–80
Depreciation for the year	10,558	40,152	83,149	–	133,859	737
Write-downs for the year	–	5,838	–	–	5,838	–
Translation differences for the year	–5,756	–12,482	–20,211	–	–38,449	–
Amount on closing date	**116,045**	**337,171**	**547,636**	**–**	**1,000,852**	**5,638**
Reported value	**167,187**	**152,158**	**197,472**	**6,391**	**523,208**	**2,011**

Depreciation is based on the asset's acquisition value and the estimated useful lifetimes as specified in note 7.

The reported value of land amounted to 17,075.

Taxation values of buildings in Sweden amounted to 10,180 (10,263). The taxation value of land in Sweden amounted to 1,311 (1,311). Previously approved relocation grants amounted to 6,613 (6,613) in the Group. Relocation grants reduced the acquisition value of buildings.

NOTE 18. PARTICIPATIONS IN GROUP COMPANIES

Direct shareholdings (corp. reg. no)	Country	Share of votes and capital,%	Book value
AB Carl Munters (556035-1198)	Sweden	100	169,301
Munters Beteiligungs GmbH	Germany	100	3,452
Munters BV	Netherlands	100	41
Munters Corporation	USA	100	2,393
Munters France SA	France	100	7,688
Munters Group Ltd	United Kingdom	100	4,323
Munters Holding Italy Srl	Italy	100	138
Munters Holding Norway AS	Norway	100	17,449
Munters Korea Co Ltd	South Korea	100	399
Munters (Thailand) Co Ltd	Thailand	100	505
Polygon A/S	Denmark	19	1,357
Sundsvalls Totalsanering AB (556467-1336)	Sweden	100	6,282
			213,328

Indirect shareholdings in Group companies with significant business operations (corp. reg. no)	Country	Share of votes and capital,%
Munters AG	Switzerland	100
Munters Air Treatment Equipment (Beijing) Co Ltd	China	100
Munters A/S	Denmark	100
Munters Brasilia Industria e Comercio Ltda	Brazil	100
Munters de Mexico SA de CV	Mexico	100
Munters Euroemme SpA	Italy	100
Munters Euroform GmbH	Germany	100
Munters Europe AB (556380-3039)	Sweden	100
Munters GmbH	Germany	100
Munters Inc	Canada	100
Munters KK	Japan	100
Munters Ltd	United Kingdom	100
Munters NV	Belgium	100
Munters Oy	Finland	100
Munters Poland Sp z oo	Poland	100
Munters Pte Ltd	Singapore	100
Munters (Pty) Ltd	South Africa	100
Munters Pty Ltd	Australia	100
Munters Spain SA	Spain	100
Munters Srl	Italy	100
Munters Torkteknik AB (556034-6164)	Sweden	100
Munters Trocknungs-Service GesmbH	Austria	100
Munters Trocknungs-Service GmbH	Germany	100
Polygon AS	Norway	100
Polygon A/S	Denmark	56
SVT Munters Brandsanierung GmbH	Germany	100

NOTE 19. PARTICIPATIONS IN ASSOCIATED COMPANIES

	Country	Share of votes and capital, %	Book value	Reported value in Group	Shares in earnings 2004
Aerotech Asia Inc	British Virgin Islands	50	3,848	6,334	500

NOTE 20. PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2004	2003	2004	2003
Prepaid rent and leases	7,889	8,659	1,008	946
Accrued interest income	9	18	–	–
Prepaid insurance premiums	13,455	14,128	232	1,179
Other items	17,603	20,583	29	145
	38,956	**43,388**	**1,269**	**2,270**

NOTE 21. PLEDGED ASSETS

	Group	
Pledged assets for liabilities to credit institutes	**2004**	**2003**
Chattel mortgages	–	4,592
Receivables	–	11,229
Fixed assets	1,097	1,737
	1,097	**17,558**

NOTE 22. EQUITY

Restricted and non-restricted equity

According to Swedish law, equity must be divided between non-distributable (restricted) and distributable (non-restricted) equity. In a corporate group, the shareholders may only receive the lower of the Parent Company's or the Group's unrestricted equity. Share capital and the premium reserve or statutory reserve constitute restricted equity. In the consolidated accounts, the Group's non-restricted equity includes only that portion of non-restricted equity in subsidiaries that can be distributed to the Parent Company without needing to write down the shares of the subsidiary.

Accumulated exchange-rate differences are included in equity in an amount of –111,579 (–56,038).

Capital stock

The capital stock consists of 25,000,000 shares with a par value of 5.00 SEK. Each share entitles the holder to one vote at a General Meeting. All shares carry the same right to a share in the Company's assets and profits.

Holding of own shares

In order to cover its commitments for outstanding option programs, the Company has acquired its own shares held as treasury stock.

NOTE 22. *cont.*

	Number	Par value, SEK
January 1, 2001	447,500	2,237,500
Repurchases during 2002	114,700	573,500
January 1, 2003	562,200	2,811,000
Repurchases during 2003	59,750	298,750
December 31, 2003	621,950	3,109,750
No repurchases during 2004	–	–
December 31, 2004	621,950	3,109,750

In total, treasury stock has been acquired for a purchase price of 101,426,467 SEK, corresponding to an average price including commission of 163.08 SEK per share.

Number of outstanding shares

Not counting the holding of own shares, the number of outstanding shares at year end amounted to 24,378,050.

Proposed dividend

The Board of Directors and the President propose that the Annual General Meeting approve a dividend of 4.00 SEK per share be paid to the shareholders.

NOTE 23. PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

	Group	
	2004	**2003**
Defined benefit obligations to employees	107,051	86,617
Other employee benefits	7,214	31,650
	114,265	**118,267**

The Group finances pension plans for employees in several countries. These plans mainly follow practice in the country in question and may be defined contribution or defined benefit plans or a combination of both. The largest defined benefit plans cover employees in Sweden, Norway, the UK and Germany. In France and Italy, the companies make provisions for mandatory compensation when employment is terminated.

As of 2004, the new Swedish recommendation RR 29 (Employee benefits) was applied. This recommendation agrees in all significant respects with the international standard IAS 19 (Employee benefits). Through application of RR 29, defined benefit plans relating to pensions and other benefits were reported according to common principles. Prior to 2004, these plans were reported according to local rules in each country. Information on the effects of this change in accounting is presented in note 1. With respect to defined benefit plans, the company's costs as well as the value of outstanding obligations, are calculated on the opening date using actuarial calculations that are intended to establish the current value of the contracted obligations.

The tables below provide information about the Group's defined benefit plans. Comparison figures are not provided, since RR 29 was applied as of January 1, 2004.

Reported provisions (changes for the year)	**2004**
Amount on opening date	86,617
Reclassifications from Other employee benefits	17,057
Change of accounting principle	925
Amount on the opening date	104,599
Pension costs	12,093
Benefits paid by employer	–6,075
Premiums paid by employer	–3,185
Exchange-rate differences for the year	–381
Amount on the closing date	**107,051**

NOTE 23. *cont.*

Reported provisions (on the closing date)	**2004**
Present value of wholly or partially funded obligations	36,629
Present value of unfunded obligations	146,030
Fair value of plan assets (–)	–64,918
Unrecognized actuarial gains (+)/losses (–)	–14,894
Ceiling for asset value	4,204
Amount on the closing date	**107,051**

Present value of defined benefit obligations	**2004**
Amount on the opening date	163,031
Service cost	4,871
Interest cost	7,989
Paid benefits	–7,077
Costs for early retirement pensions	2,158
Actuarial gains (–)/losses (+)	13,096
Exchange-rate differences for the year	–1,409
Amount on the closing date	**182,659**

Plan assets	**2004**
Amount on the opening date	61,996
Expected return on plan assets	3,664
Premiums paid by employer	3,185
Benefits paid from plan assets	–1,002
Actuarial gains (+)/losses (–)	–2,050
Exchange-rate differences for the year	–875
Amount on the closing date	**64,918**

Return on plan assets	**2004**
Expected return on plan assets	3,664
Actuarial gains (+)/losses (–)	–2,050
Actual return	**1,614**

Actuarial gains (+) and losses (–)	**2004**
Amount on the opening date	–
Actuarial gains (+)/losses (–) on obligations	–13,096
Actuarial gains (+)/losses (–) on plan assets	–2,050
Exchange-rate differences for the year	252
Amount on the closing date	**–14,894**

Costs for obligations during the year	**2004**
Benefits earned during the year	4,871
Interest cost	7,989
Expected return on plan assets	–3,664
Ceiling for asset value	739
Costs for early retirement	2,158
Costs for obligations during the year	**12,093**

Significant actuarial assumptions for the Group, weighted values	**2004 Dec 31**	**2004 Jan 1**
Discount rate, %	4.6	5.0
Return on plan assets, %	6.1	6.2
Future salary increases, %	2.9	3.0
Future inflation, %	2.0	2.0

PARENT COMPANY	**2004**	**2003**
Defined benefit obligations to employees	35,434	34,452

The Parent Company's pension plans in accordance with the FPG/PRI system are an unfunded defined benefit plan that in accordance with Swedish law is reported as a provision in the balance sheet. This reporting differs from the consolidated accounting principles.

NOTE 24. OTHER PROVISIONS

	Group	
	2004	2003
Provisions for warranties	28,259	31,473
Provisions for rental commitments	6,593	7,430
Provisions for legal disputes	1,000	1,000
Other provisions	2,245	327
	38,097	**40,230**

NOTE 25. INTEREST-BEARING LIABILITIES

	Group	
	2004	2003
Approved general credit facility	400,000	400,000
Unutilized portion	–181,036	–242,900
Bank loans in addition to general credit facility	148,290	219,527
	367,254	**376,627**

The debts fall due for payment as follows:

2005	321,205
2006	46,049
	367,254

Borrowing is distributed in local currencies and with average weighted interest rates as shown below:

Currency	Nominal amount, 000s	Average interest rate
SEK	129,131	2.47%
NOK	81,933	2.45%
EUR	8,541	2.52%
USD	9,679	2.20%
DKK	6,644	5.15%

NOTE 26. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2004	2003	2004	2003
Vacation pay liabilities	66,870	65,737	2,444	2,485
Social security expenses	47,798	51,782	1,965	3,957
Other personnel-related expenses	70,054	45,782	1,543	951
Accrued interest	251	2,172	15	16
Received, non-invoiced goods, etc.	75,808	59,312	1,993	2,668
	260,781	**224,785**	**7,960**	**10,077**

NOTE 27. CONTINGENT LIABILITIES

	Group		Parent Company	
	2004	2003	2004	2003
Guarantee commitments FPG	1,852	1,877	57,864	52,999
Bank guarantees	39,968	46,981	3,340	759
Parent Company guarantees	14,930	12,409	14,930	12,409
	56,750	**61,267**	**76,134**	**66,167**

The guarantee commitments to FPG relate to a mutual undertaking for a collective insurance company that insures pension obligations in Sweden. The other guarantees are normal business related guarantees, such as advance payment and performance guarantees.

NOTE 28. AVERAGE NUMBER OF EMPLOYEES, ABSENCE DUE TO ILLNESS AND GENDER DISTRIBUTION

	2004		2003	
Group	Number	Of whom men, %	Number	Of whom men, %
Australia	110	72	93	83
Austria	78	85	79	85
Belgium	36	81	30	80
Brazil	19	84	24	88
Canada	11	82	13	85
China	109	83	95	80
Denmark	66	73	64	75
Finland	229	91	215	90
France	100	79	111	75
Germany	552	85	578	84
Italy	111	83	114	82
Japan	40	93	53	89
Korea	7	71	7	71
Mexico	102	87	30	87
Netherlands	53	88	51	88
New Zealand	2	67	1	100
Norway	259	74	270	73
Poland	10	80	10	80
Saudi Arabia	5	100	5	100
Singapore	17	76	17	71
South Africa	21	81	18	73
Spain	13	54	13	54
Sweden	402	83	414	83
Switzerland	19	89	22	91
Thailand	18	67	28	82
United Arab Emirate	1	100	–	–
United Kingdom	210	82	185	59
USA	607	81	622	82
	3,207	**82**	**3,162**	**81**
Of which Parent Company (Sweden)	19	63	21	67

ABSENCE DUE TO ILLNESS

Absence due to illness among employees of Munters AB during the year amounted to 2.5 percent of the employees' normal working time (1.7% for the period from July 1 to December 31, 2003). There was no long-term absence due to illness. Information according to the Annual Accounts Act on absence due to illness for different groups of employees is not provided, since the number of employees per group was less than ten.

GENDER DISTRIBUTION AMONG COMPANY MANAGEMENT

At year end, the Board of Directors consisted of one woman and nine men. The Group management, including the President, consisted entirely of men. Presidents of the subsidiaries included in the Group were also entirely men.

NOTE 29. WAGES, SALARIES AND OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

	2004		2003	
	Wages, salaries and other remuneration	Social security expenses	Wages, salaries and other remuneration	Social security expenses
Parent Company	15,132	8,741	15,953	14,008
of which pension expenses		6,311		6,618
Subsidiaries	1,133,763	282,518	1,117,307	260,276
of which pension expenses		46,441		69,805
Group	**1,148,895**	**291,259**	**1,133,260**	**274,284**
of which pension expenses		52,752		76,423

	2004			2003		
	President and Board of Directors	Of which variable compensation	Other employees	President and Board of Directors	Of which variable compensation	Other employees
Group						
Australia	1,540	497	26,239	1,314	315	23,911
Austria	–	–	24,003	1,743	548	23,105
Belgium	–	–	12,777	1,232	91	9,527
Brazil	1,301	0	4,020	1,424	0	3,462
Canada	–	–	5,656	–	–	7,288
China	–	–	5,374	1,644	0	5,166
Denmark	1,045	0	26,315	969	0	26,356
Finland	1,195	228	62,455	1,332	292	60,937
France	–	–	31,204	–	–	53,327
Germany	4,107	685	225,451	3,304	529	215,104
Italy	2,044	0	29,316	840	0	33,315
Japan	2,174	0	22,217	2,068	0	24,135
Korea	–	–	13,179	–	–	1,446
Mexico	–	–	10,694	1,739	647	4,085
Netherlands	1,041	210	19,011	1,524	110	16,406
New Zealand	–	–	649	–	–	568
Norway	907	0	92,044	3,442	186	94,763
Poland	279	55	957	291	64	1,013
Saudi Arabia	–	–	1,309	–	–	1,295
Singapore	830	226	3,312	803	56	3,100
South Africa	1,057	19	3,203	864	21	3,992
Spain	1,397	347	3,751	–	–	4,225
Sweden	5,458	78	137,157	5,733	150	139,578
Switzerland	–	–	8,502	961	0	10,111
Thailand	551	27	1,540	1,033	28	1,967
United Arab Emirate	–	–	450	–	–	–
United Kingdom	1,426	0	61,360	–	–	64,970
USA	3,220	919	287,178	2,443	0	265,405
	29,572	**3,291**	**1,119,323**	**34,703**	**3,037**	**1,098,557**
Of which Parent Company (Sweden)	4,144	78	10,988	4,331	0	11,622

NOTE 30. COMPENSATION TO SENIOR EXECUTIVES

Compensation and other benefits	Basic salary/ Board fees	Variable compensation	Other benefits	Pension expenses	Total
Chairman of the Board	350	–	–	–	350
Other Board members	960	–	–	–	960
President	3,075	78	109	2,337	5,599
Other senior executives (4 persons)	6,497	1,476	330	2,773	11,076
Total	**10,882**	**1,554**	**439**	**5,110**	**17,985**

Compensation to the Board of Directors totaling 1,310,000 SEK was approved by the 2004 Annual General Meeting.

The group "Other senior executives" refers to those persons who together with the President comprise Group management and consisted of Bernt Ingman, Mike McDonald, Sören Sjöström and Erik Williamsson.

Variable compensation for the 2004 fiscal year refers to expensed variable compensation that will be paid during 2005. This also includes payments of subsidies during 2004 relating to the option program that fell due during the year. For the President, variable compensation amounted to 3 percent of basic salary. For other senior executives, variable compensation was between 3 and 52 percent.

Pension expenses include costs for disability pension insurance and survivor annuity.

Other benefits refers to company cars, meal and housing expenses.

NOTE 30. *cont.*

Principles

Members of the Board of Directors receive compensation according to the Annual General Meeting's decision. Employee representatives receive no compensation. Compensation to the President and other senior executives consists of basic salary, variable compensation, company car, food and living expense benefits and a pension.

The division between basic salary and variable compensation should stand in relation to the executive's responsibility and authority.

For the President, variable compensation is a maximum of 50 percent of fixed salary. The variable compensation is based on the Group's earnings per share.

For other senior executives, variable compensation is maximized to between 30 and 70 percent of fixed salary. The variable compensation is normally based on the improvement in relation to the preceding year for each individual's area of responsibility in terms of sales, operating profit and capital turnover rate, as well as the outcome of individual activity plans. Variable compensation is normally conditional upon achieving results that exceed the preceding year.

Pension

The retirement age for the President is 60 years and for other senior executives between 60 and 65 years. For the President and two senior executives in Sweden there is a premium-based plan. The contracted premium provision shall amount to between 20 and 35 percent, depending on age, of the pension-entitling salary. Pension-entitling salary means basic salary. Funds are allocated monthly to insurance or funds and correspond on each occasion to the Company's commitments. The costs for transition from a defined-benefit to a premium-based pension plan are distributed over a five-year period up to March 2008 in an amount of 1,227,000 SEK on an annual basis. One senior executive with a pension-entitling salary in Sweden is covered by a pension program that means that pension will be paid in an amount of 70 percent of the pension-entitling salary, which is the sum of the fixed salary and the average bonus over the last three years of employment. Pension commitments are fully guaranteed by insurance companies. One senior executive, who is a US citizen, is covered by the general 401k pension plan plus a special premium-based pension plan. Funds are allocated monthly to a fund and correspond on each occasion to the Company's commitments.

Severance pay

Between the Company and the President and other senior executives, there is a mutual termination period of 6 months. If employment is terminated by the Company, severance pay will be received amounting to 12 months' salary (18 months for the President). Severance pay is reduced by income from other employment. If the President or other senior executive takes the initiative in terminating employment, there is no severance pay.

Option programs

The President and other senior executives participate in the options program that was approved by the Annual General Meeting during the preceding year. Options were acquired at market price. Subject to the condition that employment has not been terminated when the options are exercised, the Company will pay a subsidy amounting to 40 percent of the option premium to be paid when the option is exercised.

Procedure and decision process

The Board of Directors has appointed a Compensation Committee among its members consisting of Berthold Lindqvist, Sven Ohlsson and Sören Mellstig. The Committee met two times during 2004. Compensation to the President and other senior executives was decided by the Board of Directors on the basis of recommendations from the Compensation Committee.

NOTE 31. OUTSTANDING OPTIONS PROGRAMS

During the years from 2000 to 2004, Munters has implemented options programs directed to senior executives in the Group. The options for all outstanding options programs were purchased at a market premium, which is reported as an increase in the Company's restricted equity. To cover the Company's commitments according to the options programs, own shares have been acquired, with the purchase price being reported as a reduction of the Group's non-restricted equity. In the future when options are exercised, the subscription price received will be reported as an increase in consolidated equity. With the exception of the 2000 options program, the option premium for all options programs will be subsidized by 40 percent of the option premium in the form of a cash bonus, subject to the condition that the option holder is employed at the time of the option's exercise period. The subsidy and associated social costs will be charged against consolidated earnings. Provisions for these subsidies amounted to 2,244 on the closing date, of which 916 was expensed during the year.

Starting year	Exercise period	No. of options	Option premium, SEK	Exercise price, SEK
2000	Jan. 3 – March 31, 2005	202,700	25.20	145.00
2002	Sept. 1, 2005 – March 31, 2006	114,000	25.60	315.00
2003	Sept. 1, 2006- March 30, 2007	63,600	15.80	226.00
2004	Sept. 1, 2007 – March 30, 2008	42,500	19.80	260.00
		422,800		

During the year, the option program started in 2001 fell due for payment. The subscription price exceeded the prevailing market price, meaning that no options were exercised.

NOTE 32. TRANSACTIONS WITH RELATED PARTIES

There are no significant contractual relations or transaction between Munters AB and related parties. Compensation and terms of employment for senior executives and individual members of the Board of Directors are presented in note 30. Munters AB has not provided guarantees or guarantee commitments to or on behalf of Board members or senior executives. During 2004 and 2003, no member of the Board of Directors or senior executive was directly or indirectly involved in business transaction with the Company that is or was unusual in nature or with respect to its terms or that in any respect remains unsettled or incomplete.

The Parent Company's sales to Group companies amounted to 18,443 (20,654). Purchases from Group companies amounted to 6,198 (5,001).

NOTE 33. FEES TO AUDITORS

	Group		Parent Company	
	2004	2003	2004	2003
Ernst & Young				
Audit	5,564	5,263	257	257
Other assignments	1,905	3,095	132	668
Other				
Audit	662	839	–	–
Other assignments	361	764	–	–
	8,492	**9,961**	**389**	**925**

An audit entails an examination of the annual report and accounts, as well as the management by the Board of Directors and the President, other tasks for which the Company's auditors are responsible for performing and providing advice and other council occasioned by this examination or the performance of other tasks. Other assignments relate mainly to consultation on taxation matters and company evaluations in conjunction with acquisitions.

Proposed distribution of earnings

Parent Company

Munters AB's operation consist of corporate functions, as well as some functions for Region Europe and MCS Europe Division. A loss of 4 MSEK (loss: 22) after financial items was reported for the year. Dividends received from subsidiaries were included in an amount of 22 MSEK (3). There were no net sales outside the Group during the year. Interest-bearing assets amounted to 10 MSEK on the closing date (10 on the opening date), while net debt amounted to 150 MSEK on the closing date (114 on the opening date). Investments in tangible fixed assets amounted to 0 MSEK (1) during the year, and the number of employees was 19 (21).

Future prospects

Munters has a strong market position within its business areas and works continuously with rationalization and other measures to ensure favorable growth. The prerequisites for long-term favorable growth are considered good.

Proposed distribution of earnings

The following earnings (SEK) are at the disposal of the Annual General Meeting:

Retained earnings	163,589,520
Net earnings for the year	922,289
Total	**164,511,809**

The Board of Directors and the President propose that earnings be distributed as follows:

Distributed to shareholders 4.00 SEK per share	98,323,000
Retained	66,188,809
Total	**164,511,809**

When the total amount available for distribution was calculated, it was assumed that the maximum number of options will be exercised in the option program falling due in March 2005.

According to the consolidated balance sheet, non-restricted equity amounts to 811 MSEK. No transfers to restricted reserves are required.

Sollentuna, March 4, 2005

Berthold Lindqvist
Chairman

Peter Holmqvist

Bengt Kjell

Eva-Lotta Kraft

Sören Mellstig

Sven Ohlsson

Thord Pettersson

Lars Spongberg

Jan Svensson

Lennart Evrell
President

Our Auditor's Report was submitted on March 4, 2005

Ernst & Young AB

Björn Fernström
Authorized public accountant

Work of the Board of Directors

The management and control of Munters is regulated by a number of interacting bodies in accordance with the Swedish Companies Act and the Articles of Association.

Annual General Meeting

The Annual General Meeting was held on April 27, 2004 in Stockholm. At the Meeting, shareholders participated who represented 52 percent of the capital and voting rights. The Meeting re-elected Board members Berthold Lindqvist, Bengt Kjell, Sören Mellstig, Sven Ohlsson, Lars Spongberg and Lennart Evrell. Eva-Lotta Kraft and Jan Svensson were elected as new members of the Board of Directors.

In addition to the normal decisions at the Annual General Meeting, a decision was taken to establish a Nominating Committee for the 2004 Annual General Meeting. In addition, the Board of Directors' proposal was approved to grant authorization for the Board to take decision on repurchase of the Company's shares.

Nominating Committee

The Nominating Committee was established to prepare and present proposals for the shareholders at the Annual General Meeting regarding the election of Board members and, as appropriate auditors and fees for the Board of Directors and the auditors.

Information regarding the composition of the Nominating Committee must be announced in the company's interim report for the third quarter. This occurred during the autumn of 2004, and a Nominating Committee was established with the following members: Carl-Olof By (Industrivärden), Gustaf Douglas (Latour), Sten Kottmeier (AMF Pension), Magnus Bakke (Robur Funds) and Peter Rudman (Nordea Funds). These persons represented 53 percent of the shares with voting rights in the company.

The Nominating Committee is entitled to charge the company with costs for recruitment consultants, if this is deemed necessary for obtaining a suitable selection of candidates.

Working procedures for the Board of Directors

Munters' Board of Directors must consist of at least four and at most eight ordinary members with at most two deputies. Board members and deputies are elected annually by the Annual General Meeting for the period until the next Annual General Meeting. Munters AB's Board of Directors consists of Berthold Lindqvist (chairman), Sören Mellstig, Lars Spongberg, Sven Ohlsson, Bengt Kjell, Eva-Lotta Kraft, Jan Svensson and Lennart Evrell (President).

During the year, the Board of Directors consisted of eight members elected by the Annual General Meeting and included the President. In addition, employee organizations appointed two members, and there were two deputy members. The Company's CFO participates regularly in Board meetings as a presenter, while other employees participate in Board meetings when deemed necessary. During the year, the Board of Directors held six regular meetings and two meetings by correspondence. The statutory meeting was held on April 21, the same date as the Annual General Meeting.

The Board of Directors in its entirety participates in ongoing auditing work, rather than appointing a special Audit Committee.

The Board of Directors' work follows an established plan that is intended to ensure satisfy the Board of Directors' need for information about the business and management's need for guidelines for its work. In addition to the statutory meeting, the Board normally holds five meetings per year.

Because Munters' operations are conducted over the whole world, at least one Board meeting each year is held at one of the Company's subsidiaries.

Reporting

The President is responsible for reporting regularly to the Board of Directors and for providing information of such nature that the Board can take well-founded decisions. Accounting and financial information is presented at each regular Board meeting. Quarterly reports and the year-end report constitute the basic reporting, which is supplemented by business information from Munters' internal reporting. In addition, issues of a principal or major economic importance are discussed at each regular Board meeting.

Compensation issues

The Board of Directors appoints a Compensation Committee among its members that addresses issues regarding terms of employment, pension benefits and the bonus system relating to the President and executive management. See notes 30 and 31.

Chief Executive Officer and President

The CEO and President manages the Company's ongoing operations in accordance with the guidelines that the Board of Directors has established. He is responsible for ensuring that the Board has access to current information on the Company's development, which is normally accomplished through monthly reports to all Board members in which the Company's operations and development are discussed. These reports also highlight important issues that may need to be considered by the Board of Directors. In addition, the President continuously provides the Chairman with information about the business. At Board meetings, the President describes the Company's development and presents well-founded proposals for decision to be made by the Board.

Group Management

Group Management, which is headed by the President, is responsible for the operative functions in their respective areas of responsibility. During 2004, Group Management consisted of Regional Presidents for each of the three regions, a Vice President for Human Resources & Corporate Communications, the Chief Executive Officer and the Chief Financial Officer. In total Group Management consist of five persons who meet once each month on a regular basis and when the need arises. Telephone conferences with all of the Group's managers (some 100 persons) are held once each quarter. More detailed information about Group Management is presented on page 50.

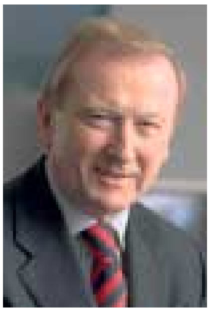
Risk management

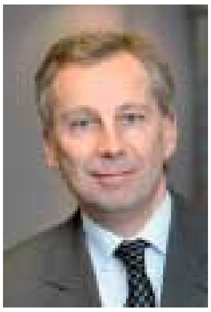
The Company's risk management is described in the section on Opportunities and risks on pages 24-25.

External audit

The shareholders appoint the Company's auditors at the Annual General Meeting. The auditors are elected for a period of four years and must consist of at least one and at most two authorized public accountants, according to the Articles of Association. At the Annual General Meeting on April 21, 2004, Ernst & Young AB was re-elected for the coming four years, with authorized public accountant Björn Fernström as supervising auditor.

Board of Directors and auditor


Berthold Lindqvist

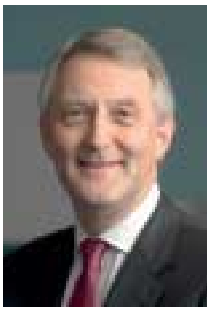

Lennart Evrell

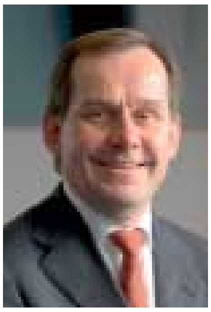

Lars Spongberg


Eva-Lotta Kraft

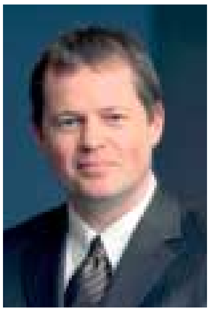

Bengt Kjell

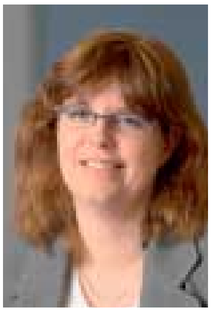

Sven Ohlsson


Jan Svensson


Sören Mellstig


Mats Persson


Peter Holmqvist


Pia Kuure


Thord Pettersson

Berthold Lindqvist

Date of birth 1938.
Chairman since 1997.
Director of Securitas AB, JM AB, Trelleborg AB, Cardo AB, Probi AB, Novotek AB and others.
Shares held: 1,000.

Lennart Evrell

Date of birth 1954.
Member since 1997. President, Chief Executive Officer of Munters and Regional President Europe.
Director of Sapa AB.
Employed since 1995.
Shares held: 20,043 (including children).
Options: 27,500.

Lars Spongberg

Date of birth 1945.
Member since 1998. Director of Addtech AB, Skyways Holding AB, AB Westergyllen and portfolio companies of Nordic Capital.
Shares held: 0.

Eva-Lotta Kraft

Date of birth 1951.
Member since 2004. Strategy and Marketing Manager, The Swedish Defence Research Agency (FOI).
Director of AB Ångpanneföreningen and Karlstad University.
Shares held: 500.

Bengt Kjell

Date of birth 1954.
Member since 2003. Vice President of AB Industrivärden.
Chairman of Kungsleden AB, Director of Össur Hf, Pandox AB and Helsingborgs Dagblad AB (HD).
Shares held: 0.

Sven Ohlsson

Date of birth 1944.
Member since 1997. Chairman of AudioDev AB, Hardford AB and Karl Ljungberg AB.
Director of Scan Coin AB.
Shares held: 2,000.

Jan Svensson

Date of birth 1956.
Member since 2004. President and Director of Investment AB Latour and Director of ProstaLund AB.
Shares held: 600.

Sören Mellstig

Date of birth 1951.
Member since 1997. President and CEO of Gambro AB.
Director of MacGREGOR International AB.
Shares held: 1,800.

Mats Persson

Date of birth 1957.
Installer. Deputy member since 2004. Employee representative appointed by the Swedish Trade Union Confederation.

BOARD OF DIRECTORS' SECRETARY

Solicitor **Peter Idsäter**
Date of birth 1960. Partner Mannheimer Swartling Advokatbyrå AB.

Peter Holmqvist

Date of birth 1966.
Installer. Deputy member since 2004. Employee representative appointed by the Swedish Trade Union Confederation.

Pia Kuure

Date of birth 1973.
IT Support. Deputy member since 2004. Employee representative appointed by the Swedish Union of Clerical and Technical Employees in Industry.

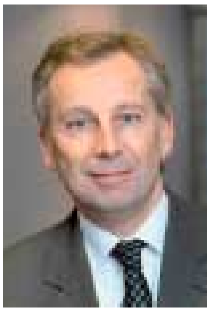
Thord Pettersson

Date of birth 1947.
Engineer. Member since 2004. Employee representative appointed by the Swedish Union of Clerical and Technical Employees in Industry.

AUDITOR

Auditing firm Ernst & Young AB
Auditor since 2004.
Supervising auditor: **Björn Fernström**.
Date of birth 1950.

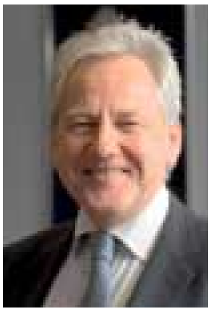
Group Management


Lennart Evrell


Bernt Ingman


Erik Williamsson


Mike McDonald


Sören Sjöström

Lennart Evrell

Date of birth 1954.
President, Chief Executive Officer of Munters and Regional President Europe.
Director of Sapa AB.
Employed since 1995.
Shares held: 20,043 (including children).
Options: 27,500.

Bernt Ingman

Date of birth 1954.
Executive Vice President and Chief Financial Officer.
Employed since 1997.
Shares held: 17,300 (including children).
Options: 21,500.

Erik Williamsson

Date of birth 1950.
Senior Vice President and Regional President Asia.
Employed since 1984.
Shares held: 0.
Options: 2,000.

Mike McDonald

Date of birth 1947.
Senior Vice President and Regional President Americas and President of Munters Corporation.
Employed since 1995.
Shares held: 2,300.
Options: 20,000.

Sören Sjöström

Date of birth 1945.
Vice President Human Resources and Corporate Communication.
Employed since 2000.
Shares held: 500.
Options: 8,000.

Auditor's report

To the Annual General Meeting of Shareholders in Munters AB (publ)
Corporate Registration Number 556041-0606

We have examined the annual report, the consolidated accounts and accounting records, as well as the Board of Directors and the President's management of Munters AB (publ) for the fiscal year from January 1 to December 31, 2004. The board of directors and the President are responsible for the accounts and management of the company and for ensuring that the Annual Accounts Act is applied in preparing the annual report. Our responsibility is to state an opinion on the annual report, consolidated accounts, and management of the company based on our audit.

The audit was conducted in accordance with generally accepted auditing principles in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report and consolidated accounts do not contain material misstatement. An audit includes examining a selection of the supporting materials for amounts and other information in the accounting records. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as judging the significant estimates made by the Board of Directors and President when preparing the annual report and evaluating the overall presentation of information in the annual report and consolidated accounts. We examined significant decisions, actions, and conditions within the company in order to determine whether any liability towards the company exists on the part of any director or the President, and to determine whether they have otherwise acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act, or the company's Articles of Incorporation. We believe that our audit provides reasonable grounds for the opinion stated below.

The annual report and consolidated accounts were prepared in accordance with the Swedish Annual Accounts Act and thus provide a true and fair picture of the company's and the Group's results and financial position in accordance with generally accepted accounting standards in Sweden. The Board of Directors' report is consistent with the other parts of the annual report.

We recommend that the Annual General Meeting adopt the income statements and balance sheets of the Parent Company and the Group, distribute earnings in the Parent Company as proposed in the Board of Directors' report, and discharge the directors and the President from liability for the fiscal year.

Stockholm, March 4, 2005

Ernst & Young AB

Björn Fernström
Authorized Public Accountant

GLOSSARY

Absolute humidity
The volume of water that air contains as generally measured in grams per kilogram of air.

Absorption
The uptake of moisture, for example, by a substance which then changes chemically or physically.

Adsorption
The take up of moisture, for example, by a substance which does not change, either chemically or physically.

AgHort
Agriculture and Horticulture.

CELdek®
A product of specially impregnated cellulose for evaporation and cooling of air.

Cooling tower
An facility for evaporative cooling of water.

Dehumidification
A product area within Munters whose products are based on dehumidification.

Dehumidifier
Equipment for dehumidification of air.

DesiCool™
A technology for cooling air through a combination of dehumidification and cooling.

Dew point
The temperature to which air must be cooled for the water vapor in the air to condense.

Evaporative cooling
Cooling that occurs when a liquid, such as water, evaporates.

GLASdek®
A product of specially impregnated spun glass for humidification and cooling of air.

HumiCool
A product area within Munters whose product are based on evaporative cooling and humidification.

Leak detection
A search method which exploits changes in moisture, temperature and sound waves that leaks cause.

Lithium chloride
A moisture absorbing substance that is used in sorption rotors.

MCS, Moisture Control Services
A product area within Munters focused on moisture technology services with an emphasis on the restoration of water and fire damages.

Mist eliminator
A component for removing drops of liquid from a flow of gas.

Mollier diagram
A diagram that shows the correlation between absolute humidity, relative humidity, temperature and energy.

RH, Relative Humidity
Expresses the relationship between the water content of air at a given temperature and the maximum amount that the air can hold at the same temperature.

Silica Gel
A moisture-absorbing substance that is used in sorption rotors.

Sorption rotor
A rotor for dehumidification through adsorption or absorption.

The Humidty Expert
A concept for positioning Munters.

VOC
Volatile Organic Compounds.

Zeol
An operation within Munters focused on adsorption of VOC from air with zeolites, a substance that adsorbs VOC's.

DEFINITIONS OF FINANCIAL KEY FIGURES

Capital employed
Total assets minus non-interest bearing provisions minus non-interest bearing liabilities.

Capital turnover rate
Net sales divided by average capital employed calculated on the opening and closing balances the last four quarters.

Earnings per share
Net earnings divided by the weighted average number of shares.

EBIT margin
EBIT divided by net sales.

Equity per share
Equity divided by the number of shares outstanding on the closing date.

Equity ratio
Equity including minority interest divided by total assets.

Interest coverage ratio
Earnings after financial items plus financial expenses (excluding exchange-rate differences) divided by financial expenses (excluding exchange-rate differences).

Liquid funds
Cash and bank balances plus current investments with maturity periods not exceeding three months.

Net debt
Interest-bearing provisions plus interest-bearing liabilities minus liquid funds.

Net debt/equity ratio
Net debt divided by equity.

Operating assets
Intangible assets excluding goodwill plus tangible assets plus inventories etc. plus accounts receivable.

Operating capital
Operating assets minus operating liabilities.

Operating cash flow
Cash flow from current operations and investing activities excluding acquisitions of enterprises.

Operating earnings
Operating earnings is used for regions and corresponds to the Group's EBIT excluding goodwill amortization and surplus values depreciation.

Operating liabilities
Advances from customers plus accounts payable.

Operating margin
Operating earnings divided by net sales.

Operating working capital
Inventories etc. plus accounts receivable minus advances from customers minus accounts payable.

P/E (price/earnings) ratio
Share price on closing date divided by earnings per share.

Return on capital employed
Earnings after financial items plus financial expenses (excluding exchange-rate differences) divided by average capital employed calculated on the opening and closing balances the last four quarters.

Return on equity
Net earnings divided by average equity calculated on the opening and closing balances of the last four quarters.

Value added per employee
EBIT plus salary costs plus payroll overhead divided by the average number of employees.

FINANCIAL INFORMATION 2005

Interim Report January–March	April 21
Annual General Meeting	April 21
Interim Report January–June	July 22
Interim Report January–September	October 27
Year-End Report	February 2006
Annual Report 2005	April 2006

The annual report is sent to all shareholders registered with VPC, the Swedish Securities Register Center.

Production: n3prenör Print: Strokirk Landström Photo: Getty Images, Johnér Bildbyrå, Lars Nybom and others.

Munters AB (publ)
Kung Hans väg 8, Rotebro
P.O. Box 430
SE-191 24 Sollentuna, Sweden
Phone: +46 (0)8 626 63 00
Fax: +46 (0)8 754 68 96
info@munters.com
www.munters.com

Munters