Annual Report 2005

Munters

Contents

The Board of Directors' report comprises pages 1, 6–32 and 52.

Munters in brief

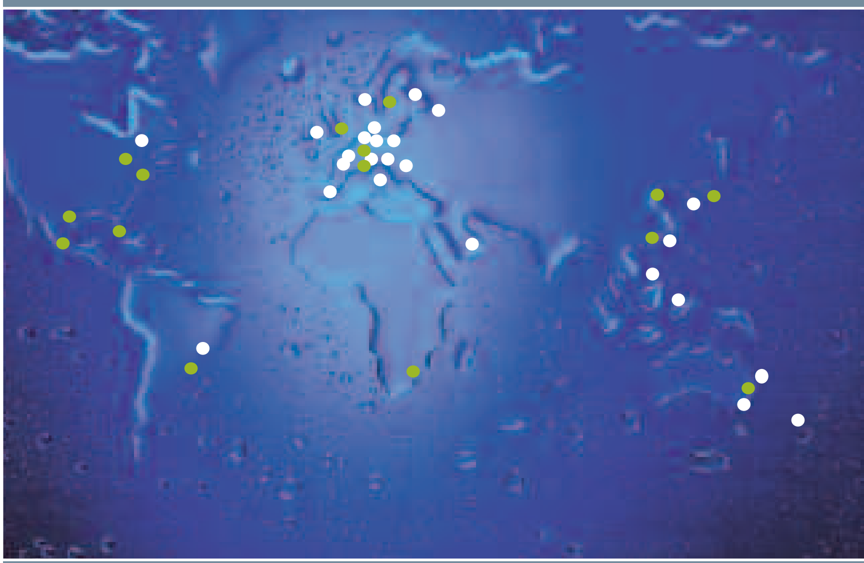
Munters is the world leader in humidity control, with services and products for water and fire damage restoration and dehumidification, humidification and cooling of air. Munters' business concept is to be a global service and application-driven niche company in air treatment from a base within dehumidification 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 30 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)



Divisions

Dehumidification

Products and complete 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.

Dehumidification Division, share of Group

Net sales, SEK 1,514 M

29%

Operating earnings, SEK 159 M

36%

853 employees

26%

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.

MCS Division, share of Group

Net sales, SEK 2,335 M

45%

Operating earnings, SEK 153 M

34%

1,706 employees

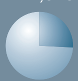
53%

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 droplet separation.

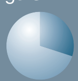
HumiCool Division, share of Group

Net sales, SEK 1,343 M



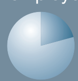
26%

Operating earnings SEK 135 M



30%

668 employees



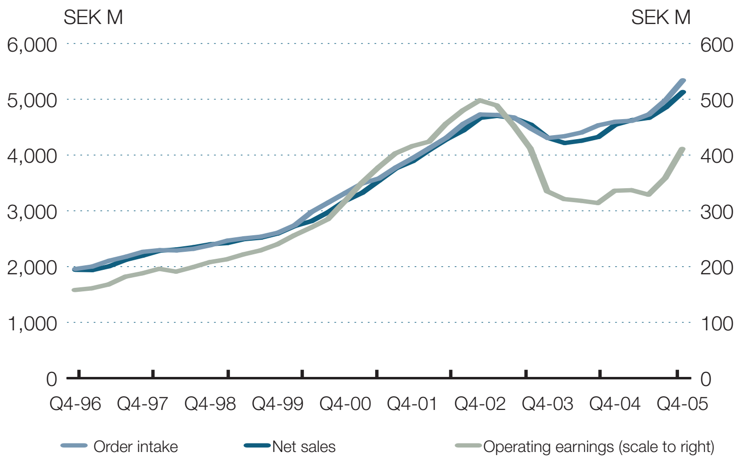
21%

The year in brief

- Order intake increased by 14 percent adjusted for currency to SEK 5,340 M (4,598).
- Net sales increased by 11 percent adjusted for currency to SEK 5,130 M (4,543).
- Net income amounted to SEK 252 M (200).
- Earnings per share amounted to SEK 10.17 (8.20).
- Sales and profit increased in all divisions.
- New dividend policy – increase to 50 percent of net profit.
- The Board of Directors proposes an increase of the dividend by SEK 1.50 to SEK 5.50 per share.

Key data	2005	2004	Change, %	Currency adjusted change, %
Order intake, SEK M	5,340	4,598	16	14
Net sales, SEK M	5,130	4,543	13	11
EBIT, SEK M	405	334	21	18
EBIT margin, %	7.9	7.3		
Earnings after financial items, SEK M	391	318	23	20
Net earnings, SEK M	252	200	26	22
Net margin, %	4.9	4.4		
Earnings per share, SEK	10.17	8.20		
Operating cash flow, SEK M	181	121	50	
Return on equity, %	19.2	17.8		
Return on capital employed, %	22.8	21.0		
Capital turnover rate, times	2.85	2.83		
Net debt, SEK M	282	351		
Equity ratio, %	50	47		
Number of employees at yearend	3,245	3,064	6	

EARNINGS TREND (rolling four-quarter figures)



CEO's statement
Strong finish to 2005

We can look back on an eventful year for Munters in 2005. The strong growth during the second half was in stark contrast to the weak period that Munters has been experiencing since 2003. The operating margin increased sharply during the second half of the year. Improvements within the Group were attributable to strong growth in the Dehumidification and HumiCool divisions, and also to a strong finish in the MCS Division. The improvement in earnings was due to strong demand in combination with the effects of the action programs implemented during 2004 and 2005. Munters also benefited from positive currency effects during the second half of the year.

On 1 July Munters introduced a new organization based on three global divisions: Dehumidification, MCS and HumiCool. Previously the organization was based on the three regions: Europe, Americas and Asia. The background to the reorganization was the weak margin trend in recent years. We needed to drive margin growth with greater force, and the new organization will facilitate this work. It will be possible to coordinate product ranges, increase the size of production series, make purchasing more efficient and facilitate the sharing of experience between production units. Work with increasingly global customers will also be more effective.

At the same time as efforts to improve margins are being prioritized, we must not lose the strengths within Munters. I am referring to our unique application expertise and our world-leading technology, as well as a global organization spanning 30 countries. Based on these strengths, and with strong market positions as a starting point, we will take advantage of future opportunities in our many application areas, of which several have significant future potential.

Among these areas are the DesiCool™ products that combine dehumidification with air conditioning and which can dramatically improve sensitive indoor environments. The market potential is significant. The structural transformation of the insurance industry now in progress opens substantial opportunities also for Munters' MCS operations, although it also results in costs in conjunction with the necessary changes. Within HumiCool, we face major challenges with the current avian flu, which is leading to declining demand in affected markets and growth in other markets that are favored by reduced pressure from imports. The most important consequence of avian flu, however, is that it increases awareness that closed poultry houses reduce the risk of spreading of infection and are a prerequisite for hygienic, safe and economical development in this large industry. We will take advantage of Munters' market-leading position in cooling systems for poultry houses when such investments gain momentum.

Success for DesiCool™

The Dehumidification Division had a good year in 2005. The combination of rationalization measures and strong growth resulted in one of the best years ever. DesiCool™ systems have shown favorable growth in recent years, and in 2005, growth increased further. With DesiCool™accounting for an increasing share of the Division's sales, growth in DesiCool™ products have an increasingly more significant impact on the division. As previously, supermarkets in the US was the largest customer segment. Munters' equipment provides premises with dry, cool air that creates a pleasant environment for customers, while keeping freezers for frozen foods free from frost, which is a major problem in warm and humid climates. Perhaps even more positive was the favorable trend for DesiCool™ in several smaller areas with substantial future potential. This included schools which often have problems with mold, which in turn leads to allergies and poor health among students. Other areas with substantial potential are hospitals, restaurants and ice rinks, where significant benefits are realized when both humidity and temperature are controlled at desired levels. Within the Dehumidification's traditional areas, we see continued significant opportunities in the food industry, which is the most important customer segments for the division. The cyclical but attractive Zeol systems had a weak year in 2005, but we consider that the potential remains high.

MCS enhances organization and strengthens offering

Within MCS, demand was relatively weak during the first half of the year. During the latter part of the year, demand improved and the expected decline in comparison with last year's violent hurricane season in Florida did not occur. When Hurricane Katrina hit the area around New Orleans in September 2005, Munters was well prepared to quickly offer services that were in high demand. Hurricane Katrina contributed to order intake of SEK 250 M, which can be compared with the hurricanes in Florida the year before, which generated orders valued at some SEK 100 M. In conjunction with the assignments in New Orleans, Munters offered a broader range of services than we have provided traditionally. This included not only cleaning up damaged buildings immediately after the storm, but also smaller repair jobs and project management of other suppliers involved in the clean-up work. These changes resulted in larger assignments that were performed over a longer period, compared with pure drying assignments, which are limited in time.

The transition to framework agreements based on fixed contracts continued within MCS. Over time, we expect that about 40 percent of operations within MCS will be based on such framework agreements. At present, we are about half way through this transition. The first markets in which the transition took place were the UK and Australia, where earnings had positive development in 2005 after an execution period of several years characterized by turbulence and high costs. Framework agreements place many new demands on the organization. Work must be standardized and new, highly productive methods introduced. Organization, logistics and communications technology are being enhanced to support the new work methods. Particularly in the service organization, where organization and leadership are critical for productivity, the changes have put a strain on the organization. The transition was more complicated than anticipated, and we expect that it will take more time before all the pieces are in place. The changes resulted in significant costs during the implementation phase. However, we are certain

"We are on the right track."

of one thing. Work with framework agreements creates prerequisites for more rational management of MCS services, particularly with the largest customers. We believe that the winners will be found among the major suppliers, which is definitely where Munters belongs.

To lead the global MCS organization, a new management group was introduced that will place greater emphasis on clarifying the organization and implementing measures to improve margins and increase know-how. Several projects were started in 2005 with the objective of creating a scalable business model that can be rolled out to Munters' 300 service depots.

One area that will receive greater priority is catastrophe services, an area in which Munters in many countries has had much too low a market share. Major insurance damage is often handled by international consortia and by central functions in the largest insurance companies. By marketing our international scope and global capacity, we want to win larger assignments, such as in New Orleans, in which Munters takes overall responsibility for the entire assignment. At the same time that work with framework agreements will demand centralization of some functions, we must protect the strong local entrepreneurship in the organization.

Growth in components for flue-gas cleaning

The HumiCool Division accounted for the largest declines in earnings in 2003 and 2004. It was therefore gratifying to see the fine recovery in 2005. To reduce costs and increase growth, three plants were relocated during the period from 2003 to 2005. The results were evident during the second half of the year. At the same time, HumiCool showed strong growth during the year. One of the most expansive areas was components for cleaning emissions from coal-fired power plants. In pace with increased energy requirements and a scarcity of energy resources, coal is an increasingly attractive alternative. To meet environmental requirements, however, this technology must be improved by removing sulfur from the flue gases. Munters is the leading supplier of components for such systems. Demand was particularly strong in the US and China.

The largest segment in HumiCool is cooling systems for poultry houses. Demand was strong in Europe and the US during 2005 as a result of the import restrictions introduced in many countries following the outbreak of avian flu in Asia. Avian flu constitutes both a threat and an opportunity for Munters. On the one hand, it may reduce consumption of chicken and thus investments in the poultry industry. On the other hand, it increases demand for closed poultry houses that reduce the risk of spreading of infection while increasing productivity. In warm climates, cooling systems are required in closed houses. Munters is the leading supplier.

In closing, I would like to emphasize Munters' increased investments in leadership and skills development during 2005. Munters yearly management development program, Munters Growth Academy, was executed within all three divisions. The number of participants was increased, and more than 200 key employees completed training during 2005. Leadership qualities have been given greater priority in management appointments, and I am very pleased with the advances made in personnel leadership and management. Measurements of employees' opinions and attitudes resulted in high marks and have increased the understanding of areas in which we can improve.

I wish to extend warm thanks to all employees. I hope everyone can take pride in the growth in earnings achieved during the second half of 2005!

As I now leave Munters after ten years as president, I also want to wish my successor, the Munters management group and all employees the best of luck in the future.

Sollentuna, 7 March 2006

Lennart Evrell
President and CEO

The technology behind Munters
Moisture is the basis for our business

Munters' expertise is in the invisible water – the water present in the air around us. Too much humidity, or too little, is detrimental to people, animals, buildings and plants. Products such as food, pharmaceuticals, cars, electronic components and other high-tech equipment also need the right humidity to function.

Correct humidity conserves resources

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.

Everything is relative – even humidity

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. 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 is the relationship between the amount of moisture that the air contains and the maximum amount that it can hold.

Different climates create different prerequisites

The relationship between the components of dry air is constant in all parts of the world. The amount of water in outdoor air, however, varies significantly. Relative humidity of 80 percent therefore feels different in Sweden than it does in Florida. The relative humidity in a container of 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. This means that 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. Because humidity increases when a room is cooled, air conditioning, contrary to what many people believe, creates humidity problems in many situations. In warm climates, air conditioning and dehumidification is therefore required, while cold climates need heating and humidification. For companies with business operations in different climates, it is important to ensure that products maintain the same quality, regardless of where they are manufactured.

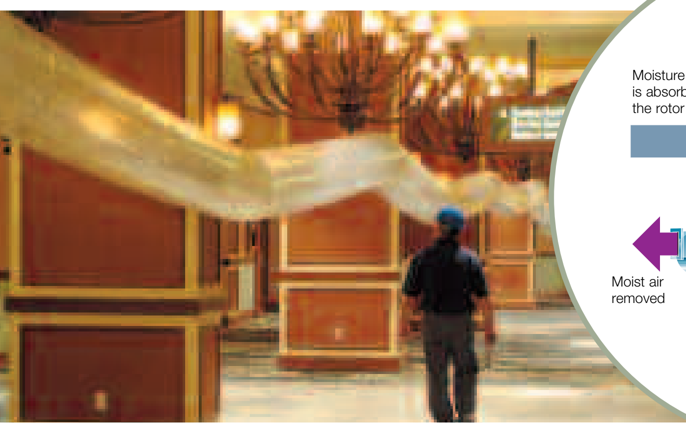
The invisible problem

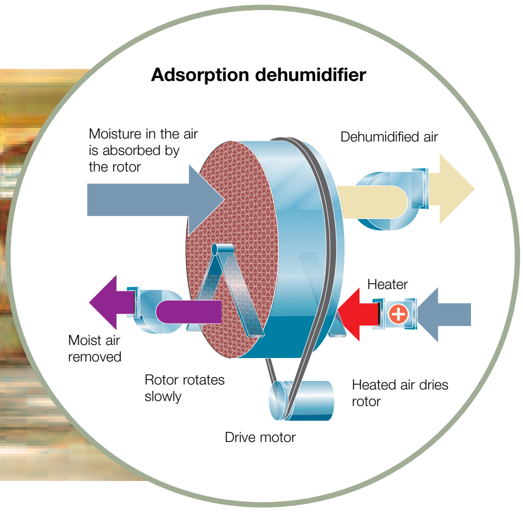
Humans can sense changes in temperature of just a few degrees and detect particles in the air in very small concentrations. Variations in humidity, however, are harder to detect. This is an important reason why many companies are not aware that moisture can be a reason for changes in productivity and 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	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
Electrical insulation capacity	Shorts in electrical equipment
Corrosion	Rust

Dehumidification





Evaporative cooling

Quickly drying instead of tearing down and rebuilding after water damage results in substantial savings. The dry air that is distributed throughout the building halts the spread of mold and other destruction.

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 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 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. 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 business area.

Mist elimination

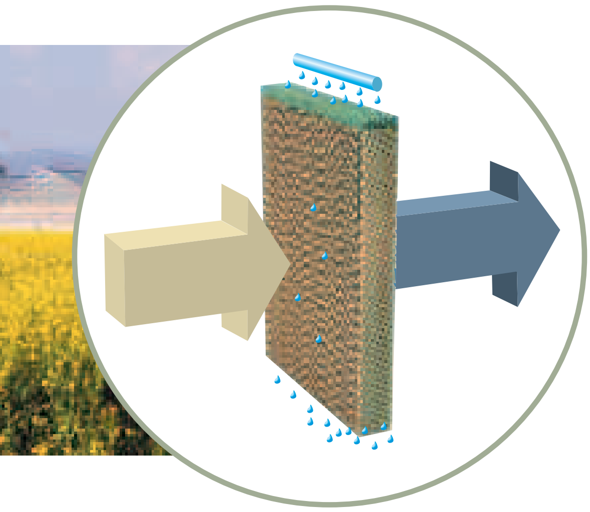
Mist elimination is also a form of dehumidification in which small, undesirable drops of moisture are removed from gas or air. Munters' mist eliminators are based on a unique technology in which the gas passes through small ducts that capture and remove the drops. The most important application area 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.

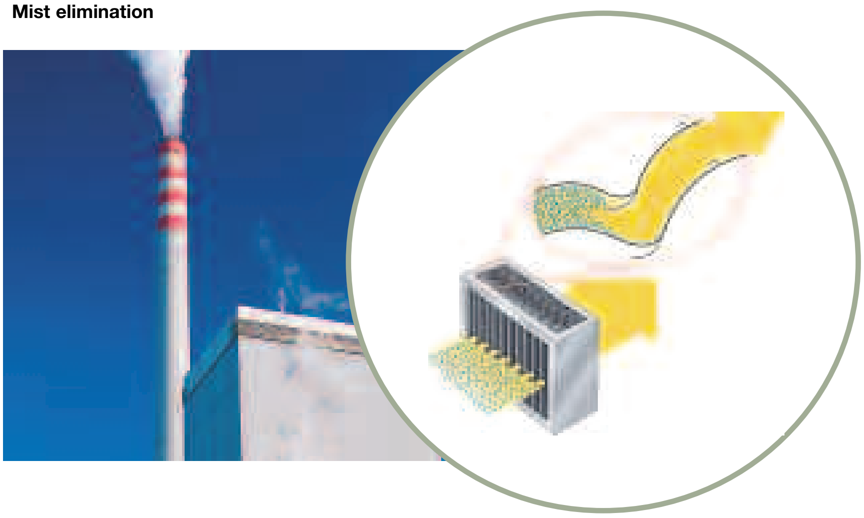
This method is employed in Munters' evaporative cooling systems in which warm and dry air passes over a moist surface shaped like a pad. This pad, which is the key component in CELdek® and GLASdek®, is composed of special materials in the form of cellulose or glass fibers with a geometry that maximizes the surface area over which the air passes. Together with our fans, these products comprise the foundation for Munters' evaporative cooling systems.

Munters' system for climate control is primarily used to create a favorable climate for people, animals, food and plants.



Munters' system for climate control creates a perfect greenhouse environment for growing tomatoes, cucumbers and roses, for example. Another major application area is the breeding of poultry, pigs and cows in hot, dry climates.

Mist elimination



Munters' mist eliminators are an important part of the process for flue-gas cleaning. The technology is used in coal-fired power plants to remove sulfur particles from the flue gas that would otherwise cause what is called acid rain. The amount of sulfur emissions can be reduced by nearly 90 percent.

Strategic focus

Munters has own operations in 30 countries and is a leading global player with a market share exceeding 50 percent in several segments. Growth is primarily created through a broad service offering and by selling products with more functions. In this manner, Munters is able to redefine or broaden a chosen market niche, thus increasing the volume of its deliveries.

Business concept

Munters' business concept is to be a global service and application-oriented niche company for air treatment from a base in dehumidification and humidification.

Financial targets

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

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

Shareholder value is created through high growth combined with strong margins and a high capital turnover rate.

Outcome in 2005

- Sales growth of 13 percent, 11 percent currency adjusted
- EBIT margin of 7.9 percent
- Capital turnover rate of 2.85

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
- Higher quality and productivity through the Munters Efficiency Program
- 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
- cost reduction through strengthened purchasing organization

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 forward integration
- Repeat successful installations
- Increase service sales
- Open new geographic markets

Munters develops a strategic plan for each business unit with a plan period of three years. The plans are revised annually. A number of strategic initiatives are established at the division level and specify the direction and focus for the business.

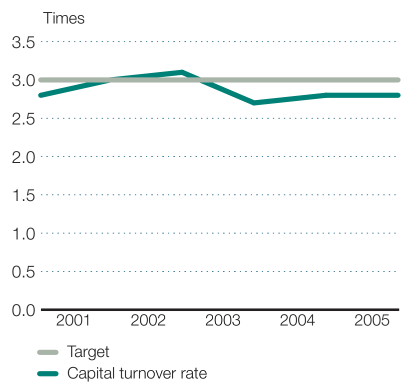
For the upcoming three-year period, the three divisions will focus on the following areas:

- The Dehumidification Division will focus on continued growth in commercial dehumidification operations, continued implementation of the Munters Efficiency Program, global purchasing operations and standardized product platforms.
- The MCS Division will focus on Key Account Management, large claims, personnel development and leadership, project management and productivity, and global IT solutions with automated documentation.

SALES GROWTH

EBIT MARGIN

CAPITAL TURNOVER RATE



- The HumiCool Division will focus on global purchasing of components, common product development projects and standardization of the product program, as well as global marketing of the division's product applications.

Targets and activity plans are established in these areas in the form of strategic initiatives. Follow-ups are performed using financial and non-financial Key Performance Indicators.

Selected niches

Munters' is a world leader in thermodynamics, an area in which technology can be applied in a large number of customer applications. To prioritize among various niches, the following criteria have been established:

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

Market forces and trends

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 is a specialist in systems that create the correct humidity and temperature for manufacturing around the world.

Better indoor air quality. 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 are 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.

Dehumidification Division

Trend in 2005

- Strong growth and operating margin exceeding 10 percent
- High growth in commercial (DesiCool™) and industrial applications
- Plant expansion in the US for DesiCool™ products
- Focus on lower costs through more efficient purchasing and the Munters Efficiency Program (MEP)

Division President
Mike McDonald

"The Dehumidification Division is focused on creating a competitive cost structure and developing global product platforms.

The favorable trend in the Division continued during the year, with strong sales growth and an operating margin exceeding 10 percent. The Industrial operations developed favorably, particularly in Europe, where strong growth was reported for the ProDry program. The extremely strong demand trend continued for DesiCool™ systems for commercial applications, primarily the supermarket and school segments. However, the demand for Zeol systems, declined, primarily due to a weak trend in the US semiconductor industry.

The Dehumidification Division accounts for 29 percent of Munters' sales volume. In 2005, the Division's sales rose 13 percent compared with the preceding year (11 percent, currency adjusted). Operating earnings amounted to SEK 159 M (138) and the Division's operating margin was 10.5 percent (10.3).

The Dehumidification Division focuses on generating growth and improving margins by continuing to implement the Munters Efficiency Program and global purchasing initiatives.

Dehumidification – effective regulation of indoor environments

The Dehumidification Division provides products and complete solutions for controlling humidity in the air. The technology is primarily used in plants and other production facilities as well as in warehouses, supermarkets and schools. Dehumidification is defined as removing moisture from air. The technology is primarily used to create a desired production and storage environment. For many manufacturing companies, climate control is fundamental to their entire operations. This is because the safety and quality of the products depends on the efficient control of the indoor environment. The Munters DesiCool™ system combines air-conditioning and dehumidification to achieve an ideal indoor environment in which temperature and humidity can be individually controlled.

The Dehumidification Division has three business areas: Industrial Dehumidification, Commercial Dehumidification and Zeol. Industrial Dehumidification offers humidity control for industrial processes while Commercial Dehumidification specializes in humidity and temperature control for supermarkets, schools, restaurants and hospitals.

Zeol operates primarily in the semiconductor segment with removal of solvents from emissions (VOC abatement) generated by the production processes.

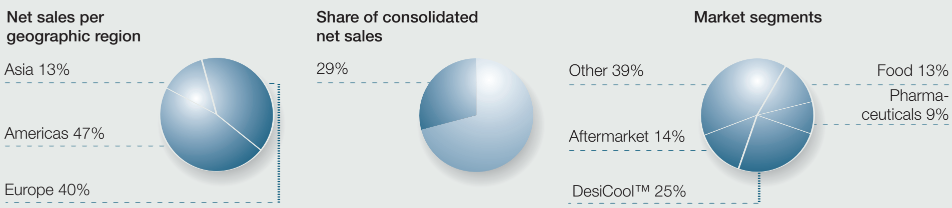
The competitiveness of the Dehumidification Division consists of advanced technological expertise, global market coverage and an ability to adapt products and solutions to customers' specific requirements. Munters' world-leading brand and capacity in service and support are other competitive advantages. The largest geographic markets are Western Europe and the US.

Customers and market: food industry the largest segment

The Dehumidification Division focuses on two fundamental customer segments: industrial and commercial. Industrial customers comprise the largest segment and account for approximately three-quarters of the Division's sales. The Zeol systems are closely associated with the dehumidification systems and are sold primarily to the electronics segment – however, the technology is increasingly aimed at new markets, for example, the composite segment. Commercial customers include supermarkets, schools and other environments where there is a need to independently control temperature and humidity.

Key figures	2005	2004	Growth, %	Adjusted growth[1], %
Order intake, SEK M	1,500	1,352	11	9
Net sales, SEK M	1,514	1,344	13	11
Operating earnings, SEK M	159	138	15	13
Operating margin, %	10.5	10.3		
No. of employees, 31 Dec.	853	781	9	

[1] Preceding year restated at 2005 exchange rates.



Controlling humidity in the air reduces bacterial growth and the risk of airborne contagion.

The most important market segments for Industrial Dehumidification are the food and pharmaceuticals segments, which require precise control of temperature and humidity to meet hygiene, safety and productivity requirements. Precise control of the indoor climate is critical because small changes in temperature or humidity can lead to the growth of mold and bacteria or effect production output.

The food segment needs to preserve the taste, consistency, smell and appearance of its products. This is particularly important for global companies, which often want to duplicate the same product in facilities located in different climatic zones. The ambient humidity can have an enormous effect on food products in the manufacturing, handling and storage phases. Precise control of the environment can minimize variations in quality. This applies particularly to cold or frozen goods, for which the challenges are even greater. The Munters dehumidification system enables producers to control humidity to the desired levels, making it possible to control the formation of frost and ice during manufacturing. This safeguards the quality of the products and satisfies food safety requirements. Dehumidification can also increase productivity – for example by shortening such manufacturing steps as fermentation, baking or drying.

Other key customer segments of Industrial Dehumidification include bridge construction, for which dry air protects sensitive components from corrosion. Major quality and productivity advantages can be achieved in the manufacturing of electronics, electrical apparatus, lithium batteries, photographic film and many other advanced products, by maintaining humidity at low and consistent levels. Customers include global companies such as Pfizer, Nestlé, Fujifilm, General Electric, Intel and Texas Instruments. The competition primarily consists of small companies that operate in their own local market or in specific customer segments. Munters controls approximately 50 percent of the global market.

Commercial Dehumidification primarily focuses on creating a healthy, comfortable indoor environment for people. High indoor humidity is a major problem in hot, damp climates. The Munters DesiCool™ products lead the industry in temperature and humidity control. Premises where many people congregate need a supply of fresh air. Traditional air-conditioning systems do not reduce the relative humidity of the supplied air. On the contrary: when the air is cooled, the relative humidity increases. This results in humid indoor climate, which leads to mold and bacterial growth.

The largest customer segment is supermarkets, of which Wal-Mart is the largest customer. The Munters system creates a comfortable indoor climate and the dry air prevents frost from forming in the frozen food display units.

A rapidly growing segment is schools, where high humidity often leads to mold, which can cause students to develop allergies. It is also extremely important to control bacterial growth and mold in kitchens, dining areas and hospital operating rooms.

To date the highest sales figures for these systems have been reported in the US, a country which has a significant portion of hot climate with high humidity, and where the highest levels of awareness and financial conditions to address these fundamental problems exist. The need exists in all climates with high temperatures and high humidity, which applies to a large part of the world. Munters is focusing on expanding its sales into these markets.

The most significant competitors in commercial dehumidification are traditional air-conditioning companies such as Trane and Carrier. Munters is a small player in the market for commercial air-conditioning. By applying a niche strategy that focuses on technologically advanced products, the company has achieved a strong market position and has experienced a rapid increase in sales.

Zeol's principal customers are found in the semiconductor industry, which is a highly cyclical industry in terms of the expansion of production capacity. Munters holds a large share of the market in this highly specialized area. Demand has been weak in the past few years. The largest customer is Intel, however, many manufacturers of advanced semiconductor circuits are customers of Munters Zeol systems.

Products and product development – lower energy consumption

The technology used in the Dehumidification Division is based on the Munters dehumidifier rotor, which is treated to absorb humidity. Two air streams simultaneously pass through different parts of the slowly rotating rotor. The air stream that is to be dehumidified passes over the rotor where the humidity in the air is absorbed into the rotor material. The second air stream, which is warmed before it enters the rotor, dries the rotor so that it can collect new humidity.

In Industrial Dehumidification, operations during the year have focused on further developing the modular product platforms that form the base of the Munters dehumidifier range. Based on these platforms, cost-efficient products that are adapted to the particular requirements of the most important customers are developed. This enables Munters to simultaneously achieve economies of scale and a range that is adapted to the incredibly varying requirements that customers present. The most important modular products are the ICA platform, which consists of large industrial systems, and the ProDry platform, which is a series of small, portable dehumidifiers for use in water-damage restoration and temporary dehumidification. In the past two years, the ICA platform has accounted for more than 30 percent of the sales volume among industrial customers in the American market.

DesiCool™ has lower energy consumption and lower environmental impact than competing systems. Development in DesiCool™ has focused on the HCU product platform. Here, the dehumidifier function is combined with a cooling system whose excess heat is used as energy for the dehumidification function. The technology, which has major potential, is patented.

The Dehumidification Division continuously strives to increase its customer adaptation based on its product platforms. Operations in product development also focus on enhancing the performance characteristics of the dehumidifier rotors and their operation. Part of this focus involves a new patented technology called Power Purge™, which was launched in certain systems in 2005. Power Purge™ can reduce the energy consumption of a dehumidification system by approximately 35 percent.

The Division's systems and products are manufactured at plants in Sweden, the US, Japan and China. In 2005, the Munters Efficiency Program (MEP) was implemented in all manufacturing units. MEP, which is based on the lean production philosophy, is aimed at enhancing quality and productivity by creating total employee involvement. MEP improves plant production flow, simultaneously increasing productivity and improving cost control, quality and delivery precision.

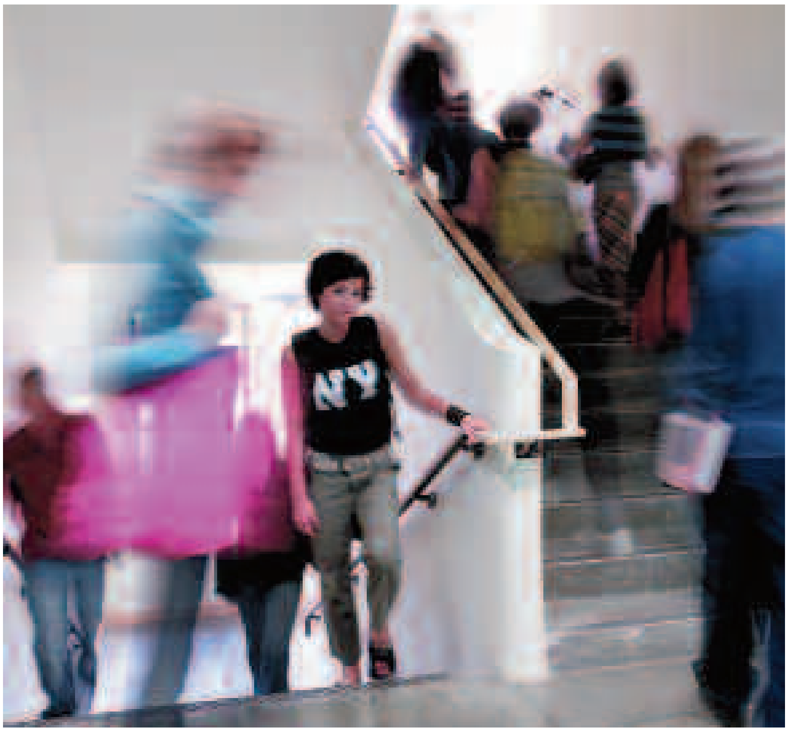
Focus on margin improvement

The implication of the new organization for the Dehumidification Division is that efforts to create competitive, global product platforms will become more efficient. Coordination will improve in areas such as product development, manufacturing, sales and purchasing. This will make it easier for the best concepts to achieve impact on markets worldwide. A specific example involves the commercial customers segment, for which the US has to date represented the largest market. The global organization has made it easier to market DesiCool™ systems in new markets. The same applies to the Zeol systems, for which the concentration of electronics manufacturing in Asia has created interesting growth opportunities. Another advantage of the new organization is that the Division can more easily organize manufacturing and purchasing to take advantage of economies of scale.

CUSTOMER CASE

A healthy school environment, courtesy of Munters

Mold is increasingly problematic, particularly in areas where the temperature and humidity vary considerably throughout the year. Less than three years after its opening, the Pharr-San Juan-Alamo Memorial High School in Texas developed mold problems. The problems were significant, and mold was growing on everything from walls and ceiling to equipment and textbooks. As a result of the poor indoor environment, teachers and students developed allergy and respiratory problems. The problems were due to deficiencies in the ventilation. As a result, the humidity in the premises was sometimes 90 percent.



Energy cost slashed

To rectify the environmental problems, the school first installed equipment for temporary dehumidification from Munters MCS Division. It took three months to dehumidify the entire building. Mold removal operations were carried out at the same time. Then, a permanent dehumidification system was installed. Today, the humidity is down to 45 percent and the indoor environment is free of mold. The students and teachers are healthy and the school's energy cost has been significantly reduced as well.

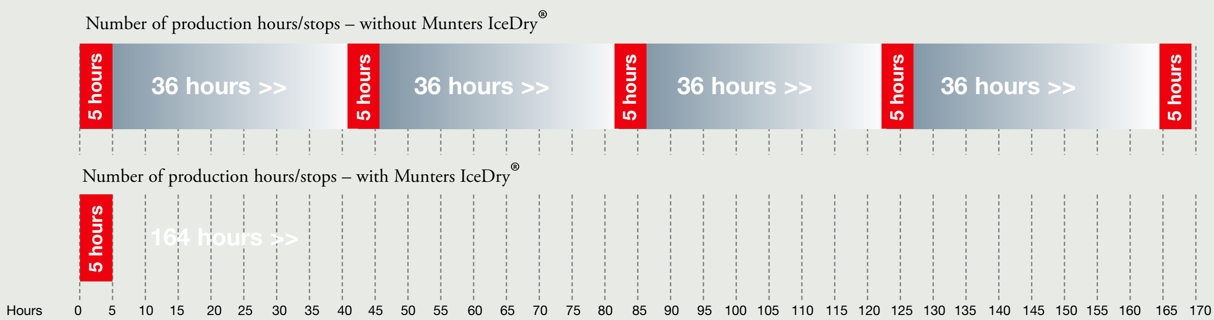
CUSTOMER CASE

IceDry® increases productivity

The UK-based Riverside Bakery is a leading producer of chilled quiche products. The company has had problems with ice formation in its freezers. The reason was that moist air in the area around the freezers was seeping in through air intakes and valves. The air condensed on the inside surfaces, causing ice to form. Moreover, humidity was formed when hot products were placed directly in the freezer. To deal with these problems, the company had to defrost the equipment every 36 hours. Each defrosting and restart of the freezers took up to five hours.

Smooth and easy dehumidification

Munters corrected these problems by installing the IceDry® dehumidification system in close proximity to the freezers. The technology is based on the passage of air through a slowly rotating rotor that absorbs the humidity. IceDry® collects the humidity from the ambient air and the humidity released from hot food products. The final result is fewer breakdowns, higher productivity and more consistent quality. Riverside Bakery now only needs to defrost its freezers every seven days and its freezing capacity has increased.



MCS Division

Trend during 2005

- Favorable sales growth but unsatisfactory profit margin
- Restructuring completed in Sweden and France and initiated in Germany
- Strong growth in the UK and Australia through a combination of framework agreements and higher productivity via rational work methods and IT solutions
- Hurricanes in the US resulted in strong demand toward the end of the year

Division President
Johan Söderström

"With the new division, MCS can meet global and local customer requirements in a more efficient manner. In addition, opportunities are increased for knowledge transfer and development of skills and work processes, thus stimulating local growth and improving margins within MCS.

After a weak first half of the year, the second half showed a positive trend, even when the order intake resulting from hurricanes Katrina and Rita were excluded. During 2005, sales growth was strong in the UK, the US and Australia. Also the Benelux countries, Finland and Denmark showed favorable growth. Operations in Germany, on the other hand, did not live up to expectations. In several countries, restructuring programs were implemented that produced results in 2005. In Germany, the trend was negative, and a forceful action program was initiated.

The MCS Division accounts for about 45 percent of Munters sales. Operating earnings amounted to SEK 153 M (141), with an operating margin of 6.5 percent (6.7). SEK 254 M of order intake and SEK 166 M of sales were attributable to the hurricanes Katrina and Rita during 2005. This can be compared with SEK 101 M in orders and invoicing after the hurricanes in Florida in 2004.

The division devoted substantial resources to personnel management and personnel development to increase productivity and reduce employee turnover, as well as to create a scalable business model through standardized and automated work processes and mobile IT solutions.

MCS – specialists in damage restoration

The MCS Division offers services for water and fire damage restoration and rental of dehumidifiers. Operations are conducted in 20 countries and adapted to local conditions in each market. Being able to leverage joint concepts, work methods and technical aids are important success factors within MCS. The division offers a broad range of services for evaluation, inspection and restoration, primarily for limiting water damage, elimination of odors and rental of dehumidifiers to industrial customers. Munters' competitive advantages include high availability and modern technology that enable faster and more cost-efficient restoration.

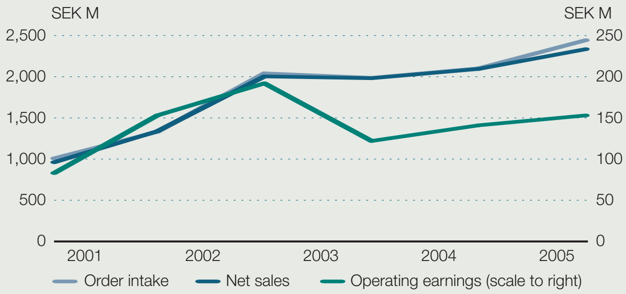
Customers are primarily insurance companies, and high availability results in fast response times, which is essential for limiting damage. An increasing share of operations is based on framework agreements in which customers are offered fixed prices. These contracts make operations more efficient while reducing costs.

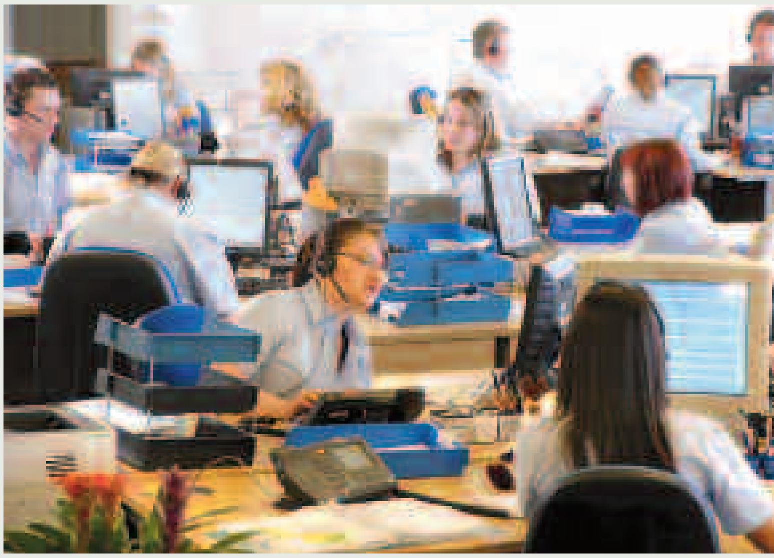
Customers and market – consolidation in progress

Damage restoration includes water and fire damage restoration as the most important segment. These are traditionally local operations, and MCS is active in a market that is still dominated by small, local players. Apart from Munters, there are only a few international players and a number of large national companies in the industry. The largest global players are Belfor and ISS. The trend is towards increased demand for national and international suppliers. The driving force is consolidation in the insurance industry and a trend toward increasing automation and centralization of administrative flows. Major customers include the large insurance companies Norwich Union, If, Zurich, AXA and FM Global. These customers want to purchase services from suppliers that offer a comprehensive range of services.

Key data	2005	2004	Growth, %	Adjusted growth[1], %
Order intake, SEK M	2,444	2,102	16	13
Net sales, SEK M	2,335	2,095	11	9
Operating earnings, SEK M	153	141	8	5
Operating margin, %	6.5	6.7		
Number of employees at 31 Dec.	1,706	1,615	6	
Number of service depots	300	286		

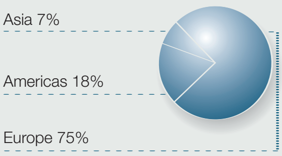
[1] Preceding year restated at 2005 exchange rates.



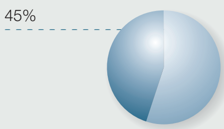


Munters' call center in the UK handled about 130,000 calls during the year. The target that every call should be answered within 20 seconds was achieved.

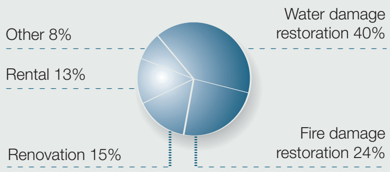
Net sales per geographic region



Share of consolidated net sales



Market segments



Contracts are established in the form of framework agreements with centrally negotiated terms and fixed prices.

Development has progressed to varying degrees in different markets. Insurance companies in the UK are the ones that are currently most consistent in taking this approach. The assessment is that the market will develop so that framework agreements will eventually account for about 40 percent of the MCS Division's sales. At present, slightly more than 20 percent of sales are through framework agreements. During the year, several framework agreements were signed with leading insurance companies. In parallel with refinement of these contracts, development of the service offering, administrative processes, work methods and technical aids is intensive.

The strong demand in the UK is the result of successful work with framework agreements with the major insurance companies. MCS combines broad and customized service offerings with high internal efficiency, rational work processes and mobile IT solutions, which provides the foundation for strong growth. One of the driving forces underlying this success is work with key account management in which contacts with the leading insurance companies are consolidated through systematic work processes with clear information channels. This makes it easy for both Munters and the customer to see how projects are progressing. The successful work with key customers in the UK is an example that will be spread throughout the division.

In the US, demand for damage restoration services increased after Hurricane Katrina, which affected the southeastern part of the country. Renovation projects for which MCS was responsible included the New Orleans Superdome and New Orleans Arena. Projects after major natural disasters have been a regularly recurring part of operations in recent years. During the period from 2000 to 2005, these assignments accounted for 5 percent of MCS sales.

Customer offering and services – fast and comprehensive service
Local presence is essential for MCS, which largely works with local claims inspectors. The division has 1,706 employees and 300 service depots, which are available around the clock, every day of the year.

Munters has extensive experience in dealing with damage caused by water, humidity or fire. MCS works with dehumidification, cleaning, technical reconditioning, odor elimination and minor renovations. Technology and equipment are adapted to MCS requirements. This includes dehumidifiers, fans and dryers with high capacity that are designed for efficient logistics and good ergonomics. MCS services are based on the premise that damaged premises are less expensive to restore through drying instead of tearing out and rebuilding what is damaged. Munters' technology also results in rapid treatment, which is critical in limiting the extent of the damage. Mold and rotting set in quickly after water leakage, and every day that passes without action being taken increases the damage. Compared with tearing out and rebuilding, the Munters method also results in conservation of resources and less environmental impact, since the need for building materials is reduced. Many different sub-contractors are usually involved in damage restoration, and by taking a project management role towards the insurance company, MCS can offer broader and more efficient services.

In addition to damage restoration, MCS supplies services for temporary dehumidification for the construction industry, for example. Efficient drying of concrete reduces project time and makes work less dependent on weather. When construction processes for both new construction and renovations become independent of weather conditions, quality is assured and the risk of guarantee problems is reduced. Companies that work with painting and surface finishing are also dependent on humidity control to ensure the finish and quality of painting and varnishing.

New organization – greater dissemination of knowledge
With the new organization, successful work methods can be more easily shared within the division. As part of the reorganization, a number of projects were started during 2005. These projects involve the sales process for key customers, productivity enhancing measures, IT development, leadership and skills development. Work with leadership and personnel development is particularly important, since the quality of services is strongly dependent on employee skills and commitment.

CUSTOMER CASE

Major effort after Hurricane Katrina

During 2005, the US was hit by the most extensive natural catastrophes in modern time. The worst effects followed the ravages of Hurricane Katrina in southeastern US. The devastation was enormous, with many homeless, flooding, loss of electricity, damaged infrastructure and shortages of food, water and fuel. MCS had some 500 persons on site in the disaster area and handled more than 100 assignments, including a rapid rescue at the New Orleans Civil District Courthouse, where a bulk of historical documents were saved, despite having been immersed in the flood waters. At the New Orleans basketball arena, with seating for 20,000, Munters was involved in a major project, including project management and dehumidification.

CUSTOMER CASE

Mobile data – the fast track to efficient restoration

Within MCS, requirements are increasing for short project times and high productivity while facilitating quality follow-ups. Contributing to this trend are increasing demands from insurance customers that drive Munters to develop innovative new work methods. Among these are mobile data investments in the UK, which have resulted in lower costs, clearer information flows, more rapid processing and improved customer service.

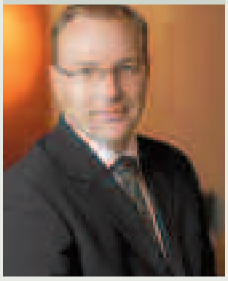
The objective was to eliminate costly and time-consuming paperwork for Munters' service technicians. Previously, hand-written reports of about 30 pages were faxed between different units in the company. The new mobile solution is based on portable computers and a custom communication system. Communication is wireless and coordinated via a call center. Technicians complete their work faster and also submit more well-structured reports. At each step, service technicians enter data in the system. This information is available around the clock to both customers and administrators within Munters. As the project progresses, customers can also receive updated status reports via e-mail.

HumiCool Division

Trend during 2005

- Sharply increased order intake and strong earnings trend in the important customer segments AgHort and coal-fired power plants
- Productivity improvements and cost reductions following relocation of production plants and actions to improve margins
- Avian flu has had both a positive and a negative impact on development

Division Manager
Hannu Saastamoinen



"HumiCool is the world leader in systems for evaporative cooling and humidification. Application development is the division's primary strength. The new global organization will support the division's ambition of leading development in its primary segments.

Order intake, sales and operating earnings showed a very strong trend during the year and accelerated during the second half of the year. Demand was strong in the division's primary segments AgHort and coal-fired power plants. The initiatives taken in recent years in relocating production units to Italy, Mexico and Germany, as well as actions to improve margins, also resulted in positive effects on earnings.

In 2005, HumiCool accounted for 26 percent of Munters' total sales. During 2005, the division's sales increased by 18 percent, compared with the preceding year (16 percent after currency adjustment). Operating earnings amounted to SEK 135 M (88), and the division's operating margin was 10.1 percent (7.8).

The HumiCool Division is focused on margin-enhancing measures, primarily global purchases of main components, joint product development projects and standardization of the product program.

HumiCool – cost-efficient cooling and cleaning

HumiCool creates the right indoor climate for people, animals and industrial processes. The technical solutions are primarily based on evaporative cooling and humidification in which the air is cooled through evaporation of water. Munters has a strong position through its role as a pioneer in evaporative cooling. HumiCool's competitive advantages include a broad product portfolio, substantial application expertise and a global presence. Sales are spread over a large number of geographic markets.

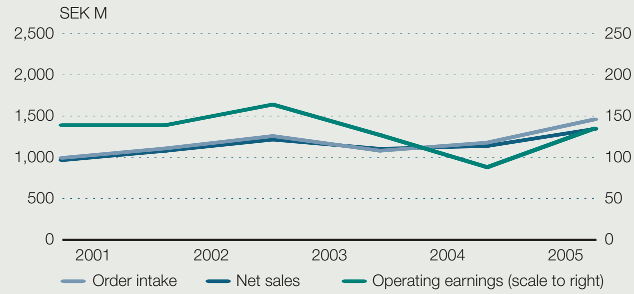
The most important business areas are AgHort (Agriculture & Horticulture), ME (Mist Elimination), HVAC (Heating, Ventilation and Air Conditioning) and PreCooler. AgHort supplies systems for cooling, humidification and ventilation for buildings for livestock breeding and for greenhouses. HVAC supplies products for climate control of indoor climates based on evaporative cooling technology. ME manufactures components called mist eliminators primarily for systems for flue-gas cleaning for coal-fired power plants. PreCooler manufactures products for air cooling for gas turbines.

Customers and markets – AgHort dominant

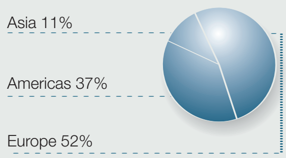
The AgHort industry currently accounts for about half of sales in HumiCool. Poultry and livestock breeding dominate in this segment. In warm climates, cooling of the indoor air is required in livestock breeding to achieve satisfactory productivity, and for customers in the AgHort sector, cost-efficiency is decisive. Within the poultry industry, which accounts for 60 percent of AgHort sales, the right climate system can significantly increase productivity. Munters' evaporative cooling systems provide the most cost-efficient cooling, compared with alternative technologies. The largest markets are the US, the Middle East, Italy and Thailand. The other major segment within AgHort are cooling systems for greenhouses, with the countries of Southern Europe as the largest markets.

Key data	2005	2004	Growth, %	Adjusted growth[1], %
Order intake, SEK M	1,460	1,178	24	22
Net sales, SEK M	1,343	1,138	18	16
Operating earnings, SEK M	135	88	53	49
Operating margin, %	10.1	7.8		
Number of employees at 31 Dec.	668	649	3	

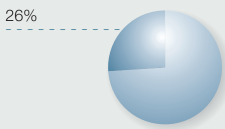
[1] Preceding year restated at 2005 exchange rates.



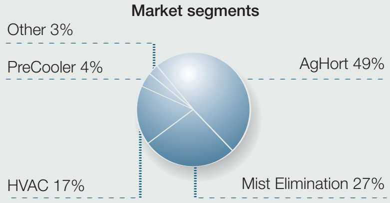
Net sales per geographic region



Share of consolidated net sales



Market segments



More flowers with longer stems, larger leaves and bigger buds are some of the positive effects created by Munters' evaporative systems for greenhouses.

Munters supplies its systems to manufacturers of breeding houses, and also directly to breeders, as well as selling components to system integrators. Demand is determined by consumption patterns for chicken, as well as global technical development in breeding, with developing countries increasingly moving toward more advanced production. Customers include such companies as GSI and Big Dutchman. Competitors are primarily local players with small-scale production.

The spread of avian flu affected the poultry industry both positively and negatively during the year. Import restrictions in Europe and the US towards the affected countries resulted in an increase in investments in poultry houses, thus contributing to increased demand for Munters' products. On the other hand, demand for chicken declined in the affected countries. At the same time, awareness increased that the open poultry houses often used in Asia and Latin America increase the risk for spreading of the infection. This resulted in increased demand for cooling systems for closed poultry houses.

Within Mist Elimination, which accounted for 27 percent of HumiCool's sales in 2005, the most important segments were power plants, process industries and marine applications. The largest share (about 70 percent) of Munters' components are used for cleaning of emissions from coal-fired power plants. Within the power industry, increasing prices for natural gas and oil will probably result in a long-term increase in demand for coal power plants. The increasingly stringent environmental requirements in China mean that the fast-growing coal-based power industry needs efficient solutions for reducing harmful emissions. Also in the US, more stringent environmental demands and the desire to reduce dependency on oil imports are contributing to increased demand. Munters is the global market leader in this technology, and customers are primarily systems integrators for coal-fired power plants.

The HVAC segment consists primarily of component manufacturing (CELdek® and GLASdek®) for the manufacture of evaporative cooling systems for homes and commercial and industrial premises in warm and dry climates, such as Australia and the southeastern US. In 2005, this business area accounted for 17 percent of HumiCool's sales. Munters is also the market leader in this segment, while competitors are mostly smaller, local manufacturers. The largest customer in 2005 was Adobe Air in the US.

PreCooler manufactures cooling systems for the intake air for gas turbines. Air cooling results in higher efficiency in the turbine, which thus produces more energy per cubic meter of natural gas. In 2005, PreCooler accounted for 4 percent of HumiCool's sales. End customers are primarily suppliers of gas turbines, such as General Electric.

Products and product development – environmentally friendly technology

Munters' technology in the AgHort, HVAC and PreCooler business areas is based on evaporative cooling. Put simply, this means that air is cooled by evaporating water. Warm, dry air passes through Munters' special CELdek® or GLASdek® cooling pads, which are sprayed with water. As the air passes over the pads, the water evaporates, making the air cool and moist. This cooling technology, which is based on Munters' own inventions, offers low operating costs and is environmentally friendly. Development work within HumiCool is focused on the basic components, primarily fans and CELdek®, which are optimized for the largest applications with respect to life cycle, cooling efficiency and energy consumption. A primary goal is to offer a greater share of complete system solutions for customer needs.

Within ME, the technology is based on spraying flue-gas with water that contains chemicals which absorb the contaminants in the gas. Thereafter, Munters' mist eliminators remove the water droplets in which the contaminants were absorbed. Munters also strives to broaden its application expertise in this area and to offer more complete customer solutions. An important technical characteristic is to maximize the degree of cleaning at as high flue-gas temperatures as possible.

Restructuring of manufacturing facilities contributed to the positive trend in 2005. The plant in Aachen, Germany, which produces mist eliminators, was moved to new, more suitable premises in the autumn of 2004. As a result, production flow improved sharply, and manufacturing capacity increased. During 2004 and 2005, CELdek® production was relocated from Tobo, Sweden to Pieve di Teco in Italy.

Logistics were improved, since CELdek® production now takes place close to the manufacture of fans that are included in the same systems.

Total production for the AgHort industry in Europe is thus located in the same place, which is also close to end customers in Europe. The third relocation of production that affected earnings for the year were operations in Phoenix in the US, which were transferred to Monterrey in Mexico during 2003 and 2004 and produced full effects during 2005. This relocation also involved CELdek® production and was implemented to reduce production costs.

New organization – increased sharing of knowledge

The new organization that was introduced on 1 July creates many new possibilities. Better coordination of CELdek® and fan production results in increased productivity and quality, but also greater coordination of purchasing for all plants. The management of logistics and production capacity also becomes more efficient. In marketing, customer offerings, products and distribution will be coordinated and enhanced. Via global key account functions, service for the largest customers can be improved.

CUSTOMER CASE

Cooling results in more uniform egg production

Heat causes problems for Japanese egg producers. At a plant in Iruma City outside Tokyo, the outdoor temperature was sometimes as high as 37 degrees C. This increased mortality among the approximately 13,000 hens. The heat also meant that the weight of the eggs was reduced and that the shells became more fragile. To achieve more even production, Munters' cooling system was installed, which provides efficient cooling and ventilation. Today, the company controls the indoor climate and the temperature is about 30 degrees.

CUSTOMER CASE

Munters reduced sulfur emissions

America's First Energy needed to improve the performance of environmental technology at its coal power plant in Shippingport, Pennsylvania. There were a total of 12 flue-gas purification systems at the plant, six for each of the two coal-fired boilers. Because environmental requirements had been increased, sulfur emissions had to be reduced. The company therefore wanted to find the market's most effective environmental technology which could increase the efficiency of the system for eliminating sulfur. The solution was Munters' DV210 system. During the latter part of 2005, Munters delivered equipment for six of the flue-gas purification systems. Tests showed that cleaning of sulfur emissions improved from 80 to over 95 percent. During 2006, Munters will supply cleaning technology for the other six systems in Shippingport.

Personnel

Skills that develop the company and individuals

The corporate culture in Munters is built on such concepts as entrepreneurial spirit, communications, customer satisfaction, dynamic leadership and decentralized responsibility. These concepts also guide the development of Human Resources Programs in the Group. The goal with personnel work is to ensure an efficient supply of expertise, as well as offering attractive development opportunities and, not the least, to create satisfaction and commitment in daily work.

Entrepreneurship within a framework

All efforts in leader development, training, equality, ethics and operational control are based on specific overall goals and guidelines for the Group. Backed by these, the local units are responsible for creating motivation and development possibilities for their employees.

Adapted skills development

The global organization places special demands on how a common Munters culture can be developed, while at the same time respecting local differences.

During the year, Munters carried out a global attitude survey. Employees could say what they were satisfied with and point to areas in which there is a need for improvement. The statements with which most employees identified were:

- I play an important role with respect to providing the customer the best service
- I feel motivated to do my best to make Munters successful

Two of the most important improvement areas identified were:

- feedback regarding own performance
- career possibilities within the Group

Training programs are carried out continuously, both globally and locally. Munters Growth Academy is a skills and experience-exchange program for the highest executives in the Group. The aim of the program is to increase the focus on profitable growth. The Academy addresses such issues as strategy, leadership, market orientation and productivity. The theme in 2005 was “Margin Management,” in which the goal is to increase margins methodically and systematically. Margin Management seminars were held at division level and also functioned as a starting point in conjunction with the establishment of the global divisional organization. A total of 200 executives worldwide participated.

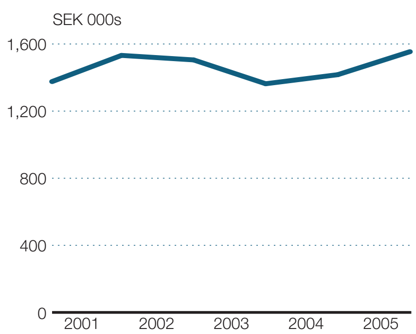
Munters is a member together with a number of large Swedish export companies in a consortium that each year educates executives in international leadership – International Management Program. The program is intended for executives in mid-career and focuses on such areas as business management, leadership in an international environment and personal development.

Efficient recruiting

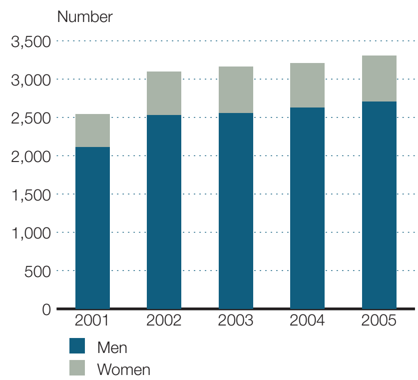
Munters’ first priority when filling open positions is to promote from within the company. The Group’s work model for succession and development planning is called Munters Continuity Planning (MCP). Knowledgeable and skilled employees, who in the short or long term could be candidates for a position, are identified for each key assignment. Every manager is responsible for surveying skills requirements and ensuring that employees are offered suitable development possibilities.

The quality of service depends largely on the employees’ skills and commitment. A rising share of the service offering, within product sales as well as MCS, places major demands on the manager’s ability to lead and motivate employees. These characteristics have become important selection criteria in appointing new managers.

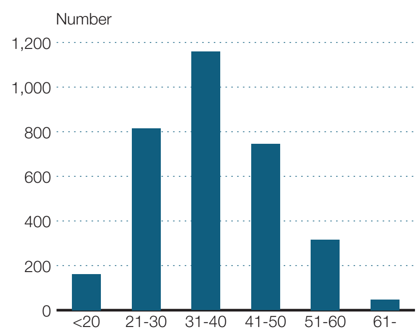
NET SALES PER EMPLOYEE



AVERAGE NUMBER OF EMPLOYEES



AGE DISTRIBUTION



Focus on quality and productivity

Munters Efficiency Program (MEP) is the Group's work model for efficiency enhancement. It is based on continuous improvements of quality and productivity. Improvement goals and new goals are set in pace with improvements being achieved. The improvement goals are defined within the work group. The work approach provides broad scope for the individual's and group's abilities.

In the UK, the MCS Division, as a result of the quality work, was approved in accordance with "Investors in People." This is a national quality standard aimed at more efficient business development through farsighted personnel work. The principle for approval resembles an ISO certification and means that personnel work must meet a number of requirements and guidelines.

Emphasizes variable remuneration

Munters has various programs for variable remuneration to stimulate individual performance. During 2005, work was initiated to simplify and standardize the incentive system for sales and service personnel.

Bonus programs are intended for senior executives and key personnel in the Group and reward development in the individual's area of responsibility based on certain criteria. The most important criterion is increased profits, but the program also takes into consideration such factors as sales growth, rate of capital turnover and individual targets.

Munters regularly offers an opportunity to invest in call options. The programs are extended to about 100 persons. The outstanding programs are described in Note 28.

Employees in figures

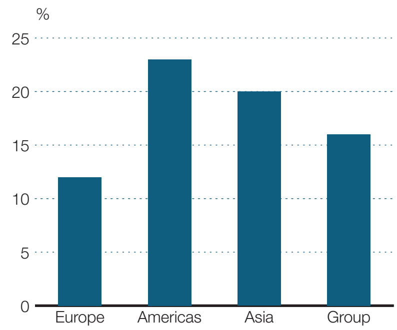
During the year, the number of employees, including temporary employees, was 3,303, up 3 percent compared with a year earlier. The percentage of women is 18 percent.

Personnel turnover is defined as the number of permanent employees who left the company during the year divided by the average number of employees. Personnel turnover in 2005 was 16 percent for the Group as a whole, unchanged from the preceding year. There are several explanations for the relatively high turnover. Europe has a large amount of MCS personnel, which traditionally is a personnel category with high turnover. Asia comprises a number of young companies, with a larger portion of production, in which the personnel turnover is still relatively high. Excess personnel were laid off in the Americas at the beginning of the year.

To a large extent, Munters is a young company, which is reflected in the age distribution. The age group from 31 to 40 years remained the largest, accounting for 35 percent of the Group's employees. The average age was 39, unchanged from a year earlier.

Net sales per employee rose 10 percent during the year. The Munters Efficiency Program and plant relocations contributed to the improvement.

PERSONNEL TURNOVER



Environment and quality

Combining financial growth with environmental care

Quality and environmental work within Munters is united successfully with growth and sustainable development. High consideration for the environment, health and safety is taken into account in production and development. The quality of products and services are improved over time to ensure long-term profitable growth. Accordingly, combined economical and environmental development are not in opposition. Instead, it means that new technical solutions contribute to reduce environmental impact.

The practical work with environmental and quality matters is conducted at Munters' local operations worldwide. As guidance in this work, the Group has both a quality and environmental policy, (see www.munters.com), with guidelines and principles for applying each policy. In the environmental area, each unit is responsible for ensuring that operations meet and, if possible, exceed prevailing legislation. All major production plants and business units in the Group are quality certified in accordance with ISO 9001.

Quality and productivity

The driving force in quality efforts is the ongoing effort to achieve higher performance and more optimal solutions. This focus includes both products and systems such as sales and service. The daily work is focused on such areas as product quality, delivery precision and customer service, which contribute to the overall improvement of operations toward favorable total quality. To achieve specific goals, quality work is linked to measurable goals that are regularly followed up at various levels within the Group.

The quality work is also linked to the Munters Efficiency program (MEP) – the Group's work model for efficiency enhancement. It is built on continuous improvements, follow-up and further development, based on common strategic guidelines. The program comprises 30 different areas regarding quality improvements. Regardless of the area, goals are adapted to each facility and new goals are established as quickly as the improvement is achieved. As of 2005, all manufacturing units are included in the program. The improvements are aimed at the main flow in production and MEP shall contribute partly to increase delegation and partly to extract greater benefit from the skills and resources in the entire organization.

Environment – reduced load

In its production, Munters strives continuously to reduce resource consumption and possible adverse environmental impact. This involves reduced amounts of waste, as well as lower water and energy consumption. Munters is also successful in the development of new technologies that result in a reduced environmental load. One example is Munters own cooling systems that do not contain CVCs or other environmentally hazardous cooling media. This eliminates the emission of hazardous substances. The environmental aspect is also emphasized with MCS. Munters' focus on drying and restoring – rather than demolishing and rebuilding – results in less waste with building materials, fitting and fixtures.

During 2005, Munters received the "Product Innovation Award," which is given by the global consulting company Frost & Sullivan. This recognition was for the dehumidifying technology within the DesiCool™ product area and the new HCU platform. HCU is a climate system that by combining dehumidification with cooling is specially adapted for such indoor environments as schools and other public areas. The technology is energy efficient, and significantly more effective than competing products on the market. Frost & Sullivan contend that HCU cools and dehumidifies with energy savings considerably higher than with conventional technology.

Munters and the environment

The ability to combine commercial and environmental benefits is a Munters characteristic.

Involved employees and increased efficiency are results of quality efforts in Texas

The plant in Texas, which produces products and systems for commercial dehumidification, was selected as a pilot installation when MEP was introduced in early 2004. The project was launched with a training program, featuring theory and practices related to the principles of lean manufacturing, for all employees. Managers and certain key personnel also underwent a certification program.

New work methods have been established throughout the plant, with a focus on standardizing of processes, mixed flows, assembly balancing and materials supply in accordance with the KanBan principle. Visual aids are used in the entire work area as aids that facilitate control and follow-up.

The results to date are positive. Direct labor costs as percent of sales had been reduced by nearly 20 percent and the assembly line for volume products shortened the production cycle from seven days to two. Sales per employee increased 30 percent.

MEP is an ongoing process. Focus for 2006 is on creating a true problem-solving work culture. During the year, the program will also be introduced for administrative personnel.

Product	Customer segment	Environmental aspects
Dehumidification Division		
Dehumidifier	Storage premises.	Create optimal storage conditions without having to heat the premises, which reduces energy consumption.
DesiCool™	Process and manufacturing industries, department stores and indoor building environments.	Energy-saving technology for control of temperature and humidity. Exchanges waste heat to environmentally sound cooling. Cooled air is created in the summer from the surplus heat in the premises. In the winter. DesiCool™ delivers very high heat recovery.
HomeDry	Suspended foundations, cellars, attics, garage, summer cottage and boats.	Used for dehumidification and to ventilate stale air and radon. The technology is energy-efficient and as a result inexpensive and environmentally sound to use. The dehumidifier provides warm and dry air that automatically benefits the property.
Zeol	Electronics and semiconductor industry.	The product cleans emissions of solvents in various industrial processes.
MCS Division		
Dehumidifier	Services for water and fire damage. Insurance industry.	The technology facilitates clean-up and repair instead of demolition and new construction, which reduces consumption of building materials.
HumiCool Division		
Evaporative cooling system	AgHort (chicken industry and plant nurseries).	Creates cooling without the use of environmentally hazardous cooling media. The method is energy efficient. In plant and animal breading, it reduces the need for pesticides.
Mist eliminator	Coal-fired power plants.	Reduces the amount of environmentally hazardous flue-gas emissions by 90 percent.
SCR/HAM	Marine and offshore industry.	Cleans emissions of NOx from diesel engines by between 85 to 99 percent. Also reduces emissions of hydrocarbons and carbon monoxide.
Precooler to gas turbine	Gas-turbine-driven power plants, particularly in countries with warm climates.	The technique is to cool the combustion air, which increases the output of the gas turbine by up to 20 percent, while reducing the damaging emission of NOx.

Ethics and social responsibility

Respect of the individual is one of Munters' core values and describes how the company and employees shall behave in relations with the external environment. Internal policies state that relations between employees, customers and suppliers shall be characterized by high moral and ethical standards. Each manager is responsible for ensuring that information about and compliance with the ethical guidelines are respected.

All employees and cooperation partners must comply with the UN's declaration on human rights and work conditions.

Within the framework of Munter's global purchasing system, the development of a supplier assurance system has begun where Munters' purchasing function specifies the suppliers standards for quality, environmental impact, business ethics, work conditions and social aspects.

The share

At year-end 2005, the Munters share was quoted at SEK 219 (200), which was an increase of 10 percent during the year (15). The SIX General Index rose by 32 percent (17) during the same period. The market capitalization amounted to SEK 5.5 billion, compared with SEK 5.0 billion at the close of the preceding year.

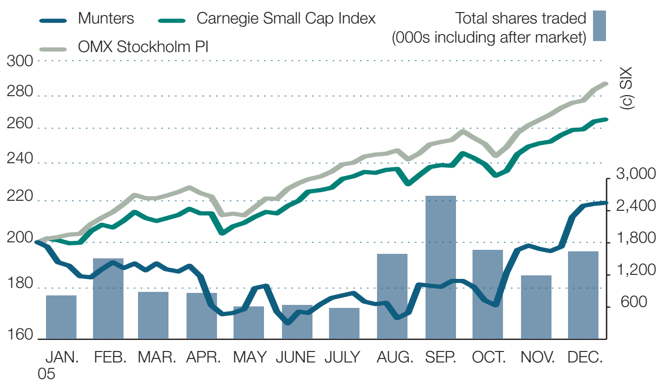
Share capital and number of shares

On 31 December 2005, Munters' share capital amounted to SEK 125 M distributed among 25,000,000 shares, each with a par value of SEK 5.00. 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 21 October 1997. As of year-end, Munters had 5,913 shareholders (5,855). The ten largest shareholders control approximately 59 percent (68) of the votes. About 41 percent (50) of the shares are owned by Swedish institutional investors, while foreign investors hold some 27 percent (12) of the capital.

Shareholders at 31 Dec. 2005	No. of shares	Share of capital, %	Share of votes, %
Industrivärden	3,400,000	13.6	13.8
Latour	3,400,000	13.6	13.8
AFA Försäkring	1,595,140	6.4	6.5
Robur funds	1,317,631	5.3	5.4
Nordea funds	1,027,274	4.1	4.2
State of New Jersey Pension	1,000,000	4.0	4.1
SEB funds	978,550	3.9	4.0
AMF Pension	900,000	3.6	3.7
Enter funds	491,266	2.0	2.0
Handelsbanken/SPP funds	450,929	1.8	1.8
Total, ten largest shareholders	**14,560,790**	**58.2**	**59.2**
Other	10,019,960	40.1	40.8
Shares outstanding	**24,580,750**	**98.3**	**100.0**
Shares held by Munters (treasury stock)	419,250	1.7	–
Total	**25,000,000**	**100.0**	**–**



Distribution of shares as of 31 December 2005

Shareholding	No. of owners	No. of shares	Share in %
1–500	4,770	950,674	3.8
501–5,000	947	1,375,356	5.5
5,001–50,000	137	2,231,200	8.9
50,001–	59	20,442,770	81.8
Total	**5,913**	**25,000,000**	**100.0**

Total return

At year-end, the Munters share traded at SEK 219, which was an increase of 174 percent since the exchange listing at SEK 80 in October 1997. The annual average total return (the share's value including reinvested dividends) since the exchange listing amounted to 17.0 percent. The average growth for the SIX Return Index for the same period was 9.2 percent. An investment in Munters' shares thus gave a return that was 7.8 percentage points better per year, compared with an average investment on the Stockholm Stock Exchange.

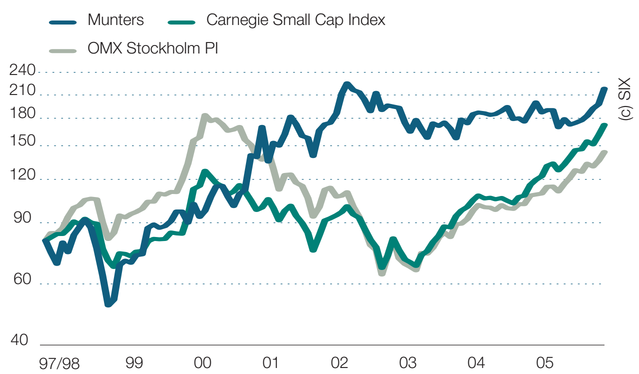
Trading volume

During 2005, 14.7 million Munters shares (11.8) were traded with a total value of SEK 2,726 M (2,129). This means that 59 percent (47) of the total shares changed owners. The average share price during the year was SEK 185.79 (181.05). The highest price paid during the period was SEK 223 on 27 December. The lowest price paid was SEK 164 on April 28.

The beta value is a relative measure of the risk in the share measured as its correlation with the market index over the past 48 months. On 31 December 2005, the Munters share had a beta value of 0.28 (0.12), meaning that it had moved 28 percent (12) relative to the index.

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. In accordance with this, the Board has decided on a



change in the Company's dividend policy to an annual dividend that should correspond to approximately one half of net earnings over a period of several years from the previous wording that the annual dividend that should correspond to approximately one third of net earnings over a period of several years.

Dividend

For the 2005 fiscal year, the Board of Directors proposes that the Annual General Meeting approve a dividend of SEK 5.50 (4.00) per share. The dividend corresponds to 54 percent (59) of net earnings for the year.

Own shares (treasury stock)

Buy-back, divestments and holdings are reported in Note 18.

Incentive programs

The outstanding programs are described in Note 28.

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.

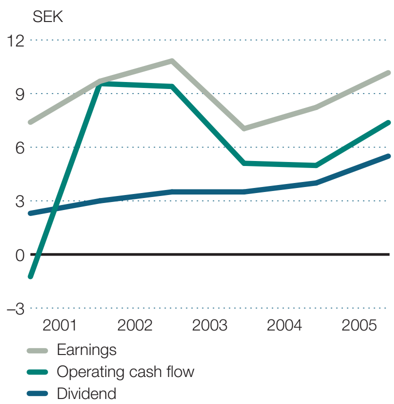
Firm	Analyst	Telephone
ABG Sundal Collier	Erik Ejerhed	+44 207 905 5633
Carnegie	Björn Enarsson	+46 8 676 86 82
Danske Bank	Patrik Setterberg	+45 33 44 08 74
Enskilda Securities	Anders Eriksson	+46 8 522 269 39
Hagströmer & Qviberg	Johan Dahl	+46 8 696 18 51
Handelsbanken Markets	Markus Almerud	+46 8 701 34 01
Kaupthing Bank	Joakim Höglund	+46 8 791 48 69
Merill Lynch	Christer Beckard	+44 207 996 0824
Redeye	Henrik Alveskog	+46 8 545 013 45
Standard & Poors	Tobias Ottosson	+46 8 545 069 69
Swedbank Capital Markets & Securities	Mats Larsson	+46 8 585 925 42

Key figures per share[1]	2005	2004	2003	2002	2001
Earnings per share, SEK	10.17	8.20	7.04	10.83	9.69
Earnings per share after dilution, SEK	10.17	8.18	7.03	10.80	9.67
Average no. of shares, 000s	24,538	24,378	24,420	24,518	24,705
No. of shares on closing date, 000s	24,581	24,378	24,378	24,438	24,553
Treasury stock, 000s	419	622	622	562	448
Operating cash flow per share, SEK	7.38	4.98	5.10	9.40	9.56
Equity per share, SEK	59.56	46.96	44.53	45.59	41.23
Dividend per share, SEK	5.50[2]	4.00	3.50	3.50	3.00
Share price on closing date, SEK	219.00	200.00	174.00	193.00	174.50
Market capitalization on closing date, SEK M	5,475	5,000	4,350	4,825	4,363
P/E ratio, times	21.5	24.3	24.7	17.8	18.0
Return on equity, %	19.2	17.8	15.8	25.6	26.7

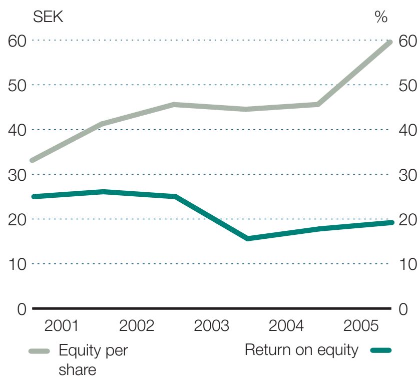
[1] As of 2004, the amounts are in accordance with IFRS accounting principles, which mainly means that goodwill is no longer amortized. Years prior to 2004 are in accordance with prevailing accounting principles.

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

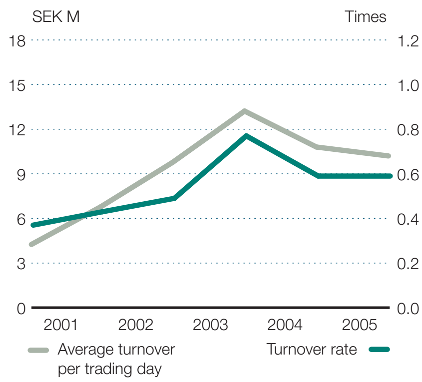
PER-SHARE DATA



EQUITY



LIQUIDITY



Risk management

Risk management is an important process in the operational management of the Munters Group. In addition to analyzing the risks that Munters faces and evaluating them, it is important to reduce the significant risks through continuous preventive measures. This involves the type of risks that could cause serious disturbances in production or jeopardize the Company's financial position.

Operational risks

Munters is an entrepreneurial company with many small organizational units. The dependency on 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 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 divisions are described below under each division.

Dehumidification Division - 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 division's weaknesses.

MCS Division – 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 division's weaknesses consist of volatile revenues and a relatively fixed cost structure combined with low barriers to entry for competitors. Excessively high dependency on fixed contracts with the insurance industry may also constitute a weakness.

HumiCool Division – Competitors are local companies with small-scale production. Munters has high market shares in selected segments. The division 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 17.

Currency risk

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

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, %
USD	34.9	31.1
EUR	32.1	34.3
NOK	6.8	7.1
GBP	6.4	5.5
SEK	6.0	10.9
AUD	4.0	3.8
JPY	2.4	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 subsidiaries with Group internal sales. The goal of the currency hedging policy is to hedge 100 percent of contracted net flows in foreign currency.

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 EBIT is presented in the table below. The analysis is based on EBIT for 2005 and assumes that all other factors (such as changes in competition) that could affect earnings are unchanged.

SEK +1%	Estimated effect on EBIT	
compared with	SEK M	%
USD	–3.3	–0.8
EUR	–0.3	–0.1
NOK	–0.1	–0.0
GBP	–0.7	–0.2
AUD	–0.3	–0.1
JPY	–0.1	–0.0

The total translation effect on EBIT during 2005 compared with the preceding year's exchange rates amounted to a gain of SEK 9 M (loss: 13), corresponding to 2 percent (4) of the year's EBIT. The effect on Munters' equity in translating the net assets of foreign subsidiaries to SEK amounted to a gain of SEK 140 M (loss: 56) for the year.

Interest risk

Munters' sources of funding 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 19.

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 SEK 3 M (4).

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 three and nine months. When surplus liquidity arises, it is primarily used to pay down loans.

Counterparty risk

Munters only accepts creditworthy 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 major share of the counterparties.

Insurable risks

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

Legal processes

Munters' subsidiary in the US, Munters Corporation, was cited as of 31 December 2005 as a co-defendant in 38 asbestos-related processes. No trial is currently planned for any of the cases and to date none of the plaintiffs has stated that they were exposed to any specific Munters product. In recent years, Munters Corporation has won in two cases through summary judgments. Munters Corporation firmly believes that the charges are groundless and intends to contend each case vigorously.

Munters Corporation has insurance protections for the asbestos-related claims through several insurance policies. With reservations for certain provisions, the insurance companies have confirmed that until further notice they will cover a significant portion of the defense costs.

Munters does not consider that the stated claims will to any significant extent have an adverse effect on the Company's financial position or operating results.

10-year review

	IFRS[1]		Prior accounting principles[1]						Pro forma[2]	
GROUP	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Order intake, sales and profit										
Order intake, SEK M	5,340	4,598	4,305	4,727	3,945	3,322	2,608	2,384	2,265	1,943
Net sales, SEK M	5,130	4,543	4,308	4,666	3,894	3,179	2,594	2,401	2,197	1,927
Growth, %	12.9	5.5	–7.7	19.8	22.5	22.5	8.0	9.3	14.0	7.1
EBIT, SEK M	405	334	298	465	401	306[3]	237	205	184	155
EBIT margin, %	7.9	7.3	6.9	10.0	10.3	9.6[3]	9.1	8.5	8.4	8.1
Earnings after financial items, SEK M	391	318	280	436	389	289[3]	231	198	178	146
Net earnings, SEK M	252	200	172	266	239	184	144	124	105	90
Return figures and balance sheet										
Equity, SEK M	1,469	1,148	1,086	1,114	1,012	821	655	545	437	303
Return on equity, %	19.2	17.8	15.8	25.6	26.7	26.0	24.8	25.9	28.2	33.2
Capital employed, SEK M	1,802	1,606	1,553	1,617	1,360	1,242	1,006	763	717	594
Return on capital employed, %	22.8	21.0	19.1	30.8	31.8	28.3[3]	29.9	29.5	30.0	28.1
Capital turnover rate, %	2.8	2.8	2.7	3.1	3.0	2.8	3.1	3.3	3.4	3.2
Total assets, SEK M	2,934	2,440	2,365	2,732	2,228	1,993	1,689	1,252	1,199	1,027
Equity ratio, %	50.1	47.0	46.1	41.0	45.4	41.2	38.8	43.6	36.5	29.8
Net debt, SEK M	282	351	338	365	196	333	230	135	104	215
Net debt/equity ratio, times	0.19	0.31	0.31	0.33	0.19	0.41	0.35	0.25	0.24	0.71
Interest coverage ratio, times	20.2	17.7	11.3	14.2	16.3	11.7[3]	13.1	11.6	10.5	7.6
Other key figures										
Investments in tangible assets, SEK M	126	108	130	183	140	148	114	109	84	72
Operating cash flow, SEK M	181	121	125	230	236	–31	–55	1	113	–
Average number of employees (incl. temporary employees)	3,303	3,207	3,162	3,100	2,541	2,311	2,086	2,011	1,842	1,779

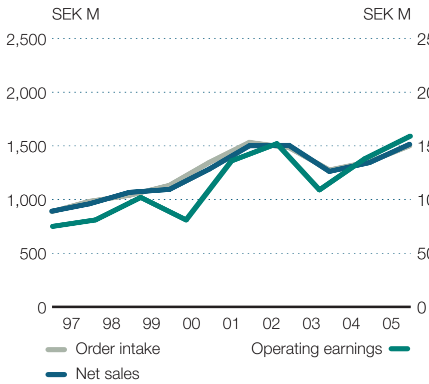
									Pro forma[2]	
DIVISIONS	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Dehumidification Division										
Order intake, SEK M	1,500	1,352	1,275	1,482	1,532	1,346	1,132	1,039	983	888
Net sales, SEK M	1,514	1,344	1,262	1,503	1,501	1,284	1,094	1,067	960	892
Growth, %	12.6	6.5	–16.0	0.2	16.9	17.4	2.5	11.2	7.6	5.1
Operating earnings, SEK M	159	138	109	163	152	136	81	102	81	75
Operating margin, %	10.5	10.3	8.7	10.8	10.1	10.6	7.4	9.6	8.4	8.4
Operating capital, SEK M	422	362	369	380	438	426	402	389	323	288
Number of employees at year-end	853	781	771	816	798	802	739	772	704	695
MCS Division										
Order intake, SEK M	2,444	2,102	1,987	2,041	1 331	1 008	835	730	662	585
Net sales, SEK M	2,335	2,095	1,982	2,004	1,338	961	833	721	659	570
Growth, %	11.5	5.7	–1.1	49.7	39.3	15.4	15.5	9.3	15.8	6.0
Operating earnings, SEK M	153	141	122	192	153	83	97	62	55	43
Operating margin, %	6.5	6.7	6.2	9.6	11.4	8.6	11.7	8.6	8.4	7.5
Operating capital, SEK M	862	683	580	682	450	377	292	243	206	189
Number of employees at year-end	1,706	1,615	1,618	1,620	1,135	940	827	695	659	599
HumiCool Division										
Order intake, SEK M	1,460	1,178	1,080	1,258	1,108	993	669	636	644	492
Net sales, SEK M	1,343	1,138	1,103	1,215	1,079	966	689	633	603	484
Growth, %	18.0	3.2	–9.2	12.6	11.8	40.2	8.9	5.0	24.6	9.6
Operating earnings, SEK M	135	88	127	164	139	139	84	77	71	52
Operating margin, %	10.1	7.8	11.5	13.5	12.9	14.4	12.2	12.1	11.8	10.8
Operating capital, SEK M	440	432	474	513	470	476	392	273	243	222
Number of employees at year-end	668	649	661	737	634	623	567	496	492	434

1 Financial statements from 2004 have been prepared in accordance with IFRS. The main difference compared with prior accounting principles is that goodwill is no longer amortized according to plan. The new principles have not affected reporting for divisions and geographic regions.
2 Pro forma refers to the Group structure that was created in conjunction with the exchange listing in October 1997.
3 Excluding items affecting comparability in an amount of SEK 15 M relating to surplus funds from pension management in Alecta.

Definitions are presented on page 60.

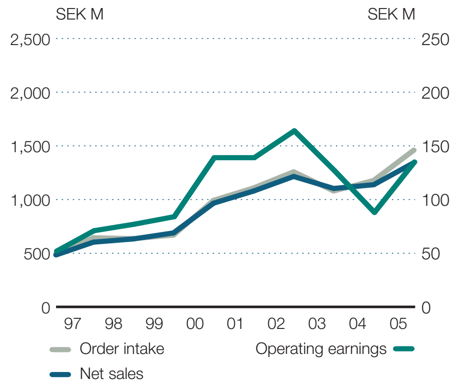
GEOGRAPHIC REGIONS	2005	2004	2003	2002	2001	2000	1999	1998	Pro forma² 1997	1996
Europe										
Net sales, SEK M	3,056	2,705	2,658	2,731	1,949	1,674	1,404	1,325	1,191	1,069
Growth, %	13.0	1.8	–2.7	40.2	16.4	19.3	6.0	11.2	11.4	0.2
Operating capital, SEK M	962	894	898	996	717	698	582	480	409	378
Number of employees at year-end	2,144	2,056	2,090	2,156	1,662	1,470	1,347	1,153	1,107	1,048
Americas										
Net sales, SEK M	1,683	1,501	1,347	1,577	1,592	1,231	970	885	790	686
Growth, %	12.1	11.4	–14.6	–0.9	29.4	26.9	9.6	12.1	15.2	22.3
Operating capital, SEK M	583	409	338	399	483	428	355	307	264	234
Number of employees at year-end	754	726	663	701	621	647	559	591	536	505
Asia										
Net sales, SEK M	484	419	372	427	408	335	279	238	262	207
Growth, %	15.6	12.7	–12.9	4.7	21.8	20.1	16.9	–9.0	26.7	1.6
Operating capital, SEK M	181	154	168	158	139	130	117	113	95	97
Number of employees at year-end	330	265	299	316	284	245	227	223	211	175

DEHUMIDIFICATION DIVISION

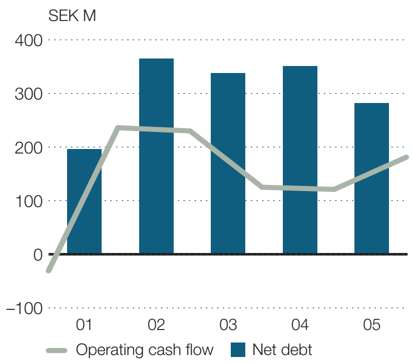


MCS DIVISION

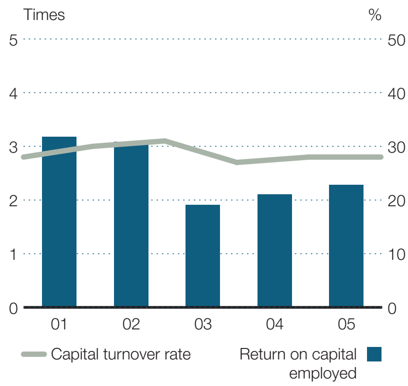
HUMICOOL DIVISION



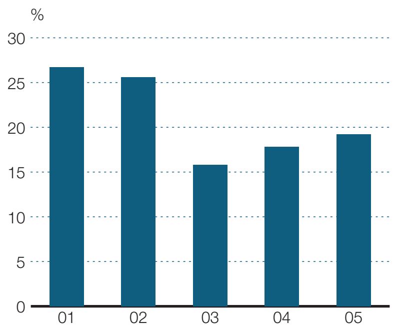
OPERATING CASH FLOW AND NET DEBT



CAPITAL TURNOVER RATE AND RETURN ON CAPITAL EMPLOYED



RETURN ON EQUITY



Years prior to 2004 are reported in accordance with prior accounting principles, implying that earnings figures include goodwill amortization.

Quarterly review

GROUP	2005[1] Q4	Q3	Q2	Q1	2004[1] Q4	Q3	Q2	Q1	2003[1] Q4	Q3	Q2	Q1
Order intake, net sales and earnings												
Order intake, SEK M	1,440	1,422	1,294	1,184	1,089	1,161	1,181	1,167	1,025	1,032	1,114	1,134
Net sales, SEK M	1,543	1,317	1,192	1,079	1,270	1,127	1,150	996	1,052	1,059	1,109	1,089
Growth, %	21.4	16.9	3.7	8.3	20.8	6.4	3.7	–8.5	–18.3	–10.1	–3.4	3.5
EBIT, SEK M	155	112	74	64	104	82	85	63	77	76	78	67
EBIT margin, %	10.1	8.5	6.2	5.9	8.2	7.2	7.4	6.4	7.4	7.2	7.0	6.2
Net earnings, SEK M	104	68	43	37	65	49	50	36	56	43	40	33
Other key figures												
Investments in tangible assets, SEK M	37	37	31	21	38	23	25	22	35	28	32	35
Operating cash flow, SEK M	37	75	37	32	47	9	37	28	47	56	14	8
Net debt, SEK M	282	318	397	296	351	389	389	311	338	403	456	383
Net debt/equity ratio, times	0.19	0.23	0.31	0.23	0.31	0.34	0.35	0.27	0.31	0.38	0.43	0.34
Interest coverage ratio, times	33.6	27.7	12.3	12.3	20.6	19.2	20.1	11.9	14.6	11.3	11.4	8.9
Number of employees at period-end	3,245	3,180	3,122	3,128	3,064	3,003	3,038	3,036	3,070	3,126	3,147	3,164
Share data												
Earnings per share, SEK	4.19	2.76	1.71	1.51	2.67	1.97	2.08	1.48	2.31	1.73	1.66	1.34
Equity per share, SEK	59.56	54.84	52.36	51.17	46.96	46.31	45.42	47.55	44.53	42.99	43.29	46.08
Share price at period-end, SEK	219	183	173	190	200	180	189	186	174	168	174	178
Market capitalization at period-end, SEK M	5,475	4,575	4,325	4,750	5,000	4,500	4,725	4,650	4,350	4,200	4,350	4,450

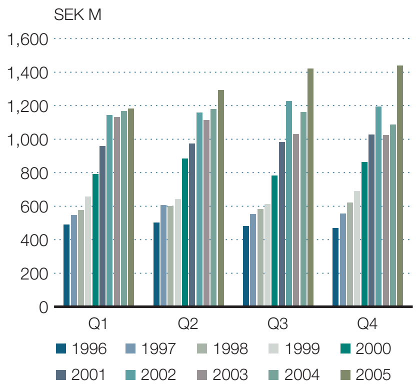
DIVISIONS	2005 Q4	Q3	Q2	Q1	2004 Q4	Q3	Q2	Q1	2003 Q4	Q3	Q2	Q1
Dehumidification Division												
Order intake, SEK M	355	412	389	344	316	356	348	333	324	297	348	306
Net sales, SEK M	431	404	354	325	395	323	350	276	322	315	312	313
Growth, %	8.9	25.1	1.0	18.0	22.7	2.5	12.1	–11.9	–18.1	–11.7	–21.3	–12.2
Operating earnings, SEK M	58	45	32	24	46	30	42	21	36	31	26	17
Operating margin, %	13.5	11.2	9.1	7.3	11.6	9.3	12.0	7.5	11.3	9.7	8.2	5.3
Operating capital, SEK M	422	408	395	384	362	364	352	351	369	373	384	367
Number of employees at period-end	853	848	831	826	781	756	758	744	771	791	796	812
MCS Division												
Order intake, SEK M	769	665	501	509	547	554	485	516	498	487	458	544
Net sales, SEK M	775	562	504	494	620	512	479	484	506	474	479	523
Growth, %	25.0	9.8	5.1	2.2	22.5	7.9	0.1	–7.4	–17.4	–7.4	9.4	18.6
Operating earnings, SEK M	74	32	14	31	59	36	14	33	24	33	22	43
Operating margin, %	9.6	5.8	2.9	6.4	9.5	6.9	2.8	6.9	4.7	6.9	4.6	8.3
Operating capital, SEK M	862	715	666	658	683	648	586	598	580	602	606	659
Number of employees at period-end	1,706	1,650	1,625	1,641	1,615	1,577	1,603	1,617	1,618	1,633	1,635	1,642
HumiCool Division												
Order intake, SEK M	330	366	419	345	235	257	358	327	207	254	321	297
Net sales, SEK M	347	374	352	269	264	300	333	241	230	278	334	260
Growth, %	31.6	24.8	5.8	11.4	14.8	7.8	–0.5	–7.4	–22.4	–13.2	0.7	–2.0
Operating earnings, SEK M	30	46	41	18	7	24	38	20	19	32	49	26
Operating margin, %	8.7	12.4	11.8	6.5	2.8	7.9	11.4	8.1	8.5	11.5	14.8	9.9
Operating capital, SEK M	440	514	527	442	432	471	512	496	474	500	534	525
Number of employees at period-end	668	663	647	642	649	651	659	656	661	681	695	695

[1] Financial statements from 2004 have been prepared in accordance with IFRS. The main difference compared with prior accounting principles is that goodwill is no longer amortized according to plan. The new principles have not affected reporting for divisions and geographic regions.

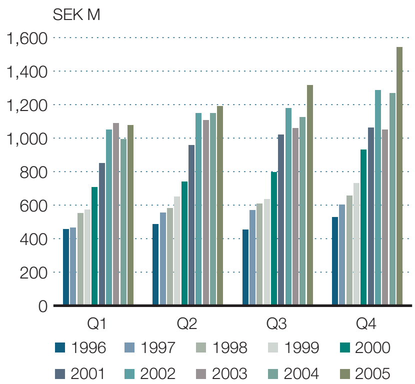
Definitions are presented on page 60.

GEOGRAPHIC REGIONS	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2003 Q4	2003 Q3	2003 Q2	2003 Q1
Europe												
Order intake, SEK M	774	813	808	746	662	676	708	726	617	615	669	716
Net sales, SEK M	874	785	741	656	748	658	683	616	675	643	673	667
Growth, %	16.9	19.3	8.5	6.4	10.8	2.3	1.5	–7.6	–17.2	–5.6	6.8	10.2
Operating capital, SEK M	962	995	966	921	894	897	884	892	898	919	942	964
Americas												
Order intake, SEK M	562	502	388	342	346	395	385	357	312	335	366	355
Net sales, SEK M	567	429	363	324	432	387	384	298	287	335	364	361
Growth, %	31.2	10.8	–5.3	8.7	50.8	15.4	5.4	–17.5	–26.0	–17.6	–13.1	–0.7
Operating capital, SEK M	583	465	448	402	409	411	392	371	338	373	405	411
Asia												
Order intake, SEK M	123	130	126	119	94	114	112	107	113	100	90	90
Net sales, SEK M	127	125	115	117	111	104	107	98	108	96	89	79
Growth, %	14.3	20.6	8.0	20.0	3.0	7.7	19.7	24.0	5.0	–6.7	–29.0	–17.6
Operating capital, SEK M	181	178	177	163	154	155	158	165	168	158	149	152

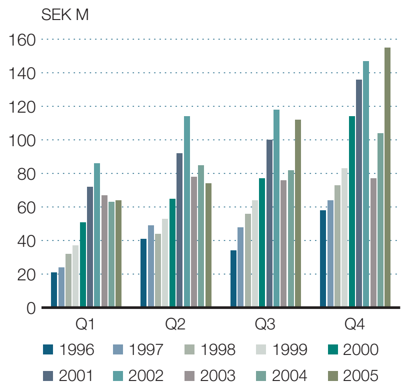
GROUP
ORDER INTAKE



GROUP
NET SALES



GROUP
EBIT



Comments on the performance during the year

The following comments refer to the performance of the Group during the year. Comments on the performance of the divisions are provided on pages 8–19.

Order intake and net sales

During the year, the Group's order intake rose 16 percent (currency-adjusted by 14 percent) to SEK 5,340 M (4,598). All divisions reported highly favorable order growth during the year. The order backlog increased by 45 percent (currency-adjusted by 30 percent) and was SEK 849 M (858) at year-end.

Net sales during the year rose 13 percent (currency-adjusted by 11 percent) to SEK 5,130 M (4,543). All divisions reported good growth during the year. There is a definite pattern of seasonal variation in business, whereby net sales and operating earnings are usually lowest during the first quarter and highest during the fourth quarter. This was the outcome also for 2005.

Gross earnings

Gross earnings increased by 11 percent (currency-adjusted by 9 percent) to SEK 1,429 M (1,287). The gross margin, however, declined to 27.9 percent (28.3).

Indirect costs

Selling and administrative costs increased by 6 percent (currency-adjusted by 4 percent) to SEK 969 M (913), corresponding to 19.0 percent (20.1) of net sales. Research and development costs amounted to SEK 46 M (40), corresponding to 0.9 percent (0.9) of net sales. Development costs in conjunction with customer order projects and development costs for the service concept for the MCS operations are reported as a cost in current operations.

EBIT

EBIT rose 21 percent (currency-adjusted by 18 percent) to SEK 405 M (334). The EBIT margin rose to 7.9 percent (7.3). Earnings were charged with costs in connection with action programs within MCS, costs in connection with the start-up of production units by HumiCool, goodwill impairment and negative effects of the fair-value valuation in hedge contracts at year-end, totaling SEK 19 M. The preceding year was charged with SEK 33 M in similar costs.

Capital expenditures

The Group's investments during the year in tangible assets amounted to SEK 126 M (108). The largest item, amounting to SEK 87 M (62), refers to investments in MCS equipment. Investments in intangible assets excluding goodwill amounted to SEK 2 M (3). Depreciation and impairments amounted to SEK 141 M (144).

Financial items

Net financial items improved to an expense of SEK 14 M (expense: 16), mainly as a result of lower interest rates and a lower average net debt during the past year.

Financial position

The equity ratio at year-end amounted to 50 percent (47). Interest-bearing assets amounted to SEK 178 M (123) and interest-bearing liabilities amounted to SEK 460 M (474). The net debt declined during the year by SEK 69 M to SEK 282 M. During the year Munters AB received SEK 29 M from the sale of own shares in conjunction with the expiration of 202,700 outstanding call options, distributed SEK 98 M to shareholders and paid SEK 41 M in supplementary purchase payments referring to the acquisition of Polygon in Norway. The Group has SEK 185 M in unutilized credit facilities.

Taxes

The tax expense for the year amounted to SEK 139 M (118), corresponding to an effective tax rate of 36 percent (37). This exceeds the tax rate of 28 percent in Sweden, due to the fact that a significant portion of the Group's profits are generated in subsidiaries in countries with higher tax rates and also owing to non-tax-deductible costs.

Parent Company

The operations of Munters AB encompass Group-wide functions and certain functions of the MCS Division. Earnings after financial items during the year amounted to SEK 104 M (loss: 4). This includes SEK 126 M (22) in dividends received from subsidiaries. There were no net sales outside the Group. Interest-bearing assets at year-end amounted to SEK 7 M (10), while the net debt amounted to SEK 252 M (154). Investments in tangible fixed assets during the year amounted to SEK 5 M (0), while the number of employees was 22 (19).

Income statement

Amounts in SEK M	Note	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Net sales	4	5,130	4,543	22	18
Cost of goods sold		–3,701	–3,256	–1	–1
Gross earnings		**1,429**	**1,287**	**21**	**17**
Other operating income	5	–	0	4	3
Selling costs		–580	–525	0	0
Administrative costs		–389	–387	–59	–47
Research and development costs		–46	–40	–	–
Other operating expenses	5	–9	–1	–	–
EBIT – Earnings before interest and tax	6,7	**405**	**334**	**–34**	**–27**
Financial income	8	6	4	149	30
Financial expenses	8	–20	–20	–11	–7
Earnings after financial items		**391**	**318**	**104**	**–4**
Income taxes	9	–139	–118	2	5
Net earnings		**252**	**200**	**106**	**1**
Attributable to:					
Equity holders in the Parent Company		250	199	–	–
Minority interest		2	1	–	–
		252	**200**	**–**	**–**
Earnings per share[1]					
– before dilution, SEK	10	10.17	8.20	–	–
– after dilution, SEK	10	10.17	8.18	–	–

[1] Attributable to equity holders in the Parent Company

Balance sheet

Amounts in SEK M at 31 December	Note	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
ASSETS					
Fixed assets					
Buildings and land	11	176	167	–	–
Plant and machinery	11	158	153	–	–
Equipment, tools, fixtures and fittings	7,11	216	198	6	2
Construction in progress	11	6	6	–	–
Patents, licenses and similar rights	12	18	19	1	0
Goodwill	13	364	342	–	–
Participation in subsidiaries	14	–	–	360	214
Receivables from subsidiaries		–	–	656	434
Participation in associated companies	15	6	6	–	–
Other financial assets		20	15	–	–
Deferred tax assets	9	60	48	5	9
Total fixed assets		**1,024**	**954**	**1,028**	**659**
Current assets					
Raw materials and consumables		177	154	–	–
Products in process		40	32	–	–
Finished products and goods for resale		130	85	–	–
Work in progress		120	55	–	–
Advances to suppliers		2	3	–	–
Accounts receivable		1,140	914	–	–
Prepaid expenses and accrued income	16	50	39	2	1
Receivables from subsidiaries		–	–	12	73
Current income taxes		32	39	4	6
Other financial assets		43	48	5	8
Cash and cash equivalents		176	117	7	10
Total current assets		**1,910**	**1,486**	**30**	**98**
TOTAL ASSETS		**2,934**	**2,440**	**1,058**	**757**

Amounts in SEK M at 31 December	Note	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
EQUITY AND LIABILITIES					
Equity					
Attributable to equity holders in the Parent Company					
Share capital	18	125	125	125	125
Statutory reserve		–	–	65	65
Other reserves		–	–	11	11
Reserves	18	83	–56	–	–
Retained earnings		1,256	1,075	227	165
		1,464	**1,144**	**428**	**366**
Minority interest		5	4	–	–
Total equity		**1,469**	**1,148**	**428**	**366**
Long-term liabilities					
Interest-bearing liabilities	19	3	46	–	–
Liabilities to subsidiaries		–	–	272	89
Provisions for pensions and similar commitments	20	115	104	36	35
Provisions for taxes		1	4	–	–
Other provisions	21	6	9	–	–
Other liabilities		3	–	–	–
Deferred income taxes	9	24	28	–	–
Total long-term liabilities		**152**	**191**	**308**	**124**
Short-term liabilities					
Interest-bearing liabilities	19	348	321	223	129
Advances from customers		89	28	–	–
Accounts payable		355	286	4	1
Accrued expenses and deferred income	22	330	261	12	8
Liabilities to subsidiaries		–	–	81	128
Derivatives	17	6	–	–	–
Current income taxes		41	52	–	–
Other liabilities		101	114	2	1
Provisions for pensions and similar commitments	20	5	9	–	–
Other provisions	21	38	30	–	–
Total short-term liabilities		**1,313**	**1,101**	**322**	**267**
TOTAL EQUITY AND LIABILITIES		**2,934**	**2,440**	**1,058**	**757**
Pledged assets	23	4	1	–	–
Contingent liabilities	23	76	42	84	76

Cash-flow statement

Amounts in SEK M	Note	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
CURRENT OPERATIONS					
Earnings after financial items		**391**	**318**	**104**	**–4**
Reversal of items not affecting liquidity					
Depreciation and impairments	6	141	144	1	1
Earnings from sales and disposals of fixed assets		3	–9	6	6
Provisions for pensions and similar commitments		–2	–3	0	1
Other provisions		–2	–1	–	–
Other profit/loss items not affecting liquidity		–2	5	–	–
		138	**136**	**7**	**8**
Taxes paid		–163	–126	8	2
Cash flow from current operations before changes in working capital		**366**	**328**	**119**	**6**
Cash flow from changes in working capital					
Changes in inventory		–89	–70	–	–
Changes in accounts receivable		–118	–155	–	–
Changes in other receivables		–6	4	–134	–25
Changes in accounts payable		40	51	–	–1
Changes in other liabilities		113	51	–3	70
		–60	**–119**	**–137**	**44**
Cash flow from current operations		**306**	**209**	**–18**	**50**
INVESTING ACTIVITIES					
Acquisitions of enterprises	13	–41	–40	–	–
Investments in tangible assets	11	–126	–108	–5	0
Investments in intangible assets	12	–2	–3	–6	–
Sales of tangible assets		5	28	–	–
Changes in other financial assets		–2	–5	–	–5
Cash flow from investing activities		**–166**	**–128**	**–11**	**–5**
FINANCING ACTIVITIES					
Payments received for issued stock options		–	1	–	1
Changes in loans		–26	–3	95	39
Dividend paid		–98	–85	–98	–85
Sales of own shares		29	–	29	–
Cash flow from financing activities		**–95**	**–87**	**26**	**–45**
Cash flow for the year		**45**	**–6**	**–3**	**0**
Cash and cash equivalents at the beginning of the year		117	125	10	10
Translation differences in cash and cash equivalents		14	–2	–	–
Cash and cash equivalents at the end of the year		**176**	**117**	**7**	**10**

Interest received by the Group amounts to 3 (4), and by the Parent Company, 13 (14).
Interest paid by the Group amounts to 12 (14), and by the Parent Company, 10 (8).

OPERATING CASH FLOW	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Operating cash flow	**181**	**121**	**–**	**–**

NET DEBT	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Short-term liabilities	348	321	223	129
Long-term liabilities	3	46	–	–
Defined-benefit pension plans, etc.	109	107	36	35
Interest-bearing assets	–178	–123	–7	–10
Net debt	**282**	**351**	**252**	**154**

Changes in equity

Amounts in SEK M	Attributable to equity holders in the Parent Company: Share capital (Note 18)	Reserves (Note 18)	Retained earnings	Total	Minority interest	Total equity
GROUP						
1 January 2004	**125**	**–**	**960**	**1 085**	**4**	**1,089**
Exchange-rate differences in translating foreign subsidiaries	–	–56	–	–56	–	–56
Total income and expenses reported directly under equity	**–**	**–56**	**–**	**–56**	**–**	**–56**
Net earnings	–	–	200	200	–	200
Total income and expenses	**–**	**–56**	**200**	**144**	**–**	**144**
Dividend paid to equity holders in the Parent Company	–	–	–85	–85	–	–85
31 December 2004	**125**	**–56**	**1,075**	**1,144**	**4**	**1,148**
Effect of introduction of IAS 39	–	2	–	2	–	2
1 January 2005	**125**	**–54**	**1,075**	**1,146**	**4**	**1,150**
Net profit from cash-flow hedges	–	–3	–	–3	–	–3
Exchange-rate differences in translating foreign subsidiaries	–	140	–	140	–	140
Total income and expenses reported directly under equity	**–**	**137**	**–**	**137**	**–**	**137**
Net earnings	–	–	250	250	2	252
Total income and expenses	**–**	**137**	**250**	**387**	**2**	**389**
Sales of own shares	–	–	29	29	–	29
Dividend paid to equity holders in the Parent Company	–	–	–98	–98	–	–98
Dividends from subsidiaries	–	–	–	–	–1	–1
31 December 2005	**125**	**83**	**1,256**	**1,464**	**5**	**1,469**

	Share capital	Statutory reserve	Other reserves	Retained earnings	Total equity
PARENT COMPANY					
31 December 2003	**125**	**65**	**10**	**240**	**440**
Group contributions	–	–	–	9	9
Net earnings	–	–	–	1	1
Total income and expenses	**–**	**–**	**–**	**10**	**10**
Cash payment received for stock options program	–	–	1	–	1
Dividend paid to equity holders in the Parent Company	–	–	–	–85	–85
31 December 2004	**125**	**65**	**11**	**165**	**366**
Group contributions	–	–	–	25	25
Net earnings	–	–	–	106	106
Total income and expenses	**–**	**–**	**–**	**131**	**131**
Sales of own shares	–	–	–	29	29
Dividend paid to equity holders in the Parent Company	–	–	–	–98	–98
31 December 2005	**125**	**65**	**11**	**227**	**428**

Notes

Amounts shown in million Swedish kronor (SEK M) unless otherwise indicated. Amounts in parentheses indicate values for the preceding year.

CONTENTS NOTES

NOTE 1 COMPANY INFORMATION

Munters AB (publ) is a Swedish public limited company registered with the Swedish Companies Registration Office. Its Corporate Registration Number is 556041-0606. The registered office of the Board Directors of Munters is in Sollentuna Municipality in Sweden.

The principal operations of the Group are described in Note 4. The Company's shares are listed on the O-List of the Stockholm Stock Exchange.

The consolidated accounts for the fiscal year ended 31 December 2005 have been approved by the Board and the President for publication on 7 March 2006 and will be presented to the Annual General Meeting on 26 April 2006 for adoption.

NOTE 2 ACCOUNTING PRINCIPLES

2.1 Regulations applied

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS). Since the Parent Company is an EU company, the IFRS, approved by the EU, is the only regulations applied.

Moreover, the consolidated accounts have been prepared in accordance with Swedish law through the application of the Swedish Financial Accounting Standards Council's RR 30 recommendation (supplementary accounting rules for groups).

The Parent Company's annual report has been prepared in accordance with Swedish law and through application of the Swedish Financial Accounting Standards Council's RR 32 recommendation (Accounting for legal entities). This implies that the IFRS valuation and disclosure rules are applied, with the exception of the deviations indicated in the section entitled "Parent Company's accounting principles."

2.2 Basis on which the accounts have been prepared

The consolidated accounts are based on historical acquisition values, with the exception of derivatives, financial assets available for sale and financial assets valued at their fair value via the income statement.

2.3 Basis on which the consolidated accounts have been prepared

The consolidated accounts encompass the Parent Company and its subsidiaries. The financial statements for the Parent Company and its subsidiaries that are included in the consolidated accounts refer to the same period and have been prepared in accordance with the accounting principles that apply to the Group.

All intra-Group transactions, revenues, costs, profits or losses that arise in transactions between companies included in the consolidated accounts have been entirely eliminated.

Subsidiaries

Subsidiaries refers to a company in which the Parent Company directly or indirectly holds more than half of the voting rights or otherwise has a controlling influence.

A subsidiary is included in the consolidated accounts as of the time of its acquisition, which is the day when the Parent Company acquires a controlling influence, and is included in the consolidated accounts until the day on which the controlling influence ceases.

All acquisitions are included in the consolidated accounts in accordance with the purchase method. This implies that the acquisition value is distributed among acquired assets, commitments and liabilities assumed at the time of acquisition on the basis of the fair values of these commitments and liabilities.

Minority interest

The minority interest is the portion of earnings and of net assets of not wholly owned subsidiaries that accrues to other owners. The minority share in the Company's net earnings is included in the earnings reported in the consolidated accounts and the share in its net assets is included in the equity reported on the consolidated balance sheet.

Associated companies

Associated companies refers to companies in which the Parent Company directly or indirectly has a long-term holding corresponding to not less than 20 percent and not more than 50 percent of the voting rights or otherwise holds a controlling influence.

Associated companies are reported in accordance with the equity method. This means that the consolidated balance sheet includes the acquisition cost of the shares, plus the Group's share in the earnings of associated companies after acquisition and after deduction of dividends received. The consolidated income statement includes the participation in the earnings of the associated companies after tax, with deduction where applicable impairments of goodwill and amortization of surplus values.

Translation of the accounts of foreign subsidiaries

The subsidiaries' items on the balance sheet are valued in the relevant functional currency, which would normally be identical to the local currency in the particular country. The consolidated financial statements are presented in Swedish kronor, which is the Parent Company's functional currency. The income statement and balance sheets for the foreign subsidiaries are translated into Swedish kronor in accordance with the current method. This method implies that the balance sheets are translated at year-end rates. The income statements are translated at the average exchange-rate during the period. Exchange-rate translation differences do not affect earnings, but are reported directly under equity. The following currency rates have been used in currency translations.

		Average rate		Year-end rate	
Currency	**Country**	**2005**	**2004**	**2005**	**2004**
AUD	Australia	5.70	5.41	5.83	5.12
CAD	Canada	6.18	5.65	6.84	5.46
CNY	China	0.91	0.89	0.98	0.80
DKK	Denmark	1.25	1.23	1.26	1.21
EUR	Euro	9.28	9.13	9.43	9.01
GBP	United Kingdom	13.58	13.46	13.73	12.71
JPY	Japan	0.068	0.068	0.068	0.064
NOK	Norway	1.16	1.09	1.18	1.09
SGD	Singapore	4.49	4.35	4.79	4.04
THB	Thailand	0.19	0.18	0.19	0.17
USD	USA	7.48	7.35	7.95	6.61
ZAR	South Africa	1.17	1.14	1.26	1.16

2.4 Changed accounting principles

The consolidated accounts for the 2005 fiscal year represent the first full application of IFRS. A large number of new and revised standards have been applied. IFRS 1 (First-time adoption of International Financial Reporting Standards) contains transitional rules. According to the main rule, the standards that apply on 31 December 2005 are to be applied retroactively. There are certain exceptions to this main rule. Differences between IFRS and previously applied accounting principles are listed in Note 3, which also specified the effects on opening equity on 1 January 2004 and on comparative figures in the income statements and balance sheets for 2004. The exceptions to the main rule on retroactive application that have been utilized are specified under the relevant subheading in the section on Accounting rules applied.

The format for the consolidated income statement and consolidated balance sheet has changed. Among other changes, certain comparison information was reclassified.

2.5 Use of assessments

In order to prepare accounts in accordance with GAAP, company management and the Board must make assessments and assumptions that affect the financial statements and the information presented. These assessments are based on past experience and on the various assumptions that management and the Board consider reasonable under the prevailing circumstances. Conclusions drawn form the basis of determinations concerning reported values of assets and liabilities, in cases where they cannot readily be determined from information from other sources. The actual outcome can differ from these assessments, if other assumptions are made or other conditions apply.

Assessments can have a significant effect on the Company's earnings and financial position, particularly in the areas of income recognition and doubtful receivables, goodwill valuation, other intangible and other fixed assets, leasing, restructuring measures, provisions for pensions and legal disputes, and contingent liabilities.

2.6 Accounting principles applied

Business combinations

IFRS 3 (Business combinations) is applied to acquisitions of operations carried out on or after 1 January 2004, which complies with IFRS 1 and is consequently an exception from the main rule on retroactive application of IFRS.

IFRS 3 implies that the fair value of the identifiable assets and liabilities of the acquired operations is established at the time of acquisition. These fair values also include participation in the assets and liabilities attributable to any remaining minority owners of the acquired operations. Identifiable assets and liabilities also include assets, liabilities and provisions, including commitments and claims from external parties, that are not reported on the balance sheet of the acquired operations. Provisions are not made for expenses concerning projected restructuring measures resulting from the acquisition. The difference between the acquisition value of the acquisition and the acquired share in the fair value of the net assets of the acquired operations is classified as goodwill and reported on the balance sheet.

The useful life of each intangible asset is established and impaired over the period of useful life. If the period of useful life is deemed indefinite, no impairment takes place. An assessment that causes the useful life of an intangible asset to become indefinite takes all relevant circumstances into account and is based on the premise that there is no predictable maximum time limit for the net cash flow generated by the asset. The useful life of goodwill is generally assumed to be indefinite.

Fixed assets

Fixed assets are reported on the balance sheet at acquisition value with deduction of accumulated depreciation according to plan and any applicable impairments. The assets of acquired companies are reported at fair value on the date of acquisition with deduction of accumulated depreciation.

The acquisition value of the asset is depreciated straightline throughout the expected useful life of the asset. Anticipated periods of useful life are specified in Note 6. The assets' remaining useful life is reviewed on every closing date and is adjusted if necessary.

Buildings, machinery and equipment

Land is not subject to depreciation since it is considered to have an indefinite useful life.

Normal maintenance and repair costs are expensed as they arise. More extensive renovation and upgrade costs are reported as an asset and depreciated over the remaining useful life of the object.

Goodwill

Goodwill is the value by which the acquisition price exceeds the fair value of the net assets acquired in conjunction with the acquisition of a company or an acquisition of assets and liabilities. Goodwill arising from the acquisition of associated companies is included in the reported value of the associated company.

Patents, licenses and similar intangible rights

Direct external expenses for the development of software for internal administrative use are capitalized, provided future efficiency gains are likely and exceed the expenses committed. Activities during the preliminary study phase, and maintenance and training costs, are expensed on a regular basis.

Depreciation

The value of the fixed assets is regularly impairment-tested. Goodwill and other intangible assets with an indefinite useful life are impairment tested at least once a year. When there is an indication that an asset's value has declined, the reported value of the asset, including goodwill, is assessed.

If an asset's reported value exceeds its estimated recovery value, the asset is impaired to its recovery value. The recovery value is the higher of net sale value and value in use. Recovery value is assessed for each cash-generating unit individually.

"Net sale value" refers to the most likely sale price in a normally functioning market, with deduction of selling costs. "Value in use" refers to the present value of the estimated future cash flows that are expected to result from the use of the asset and the estimated residual value at the end of the asset's useful life.

Value in use is generally measured using discounted cash-flow models, which requires assumptions of a discount rate, future cash flows and the expenses necessary to create the assessed cash flows.

Any previously reported impairment is reversed if the recovery value is considered to exceed the reported value. No reversal occurs of an amount greater than what would cause the reported value to correspond to what it would have been if no impairment had been reported in a prior year.

NOTE 2 cont'd

Goodwill is impairment tested using the following method. The goodwill value established on the date of acquisition is distributed among cash-generating units or groups of cash-generating units, which are expected to contribute advantages from synergistic effects resulting from the acquisition. Assets and liabilities already in the Group at the time of acquisition can be assigned to these cash-generating units. Each such cash flow to which goodwill is distributed corresponds to the lowest level of the Group at which goodwill is monitored in the management of the company. This is a unit of the Group that is not larger than a segment – that is, a division or geographic region in the Group's segment reporting. Goodwill impairment is not reversed.

Inventories, etc.
Inventory is valued at the lower of acquisition cost or net sales value (fair value). Required impairments are made for obsolescence based on each item's age and inventory turnover rate. Acquisition cost is determined by applying the first-in, first-out method or weighted average prices, if that method results in a good approximation of the first-in-first-out method. For internally manufactured products, 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
Work in progress consists of committed expenses attributable to currently incomplete work.

Receivables
Receivables are reported in the amounts at which they are expected to be paid, based on individual assessment.

Cash and cash equivalents
Cash and cash equivalents are defined as cash and bank balances plus current investments with maturity periods not exceeding three months. Utilized overdraft facilities are reported under short-term loans.

Equity
Expenses for the purchase of own shares reduce equity in both the Parent Company and the Group. When these shares are sold, the proceeds of the sale are included in equity.

Loan liabilities
Loan liabilities are initially reported in the amounts received, net after deduction of transaction costs. During subsequent periods, loan liabilities are reported as the total of outstanding payment obligations in accordance with the effective interest method. Interest expenses are reported in the income statements for the various periods.

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.

A provision is made for restructuring measures when a detailed, formal plan of the measures exists and well-founded expectations have been created among those who will be affected by the measures.

Employee benefits
There are several defined-contribution plans and several defined-benefit plans in the Group. In some of these, plan assets are held in special trusts or the equivalent. Pension plans are mainly funded through premiums paid by the various Group companies and by the employees. Independent actuaries compute the size of the commitments of the various plans and reassess plan commitments every year.

Regarding defined-benefit plans, pension costs are calculated using the projected unit credit method, so that the cost is distributed over the employee's working life. These commitments are valued at the present value of the anticipated future payments calculated using a discount rate that corresponds to the interest on grade A commercial paper or government bonds with a remaining term that approximately corresponds to that of the commitments. For funded plans, the pension commitment is reported net after deduction of the plan assets. Funded plans with net assets – that is, with assets in excess of their commitments – are reported as fixed assets. Actuarial gains and losses outside the 10 percent corridor are distributed over the employee's estimated average remaining period of employment. The discount effect is reported as other financial expenses.

Special employer's contribution in Sweden is expensed based on the pension expense established in accordance with IFRS.

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

Stock options program
Employees have paid a market premium for the stock options program that Munters has implemented (see Note 28). The stock option programs contain a subsidy implying that the employee receives the equivalent of 40 percent of the option premium in the form of a cash bonus, provided the option holder is employed during the period when the options may be exercised. This subsidy and the related social security payments are calculated and allocated as a personnel cost over the vesting period – that is, from the time of issuance of the options until the vesting conditions have been fulfilled.

Warranty commitments
Warranty costs are booked as cost of 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 in the most recent 24-month period, with an adjustment for known warranty claims exceeding the standard provision.

Leasing
Leasing is classified either as financial or operative leasing. Leasing in which Munters adopts essentially the same legal position as in direct ownership of the asset is classified as financial leasing. Reporting of financial leasing entails recognizing a fixed asset as an asset item in the balance sheet, at the lower of the market value of the asset and the estimated present value of the underlying lease payments, and initially reporting a corresponding liability. The asset is depreciated according to plan over its useful life, 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.

Net sales
Net sales are booked at the sale value after deduction of discounts and value-added tax and other taxes.

Income from the sale of goods is reported upon delivery, at which point essentially all risks and rights are transferred to the purchaser. This normally implies that sales are reported on delivery to the customer in accordance with the conditions of sale.

Income from major project assignments is reported in relation to the degree of completion on the closing date, provided the profit can be reliably calculated. Degree of completion is determined mainly on the basis of committed project costs in relation to estimated project costs upon completion. Any expected losses are expensed directly.

In the MCS Division, there are numerous small projects with short completion periods (the average being between two and 12 weeks). For practical reasons, income from such projects is reported on completion in connection with the issuing of a final invoice to the customer.

Key categories of revenue are defined in Note 4, whereby Dehumidification and HumiCool refer to the sale of goods and MCS refers to services rendered.

Research and development costs
The Group's expenses for research and development do not meet the established requirements for reporting as assets and have thus, as in previous years, been 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.

NOTE 2 cont'd

Government grants

Government grants are reported at fair value when it may be presumed with reasonable certainty that a grant will be received and that the Group will fulfill all the conditions attached thereto.

Government grants related to the acquisition of assets are reported in the balance sheet through the reduction by the grant of the reported value of the asset. Government grants attributable to costs are reported as deferred income and reported as revenue as the costs that the grant is designed to offset arise. When a government grant is attributable neither to the acquisition of assets nor to remuneration of costs, it is reported as other income.

Transactions in foreign currency

Transactions in foreign currency are translated at the exchange rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated at the year-end rate and any resulting translation differences are booked to earnings. Accordingly, both realized and unrealized exchange-rate differences are reported in the income statement. Exchange-rate differences concerning operating receivables and liabilities are reported under operating earnings, while exchange rate differences attributable to financial assets and liabilities are reported as a financial expense.

Financial derivatives

Financial derivatives are initially reported at acquisition cost in the balance sheet, and thereafter at the prevailing market value on subsequent closing dates. The method of reporting any gains or losses that arise varies depending on the character of the risk-hedged interest.

When a derivative contract is purchased, it is classified either as 1) a hedge of the market value of a reported asset or liability (market-value hedging), 2) a hedge of a planned transaction or definite undertaking (cash-flow hedging), 3) a hedge of a net investment in a foreign company, or 4) a derivative that does not meet the requirements for hedge accounting.

Changes in the market value of such derivatives that are classified as, and meet the requirements for, cash flow hedging, and that can be objectively established, are reported in the income statement with any market value changes of the asset or liability to which the hedging pertains.

Changes in the market value of such derivatives that are classified as, and meet the requirements for, cash flow hedging, and that can be objectively established, are reported under equity as a hedge reserve until the day when the hedged interest is booked. When the hedged interest is booked, earnings arising from any related derivatives are reported in the income statement. If a planned transaction or a commitment undertaken is no longer expected to take place, any related gains or losses booked to equity must be immediately transferred to the income statement.

Certain derivative transactions do not fulfill the requirements for hedge accounting in accordance with IAS 39 (Financial instruments: Recognition and measurement), although they are economically justified in accordance with the Group's risk management policy. Changes in the market value of such unqualified hedging transactions are reported immediately in the income statement. Munters does not hedge net investments in foreign subsidiaries.

Income taxes

Income taxes in the consolidated financial statements consist of current and deferred tax.

Current taxes are based on each company's taxable income as reported in its tax return. This includes an adjustment for current tax attributable to previous periods.

Deferred tax is calculated to correspond to the tax effect that arises when final tax is triggered. It is based on temporary differences between book values in the balance sheet and residual values for tax purposes. The amounts are calculated using the tax rates that were effect or had been announced on the closing date. Temporary differences arise in conjunction with company 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.

Deferred tax referring to temporary differences attributable to investments in subsidiaries and associated companies are not reported, since in all such cases, the Parent Company can control the time of the reversal of the temporary differences and it is considered unlikely that a reversal will occur in the near future.

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 of more uncertain future events that are completely outside the control of Munters. 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.

Information concerning related parties

Companies related to Munters includes the Parent Company, subsidiaries and associated companies. "Related physical persons" is defined as Board members, senior management and close family members of such persons.

Information on transactions with related parties that entail a transfer of resources, services or obligations between related parties is disclosed, regardless of whether remuneration was paid or not. The disclosure contains information as to the character of the relationship and the effect of the relationship on the financial reports.

Events after the closing day

If events arise that are significant, but that should not be taken into account when the amounts in the income statement and balance sheet are established, information will be provided in the Board of Directors' report and notes as to the character of the event and if possible an estimate of its financial effect. Significant implies that a disclosure of the information could influence financial decisions made by users of the financial reports.

Significant events that confirm the relationship that existed on the closing date and that occur after the closing date but prior to the signing of the Annual Report result in adjustments in the amounts in the Annual Report on the recommendation of the Board.

Accounting principles of the Parent Company

With the exception of reporting of defined-benefit pension plans, hedge contracts and untaxed reserves, the Group's and the Parent Company's accounting principles agree.

NOTE 3 EFFECTS OF THE TRANSITION TO 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.

The Group's financial reporting for 2005 have taken place in accordance with IFRS and the comparison figures for 2004 have been 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 31 December 2003 and 2004.

The accounts have been prepared according to the IFRS standards that applied on 31 December 2005 and that have been approved by the EU. IFRS 1

NOTE 3 cont'd

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, except that the amounts reported for earnings and reversal of depreciation have been adjusted as in the income statement.

	2004 acc. to prior principles	2004 acc. to IFRS	Effect of introduction of IFRS
EBIT, SEK M	298	334	36
EBIT margin, %	6.6	7.3	0.7
Earnings per share, SEK	6.84	8.20	1.36

		2004
Net earnings, previous accounting principles		**167**
Effect of transition to IFRS		
Company acquisitions	Note A	33
Minority interests	Note B	1
Net earnings, IFRS		**200**

		2003	2004
Equity on 31 Dec., according to previous accounting principles		**1,086**	**1,112**
Effect of implementation of RR 29		–1	
Equity on 1 Jan. 2004, according to previous accounting principles		**1,085**	
Company acquisitions	Note A		33
Minority interests	Note B	4	3
Equity on 31 Dec., IFRS		**1,089**	**1,148**
Financial instruments	Note C		2
Equity on 1 Jan. 2005, IFRS			**1,150**

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 impairment. Munters conducted such impairment testing for goodwill values on 1 January and 31 December 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 1 January 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 SEK 33 M as a result of the elimination of goodwill amortization as of 1 January 2004.

Note B Minority interests

IAS 27 (Consolidated accounting) means that minority shares in net earnings will not be deducted 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 SEK 1 M, while equity increased by SEK 4 M and SEK 3 M, respectively.

Note C Financial instruments

IAS 32 and IAS 39 have been applied as of 2005. With the support of IFRS 1, this has taken place without recalculating comparison figures for 2004.

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.

Cash and cash equivalents 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. Certain hedging instruments do not fulfill the requirements for 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 1 January 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 SEK 2 M 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 1 January 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 1 January 2004 as other equity.

NOTE 4 SEGMENT REPORTING

Munters is the world leader in humidity control, offering products and services for water and fire damage restoration as well as 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 in dehumidification and humidification.

On 1 July 2005, Munters implemented a new organization with global divisions. The purpose of the new organization is to improve the profit margin through coordination of the product range, increases in series size, more efficient purchasing routines and better knowledge transfer between plants. The Group was previously organized in the three regions: Europe, the Americas and Asia. As a consequence of the reorganization, segment reporting was changed so that the divisions constitute the primary segment.

DIVISIONS

The Group's operations are managed and reported mainly through the three divisions – Dehumidification, MCS and HumiCool. The consolidation of the divisions is presented according to the same principles as for the Group as a whole. Transactions between regions are based on market terms. The Dehumidification Division manufactures and markets products and complete solutions for controlling humidity and indoor climate. The MCS Division provides service for water and fire damage restoration and temporary climate control. The HumiCool Division manufactures and markets products and systems for evaporative cooling and humidification. No income statement items after EBIT are allocated to the divisions.

NOTE 4 cont'd

DIVISIONS

	Dehumidification		MCS		HumiCool		Eliminations, etc.		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Income statement										
External net sales	1,458	1,318	2,334	2,093	1,338	1,132	–	–	5,130	4,543
Internal net sales	56	26	1	2	5	6	–62	–34	–	–
Net sales	**1,514**	**1,344**	**2,335**	**2,095**	**1,343**	**1,138**	**–62**	**–34**	**5,130**	**4,543**
Operating earnings	**159**	**138**	**153**	**141**	**135**	**88**	**–1**	**–1**	**446**	**366**
Amortization of surplus values and impairment of goodwill	–	–	–6	–3	–	–	–	–	–6	–3
Undistributed costs	–	–	–	–	–	–	-35	-29	–35	–29
EBIT	**159**	**138**	**147**	**138**	**135**	**88**	**–36**	**–30**	**405**	**334**
Balance sheet										
Operating assets	575	495	993	770	601	530	14	–9	2,183	1,786
Goodwill	3	3	173	165	188	174	–	–	364	342
Participations in associated companies	–	–	–	–	6	6	–	–	6	6
Other assets	–	–	–	–	–	–	381	306	381	306
Total assets	**578**	**498**	**1,166**	**935**	**795**	**710**	**395**	**297**	**2,934**	**2 440**
Operating liabilities	153	133	131	87	161	98	–2	–4	443	314
Other liabilities	–	–	–	–	–	–	1,022	978	1,022	978
Total liabilities	**153**	**133**	**131**	**87**	**161**	**98**	**1,020**	**974**	**1,465**	**1,292**
Other data										
Investments	17	19	87	62	23	34	1	–4	128	111
Depreciation and impairments	22	23	78	78	36	41	5	2	141	144
Number of employees at year-end	853	781	1,706	1,615	668	649	18	19	3,245	3,064

GEOGRAPHIC REGIONS

The Group's operations are divided into three geographic regions that constitute secondary segments: Europe, the Americas and Asia. The Europe Region includes Europe, the Middle East and Africa. The Americas Region includes North America, Central America and South America. The Asia Region includes Asia, except the Middle East, and Australia.

	Europe		Americas		Asia		Eliminations, etc.		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Net sales	3,056	2,705	1,683	1,501	484	419	–93	–82	5,130	4,543
Operating assets	1,215	1,090	735	494	238	208	–5	–6	2,183	1,786
Operating liabilities	254	191	153	85	57	54	–21	–16	443	314
Investments	83	69	33	39	11	6	1	–3	128	111
Number of employees at year-end	2,144	2,056	754	726	330	265	17	17	3,245	3,064

NOTE 5 OTHER OPERATING INCOME AND OPERATING EXPENSES

	Group		Parent Company	
	2005	2004	2005	2004
Other operating income				
Exchange-rate differences	–	–	1	–
Royalty from subsidiaries	–	–	3	3
	–	**–**	**4**	**3**
Other operating expenses				
Goodwill impairment	– 3	–	–	–
Exchange-rate differences	– 6	– 1	–	–
	– 9	**– 1**	**–**	**–**

NOTE 6 DEPRECIATION AND IMPAIRMENTS

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 straightline over the following periods.

Patents and licenses	3–5 years
Land lease	50 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 impairment is reported among other operating expenses. See also Note 13. The year's depreciation, amortization and impairments were charged against the year's earnings as shown below.

	Group		Parent Company	
	2005	2004	2005	2004
Cost of goods sold	110	117	–	–
Selling costs	6	7	–	–
Administrative costs	21	20	1	1
Research and development costs	1	–	–	–
Other operating expenses	3	–	–	–
	141	**144**	**1**	**1**

NOTE 7 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 SEK 165 M (137).

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

2006	123
2007–2010	211
2011 and later	32
	366

For the most part, all vehicles used in service operations are currently classified as operational leases.

Financial leasing

Assets held through financial lease contracts are reported as equipment. The year's total payments relating to the assets amounted to SEK 0 M (0). Depreciation during the year amounted to SEK 1 M (0). Book value at year-end amounted to SEK 5 M (1).

Future payment obligations for the financial lease contracts amount to SEK 0 M a year over the next six years.

NOTE 8 FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2005	**2004**	**2005**	**2004**
Financial income				
Dividends from subsidiaries	–	–	126	22
Divestment of shares in subsidiaries	–	–	–	–6
Impairments of shares in subsidiaries	–	–	–4	–
Interest income subsidiaries	–	–	13	14
Interest income other	3	4	0	0
Exchange-rate differences	3	–	14	–
	6	**4**	**149**	**30**
Financial expenses				
Interest expenses subsidiaries	–	–	–5	–4
Interest expenses other	–12	–14	–5	–4
Exchange-rate differences	–	–1	–	3
Other financial expenses	–8	–5	–1	–2
	–20	**–20**	**–11**	**–7**
Total financial income and expenses	**–14**	**–16**	**138**	**23**

NOTE 9 INCOME TAXES

	Group		Parent Company	
	2005	**2004**	**2005**	**2004**
Current tax expense	152	130	–2	–5
Tax relating to previous years/ withholding tax	0	–7	–	–
Deferred tax related to temporary differences and loss carry-forwards	–6	–5	–	–
Deferred tax attributable to changes in valuation reserves	–7	0	–	–
Tax expenses	**139**	**118**	**–2**	**–5**
Reconciliation of effective tax expense				
Earnings before tax	391	318	104	–4
Tax according to prevailing tax rate for the Parent Company	109	89	29	–1
Difference attributable to foreign tax rates	26	23	–	–
Non-deductible expenses	14	10	2	2
Non-taxable income	–5	–1	–35	–6
Change in valuation reserves	–7	3	–	–
Tax relating to prior years/ withholding tax	0	–7	–	–
Other	2	1	2	–
Tax expenses	**139**	**118**	**–2**	**–5**

Deferred tax assets		
Machinery and equipment	7	10
Inventory	13	9
Accounts receivable	15	7
Provisions	9	6
Accrued expenses and deferred income	17	13
Derivative instruments	2	–
Loss carry-forwards	17	14
Other	1	1
Offsetting	–21	–12
	60	**48**
Deferred tax liabilities		
Machinery and equipment	20	16
Inventory	0	1
Goodwill	2	1
Untaxed reserves	15	18
Provisions	3	4
Other	5	0
Offsetting	–21	–12
	24	**28**

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 SEK 53 M (70) at year-end, of which SEK 50 M (55) were unlimited in time and SEK 3 M expire between 2006 and 2010. Loss carry-forward for which deferred tax assets are not reported amounted to SEK 2 M (22). Loss carry-forwards totalling SEK 51 M (48) were thus suitable for reporting as deferred tax assets.

NOTE 10 EARNINGS PER SHARE

	Group	
	2005	2004
Net earnings, attributable to equity holders in the Parent Company	250	199
Weighted average number of shares, thousands	24,538	24,378
– after dilution, thousands	24,538	24,421
Earnings per share, SEK	10.17	8.20
– after dilution	10.17	8.18

Earnings per share (before dilution) are calculated by dividing the net earnings attributable to equity holders in the Parent Company with the weighted average number of shares outstanding during the year.

The calculation of earnings per share after dilution involves the assumption that the stock options that could lead to a dilution effect will be exercised. Assuming cash is received from these shares, they are considered as having been sold at the average market rate during the period. The difference in value between the number of shares sold and the number of shares that would have been sold at the average market price during the period is treated as a sale of shares without payment. The weighted average number of shares is increased by the corresponding number of shares.

The dilution effect is a result of the stock option program of May 2000, which expired in 2005. Other option programs do not result in a dilution effect, since the subscription price exceeds the average market price in the year.

NOTE 11 TANGIBLE ASSETS

	Land and buildings	Plant and machinery	Equipment tools, fixtures and fittings	Construction in progress
GROUP				
Acquisition value				
Amount on opening date	283	489	745	6
Capital expenditure for the year	4	32	83	7
Sales and scrapping	–5	–26	–26	–1
Eliminations/Group internal	–	–	–6	–
Reclassifications	0	4	4	–8
Translation differences for the year	30	44	77	2
Amount on closing date	**312**	**543**	**877**	**6**
Accumulated depreciation				
Amount on opening date	116	337	548	–
Sales and scrapping	–3	–24	–23	–
Reclassification	0	–1	1	–
Depreciation for the year	10	44	78	–
Translation differences for the year	13	29	57	–
Amount on closing date	**136**	**385**	**661**	**–**
Reported value	**176**	**158**	**216**	**6**
PARENT COMPANY				
Acquisition value				
Amount on opening date			8	
Capital expenditure for the year			5	
Amount on closing date			**13**	
Accumulated depreciation				
Amount on opening date			6	
Depreciation for the year			1	
Amount on closing date			**7**	
Reported value			**6**	

Depreciation is based on the asset's acquisition value and the estimated useful lifetimes as specified in Note 6.

The reported value of land amounted to SEK 18 M.

Taxation values of buildings in Sweden amounted to SEK 10 M (10). The taxation value of land in Sweden amounted to SEK 1 M (1). Previously approved relocation grants amounted to SEK 7 M (7) in the Group. Relocation grants reduced the acquisition value of buildings.

NOTE 12 PATENTS, LICENSES AND SIMILAR RIGHTS

	Group	Parent Company
Acquisition value		
Amount on opening date	33	1
Capital expenditure for the year	2	0
Translation differences for the year	3	–
Amount on closing date	**38**	**1**
Accumulated amortization		
Amount on opening date	14	0
Amortization for the year	5	0
Translation differences for the year	1	–
Amount on closing date	**20**	**0**
Reported value	**18**	**1**

Patents, licenses and similar rights include SEK 9 M relating to capitalized expenses for business and Group accounting systems, as well as SEK 5 M relating to a lease in China.

NOTE 13 GOODWILL

Reported value before impairments	
Amount on opening date	343
Translation differences for the year	24
Amount on closing date	**367**
Accumulated impairments	
Amount on opening date	–
Impairments for the year	3
Amount on closing date	**3**
Reported value	**364**

Reported goodwill value per cash-generating unit	2005	2004
HumiCool, Italy	137	131
MCS, Germany	96	92
MCS, Norway and Denmark	73	67
HumiCool Aerotech, US	51	43
MCS M'Renov, France	–	3
MCS, Australia	4	3
Other	3	3
	364	**342**

Impairment

During the year, an impairment of the entire goodwill value by SEK 3 M was recognized. This impairment was attributable to M'Renov, a company that was acquired in 2001 and is part of the MCS Division in France.

Impairment testing of goodwill values

On 30 September 2005, reported values of goodwill were subjected to routine impairment testing. The investigations have been carried out for each individual cash-generating unit. The valuation has been based on the discounted future cash flow. This encompasses forecasts, approved by Group management, for the next three years.

The growth rate after the three years has been cautiously estimated at 2 percent. In the calculations, a discount rate that is a nominal rate for the Group (average weighted capital cost before tax) was used. It was established to be 10.0 percent (11.7). For each acquisition the discount rate has been adapted to a long-term capital structure in the acquired company, whereby the discount interest rate has varied within the interval of 5.9 to 10.0 percent. The recovery value was found to exceed the reported values. Consequently, no impairment was necessary. Up to 31 December 2005, there was no indication of any decline in value.

Acquisition of operations

The cash-flow statement shows the impact on cash and cash equivalents with respect to acquired operations, which for both years is attributable to additional purchase prices that were previously booked as a liability in conjunction with the acquisition.

NOTE 14 PARTICIPATIONS IN SUBSIDIARIES

Direct shareholdings	Country	Share of votes and capital, %	Reported value
AB Carl Munters (corp. reg. no. 556035-1198)	Sweden	100	169
Munters Beteiligungs GmbH	Germany	100	4
Munters BV	Netherlands	100	0
Munters Corporation	US	100	2
Munters France SAS	France	100	8
Munters Group Ltd	UK	100	0
Munters Holding Norway AS	Norway	100	18
Munters Italy SpA	Italy	100	0
Munters Korea Co Ltd	South Korea	100	0
Munters Ltd	UK	100	157
Munters (Thailand) Co Ltd	Thailand	100	1
Polygon AS	Denmark	19	1
			360

Indirect shareholdings in Group companies with significant business operations	Country	Share of votes and capital, %
Munters AG	Switzerland	100
Munters Air Treatment Equipment (Beijing) Co Ltd	China	100
Munters AS	Denmark	100
Munters Austria GmbH	Austria	100
Munters Brasil Industria e Comercio Ltda	Brazil	100
Munters de Mexico S de RL de CV	Mexico	100
Munters Euroform GmbH	Germany	100
Munters Europe AB (corp. reg. no. 556380-3039)	Sweden	100
Munters GmbH	Germany	100
Munters Inc	Canada	100
Munters KK	Japan	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 Service GmbH	Germany	100
Munters Services France SAS	France	100
Munters Spain SAU	Spain	100
Munters Torkteknik AB (corp. reg. no. 556034-6164)	Sweden	100
Polygon AS	Norway	100
Polygon AS	Denmark	56

NOTE 15 PARTICIPATIONS IN ASSOCIATED COMPANIES

	Country	Share of votes and capital, %	Book value	Reported value in Group	Shares in earnings 2005
Aerotech Asia Inc Co	British Virgin Islands	50	3	6	–

NOTE 16 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2005	2004	2005	2004
Prepaid rent and leases	6	8	1	1
Prepaid insurance premiums	12	13	–	–
Other items	32	18	1	–
	50	**39**	**2**	**1**

NOTE 17 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 “Risk management” on pages 26–27, which is part of the financial statements.

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 28, they consist primarily of currency hedges and interest-bearing borrowing with banks (see Note 19).

Financial instruments reported at accrued acquisition value

For accounts receivable, accounts payable and other assets and liabilities that are reported at accrued acquisition value, reported value corresponds to fair value on account of the short maturity.

Derivative instruments

At the end of the year, there were currency hedges within the Group according to the table below. They have been reported at fair value on the balance sheet.

Currency	Net sales amount in local currency, 000s	Reported value, SEK 000s
EUR	3,662	–895
USD	14,419	–5,063
NOK	766	2
GBP	526	–169
DKK	556	–50
ZAR	900	–120
Total		**–6,295**

All forward contracts fall due for payment during 2006. In accordance with the Group’s policy, payment in most cases will be due during the first half of the year.

NOTE 18 EQUITY

Share capital

The share capital SEK 125,000,000 comprises 25,000,000 shares with a par value of SEK 5.00. Each share entitles the holder to one vote. All shares carry the same right to a share in the Company’s assets and profits.

Reserves

	Reserve for unrealized gains	Reserve for translation differences	Total reserves
1 January 2004	**–**	**–**	**–**
Translation differences	–	–56	–56
31 December 2004	**–**	**–56**	**–56**
Effect of implementation of IAS 39	2	–	2
1 January 2005	**2**	**–56**	**–54**
Cash flow hedges	–3	–	–3
Translation differences	–	140	140
31 December 2005	**–1**	**84**	**83**

The reserve for unrealized gains consists of the portion of gains and losses attributable to cash-flow hedges that are classified as effective.

The reserve for translation differences consists of differences that arise when the incomes statements and balance sheets of foreign subsidiaries are translated into Swedish kronor.

NOTE 18 cont'd

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.

	Number	Par value, SEK
1 January 2004	**621,950**	**3,109,750**
No changes	–	–
31 December 2004	**621,950**	**3,109,750**
Sales in 2005	–202,700	–1,013,500
31 December 2005	**419,250**	**2,096,250**

In total, treasury shares have been acquired for a purchase price of SEK 72,034,967, corresponding to an average price including commission of SEK 171.82 per share.

Number of outstanding shares

Excluding treasury shares, the number of outstanding shares at year-end amounted to 24,580,750.

Incentive program

Outstanding programs are described in Note 28.

Dividend during the year

The Annual General Meeting on 21 April 2005 approved the proposal of the Board of Directors and the President of a dividend amounting to SEK 4.00 per share and SEK 98,323,000 in total.

Proposed dividend

The Board of Directors propose that the Annual General Meeting approve a dividend of SEK 5.50 per share be paid to the shareholders – SEK 135,194,125 in total.

NOTE 19 INTEREST-BEARING LIABILITIES

	Group	
	2005	2004
Bank loan: approved general credit facility	400	400
Bank loan: unutilized portion	–185	–181
Bank loans in addition to general credit facility	133	147
Leasing obligation	3	1
	351	**367**

All bank loans have floating interest and mature for payment within 12 months.

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

Currency	Nominal amount, millions	Average interest rate
SEK	224	2.1%
EUR	5	2.4%
USD	2	4.1%
NOK	51	2.7%

The calculation of net debt is shown below the cash-flow statement.

NOTE 20 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

	Group	
	2005	2004
Long-term defined-benefit commitments to employees	105	98
Other benefits to employees	10	6
Long-term	**115**	**104**
Short-term defined-benefit commitments to employees	5	9
Total long-term and short-term	**120**	**113**
Long-term defined-benefit commitments to employees	105	98
Short-term defined-benefit commitments to employees	5	9
Plan assets	–2	–
	108	**107**

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 remuneration when employment is terminated.

The cost for defined-contribution plans amounts to SEK 44 M (41). The tables below provide information about the Group's defined benefit plans.

	2005	2004
Reported provisions (changes for the year)		
Amount on opening date	107	87
Reclassifications from Other employee benefits	–	17
Change of accounting principle	–	1
Amount on opening date	107	105
Pension costs	13	12
Benefits paid by employer	–6	–6
Premiums paid by employer	–3	–3
Terminated and changed benefit plans	–4	–
Translation differences for the year	1	–1
Amount on closing date	**108**	**107**
Reported provisions (on closing date)		
Present value of wholly or partially funded obligations	70	37
Present value of unfunded obligations	142	146
Market value of plan assets (–)	–71	–65
Unrecognized actuarial gains (+)/losses (–)	–38	–15
Ceiling for asset value	5	4
Amount on closing date	**108**	**107**
Present value of defined benefit obligations		
Amount on opening date	183	163
Benefits earned during the year	5	5
Interest cost	8	8
Paid benefits	–7	–7
Terminated and changed benefit plans	–9	2
Actuarial gains (–)/losses (+)	25	13
Translation differences for the year	7	–1
Amount on closing date	**212**	**183**
Plan assets		
Amount on opening date	65	62
Expected return on plan assets	4	4
Premiums paid by employer	4	3
Benefits paid from plan assets	–1	–1
Terminated and changed benefit plans	–7	–
Actuarial gains (+)/losses (–)	1	–2
Translation differences for the year	5	–1
Amount on closing date	**71**	**65**

NOTE 20 cont'd

Return on plan assets		
Expected return on plan assets	4	4
Actuarial gains (+)/losses (–)	1	–2
Actual return	**5**	**2**
Actuarial gains (+) and losses (–)		
Amount on opening date	–15	–
Amortization of actuarial gains and losses	–1	–
Actuarial gains (+)/losses (–) on obligations	–25	–13
Actuarial gains (+)/losses (–) on plan assets	1	–2
Terminated and changed benefit plans	2	–
Amount on closing date	**–38**	**–15**
Costs for obligations during the year		
Benefits earned during the year	5	5
Interest cost	8	8
Expected return on plan assets	–4	–4
Ceiling for asset value	1	1
Terminated and changed benefit plans	3	2
Costs for obligations during the year	**13**	**12**
Significant actuarial assumptions		
for the Group, weighted values		
Discount rate, %	4.0	4.6
Return on plan assets, %	6.2	6.1
Future salary increases, %	3.2	2.9
Future inflation, %	2.2	2.0

	Parent Company	
	2005	**2004**
Defined-benefit obligations to employees	36	35

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 21 OTHER PROVISIONS

	Group	
	2005	**2004**
Long-term		
Provisions for rental commitments	5	7
Other provisions	1	2
	6	**9**
Short-term		
Provisions for warranties	36	28
Provisions for litigation	1	1
Other provisions	1	1
	38	**30**
Total long-term and short-term	**44**	**39**

NOTE 22 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2005	**2004**	**2005**	**2004**
Vacation pay liabilities	64	67	3	2
Social security expenses	47	48	4	2
Other personnel-related expenses	88	70	3	1
Received, non-invoiced goods, etc.	131	76	2	3
	330	**261**	**12**	**8**

NOTE 23 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	2005	**2004**	**2005**	**2004**
Pledged assets for liabilities to credit institutes				
Fixed assets	4	1	–	–
	4	**1**	**–**	**–**
Contingent liabilities				
FPG guarantees	2	2	61	58
Bank guarantees	74	40	8	3
Parent Company guarantees	–	–	15	15
	76	**42**	**84**	**76**

FPG guarantees refers to pension liabilities in Sweden. Other guarantees are normal operational guarantees – for example, advances and completion guarantees.

NOTE 24 TRANSACTIONS WITH RELATED PARTIES

There are no significant contractual relations or transaction between Munters AB and related parties. Remuneration and terms of employment for senior executives and individual members of the Board of Directors are presented in Note 27. Munters AB has not provided guarantees or guarantee commitments to or on behalf of Board members or senior executives. During the current or the preceding fiscal years, 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 SEK 22 M (18). Purchases from Group companies amounted to SEK 5 M (6).

NOTE 25 AVERAGE NUMBER OF EMPLOYEES, ABSENCE DUE TO ILLNESS, AND GENDER DISTRIBUTION

Average number of employees

	2005		2004	
Group	**Number**	**Of whom men, %**	**Number**	**Of whom men, %**
Australia	121	80	110	72
Austria	83	82	78	85
Belgium	40	83	36	81
Brazil	20	85	19	84
Canada	11	82	11	82
China	114	83	109	83
Denmark	84	64	66	73
Finland	244	88	229	91
France	104	84	100	79
Germany	539	87	552	85
Indonesia	1	100	–	–
Italy	133	83	111	83
Japan	54	87	40	93
Korea	8	75	7	71
Mexico	76	78	102	87
Netherlands	66	89	53	88
New Zealand	1	100	2	67
Norway	241	73	259	74
Poland	12	83	10	80
Saudi Arabia	3	100	5	100
Singapore	17	76	17	76
South Africa	21	81	21	81
Spain	13	54	13	54
Sweden	360	83	402	83
Switzerland	18	88	19	89
Taiwan	1	100	–	–
Thailand	22	64	18	67
United Arab Emirate	1	100	1	100
United Kingdom	272	82	210	82
US	620	80	607	81
Vietnam	3	67	–	–
	3,303	**82**	**3,207**	**82**
Of which Parent Company (Sweden)	22	59	19	63

Absence due to illness

Absence due to illness among employees of Munters AB during the year amounted to 1.5 percent (2.5) of the employees' normal working time. 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 two women and eight men. The Group management, including the President, consisted entirely of men. Presidents of the subsidiaries included in the Group were also entirely men.

NOTE 26 WAGES, SALARIES AND OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

	2005		2004	
	Wages, salaries and other remuneration	**Social security expenses**	**Wages, salaries and other remuneration**	**Social security expenses**
Parent Company	21	16	15	9
of which, pension expenses	–	7	–	6
Subsidiaries	1,168	268	1,122	282
of which, pension expenses	–	50	–	46
Group	**1,189**	**284**	**1,137**	**291**
of which, pension expenses	–	57	–	53

	2005			2004		
Group	**President and Board of Directors**	**Of which variable remune-ration**	**Other employees**	**President and Board of Directors**	**Of which variable remune-ration**	**Other employees**
Australia	1	0	44	2	1	26
Austria	–	–	26	–	–	24
Belgium	–	–	15	–	–	13
Brazil	–	–	7	1	0	4
Canada	–	–	6	–	–	6
China	1	0	5	–	–	5
Denmark	2	1	29	1	0	26
Finland	1	0	72	1	0	63
France	–	–	29	–	–	31
Germany	3	0	212	4	1	226
Indonesia	–	–	0	–	–	–
Italy	3	0	51	2	0	29
Japan	2	0	15	2	0	22
Korea	–	–	2	–	–	1
Mexico	–	–	9	–	–	11
Netherlands	1	0	23	1	0	19
New Zealand	–	–	0	–	–	1
Norway	1	0	90	1	0	92
Poland	0	0	2	1	0	1
Saudi Arabia	–	–	1	–	–	1
Singapore	1	0	3	1	0	3
South Africa	1	0	3	1	0	3
Spain	1	0	4	1	0	4
Sweden	6	1	131	5	0	137
Switzerland	–	–	9	–	–	9
Taiwan	–	–	0	–	–	–
Thailand	1	0	2	1	0	2
United Arab Emirate	–	–	0	–	–	0
United Kingdom	2	1	84	1	0	61
US	3	1	285	3	1	287
Vietnam	–	–	0	–	–	–
	30	**6**	**1,159**	**29**	**3**	**1,107**
Of which Parent Company (Sweden)	6	1	15	4	0	11

NOTE 27 REMUNERATION TO THE BOARD AND SENIOR EXECUTIVES

Remuneration and other benefits

Amounts in SEK 000s	Board fees	Basic salary	Variable remuneration	Other benefits	Pension expense	Total
Chairman of the Board	400	–	–	–	–	400
Other Board members	1,150	–	–	–	–	1,150
President	–	3,175	913	107	2,258	6,453
Other senior executives	–	6,882	2,458	432	2,887	12,659
Total	**1,550**	**10,057**	**3,371**	**539**	**5,145**	**20,662**

The Board fee refers to both the fee to elected Board members and to the fee to the members of the Audit Committee, appointed at the Annual General Meeting in 2005.

The group "Other senior executives" refers to four persons during the first half of the year and five during the second half of the year, of whom one executive was employed for three months.

Variable remuneration for the 2005 fiscal year refers to expensed variable remuneration that will be paid during 2006. This also includes payments of subsidies during 2005 relating to the option program that fell due during the year and subsidies for share purchases, as reported in Note 28. For the President, variable remuneration amounted to 28 percent of basic salary. For other senior executives, variable remuneration was between 2 and 53 percent.

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

Pension expenses include costs for disability pension insurance and survivor annuity, etc. The amounts are stated excluding special employer's contribution on pension expenses.

Principles

Members of the Board of Directors receive remuneration according to the Annual General Meeting's decision. Employee representatives receive no remuneration.

Remuneration to the President and other senior executives consists of basic salary, variable remuneration, company car, food and living expense benefits and a pension.

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

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

For other senior executives, variable remuneration is maximized to between 30 and 70 percent of fixed salary. The variable remuneration is normally based on the improvement in relation to the preceding year for each individual's area of responsibility in terms of sales, operating earnings and capital turnover rate, as well as the outcome of individual activity plans. Variable remuneration is normally conditional upon achieving results that exceed the preceding year. In addition, certain small variable remuneration is paid to the President and other members of Group Management as a subsidy in conjunction with share purchases, in accordance with the information provided in Note 28.

Pension

The retirement age for the President is 60 years and for other senior executives between 60 and 65 years. For the President and other senior executives in Sweden there is a defined-contribution 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 SEK 1,227,000 on an annual basis. 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. All pension plans are vested – that is, not conditional on future employment.

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 not considered pensionable income and 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.

Stock option programs

No stock option program was approved at the Annual General Meeting during the preceding year.

Procedure and decision process

The Board of Directors has appointed a Remuneration Committee among its members consisting of Berthold Lindqvist and Sören Mellstig. The work of the Committee is presented in the report on corporate governance on page 54.

NOTE 28 OUTSTANDING INCENTIVE PROGRAMS

During the years from 2002 to 2004, Munters implemented stock option programs directed to senior executives in the Group. The options for all outstanding stock option programs were purchased at a market premium, which is reported as an increase in the Company's equity. To cover the Company's commitments according to the stock option programs, own shares have been acquired, with the purchase price being reported as a reduction of the Group's equity. In the future when options are exercised, the subscription price received will be reported as an increase in equity. The option premium for all 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 SEK 1 M on the closing date, of which SEK 0 M was expensed during the year.

Moreover, Munters subsidizes the purchase of shares in Munters made by the President and Group Management in October 2005. The subsidy means that Munters during the period through 31 December 2009, or until termination of employment, subsidizes the senior executives' interest expenses for their loan financing of the actual purchases. Within the framework for the offering, the President acquired 12,000 shares at a cost of SEK 2,340,000 and the other senior executives combined 45,000 shares at a cost of SEK 8,775,000.

Starting year	Exercise period	No. of options	Option premium, SEK	Exercise price, SEK
2002	1 Sep 2005–31 March 2006	114,000	25.60	315.00
2003	1 Sep 2006–30 March 2007	63,600	15.80	226.00
2004	1 Sep 2007–30 March 2008	42,500	19.80	260.00
		220,100		

During the year, the option program started in 2000 fell due for payment. All 202,700 options with an exercsie price of SEK 145 were exercised by the option holders.

NOTE 29 FEES TO AUDITORS

	Group		Parent Company	
Amounts in SEK 000's	**2005**	**2004**	**2005**	**2004**
Ernst & Young				
Audit	5,931	5,564	429	429
Other assignments	1,222	1,905	112	132
Other				
Audit	646	662	–	–
Other assignments	483	361	–	–
	8,282	**8,492**	**541**	**561**

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.

NOTE 30 EVENTS AFTER THE CLOSING DATE

Sale of the Water business unit

Munters signed an agreement to sell its Water business unit to the German industrial group, GEA Group AG. The business unit, which has operations in Germany and the UK, had net sales amounting to SEK 62 M in 2005. The agreement is dated 31 January 2006 and is conditional on the approval of the competition authorities.

President's resignation

On 1 February 2006, Lennart Evrell, the President, announced his decision to leave his position with Munters. The Board has initiated a recruitment process to find a replacement. During the notice period of six months, Lennart Evrell will continue to serve as President and will oversee the transfer of the position to his successor.

Proposed distribution of earnings

Future outlook

Munters commands a strong market position in its areas of operation and employs reorganization and efficiency-enhancement measures on an ongoing basis. Consequently, the outlook for a long-term favorable development is good.

Proposed distribution of earnings

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

Retained earnings	120,475,427
Net earnings for the year	105,999,084
Total	**226,474,511**

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

Distributed to shareholders SEK 5.50 per share	135,194,125
Retained	91,280,386
Total	**226,474,511**

Statement on proposed dividend, in accordance with the Companies Act, Chapter 18, Section 4

The proposed distribution to shareholders reduces the Company's equity/assets ratio from 40 percent to 28 percent and the consolidated equity/assets ratio from 50 to 45 percent. The equity/assets level is satisfactory, given that the assessment that the operations of the Company and the Group operations can continue to be carried out while maintaining profitability. It is believed that the liquidity in the Company and the Group can also be maintained at a similarly satisfactory level.

The Company's equity includes no unrealized profit or loss due to financial instruments having been reported at market value.

It is the Board's opinion that the proposed dividend would not prevent the Company or other companies in the Group from fulfilling their obligations in the short and the long term, nor from carrying out necessary investments. Consequently, the proposed dividend can be justified with reference to the provisions of the Companies Act, Chapter 17, Section 3, Articles 2–3 (rule of prudence).

The proposed distribution of earnings must be decided and the proposed income statement and balance sheets must be adopted by the Annual General Meeting on 26 April 2006.

Regarding the consolidated earnings and position and the Parent Company's earnings and position otherwise, reference is made to the income statements and the balance sheets.

Assurance

The Annual Reports have, to the best of our knowledge, been prepared in accordance with generally accepted accounting principles for listed companies. The information presented accurately reflects actual circumstances and nothing of material significance has been omitted that could influence the view of the Company that is created by the Annual Report.

Sollentuna, 7 March 2006

Berthold Lindqvist *Chairman*	Anders Ilstam	Bengt Kjell
Eva-Lotta Kraft	Pia Kuure	Sören Mellstig
Sven Ohlsson	Mats Persson	Jan Svensson

Lennart Evrell
President

Our Auditor's Report was submitted on 7 March 2006
Ernst & Young AB

Björn Fernström
Authorized public accountant

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 2005. Examination of the annual report covers pages 1 and 6–52. 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, as well as that the International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act are applied in the preparation of the consolidated accounts. 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 consolidated accounts have been prepared in accordance with the IFRS international accounting standards as adopted by the EU and the Annual Accounts Act, and provide a true and fair picture of the consolidated earnings and position. 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, 7 March 2006
Ernst & Young AB

Björn Fernström
Authorized Public Accountant

Corporate Governance Report

Introduction

On 1 July 2005, the Swedish Code of Corporate Governance ("the Code") was introduced.

According to the listing agreement with the Stockholm Stock Exchange, Munters AB (publ) is obligated to implement the applicable rules of the Code. The Board of Directors thus prepared this Corporate Governance Report in accordance with the Code. Munters applies the Code, which is based on the principle of comply or explain. This means that companies applying the Code may deviate from certain rules but must provide explanations of the reasons for each deviation.

Given the composition of the owner group and what is economically defensible, Munters does not consider it motivated to provide an opportunity for shareholders to participate in the Annual General Meeting remotely or to provide simultaneous interpretation of the proceedings.

In addition, the Board of Directors intends also going forward to take decisions on principles for compensation and other terms of employment for Company management and to provide information on these principles at the Annual General Meeting. The reason for the deviation from the rules of the Code in this respect is that it is considered that application of the Code could result in uncertainty regarding the division of responsibility in the Company.

Division of responsibility

Responsibility for management and control of the Group is divided among the shareholders at the Annual General Meeting, the Board of Directors and its appointed committees and the President, in accordance with the Swedish Companies Act, other legislation and regulations, prevailing rules for exchange-listed companies, the Company's Articles of Association and the Board of Directors' internal control instruments.

Shareholders

At 31 December 2005, the Company had 5,913 shareholders. The proportion of the share capital owned by Swedish institutions amounted to 41 percent. Foreign investors owned 27 percent of the share capital. The ten largest owners together had holdings corresponding to 59 percent of the share capital. For further information on ownership at 31 December 2005, see page 24 of the Annual Report.

Annual General Meeting 2005

The Annual General Meeting is the Group's highest governing body. The Annual General Meeting is normally held in April in Stockholm. The 2005 Annual General Meeting was held on 21 April 2005. Berthold Lindqvist was elected Chairman of the Meeting.

The following decisions were taken:

- The Annual General Meeting adopted the Parent Company income statement and balance sheet, the consolidated income statement and balance sheet, decided to dispose of earnings in accordance with the proposed distribution of earnings resulting in a dividend of SEK 4.00 for the 2004 fiscal year, and discharged the Board of Directors and the President from liability.
- The Annual General Meeting approved decisions in accordance with the Nominating Committee's proposal
  – that the number of members of the Board of Directors to be elected by the Annual General Meeting shall be eight and that no deputy members shall be elected;
  – that fees to the Board of Directors shall be paid in a total amount of SEK 1,450,000 of which (i) SEK 400,000 to the Chairman, (ii) SEK 175,000 to each of the Board members elected by the Annual General Meeting who is not an employee of the Company and (iii) SEK 50,000 to the Chairman of the Audit Committee and SEK 25,000 to each of the other members. It was also noted that the 2004 Annual General Meeting decided that fees shall be paid to the auditors on account.
  – that Berthold Lindqvist, Lennart Evrell, Bengt Kjell, Eva-Lotta Kraft, Sören Mellstig, Sven Ohlsson and Jan Svensson were to be re-elected and Anders Ilstam newly elected as members of the Board of Directors;
- The Annual General Meeting decided to appoint a Nominating Committee each year, that shall consist of the Chairman of the Board of Directors and representatives for the five largest owners in the Company in terms of voting rights, with replacement rules if any of these members resign from the Committee before its work is completed.

Nominating Committee

According to a decision by the 2005 Annual General Meeting, the Nominating Committee is charged with preparing and presenting a proposal for election of the Chairman and other members of the Board of Directors, Chairman of the Annual General Meeting, Board fees and associated matters. Since October 2005, the Nominating Committee consists of the following persons: Carl-Olof By, Industrivärden (chairman); Gustaf Douglas, Latour; Jan-Erik Erenius, AMF Pension; Cecilia Lager, SEB funds; Jan Andersson, Robur funds and Berthold Lindqvist, Chairman of Munters AB. The Nominating Committee will prepare a proposal to the 2006 Annual General Meeting regarding Chairman of the Annual General Meeting, composition of the Board of Directors and Board fees. The Nominating Committee held two meetings during 2005. No compensation was paid to the Nominating Committee.

Work of the Board of Directors

General

According to the Company's Articles of Association, the Board of Directors shall consist of four to eight members elected each year by the Annual General Meeting for the period until the end of the next Annual General Meeting. The Articles of Association permit the election of deputies, but no deputies were elected by the Annual General Meeting. By law, the employees appoint two members and two deputy members to the Board of Directors. In 2005, Pia Kuure and Mats Persson were appointed as employee representatives, with Tommy Morin and Kjell Wiberg as deputies. The Group's CFO participates in Board meetings, as does the Board's secretary, who is a lawyer and independent of the Company. Other employees participate in Board meetings as presenters of special issues or when otherwise deemed appropriate. The members of the Board of Directors are presented on page 58 of the Annual Report. The Board of Directors establishes a written Working Procedure each year that regulates the Board's work and the internal distribution of responsibility, including its committees, decision procedures within the Board, the order of meetings and the Chairman's duties. The Board of Directors has also issued instructions for the President and instructions for financial reporting to the Board. Furthermore, the Board of Directors has adopted a number of other policies, which are described below under the heading Policy documents.

The Board of Directors takes responsibility for the Company's organization and the administration of its business and in so doing, must ensure that the organization is appropriate and dimensioned in such a manner that accounting, capital management and other financial matters are man-

	Board of Directors	Audit Committee	Compensation Committee
Number of meetings, total	**10**	**3**	**2**
Berthold Lindqvist[1)]	10		2
Anders Ilstam[2)]	6		
Bengt Kjell	9	3	
Eva-Lotta Kraft	9		
Sören Mellstig	9		2
Sven Ohlsson[3)]	10	3	1
Jan Svensson	10	3	
Lennart Evrell	10		
Lars Spongberg[4)]	2		

1) Chairman of the Board of Directors and the Compensation Committee.
2) Elected on April 21.
3) Chairman of the Audit Committee.
4) Resigned on April 21.

aged and checked in a satisfactory manner. Furthermore, the Board of Directors is responsible for ensuring that the Company has adequate internal controls and for continuously reviewing the internal control systems. The Board of Directors is also responsible for developing and following up the Company's strategies in the form of plans and goals. The Board of Directors continuously monitors the work of the President and operative management.

Among the members of the Board of Directors elected by the Annual General Meeting, there are persons with ties to the Company's major owners – Industrivärden and Latour – and persons who are independent of these parties. The number of Board members who are independent in relation to the Company is seven (all members except the President), based on the rules of the Code and the listing requirements of the Stockholm Stock Exchange. Of these, five (all except Bengt Kjell and Jan Svensson) are independent of the Company's major owners. All Board members meet established requirements for experience.

Chairman

At the statutory meeting of the Board of Directors on 21 April 2005, Berthold Lindqvist was elected Chairman until the end of the next Annual General Meeting. The Chairman organizes and leads the Board of Directors work so that it is conducted in accordance with the Swedish Companies Act, other laws and regulations, prevailing rules for exchange-listed companies (including the Code) and the Board's internal control instruments. The Chairman follows business development through regular contact with the President and is responsible for ensuring that Board members receive sufficient information and supporting materials for decisions. The Chairman is responsible for ensuring that the Board of Directors continuously updates and increases its knowledge of the Company and in other respects receives the training required to be able to conduct Board work effectively. In addition, the Chairman ensures that an annual evaluation is conducted of the Board of Directors' work and that this information is provided to the Nominating Committee. The Chairman represents the Company in ownership matters.

Work procedures

According to the Work Procedures currently in effect, the Board of Directors shall meet six times per year and be convened at other times when the situation so demands. During 2005, the Board of Directors held eight ordinary meetings and two meeting by correspondence. Board work during the year was focused on strategic, financial and accounting issues. All decisions were taken unanimously. At each Board meeting, the President reports on the Group's development.

As evident in the table above, attendance at Board meetings was highly favorable.

Audit Committee

At the statutory meeting of the Board of Directors on April 21, 2005, the Board decided to appoint Sven Ohlsson (Chairman), Bengt Kjell and Jan Svensson as members of the Audit Committee for the period until the next statutory Board meeting. The Audit Committee is charged with preparing issues regarding the procurement of auditing services and audit fees, following up the auditors' work and internal control systems, monitoring the current risk situation with respect to financial reporting, following up external audits and the Company's financial information and handling other issues assigned by the Board of Directors. The Audit Committee's work is regulated by special instructions adopted by the Board of Directors as part of its Work Procedures. During 2005, the Audit Committee held three meetings at which all members were in attendance.

On two occasions during 2005, the Board of Directors met with the auditors and reviewed their reports. On one of these occasions, neither the President nor other members of Company management were present. The auditors' reports did not motivate any special measures on the part of the Board of Directors.

Compensation Committee

At the statutory meeting of the Board of Directors on 21 April 2005, the Board decided to appoint Berthold Lindqvist (convener) and Sören Mellstig as members of the Compensation Committee for the period until the next statutory meeting. The Compensation Committee is charged with considering and preparing proposals regarding salaries, bonuses, pensions, severance pay, options and warrants for the President and other senior managers who report directly to the President and for such other similar issues assigned by the Board of Directors. The Compensation Committee's work is regulated by special instructions adopted by the Board of Directors as part of its Working Procedures. During 2005, the Compensation Committee held three meetings at which all members were in attendance and had regular contact within the Committee in conjunction with employment and other compensation issues.

Compensation

Fees to the members of the Board of Directors elected by the Annual General Meeting are decided by the Annual General Meeting based on the proposal by the Nominating Committee. Information regarding fees for 2005 is presented under the heading 2005 Annual General Meeting.

Reporting and control

The Board of Directors and the Audit Committee supervise the quality of financial reporting and the Company's internal control systems and monitor the Company's risk exposure. This takes place in part through instructions to the President and the establishment of requirements on the contents of the reports on financial circumstances that are regularly submitted to the Board of Directors, as well as through reviews with management and the auditors. The Board of Directors and the Audit Committee review and verify the quality of financial reporting, including the year-end report and the Annual report and have delegated responsibility to Company management to verify the contents of press releases containing financial information and presentation materials used in conjunction with meetings with the media, owners and financial institutions.

Company management

The President leads operations in accordance with the Swedish Companies Act and within the framework established by the Board of Directors. In consultation with the Chairman of the Board of Directors, the President prepares the information and supporting materials for decisions required for Board meetings, presents matters for consideration by the Board and motivates proposals for decision. The President leads Group management's work and takes decisions in consultation with others in management. Group management currently consist of six persons. Company management conducts regular business reviews under leadership of the President 12 times each year, often in conjunction with visits to various Group units. The President and other members of Group management are presented on page 59 of the Annual Report.

Compensation

At the 2005 Annual General Meeting, the Chairman of the Board of Directors informed the shareholders about the principles for compensation to senior executives. Current compensation levels are presented in Note 27.

Internal audit

The Company has a simple legal and operative structure with established management and internal control systems. The Board of Directors and the Audit Committee monitor the Company's assessment of internal controls, in part through contact with the Company's auditors. For these reasons, the Board of Directors has elected not to conduct special internal audits.

Auditors

The 2004 Annual General Meeting elected the auditing firm Ernst & Young as the Company's auditor for the period up until the 2008 Annual General Meeting with Björn Fernström as chief auditor. The auditors are presented on page 58 of the Annual Report. The auditors work in accordance with an audit plan whereby comments were obtained from the Audit Committee and the Board of Directors and reported its observations to the Audit Committee and the Board of Directors, in part during the audit itself and in part in conjunction with adoption of the 2005 Annual Report on 7 March 2006. The auditors also participate in the Annual General Meeting at which they report on their work and observations. During the year, the auditors had consulting assignments apart from auditing, primarily relating to taxes.

Internal controls

The Code specifies that the Board of Directors shall issue a report on internal controls with respect to those portions relating to how financial reporting is organized and how well it has functioned during the year. This report must also be reviewed by the Company's auditor. Munters elected to follow the statement that the Swedish Corporate Governance Board issued on 15 December 2005 that it is sufficient for 2005 if the Board of Directors in its Corporate Governance Report limits the report on internal controls to a description of how internal control is organized without expressing an opinion on how well it functions and without review by the auditor.

Articles of Association

The Company's Articles of Association regulate such matters as the objective of the Company's operations, the number of Board members and auditors, how notification of the Annual General Meeting shall take place, matters to be considered by the Annual General Meeting and where the Meeting shall be held. The Articles of Association currently in effect and adopted on 28 April 1999 are available on the Company's website at www.munters.com.

Policy documents

In addition to the budget and strategic plan, which are required and approved by the Board of Directors, Munters has two primary control systems that specify authority and responsibilities for the leaders of Munters' many business units, Munters Management Manual and Munters Financial Manual.

Munters Management Manual

In addition to a number of general policies for the Group's business and its employees, this manual contains detailed descriptions of authority and responsibility in business management. The following policies are included in Munters Management Manual.

• Ethical guidelines

The Group's ethical guidelines were developed with the objective of documenting the Group's basic view on ethical issues both within the organization and externally towards customers and suppliers.

• Quality policy

This provides guidelines for how quality work should be performed.

• Environment policy

The Group's environment policy provides guidelines for environmental work within the Group.

• Health and safety

This policy regulates work to create safe working conditions intended to prevent accidents and injuries and to promote motivation and job performance among employees.

• Information policy

The Group's information policy is a document that describes the Group's general principles for the dissemination of information.

• Insider policy

The Group's insider policy regulates the handling of insider issues and responsibility for these issues and contains instructions for insiders and others within the organization regarding how to act in insider-related matters.

Munters Financial Manual

Munters Financial Manual describes the rules and guidelines that apply for decisions on financial matters, how financial reporting is organized and what is reported. The manual is structured in accordance with the IFRS rules. In addition to accounting instructions, the manual contains the following policies.

• Financial policy

The Group's Finance function works according to the instructions established by the Board of Directors, which provide a framework for how the Group's operations shall be financed and how currency and interest risks, for example, must be managed.

• Internal control policy

The internal control policy provides instructions for maintaining order and control within the business units.

General policies are reviewed and approved by the Board of Directors.

Review

This Corporate Governance Report has not been reviewed by the Company's auditors.

Board of Directors' report on internal controls relating to financial reporting for the fiscal year 2005

Munters applies the Swedish Code of Corporate Governance ("the Code"). This report on internal controls was prepared in accordance with the Code and the transition rules issued by the Swedish Corporate Governance Board on 15 December 2005. Put briefly, this means

- that the report is limited to internal controls relating to financial reporting
- that the report is not a part of the formal Annual Report
- that the report is limited to a description of how the internal controls are organized (and does not express any opinion as to how well the controls have functioned) and
- that the report was not reviewed by the Company's auditors.

The report was prepared based on the structure in the guidelines for the Swedish Code of Corporate Governance prepared jointly by FAR, the Association for the Accounting Profession in Sweden, and Svenskt Näringsliv, the Confederation of Swedish Industry, entitled Board report on internal controls relating to financial reporting ("the Guidelines") and issued on 17 October 2005.

Description of the organization of internal controls

Control environment – Effective working procedures on the part of the Board of Directors is the basis for satisfactory internal controls. Munters' Board of Directors has an established Working Procedure for its work and instructions for the Board's committees. One aspect of the Board's work consists of developing and approving the policies that govern the Company's work with internal controls. Another aspect is creating prerequisites for an organizational structure with clear roles and responsibilities that encourage effective management of business risks. Senior management is responsible for implementing guidelines that maintain satisfactory internal controls.

Risk assessment and control activities – Once each year, Munters' management presents its view of significant risks for the Board of Directors' Audit Committee. The Company's most important risks relating to accounting and reporting are revenue recognition, valuation of accounts receivable and guarantee commitments plus the fact that the Group has many small subsidiaries that lack critical mass with respect to accounting personnel. To effectively manage significant risks, Munters has established control structures that in part consist of an organization that permits appropriate delegation of responsibility from the standpoint of internal controls and in part comprise control activities in the work performed in compiling the financial reports.

Information and communications – Munters' policies for internal control are primarily communicated through the Munters Management Manual and the Munters Financial Manual. These manuals are updated continuously and are easily available to all concerned personnel via Lotus Notes internal databases. The Munters Management Manual includes the Munters Information Policy, which specifies guidelines for how external communication shall take place. The objective of the policy is to ensure that all information obligations are fulfilled in a correct and complete manner.

Follow-up – The Board of Directors evaluates business performance and results each month using an appropriately structured reporting package containing outcomes, forecasts and analyses of important key parameters. The Board of Directors receives regular reports from the meetings that the Audit Committee holds with senior management. The Audit Committee's work also includes regularly following up the effectiveness of internal controls and discussing important issues relating to accounting and reporting techniques.

Munters does not have a formal internal audit function. Nonetheless, there is a clear policy for internal controls, the implementation and application of which is regularly followed up by external auditors. An important part of this work is to conduct separate reviews of how well policies and guidelines are followed. At present, it is therefore considered that a formal internal audit function is not necessary.

Furthermore, the Audit Committee has initiated an annual process to ensure that appropriate measures are taken to address deficiencies and to implement recommended measures that arise in part from internal follow-ups as described above and in part through the external auditors' examinations.

Board of Directors
Stockholm, 7 March 2006

Board of Directors and auditor

Berthold Lindqvist
Born 1938. Chairman since 1997.
BSc Eng, MD Hon.
Background: Executive Vice President Wilh. Soneson AB, President and CEO Gambro AB.
Board member of Securitas AB, JM AB, Cardo AB, Trelleborg AB, Novotek AB, Probi AB and others.
Shares held: 1,000

Lennart Evrell
Born 1954. Member since 1997.
BSc Eng Royal Institute of Technology, BSc Econ, University of Gothenburg and Uppsala University
President, Chief Executive Officer
Background: ASEA Robotics, Atlas Copco Assembly System, President, AB Gustavberg, President.
Employed since 1995.
Board member of Sapa AB and Teknikföretagen.
Shares held: 32,043 (including children)
Options: 27,500

Anders Ilstam
Born 1941. Member since 2005.
AE
Background: President SKF Tools, CTT Tools, Sandvik Mining and Construction, and other companies.
Chairman of Beijer Electronics AB, Air Liquide AB and Grimaldi Industri AB.
Board member of Seco Tools AB, Isaberg Rapid AB and Tylö AB.

Eva-Lotta Kraft
Born 1951. Member since 2004.
BSc Chem Eng, MBA.
Strategy and Marketing Manager, The Swedish Defence Research Agency (FOI).
Background: Many years of international experience, including Division Manager Siemens-Elema AB, Regional Manager Alfa Laval, foreign assignments
Board member of AB Ångpanneföreningen and Karlstad University.
Shares held: 1,500

Bengt Kjell
Born 1954. Member since 2003.
Diploma from Stockholm School of Economics
Executive Vice President of AB Industrivärden.
Background: Authorized Public Accountant, Head of Corporate Finance Securum, Senior Partner Navet AB.
Chairman of Kungsleden AB, Indutrade AB and Isaberg Rapid AB.
Board member of Helsingborgs Dagblad AB and Pandox AB.

Sven Ohlsson
Born 1944. Member since 1997.
Chairman of Audit Committee.
BSc Econ
Background: President of Scancem among other executive positions
Board member of Dacke PMC AB and Scan Coin AB.
Shares held: 2,000

Jan Svensson
Born 1956. Member since 2004.
BSc Mech Eng and BSc Econ.
President and CEO of Investment AB Latour
Board member of Investment AB Latour and ProstaLund AB.
Shares held: 1,000

Sören Mellstig
Born 1951. Member since 1997.
BSc Econ
President and CEO of Gambro AB.
Background: Business Area Manager Gambro Renal Products and Executive Vice President Gambro, CFO Gambro and CFO and Executive Vice President of Incentive
Chairman of Aleris AB
Board member of Ferrosan A/S, Gambro AB and Eucomed.
Shares held: 1,800

Mats Persson
Born 1957. Member since 2004.
Installer.
Employee representative appointed by the Swedish Trade Union Confederation.

Pia Kuure
Born 1973. Member since 2004.
IT Support.
Employee representative appointed by the Swedish Union of Clerical and Technical Employees in Industry.

Tommy Morin
Born 1951. Deputy member since 2005.
Electrical designer and electrical safety officer.
Employee representative appointed by the Swedish Union of Clerical and Technical Employees in Industry.

Kjell Wiberg
Born 1958. Deputy member since 2005.
Plumber.
Employee representative appointed by the Swedish Trade Union Confederation.

BOARD SECRETARY

Peter Idsäter, Solicitor, born 1960.
Partner Mannheimer Swartling Advokatbyrå AB.

AUDITOR

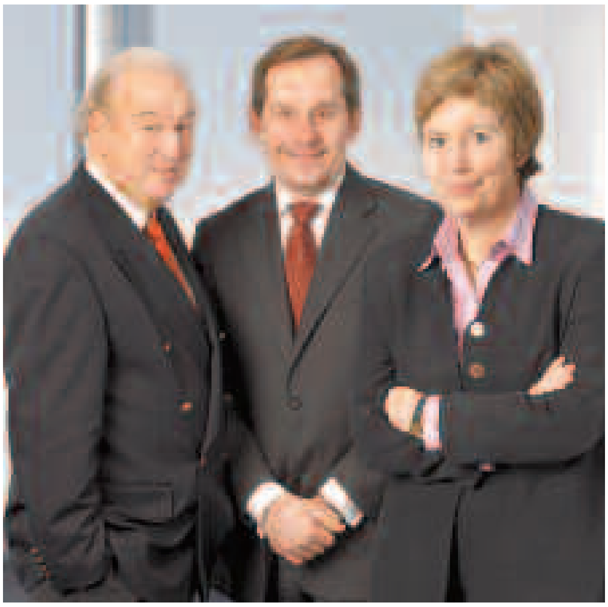
Auditing firm **Ernst & Young AB.**
Auditor since 2004.
Supervising auditor: **Björn Fernström**
Authorized Public Accountant
Born 1950.

Information is as of March 7, 2006

Berthold Lindqvist, Lennart Evrell, Jan Svensson

Sven Ohlsson, Bengt Kjell

Group Management



Anders Ilstam, Sören Mellstig, Eva-Lotta Kraft

Pia Kuure, Mats Persson, Kjell Wiberg, Tommy Morin

Back row: Johan Söderström, Sören Sjöström, Hannu Saastamoinen, Mike McDonald
Front row: Lennart Evrell, Jonas Samuelson

Lennart Evrell
Born 1954. President and CEO.
MSc Eng Royal Institute of Technology, BSc Finance, University of Gothenburg and Uppsala University.
Background: ASEA Robotics, Atlas Copco Assembly System, President, AB Gustavberg, President.
Employed since 1995.
Board member of Sapa AB and Teknikföretagen.
Shares held: 32,043 (including children)
Options: 27,500

Jonas Samuelson
Born 1968. CFO, Group Vice President.
Employed since 2005.
MSc Busin. Admin., Gothenburg School of Economics and Business Administration.
Background: General Motors and Saab Automobile in Sweden and US. Most recently Executive Director Vehicle Sales, Service & Marketing Finance, General Motors North America.
Shares held: 10,000

Mike McDonald
Born 1947. President Dehumidification Division, Group Vice President and President of Munters Corporation.
Employed since 1995.
BS Business Administration and Economics, Drury College, Senior Executive Development Program, Northwestern University.
Background: President of Reda Pump Company.
Shares held: 12,300
Options: 20,000

Hannu Saastamoinen
Born 1960. President HumiCool Division, Group Vice President.
Employed since 2004.
MBA International Marketing.
Background: Many years of experience within HVAC industry, most recently as President of TAC, a subsidiary of Schneider Electric AG.
Shares held: 10,000
Options: 2,000

Johan Söderström
Born 1962, President of MCS Division, Group Vice President.
Employed since 2005.
BSc Eng. Royal Institute of Technology, Stockholm, MBA, Stockholm School of Economics.
Background: Various positions within ABB, most recently as Senior Vice President in Automation Products and Low Voltage Products business area.
Shares held: 10,550

Sören Sjöström
Born 1945. Group Vice President Human Resources and Corporate Communications.
Employed since 2000.
BA Social Studies, Stockholm University
Background: Various positions within Scania in Sweden, Argentina and Brazil, most recently as Director of Human Resources.
Shares held: 5,500
Options: 8,000

GLOSSARY

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

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

Adsorption
Accumulation 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
A facility for evaporative cooling of water.

Dehumidification
A division 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 evaporative 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.

FGD
Flue-gas desulfurization is a technology applied in coal-fired power plants to clean flue gases from sulfur emissions that cause so-called acid rain.

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

HumiCool
A division within Munters whose products 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 division 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 (silicon dioxide) that is used in sorption rotors.

Sorption rotor
A rotor for dehumidification through sorption.

The Humidity 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.

DEFINITION 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 for the last four quarters.

Cash and cash equivalents
Cash and bank balances plus current investments with maturity periods not exceeding three months.

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

EBIT margin
EBIT divided by net sales.

Equity per share
Equity (excluding minority interest) 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).

Net debt
Interest-bearing liabilities plus defined-benefit commitments to employees minus interest-bearing assets minus cash and cash equivalents.

Net debt/equity ratio
Net debt divided by equity (including minority interests).

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 corresponds to EBIT excluding goodwill impairments 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. Minority interest is excluded from earnings as well as shareholders' equity.

FINANCIAL REPORTING DATES 2006

Interim Report January–March	**26 April**
Annual General Meeting	**26 April**
Interim Report January–June	**9 August**
Interim Report January–September	**30 October**
Year-End Report	**February 2007**
Annual Report 2006	**April 2007**

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

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Munters 50th Anniversery

The Munters operations are the result of inventor Carl Munters' (1897–1989) knowledge of thermodynamics – the interaction of air, water and energy. After inventing the first refrigerator without moving parts together with Baltzar von Platen that could make "ice from heat," he continued working single-handedly with developing a cooling system based on the application of evaporative cooling and dehumidification with the help of the key components sorption rotor and CELdek®. He retired at the beginning of the 1970s and shortly thereafter the company was acquired by Incentive. During the 1970s, Munters expanded on new markets through establishing an international agency network. Through the acquisition of the agencies, the modern Munters took shape during the 1980s and the MCS operations were expanded in many of the countries in which Munters was established. The company was listed on the O-List of the Stockholm Stock Exchange in 1997.

Today, Munters is a world leader in humidity control, with products and services for water and fire damage restoration, dehumidification, humidification and cooling of air. Customers are served in a wide range of segments, of which the largest are the insurance, food, pharmaceutical and electronics industries. Manufacturing and sales are carried out via the Group's own companies in 30 countries.

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