

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

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Put briefly, this means 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