

# Corporate Governance Report 2005

*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.

## **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 nodeputy 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 [here](#). 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 managed 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 meetings 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, attendance at Board meetings was highly favorable.

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

#### **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 [here](#).

#### **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 of the Annual Report 2005.

#### **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 [here](#).

#### **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.*