

Corporate governance report

Munters AB (publ) applies the applicable rules contained in the Swedish Code of Corporate Governance (“the Code”). In accordance therewith, the Company has prepared this corporate governance report.

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

On December 31, 2008, the Company had 5,160 shareholders. The proportion of the share capital owned by Swedish institutions amounted to 46.5 percent. Foreign investors owned about 25.5 percent of the share capital. The ten largest owners together had holdings corresponding to 66.1 percent of the share capital. For further information on ownership on December 31, 2008, see page 34 of the Annual Report.

Annual General Meeting 2008

The Annual General Meeting is the Group’s highest governing body. The Annual General Meeting is normally held in April in Stockholm. The 2008 Annual General Meeting was held on April 22, 2008. Bengt Kjell 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 2.50 per share for the 2007 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 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 2,275,000 of which (i) SEK 500,000 to the Chairman, (ii) SEK 250,000 to each of the Board members elected by the Annual General Meeting who is not an employee of the company, (iii) SEK 100,000 to the Chairman of the Audit Committee and SEK 50,000 to each of the other members and (iv) that SEK 50,000 to the Chairman of the Compensation Committee and SEK 25,000 to each of the other members;
 - that fees shall be paid to the auditors on account;
 - that the auditing firm Ernst & Young AB was to be elected as the Company’s auditors for the period until the 2012 Annual General Meeting. It was noted that Björn Fernström was to remain as auditor in charge until the 2009 Annual General Meeting, at which time he will resign as

auditor in charge in accordance with prevailing recommendations for a maximum assignment period of seven years; – that Anders Ilstam, Bengt Kjell, Eva-Lotta Kraft, Sören Mellstig, Jan Svensson and Lars Engström were to be re-elected, that Kenneth Eriksson and Kjell Åkesson were to be newly elected to the Board of Directors and that Anders Ilstam was to be Chairman of the Board. It was noted that the employee organizations had appointed Pia Nordquist and Kjell Wiberg as members with Tommy Morin and Ulf Wallén as deputy members of the Board of Directors.

- The Annual General Meeting approved a request from the Nominating Committee to adjust the Committee’s instructions in accordance with its proposal
- The Annual General Meeting approved the Board of Directors’ proposal to establish guidelines for compensation to senior executives
- The Annual General Meeting unanimously approved the Board of Directors’ proposal to introduce an employee options program involving transfer of treasury shares
- The Board of Directors unanimously approved the Board of Directors’ proposal to amend §3 of the Articles of Association entailing that the Board of Directors’ registered office shall be in Stockholm Municipality.

Nominating Committee

In accordance with decision by the Annual General Meeting, the Nominating Committee is to be elected annually through the Chairman of the Board contacting the company’s four largest shareholders, in terms of voting rights, based on the owner information in Euroclear Sweden AB’s (formerly VPC AB) share register on the last banking day in August each year. Each of these owners is then entitled to appoint a representative to, jointly with the Chairman, comprise the Nominating Committee for the period until a new Nominating Committee has been elected. If a member resigns from the Nominating Committee before completion of his/her duties, if applicable, a replacement shall be elected by the same shareholder who elected the resigning member or, if that shareholder is no longer one of the four largest shareholders, by the newest shareholder joining the group. If the ownership structure in the company changes before the Nominating Committee has completed its work, the Committee has the right to change its composition in the manner it deems appropriate. One of the owner representatives in the Nominating Committee shall be its Chairman.

The Nominating Committee’s assignment is to prepare and present proposals for the election of the Chairman and other members of the Board of Directors, Chairman of the Annual General Meeting, fees and associated matters and, as appropriate, election of auditors. Information about the Nominating Committee’s composition shall be published not less than six months prior to the Annual General Meeting. The members of

the Nominating Committee may not receive fees, but any costs in conjunction with their work will be paid by the company after approval by the Nominating Committee.

Since October 2008, the Nominating Committee includes the following persons: Anders Mörck (Investment AB Latour), Carl-Olof By (Industrivärden), Anders Algotsson (AFA Försäkring), and Jan Andersson (Swedbank Robur Funds). In addition to the above list, Anders Ilstam, Chairman of the Board of Munters is also included. The Nominating Committee will prepare a proposal to the 2009 Annual General Meeting regarding the Chairman of the Annual General Meeting, composition of the Board of Directors and Board fees, as well as election of auditors and their fees. The Nominating Committee held three meetings during 2008. 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 2008, Pia Nordquist and Kjell Wiberg were appointed as employee representatives on the Board, with Tommy Morin and Ulf Wallén 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 40 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 Chairmen'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 is responsible 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 monitored 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. In accordance with the rules of the Code and the listing requirements of the OMX Nordic Exchange Stockholm, seven of the Board members elected by the Annual General Meeting, excluding the President Lars Engström, are independent of the company. Of these, five are

independent of the company's major owners and meet all established requirements for experience.

Chairman – At the statutory meeting of the Board of Directors on April 22, 2008, Anders Ilstam 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 not less than five times per year and for one statutory meeting per year. It shall also be convened at other times when the situation so demands. During 2008, the Board of Directors held five ordinary meetings, one statutory meeting and two 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 below, attendance at the year's meetings was highly favorable.

	Board meetings	Audit Committee	Compensation Committee
Attendance in 2008			
Lars Engström	8/8		
Kenneth Eriksson ¹	6/6		
Anders Ilstam ²	8/8		1/1
Bengt Kjell ³	8/8		
Eva-Lotta Kraft ⁴	8/8	4/4	
Sören Mellstig ⁴	7/8	2/2	1/1
Jan Svensson ⁵	7/8	4/4	
Kjell Åkesson	5/6		
Sven Ohlsson ⁶	2/3	1/2	
Berthold Lindqvist ⁶	2/3		1/1
Pia Nordquist	7/8		
Ulf Wallén	8/8		
Kjell Wiberg	8/8		
Tommy Morin	3/3		
Total number of meetings	8	4	1

¹ Elected to the Board in April 2008.

² Chairman of the Board and convener of the Compensation Committee.

³ Member of the Compensation Committee since April 2008.

⁴ Member of the Audit Committee since April 2008.

⁵ Chairman of the Audit Committee since April 2008.

⁶ Resigned from the Board in April 2008.

Audit Committee – At the statutory meeting of the Board of Directors on April 22, 2008, the Board decided to appoint Jan Svensson (Chairman), Eva-Lotta Kraft and Sören Mellstig 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 and the company's financial reporting 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 2008, the Audit Committee held four meetings at which all members were in attendance. At three of these meetings, the Audit Committee met with and reviewed reports from the company's external auditors.

During 2008, the Board of Directors met with and received reports from the company's external auditors. The auditors' proposals for various improvements in routines and internal controls were accepted but did not result in any special measure from the Board.

Compensation Committee – At the statutory meeting of the Board of Directors on April 22, 2008, the Board decided to appoint Anders Ilstam (convener) and Bengt Kjell 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. On assignment from the Board, the Compensation Committee will present proposals on principles for compensation and other compensation terms for company management to be approved by the Annual General Meeting. The Compensation Committee's work is regulated by special instructions adopted by the Board of Directors as part of its Working Procedures. During 2008, the Compensation Committee held one meeting 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. For the period from the 2008 Annual General Meeting through the 2009 Annual General Meeting, the fee paid to the Chairman was SEK 500,000. Other members elected by the Annual General Meeting, who are not employees of the company, were paid fees of SEK 250,000. Furthermore, a fee of SEK 100,000 was paid to the Chairman of the Audit Committee and SEK 50,000 to each of the other members of the Audit Committee, and fees of SEK 50,000 to the convener of the Compensation Committee and SEK 25,000 to the other member were paid. No further compensation was paid to any Board member.

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

General – 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 consists 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 84 of the Annual Report.

Compensation – At the 2008 Annual General Meeting, the Chairman of the Board of Directors informed the shareholders about the principles for compensation to senior executives. Proposed guidelines are presented on page 45, and the current compensation levels are presented in Note 28 of the Annual Report. The proposal for guidelines for the determination of salaries and other compensation paid to senior executives will be submitted to the 2008 Annual General Meeting for approval. An employee stock option program was approved for the years 2007–2008. No allotment took place, since the targets were not achieved.

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 have a dedicated internal audit function.

Auditors

The 2008 Annual General Meeting elected the auditing firm Ernst & Young as the company's auditor for the period up until the 2012 Annual General Meeting, with Björn Fernström as auditor in charge up until the 2009 Annual General Meeting, at which time he will resign as auditor in charge in accordance with the prevailing recommendation for a maximum assignment period of seven years. The auditors are presented on page 40 of the Annual Report. The auditors work in accordance with an audit plan, in which opinions from the Audit Committee and the Board of Directors were included, 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 2008 year-end report on February 12, 2009. 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

Description of how internal controls are organized

Control environment – Effective working procedures on the part of the Board of Directors are 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 formulating and approving the policies that govern the Com-

pany'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 the guidelines to maintain satisfactory internal controls.

Risk assessment and control activities – Munters' management annually 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 Group's many small subsidiaries, which 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, which, from an international perspective, permits appropriate delegation of responsibility from the standpoint of control activities in the work performed on compiling the financial reports. During 2006, the company reviewed its internal control policy and introduced a formalized process whereby all Group business units implement a self-assessment of their compliance with the rules stipulated in the internal control policy. This self assessment is then reviewed by representatives of Group management according to a rolling schedule, and by the company's external auditors. In the event of discrepancies, improvement plans and activities are prepared.

Information and communication – 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 accessible to all concerned personnel via Lotus Notes internal databases. The Munters Management Manual includes the Munters Information Policy, which provides 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 comprehensive 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 held between the Audit Committee and senior management and the auditors.

The Audit Committee's work also includes regularly following up the effectiveness of internal controls. The Committee's work also includes evaluation and discussion of key technical issues relating to accounting and reporting techniques. Furthermore, the Audit Committee has initiated an annual process to ensure that appropriate measures are taken to address and implement recommended measures in regard to deficiencies that arise in part from internal follow-ups as described above and in part through the external auditors' examinations.

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 addressed by the Annual General Meeting and where the Meeting shall be held. The Articles of Association currently in effect and adopted on April 22, 2008 are available on the company's web site at www.munters.com, under investor relations/corporate governance.

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.

Firstly, there is Munters Management Manual, which, in addition to a number of general policies for the Group's business and its employees, contains detailed descriptions of authorization and responsibility in business management. The following policies are included in Munters Management Manual.

- *Ethical Guidelines* – The Group's ethical guidelines were formulated with the objective of documenting the Group's basic view on ethical issues both within the organization and externally towards customers and suppliers
- *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.
- *Visual Guidelines* – The Group's Visual Guidelines describe the manner in which Munters shall be visible in its marketing and business operations
- *Environment Policy* – The Group's environment policy provides guidelines for environmental work within the Group
- *Quality Policy* – The Group's quality policy provides guidelines for quality work within the Group
- *Corporate Social Responsibility* – The Group's CSR policy summarizes the Company's views on ethical, environmental and social responsibility
- *Health and Safety Policy* – The Group's health and safety policy describes the Group's views on health and safety issues.

Secondly, there is Munters Financial Manual. The Financial Manual describes the rules and guidelines that apply for decisions on financial matters, how financial reporting is organized and what is reported. The accounting instructions in Munters Financial Manual comply with IFRS standards. 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.

The company's application of the Code

The Code is built on the "comply or explain" principle. This means that companies applying the Code may deviate from individual rules but must provide explanations and reasons for each reported deviation. Munters has not deviated from the rules of the Code.

Review

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