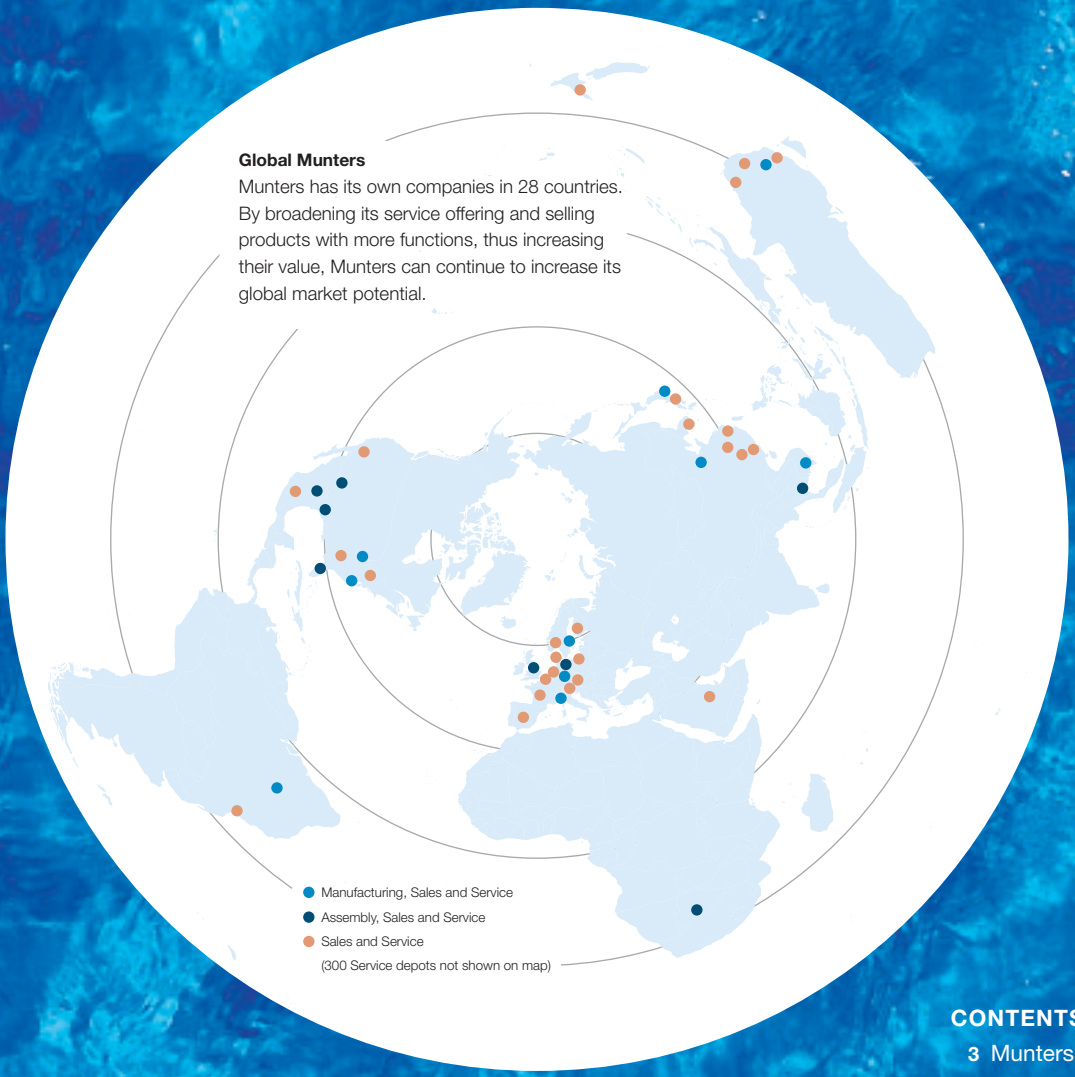
Annual Report 2003

Munters



Global Munters

Munters has its own companies in 28 countries. By broadening its service offering and selling products with more functions, thus increasing their value, Munters can continue to increase its global market potential.

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Munters – The Humidity Expert

Munters is the world leader in humidity control with 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 applications-oriented niche company in air treatment from a base in dehumidification and humidification. The insurance and food industries account for an increasing share of sales.

Munters is focused on market segments in which strong global positions can be achieved. Organic growth is largely generated by working closely with customers on new applications and increasing the proportion of system and service solutions. By gradually expanding its offering and through forward integration, Munters can capture a greater share of the value chain while increasing its market potential.

Munters' organization supports a global, customer-oriented and highly specialized strategy. Outside of Munters' primary markets, the Group works with strategic partners with respect to marketing, sales and service.

Region / Product area	**Europe** Europe, Middle East and Africa	**Americas** North and South America	**Asia** Asia and Australia	**Total** **Product area**
Dehumidification (DH) Products and complete solutions for controlling humidity and indoor climate. The customer's manufacturing processes and storage capability become more efficient. Quality, product life and hygiene are improved.	**Division DH Europe** Sales 520 MSEK 335 employees	**Division DH Americas** Sales 606 MSEK 312 employees	**Division DH Asia** Sales 176 MSEK 124 employees	Sales 1,262 MSEK 771 employees
Moisture Control Services (MCS) Services for water and fire damage restoration and temporary climate control. Total service offering for the insurance industry that lowers costs by limiting damage.	**Division MCS Europe** Sales 1,640 MSEK 1,461 employees 259 depots	**Division MCS Americas** Sales 300 MSEK 123 employees 33 depots	**Division MCS Asia** Sales 42 MSEK 34 employees 8 depots	Sales 1,982 MSEK 1,618 employees
HumiCool (HC) Products and systems for evaporative cooling and humidification. Cooling systems for poultry and horticulture industries in dry and warm climates. Technology and products for mist elimination and water purification.	**Division HC Europe** Sales 516 MSEK 294 employees	**Division HC Americas** Sales 457 MSEK 227 employees	**Division HC Asia** Sales 154 MSEK 140 employees	Sales 1,103 MSEK 661 employees
Total Region	Sales 2,658 MSEK 2,090 employees	Sales 1,347 MSEK 663 employees	Sales 372 MSEK 299 employees	**Total Group** Sales 4,308 MSEK 3,070 employees

Munters evaporative cooling systems control the indoor climate in such areas as animal and poultry breeding. The technology is energy-efficient and creates the correct temperature and humidity, thus increasing production and safeguarding the breeding environment.

The year in brief

Market trend

- Extremely dry weather conditions reduced demand in MCS Europe, while MCS Americas had a good year.
- Market prerequisites deteriorated in Region Europe as a result of exchange-rate changes.
- Demand was weak within HumiCool as a result of lower demand in Europe and the war in Iraq.
- Systems combining dehumidification and cooling (DesiCool™) had a positive development.
- Applications in the food industry showed favorable growth.
- Demand in Asia was strong toward the end of the year following a weak start.

Financial trend

- Net sales declined 8 percent to 4,308 MSEK. For present structure and adjusted for currency effects, the decline was 4 percent.
- EBIT declined 36 percent to 298 MSEK. For present structure and adjusted for currency effects, the decline was 29 percent.
- Cash flow from operations decreased by 38 percent to 257 MSEK.
- Earnings per share declined by 35 percent to 7.04 SEK.
- A dividend of 3.50 SEK is proposed (unchanged from the preceding year).
- First-year effects of previous acquisitions ceased on July 1, 2003.

Cost reductions

- A cost reduction program resulting in savings of 120 MSEK on annual basis was largely completed.

Investments

- A new production plant for complete cooling systems was started in Thailand.
- Planning was begun on a new production unit for Humi-Cool in Mexico.
- A new sales office was established in Dubai.
- Ownership in Aerotech Asia Inc. was increased.

Expanded customer offering

- The DesiCool™ program was expanded in all regions.
- A new modular cooling system, Integrated Custom Airhandler (ICA), was launched on the US market.
- MIIL, a new generation of portable dehumidifiers, was launched.
- MCS Americas introduced a comprehensive service offering for water and fire damage restoration.
- The WindPro fan was developed for launch early in 2004 to the AgHort industry.

Exact control of temperature and moisture are essential in the production of pharmaceuticals. The external climate may vary, but the production climate must be constant. All over the world, Munters' dehumidification systems create the optimal conditions for both production and personnel.

Humidity – the foundation for the business

Moisture, or the invisible water present in the air, is the foundation of Munters' business. By processing and controlling the moisture in the air, Munters creates the ideal conditions that allow people, buildings, food, products and machines to function in an optimal manner.

Dry air weighs 1,205 grams per cubic meter at a temperature of 20°C and consists of 910 grams of nitrogen and 278 grams of oxygen. The remaining 17 grams consist of various inert gases and carbon dioxid. The relationship is constant throughout the world and at different pressures and temperatures. However, the amount of water vapor in outdoor air varies considerably. Depending on the season and geographic location, that variation is typically between 1 and 25 grams per cubic meter of air (see table below). Relative humidity is the relationship between the amount of water vapor that is present in air and the amount that can be maximally present at a certain temperature. The higher the temperature, the more water vapor the air can hold.

Humans can detect temperature changes of just a few degrees and sense particles in very small concentrations. On the other hand, we are relatively insensitive to variations in humidity. The moisture content must change dramatically for us to notice the difference. But even small changes in relative humidity may affect production, quality and the indoor climate.

Different climates create different prerequisites

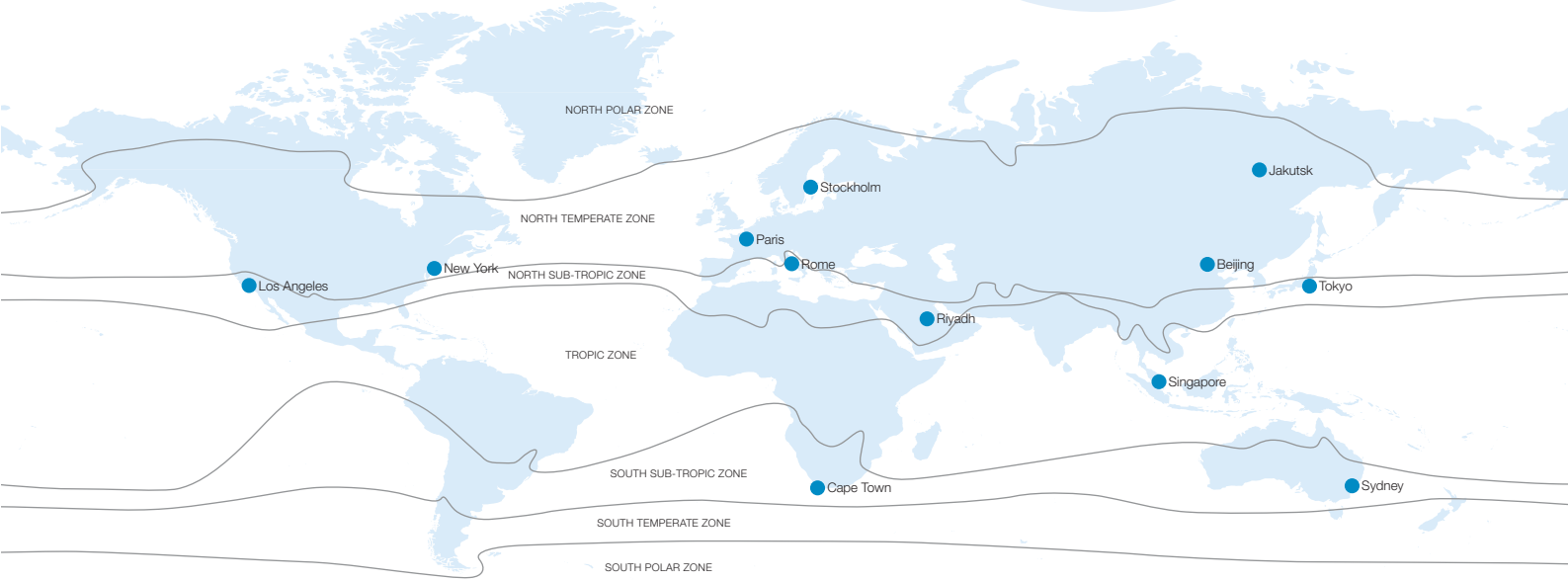
Climate refers to average weather conditions of a given area over a longer period. The climate of a given location may be affected by many factors, such as distance from the equator, precipitation, altitude, distance to the sea and mountain ranges, winds, forests, etc. Climate areas are normally divided into the following zones: the tropic zone, the sub-tropic zones, the temperate zones and the polar zones.

The climate affects us all. People have developed different methods for adapting living conditions to the prevailing climate. Different climates create different prerequisites. In warm climates, there is a need for air conditioning and dehumidification. In cold climates, the need is for heating and humidification. Regardless of climate, there is a need to control both temperature and humidity. For companies with operations in different climates, it is essential to ensure that products maintain the same quality, regardless of where they are manufactured.

Problems such as mold, bacterial growth, corrosion and variations in consistency and electrical conductivity will always exist, as will the search for new, improved methods of eliminating them.

	A warm summer day		A cold winter day	
	Temp	g/m³	Temp	g/m³
Beijing	29.0	23.1	–9.2	**1.0**
Jakutsk	25.5	13.4	–50.1	0.02
Cape Town	26.4	15.4	4.9	5.2
Los Angeles	24.7	15.9	7.4	6.2
New York	29.3	20.5	–8.1	1.8
Paris	25.9	16.1	–5.0	2.4
Riyadh	36.3	10.4	6.8	6.3
Rome	27.9	23.5	0.1	3.7
Singapore	30.7	**25.7**	23.1	17.1
Stockholm	22.0	13.2	–15.0	**1.0**
Sydney	26.2	18.5	6.8	5.9
Tokyo	30.1	23.9	0.2	3.7

g/m³ – grams of water per cubic meter
Source: ASHRAE



CEO's comments

After a long series of years with stable growth and margin improvements, the trend was interrupted in the beginning of 2003. Demand declined simultaneously in several areas. At the same time, exchange-rate movements were strongly negative. The first-year effects of previously implemented acquisitions ceased after July 1, 2003. The reduction in sales was due to weather conditions in Europe that were extremely unfavorable for the MCS business, and due to weak demand in several of Munters' most important customer segments.

Like other international companies that report earnings in SEK, Munters suffered from the strong increase in the Swedish krona. Exchange-rate changes resulted in substantial translation effects in both sales and earnings. Munters' margins in the Americas and Asia are among the highest in the Group, which meant that translation effects also resulted in lower margins. In most areas, Munters' costs are primarily in the same currency as corresponding sales, resulting in low currency risk. For HumiCool in Europe, however, exchange-rate changes resulted in a weakening of the competitive position. Within the poultry industry, most companies are American, and the industry is largely based on USD. At the same time, the European poultry industry suffered from stiffer competition from Asia and South America due to the weakening of the USD, which resulted in lower willingness to invest.

Action program

To limit the effects of weaker demand, an action program was implemented to reduce costs. As one result, personnel were reduced by 250 persons throughout the Group. The action plan is estimated to generate cost savings of 120 MSEK on an annual basis with full effect being achieved from the second quarter of 2004. Costs totaling slightly less than 25 MSEK for the implementation of these measures were charged against earnings for 2003 and to some extent in the first quarter of 2004. The measures were painful but will have a positive effect during 2004 and onward. To improve the competitive position, a decision was taken to transfer portions of the US-based production of HumiCool products to Mexico. The major share of investment for this move was booked during 2003. The new plant will start production during the second quarter of 2004.

In pace with the weakening of demand during 2003, costs were reduced to adapt operations to lower sales. However, we were not able to compensate for the unfavorable product mix or the negative currency effects. Operating capital remained low, and cash flow continued to be strong. During the year, a project was implemented to reduce accounts receivable by 100 MSEK.

The weak trend during the year has given us reason to increase the focus on costs throughout the Group. At one time, Munters had favorable gross margins but high indirect costs. Over a number of years, we therefore reduced indirect costs in relation to sales. At the same time, gross profit declined, in part as a result of expanding Munters' offering which has resulted in slightly lower gross margins. Expanding the offering generated organic growth and increased profit margins. Thus the emphasis is now being shifted to improving gross margins, rather than reducing indirect costs. This means that we must re-focus on high-margin products while reducing direct costs and increasing productivity.

Increased productivity

Half of Munters' sales are generated from service provided by MCS and aftermarket service. The remaining half derives from products for Dehumidification and HumiCool. Increasing productivity in service and product businesses requires different measures and methods, although there are many common factors.

Within MCS we have been working for a number of years to standardize our service work. This began by documenting the best methods for performing various business tasks in our Catalogue of Best Practices. The MCS organization is built up on districts with a central service depot containing certain support functions to which three to five smaller service depots are linked. Documentation of the organization has been compiled in our District Manager's Handbook, which is a refinement of the Catalogue of Best Practices.

Within Dehumidification and HumiCool, a number of projects were started to increase productivity and reduce the cost of goods purchased.

Cost reductions are being implemented as planned. During the second half of the year, costs were 53 MSEK lower than during the preceding year. Growth issues remain high on the list of priorities. Work with new application areas within Dehumidification and HumiCool continues, as does expansion of the service offering within MCS.

Closing of the year

In the fourth quarter, demand was generally stronger in Dehumidification with order growth of 12 percent for the quarter adjusted for exchange-rate changes. Markets in the US showed signs of improvement, while growth in Europe remained weak. In Asia, sales were strong toward the end of the year, following a weak start of the year. Currency movements continued to be negative for Munters. The new year started with an increase in order intake in several areas. Demand within MCS Europe, however, remained weak.

On the product side, it was gratifying to note that the DesiCool™ products were successful, particularly the HCU products introduced during the preceding year. These are systems that combine dehumidification and air conditioning in an energy-efficient system powered by electricity. The previous generation of systems was powered by gas. These systems are ideal for air conditioned premises with a high moisture load, normally with many people, where problems with mold often arise. Examples include schools and restaurants, and several orders were received from these sectors. Munters' sales of dehumidification products to the food industry also showed good growth. In addition, Munters introduced a new generation of modular dehumidification products in the largest range in the US market. These systems are a refinement of Munters' MDS system.

The Avian flu that broke out in Asia in December did not have any impact on 2003 earnings. On the other hand, demand in the poultry industry in Asia is expected to be weak during 2004. The disease has primarily spread in open houses, while the type used in the US and Europe are significantly less affected. This will probably lead to open houses being replaced by closed units over time, which would favor Munters.

Summary

As a result of weak demand, the year was characterized by work to reduce costs, in part over the short term to achieve balance and protect profits, but also to gradually improve methods and to reduce costs for products and services over the long term.

Munters' strategy remains firm. Sales are focused on the segments that are considered to have the greatest growth potential. MCS operations have considerable unutilized potential within the existing offering, while new service offerings are also being developed. The combination of dehumidification and air conditioning has substantial potential, and several customer relationships have been established. The food industry has shown a positive trend within both Dehumidification and HumiCool. New applications are also being developed in this area, and the potential is considered substantial.

Reduction of operating capital continues to show improvement, although accounts receivable in particular provide opportunities for further improvement.

The decline during 2003 was a consequence of weather conditions and a general lack of investments by customers in several important sectors for Munters. It is our hope that a reversal of this trend will occur relatively soon. If we benefit from exchange-rates and see a return from some of the exciting new applications with which we are working, the future may be very bright.

Munters' employees experienced a demanding year in 2003. Everyone worked hard, yet earnings growth remained weak. Many employees contributed great efforts under trying circumstances, and I wish to express my thanks for excellent efforts in many areas. The problems experienced during the year gave much needed incentives for working with issues that were not prioritized during the many years when growth was stable. It is my hope that the efficiency measures now being implemented and increased productivity will yield positive effects over the long term.

Stockholm, March 1, 2004

Lennart Evrell

CHIEF EXECUTIVE OFFICER

Financial development

From 1995 through 2002, Munters experienced continuous growth in order intake, net sales and EBIT. Adjusted for currency effects for present structure (with pro forma accounting for acquired units), order intake, sales and EBIT declined during 2003. Despite the decline in 2003, the Company's financial strength remained high with lower net debt and a higher equity ratio than the preceding year.

Net sales

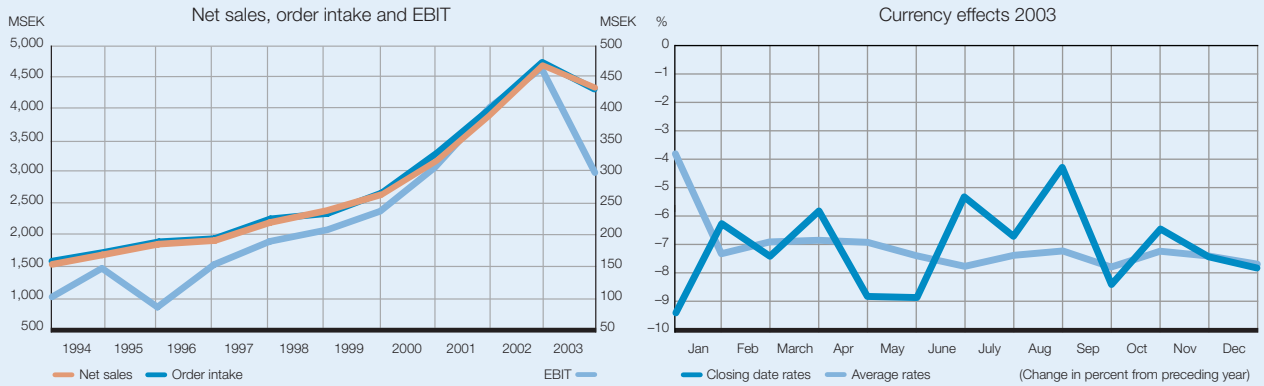
Over the past ten years, Munters' net sales increased from 1,681 MSEK to 4,308 MSEK, corresponding to annual growth of 13 percent. Over the past five years, sales growth averaged 15 percent annually, and during the same period, operations were acquired with sales of about 970 MSEK. During 2003, sales declined by 8 percent. Adjusted for currency effect for the current structure (with pro forma accounting for acquired units), the decline during 2003 amounted to 4 percent.

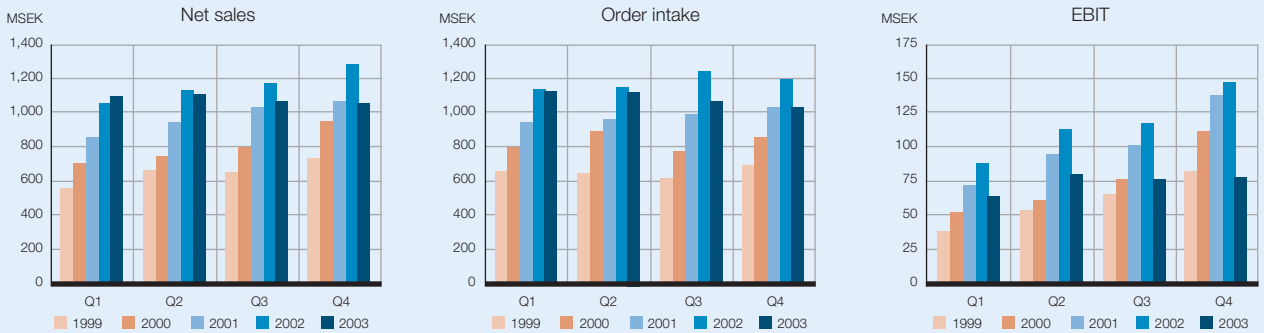
EBIT and EBIT margin

Over the past ten years, EBIT, including amortization of goodwill and surplus values, increased from 149 MSEK to 298 MSEK, corresponding to annual growth of 16 percent. Over the past five years, EBIT increased by an average of 9 percent annually. From 1994 to 2001, the EBIT margin increased from 8.8 to 10.3 percent. During 2002, the EBIT margin fell by 0.3 percentage points to 10.0 percent due to the acquisition during the year of companies with a lower EBIT margin than Munters' original operations. For 2003, the EBIT margin amounted to 6.9 percent, which was the lowest EBIT margin reported by Munters since 1995.

Capital turnover rate, cash flow and financial position

Over the past ten years, Munters' capital turnover rate has been between a multiple of 2.6 and 3.4, while return on capital employed was between 15 and 32 percent. Net cash flow from operations increased over the past ten years by an average of 24 percent per year, which was more than growth in net sales. During the past five years, the increase has been significantly greater than previously. During 2003, net operating cash flow declined by 5 percent, due to the decline in EBIT. During 2001 and 2002, Munters increased goodwill on the balance sheet as a result of completed acquisitions. This, together with





lower sales and earnings during 2003, resulted in a decline in the capital turnover rate and return on capital employed during 2003. During the year, the Group's net debt declined by 27 MSEK and amounted to 338 MSEK at year-end, despite supplementary payments for acquisitions made previously and the buy-back of own shares to cover commitments relating to the outstanding options programs. Munters' equity ratio amounted to 46.1 percent at year-end, which was the highest figure over the past ten years.

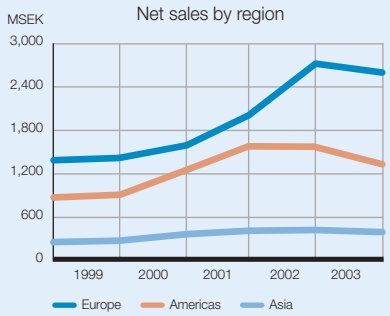
Net sales and operating earnings by region

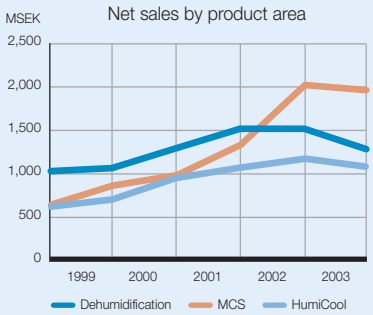
During the past five years, net sales increased by an average of 19 percent in Region Europe, 10 percent in Region Americas and 9 percent in Region Asia. Up until 2002, operating earnings increased more than net sales in Region Europe and Region Americas, while the growth rate was lower in Region Asia. During 2003, operating earnings declined in all regions. The operating margin during 2003 amounted to 6.6 percent in Region Europe, 11.2 percent in Region Americas and 11.0 percent in Region Asia.

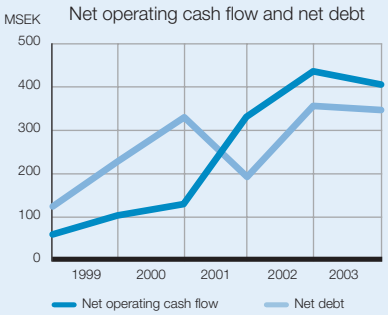
Net sales by product area

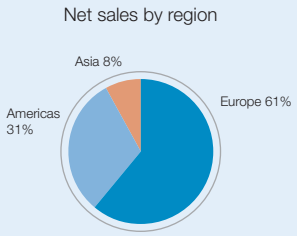
During the past five years, the MCS product area has shown the highest growth with average annual growth of 28 percent, followed by HumiCool with average growth of 12 percent. Dehumidification reported average growth of 4 percent. Acquisitions increased growth in MCS and HumiCool. During 2003, all product areas reported reduced sales. Since 2002, MCS is Munters' largest product area, accounting for 46 percent of total sales in 2003.

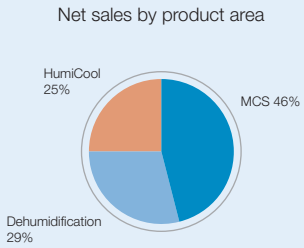
Bernt Ingman
CHIEF FINANCIAL OFFICER

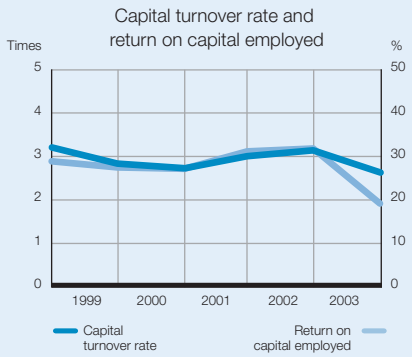












Business focus

Munters' products and services are based on nature's own laws for how moisture, temperature and energy relate to each other. Carl Munters laid the foundation for the company in the 1950's through his innovations in thermodynamics, meaning the interplay between air, water and energy. These ideas have been continuously refined and achieved commercial breakthroughs at different points in Munters' history.

Global presence

Munters has its own companies in 28 countries. Through forward integration, expanding its service offering and selling products with more functions thus increasing the value content, Munters is able to continuously increase its global market potential. By applying this strategy, Munters can redefine or expand a chosen niche and open opportunities for new business in adjacent areas. The most important customers are found in the insurance and food industries.

Munters expansion strategy is based on the following principles:

- **Expansion of service operations.** One of the overall goals toward which Munters has worked in recent years is that the service offering – MCS and aftermarket sales – should account for at least half of sales.
- **Modular product platforms.** By using modular product platforms that can be combined into total solutions, Munters meets customer demands for customized solutions for various needs while being able to exploit economies of scale.
- **Local production.** Many of Munters' products are bulky and expensive to transport over long distances. For this reason, Munters has chosen to have manufacturing locally in Australia, Italy, Japan, China, Sweden, Germany, the US and Vietnam, which not only creates a competitive advantage, but also enables Munters to adapt its business to local requirements. Assembly takes place in Brazil, Great Britain, Mexico, South Africa and Thailand. Local production also means that costs and sales to a large extent are booked in the same currency, which reduces exposure to currency fluctuations. Within HumiCool Europe, however, this balance has decreased in recent years.
- **Low tied up capital and flexible production.** A large portion of production is performed by sub-suppliers, thus reducing operating capital.
- **High performance.** Manufacturing of core components and final assembly is performed by Munters to ensure that end products are of high quality and deliver high performance. Munters' development work is based on continuous enhancement of performance in combination with more efficient IT administration of product development, production and sales processes.

Market trends and driving forces

- **Drying instead of rebuilding after water damage.** Water damage accounts for a significant share of costs for insurance companies. Munters' technology is based on restoring, rather than tearing out and rebuilding, damaged floors and walls. This method results in significant cost savings and avoids waste of building materials and fixtures. With its wide geographic presence, Munters is an ideal partner for insurance companies, which are increasing in size and diminishing in number. Munters is the technology leader and offers high quality, wide availability and fast service.
- **Productivity and quality.** Most industries are being affected by continued globalization. To ensure high product quality, manufacturing must take place in production environments that are identical, despite the fact that production plants are located in different climate zones. This creates an opportunity to supply systems to create the right humidity and temperature conditions for manufacturing in different parts of the world.
- **Demands for improved indoor climate.** Using less energy often means tighter insulation and reduced ventilation. This in turn increases problems with mold, moisture damage and problems with allergies. Munters reduces these problems in part through its MCS operations when problems have already arisen and in part with fixed installations of systems that ensure that such problems will not arise.
- **Energy and the environment.** Munters works to continuously reduce resource consumption in its applications, and in most cases, application of Munters' solutions results in lower energy consumption and less waste of resources than alternative solutions. Several products are used to reduce emissions of harmful substances. Increasing energy prices and a greater environmental awareness result in increased demand for environmentally friendly and energy-efficient products and production processes.
- **Hygiene.** The correct humidity prevents bacteria growth, reduces the risk of poisoning and extends the shelf life of food products. In addition, appearance, taste and consistency is enhanced. Munters has solutions for all phases of the food industry, from manufacturing and transport to storage and retail sales.

With the help of Munters' methods for water and fire damage restoration, kitchens can be restored instead of being torn out. This results in significant savings for insurance companies and reduces resource waste when building materials are scrapped.

Product area Dehumidification

Within the Dehumidification product area, Munters offers products and solutions for controlling humidity and indoor climate. To an increasing extent, these systems are supplemented by cooling systems. Manufacturing and storage processes become more effective, and quality, product life and hygiene are improved. The products are adapted to different types of climates and used for several applications in manufacturing and distribution. The future potential market for dehumidification systems is estimated to correspond to about 10 billion SEK per year. Prioritized market segments in dehumidification are the food and pharmaceuticals industries. The dehumidification program introduced last year with integrated dehumidification and cooling functions for department stores, schools and restaurants is also considered to have significant potential. In addition, dehumidifiers are also for storage, in the electronics and semiconductor industries, in industrial surface finishing and in defense plants. Munters is a strong global brand, and most of the world's leading companies in these segments are Munters customers. Examples are Wal-Mart, Pfizer, Nestlé and Fujifilm.

Product development within dehumidification is focused on adapting products to selected applications, increasing the ability to meet different customer requirements and increasing product quality and performance.

Product area MCS (Moisture Control Services)

MCS offers services for water and fire damage restoration and for temporary climate control. The MCS service concept is based on drying and restoring, rather than rebuilding after water and fire damage. Drying is increasingly becoming the industry standard in this area. MCS has 300 depots in 20 countries and makes its services available around the clock, all year long. MCS is active in a market that has an estimated future potential corresponding to about 30 billion SEK per year. Prioritized market segments within MCS are water and fire damage restoration. MCS also offers methods for shortening and improving construction processes.

MCS has as its goal to be the Preferred Service Provider among its key customers, which are primarily insurance companies. Customers include Norwich Union, If, Zurich and FM Global.

The business concept is based on local presence through depots that operate with a delegated profit-center responsibility and entrepreneurship within established frameworks. Closeness to customers and minimal response times are essential for limiting damage. An increasing share of sales are based on national agreements with fixed prices for insurance companies. This allows operations to be made more efficient with lower costs, but also results in lower prices. Development work within MCS is focused on standardizing work methods and increasing and extending flexibility with respect to the product and service offering to meet varying customer requirements.

Product area HumiCool

HumiCool offers products and solutions that create a controlled indoor climate. In warm climates, evaporative cooling is in demand, while humidification is needed in cool climates to improve the indoor climate. HumiCool also offers products for mist elimination and water purification.

HumiCool is active in a market with a future potential estimated at about 10 billion SEK per year. Prioritized market segments are the AgHort (Agriculture and Horticulture) industry, the air conditioning industry and water and power plants. Examples of customers are GSI Cumberland, Big Dutchman, United Utilities, AdobeAir and General Electric.

HumiCool sells both components and complete systems. One of the key products is CELdek®, which is included in evaporative cooling systems.

Business model

Munters is active in a market with annual sales estimated at approximately 25 billion SEK. Munters is a leading player in the global market. In many segments, Munters has a market share exceeding 50 percent.

Business concept

Munters' business concept is to be the leading global service and applications-oriented niche company within the air treatment market from a base in dehumidification and humidification.

Financial goals

Munters' goals over a business cycle:

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

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

Operative goals

In operative work, Munters' management focuses on achieving the following goals over the medium term:

- The Group's products shall be based largely on global product platforms.
- More than half of sales should be to end customers.
- Service – MCS and aftermarket – shall account for half of consolidated sales.
- The Group shall have integrated IT systems that facilitate rapid communication and information transfer, efficient control and short lead times.
- The Group shall offer global training programs that develop motivated and competent employees and make Munters an attractive employer.
- The Group shall continuously increase efficiency by focusing on constant cost reductions.

Strategy

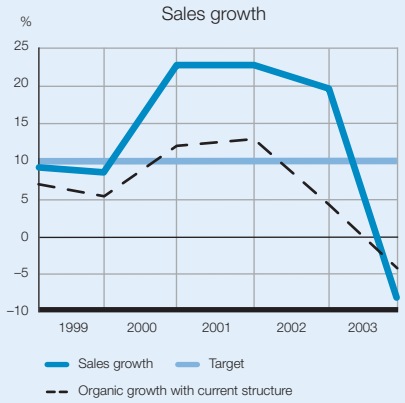
The Group's strategy for achieving these goals can be summarized in the following points:

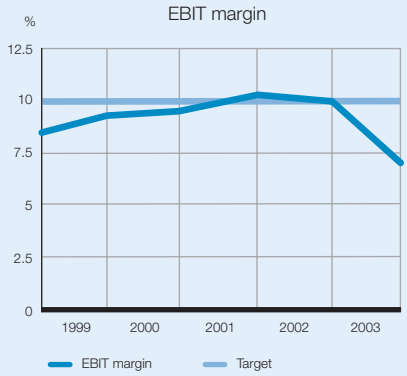
- Focusing on customers with underlying growth and moderate sensitivity to business cycles
- Increasing value added and distribution to end customers through forward integration
- Repeating successful installations
- Expanding service operations
- Opening new geographic markets.

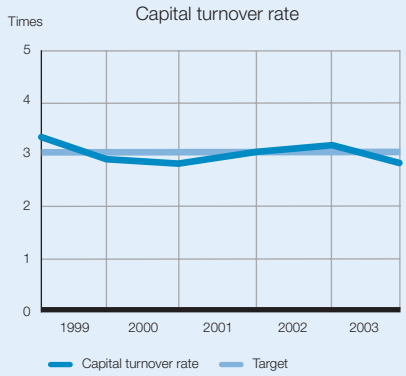
Selected niches

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

- Market potential exceeding 500 MSEK per year
- Underlying growth
- Relatively insensitive to business cycles
- Global customers
- Opportunities for favorable margins
- Low operating capital
- Contributing to service operations.







Munters' sales decreased by 8 percent during 2003. Adjusted for currency effects for the current structure, sales declined by 4 percent. Munters' goal is to achieve growth of 10 percent per year, which meant that the growth target was not achieved during 2003. The target for the EBIT margin of 10 percent was not achieved in 2003. Munters goal is to achieve a capital turnover rate of 3. During 2003, this target was not achieved, since the capital turnover rate was 2.7.

Opportunities and risks

Munters in large part creates its own growth. Some 50 percent of Munters' annual growth is generated by new products, applications and services. Within Munters' largest customer segment, the property insurance industry, the potential remains substantial.

Opportunities

The property insurance industry, which accounts for about 40 percent of consolidated sales, saves significant costs by utilizing Munters' service concept, which has become an industry standard in many countries. Munters' potential remains substantial and is being further increased through expanding operations in this sector.

Munters has an opportunity to play an important role in the food industry by creating controlled climates in production and distribution, thus increasing quality, product life and productivity, while reducing bacteria growth and improving hygiene. The combination of air conditioning and dehumidification in the DesiCool™ systems is considered to have substantial potential.

Evaporative cooling is both energy-efficient and environmentally friendly. Many potential markets in which the technology is not currently used can be developed.

Risks

Munters expansion in MCS increases the exposure to the insurance industry. Changes in insurance products, new supplier relationships and financial difficulties in the insurance industry could be a threat to Munters. Alternative technologies may also constitute a risk. Companies currently active in air conditioning may establish operations in Munters' niches.

Strengths and weaknesses

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

Strengths and weaknesses for Munters' three product areas relative to its competitors are described for each product area below.

Dehumidification product area

The competition often consists of local companies. Munters is the leading manufacturer of desiccant rotors, which is one of Munters' key components, and the company has a broad product portfolio in dehumidification.

A strong brand, long-standing market presence, a global marketing organization with leading-edge application expertise are other strengths.

High indirect costs for creating market growth, a product range that in certain respects is unstructured and many small organizational units can be considered this product area's weaknesses.

MCS (Moisture Control Services) product area

Competition comes from both global players, such as Belfor and ISS Damage Control, and small local suppliers. MCS is a quality and technology leader with a strong brand and a complete service offering. A broad local presence in geographically dispersed markets provides strength.

The product area's weaknesses consist primarily of volatile revenues and a relatively fixed cost structure plus low barriers to entry for competitors. An increased dependency on fixed contracts with the insurance industry may also constitute a risk.

HumiCool product area

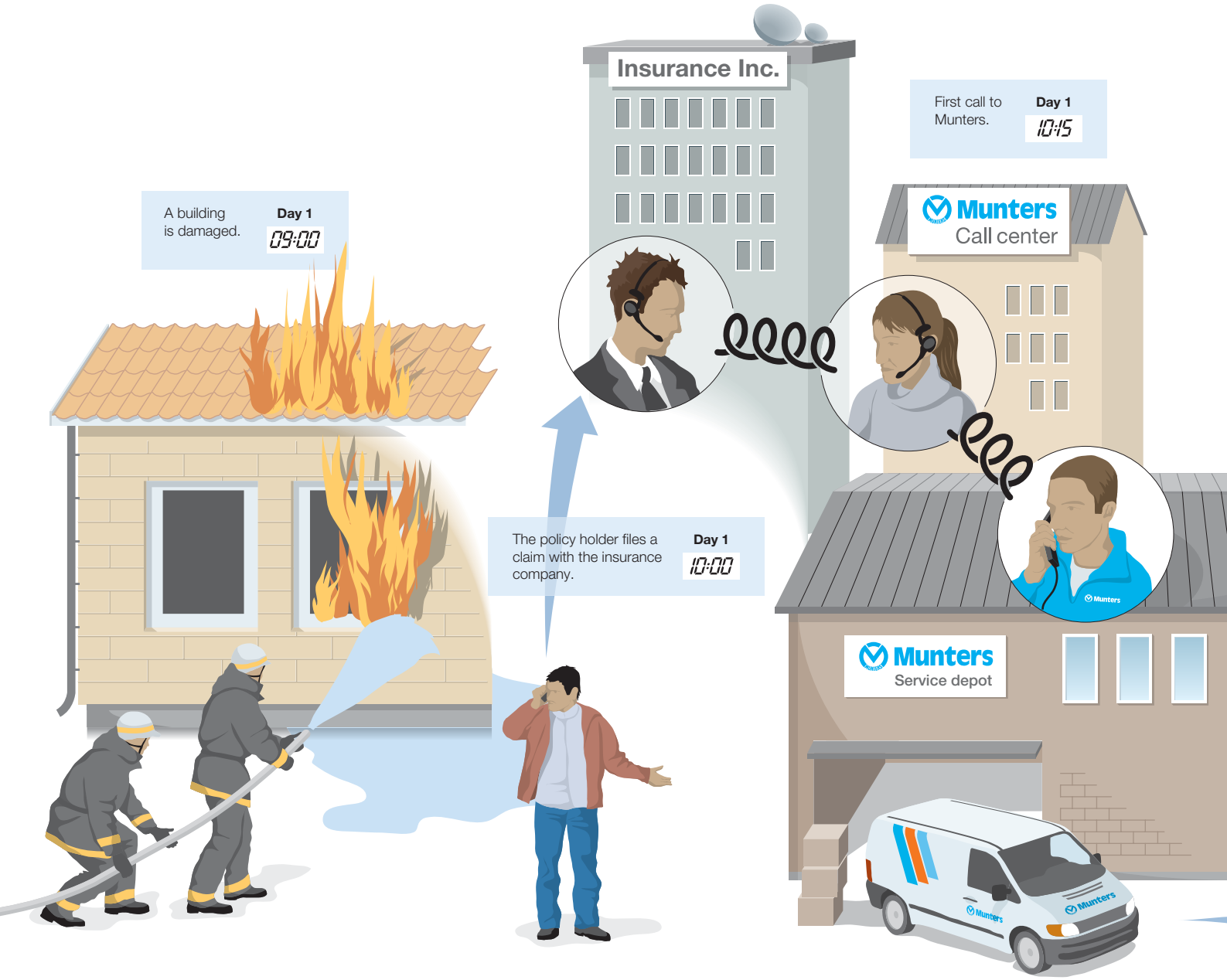
Competitors are local players with small-scale production. Munters has high market shares in selected segments. The product area is characterized by strong brands, technical leadership and broad application expertise.

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

Munters' products are used on oil rigs to prevent water from entering the ventilation systems. This is particularly important, since the water contains salt which results in corrosion and rust damages. This technology is called mist elimination and eliminates drops or mist from both water and gas.

Water and fire damage restoration

The insurance industry is Munters' largest customer segment

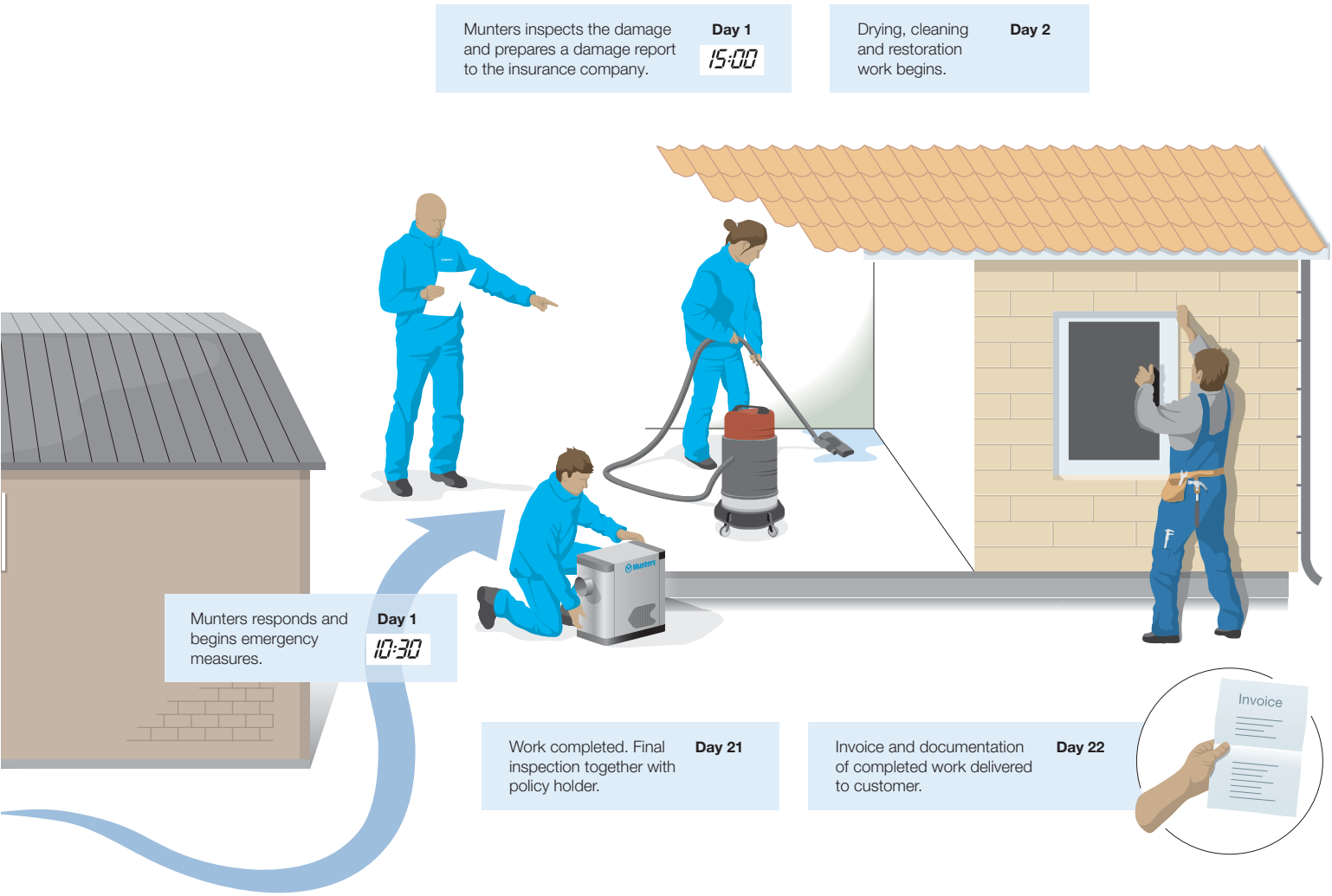


Active damage management has become increasingly important for insurance companies to reduce costs. One method is drying instead of rebuilding after water and fire damage. This is also the objective of Munters' (MCS) service concept, which has increasingly become a standard in several countries. Increasingly, insurance companies sign nationwide contracts with companies specialized in damage control. The insurance companies are prioritizing contracts with partners that can offer full service with broad geographic coverage. Furthermore, automation of information processing is proceeding rapidly, a trend that favors large players.

Fire and water damage to properties is one of the insurance industry's largest claims areas as measured both in insured values and claims payments. If an accident occurs, it is essential to effectively limit damage and thereafter to optimize both repair work and the administrative process. Costs for restoration of buildings are significantly reduced by initiating clean-up work quickly. In many cases, rapid response to water damage may mean that it is not necessary to tear down and rebuild, which saves both time and money. Munters offers services for each step in handling damage and can also act as a general contractor for insurance companies. The various steps are illustrated in the figure above.

With more than 300 service depots in 20 countries and more than 30 years' experience, Munters is the world's leading supplier of water and fire damage restoration services. Munters (MCS) service concept, which is based on drying instead of rebuilding after water and fire damage, has increasingly become the standard in this area.

The underlying growth in damage restoration and management is estimated at close to 10 percent annually. Some 20 percent of sales during a normal year are weather-related from such causes as flooding and frozen pipes.



Driving forces and trends in damage control

- **Drying and restoring** instead of tearing out and rebuilding after water and fire damage results in substantial savings and reduced waste of building materials. These techniques have increasingly become the industry standard in this area.
- **Internationalization.** Deregulation of the insurance industry results in an increasing focus on standardized, international solutions.
- **Increased coverage ratio.** Property insurance is an expanding segment in the international insurance market.
- **Fewer suppliers.** Insurance companies are increasingly prioritizing contracts to professional partners that can offer total solutions in their area of expertise.
- **National contracts.** To a growing extent, insurance companies are entering national contracts with selected suppliers.
- **Outsourcing.** The consolidation now taking place in the insurance industry increases competition, with one consequence being that insurance companies are focusing on core operations and outsourcing damage management.

MUNTERS' OFFERING

Fire damage restoration

The guiding principle for Munters is to always choose the most lenient method for fire damage restoration. Cleaning should be as effective as possible without impacting the environment more than necessary. The services required for restoration of the building are provided through the Group's network of building contractors.

Water damage control

Munters' drying methods are based on more than 50 years' experience of what is called the adsorption method. The drying equipment consists primarily of measurement equipment, dehumidifiers, fans and heaters.

Industrial services

Munters supplies services that are primarily linked to indoor climate and humidity, such as rental of dehumidifiers for industrial applications. Munters also has methods for shortening and improving construction processes.

Development of Munters' offering

Munters' product development is focused on new applications and application areas. The goal is to increase the value content in both products and services and to offer total solutions for customer requirements. Development work often takes place in collaboration with customers.

In order to strengthen Munters' world-leading position in humidity control, significant resources are devoted to developing products, not least in new application areas. Development work is directed primarily to areas with underlying growth that are relatively insensitive to business cycles, such as the food industry. Munters' offering has, for example, been expanded in recent years from components to complete systems for the poultry industry.

Munters' product development focuses on spreading successful installations to new geographic markets. By working with modular product platforms that can be combined into total solutions, Munters satisfies customer requirements for varying needs while exploiting economies of scale.

Product development is coordinated globally but is mainly conducted regionally. Improvement work places substantial demands on personnel and development of systematic methods for sharing experience throughout the Group.

Product development is primarily conducted at Munters' development departments in Sweden, Germany, the US and Japan. Development can be divided into two areas:

- Development of core components and production methods
- Development of new products and platforms.

Core technology

Munters' core technology has its origins in the adsorption rotor and the CELdek® and GLASdek® cooling panels developed by Carl Munters in the 1950's. The basic technology remains the same, but materials and characteristics are being improved constantly.

The basic principle in Munters' dehumidification rotors is that two streams of air simultaneously pass through two sectors of a slowly rotating rotor. One air stream is dehumidified, while the other dries the rotor so that it can absorb moisture again.

Rotor development is concentrated to Amesbury, Massachusetts in the US.

The technology used in cooling panels makes warm and dry air more moist and thus cooler when it passes through the wet CELdek® surface. CELdek® is included in Munters' evaporative cooling systems.

Dehumidification

Within dehumidification, Munters focuses on adapting products to selected applications and at the same time increasing opportunities for meeting varying customer requirements. The combination of dehumidification and cooling in the DesiCool™ systems provides opportunities for creating a comfortable indoor climate and results in lower electricity consumption and less impact on the environment. Development work to enhance performance and improve quality is a continuous process.

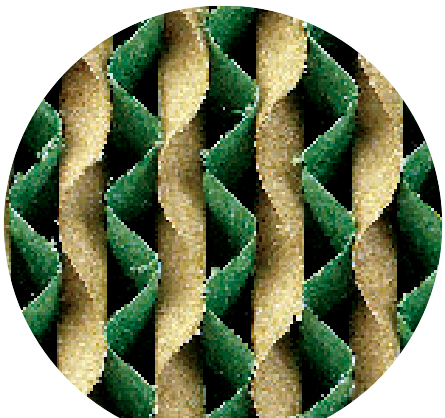
The trend in this product area is that products are becoming increasingly modular. Modularization makes it possible for Munters to design and manufacture custom systems in a short time. In general, product development is also focused on further globalization of the products.

Munters will continue to concentrate development work to the most important customer segments, primarily property insurance and the food industry. In the food industry, Munters' products are needed along the entire value chain to manage and control humidity and temperature.

During the year, two new air conditioning systems were also launched in the US market under the designation ICA (Integrated Custom Air handler), which is a refinement of the MDS system. In addition, the MIIL, which is a new generation of portable dehumidifiers, was introduced. This dehumidifier was developed with a focus on ergonomics, low weight and high capacity.

HumiCool

Within HumiCool, which comprises products and systems for evaporative cooling, development is constantly in progress to ensure that products continue to offer by far the highest quality and performance available on the market. The technology, which is environmentally friendly, has thus far been used primarily in the poultry, air conditioning and power industries. An overall goal for product development in this product area is to offer a greater proportion of total solutions for customer requirements.



The key product CELdek® is included in Munters' evaporative cooling systems. When warm and dry air passed through the wet surface, water evaporates, and the air becomes cooler and more moist.

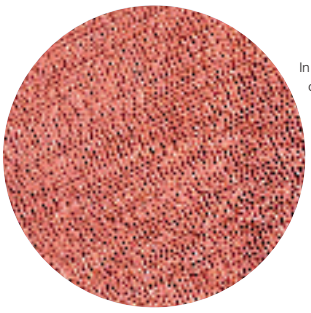
Moisture Control Services

The expansion of the offering within MCS is progressing rapidly. From previously offering primarily water damage restoration on hourly rates, a large number of standardized service products are now offered at fixed prices.

Operations within MCS are largely based on Munters' dehumidifiers, which means that the product area is a driving force for the rest of the company. Product development for MCS is primarily focused on smaller, lighter and more robust products that are matched to different service requirements within water and fire damage restoration.

Production concept

By working with modular product platforms that can be combined into total solutions, Munters meets the increasing demands among customers for specialized solutions for various requirements while being able to exploit economies of scale. Munters has elected to conduct manufacturing locally, which provides competitive advantages and the ability to adapt to local requirements. A large proportion of production takes place with sub-suppliers. This results in a reduction of tied-up capital and flexibility in production when volumes changes. The manufacture of core components and final assembly is handled by Munters to ensure high quality and excellent performance of the end products.



In the absorption rotor, two air streams pass simultaneously through two sections of a slowly rotating rotor. One air stream is dehumidified, while the other dries the rotor so that it can absorb moisture again.

QUALITY

Customer demands for higher performance and quality are the primary driving forces for Munters' quality work. High and uniform quality should be key decision points in the customer's selection of Munters' products, systems and services. This can only be achieved by coordinated and well-planned work processes throughout the organization.

Continuous quality improvements are a key concept at Munters. Work is conducted in part in quality groups and project groups. Measurable quality targets are established and followed up regularly. Improvement work is focused on such areas as delivery times, delivery reliability and customer service to improve operations and increase overall quality.

In addition, employees receive continuous training in various areas, such as product awareness and quality techniques. Production environments and production equipments are improved continuously.

Quality work is directed toward annually established targets for improvements. Customer focus, cost efficiency and the requirements of ISO 9001:2000 are the basis for improvement efforts.

ENVIRONMENT

Munters overall ambition is to continuously enhance the operations to achieve sustainable solutions that both provide economic benefits and limit the negative effects on the environment. MCS' restoration work also results in less waste of resources.

Munters solutions often result in significantly less negative environmental effects than competing solutions, Munters' cooling systems often result in lower energy consumption for the customer while reducing emissions of hazardous substances, since they do not use Freon. Another example is that storage areas can be dehumidified instead of heated, which results in lower energy consumption.

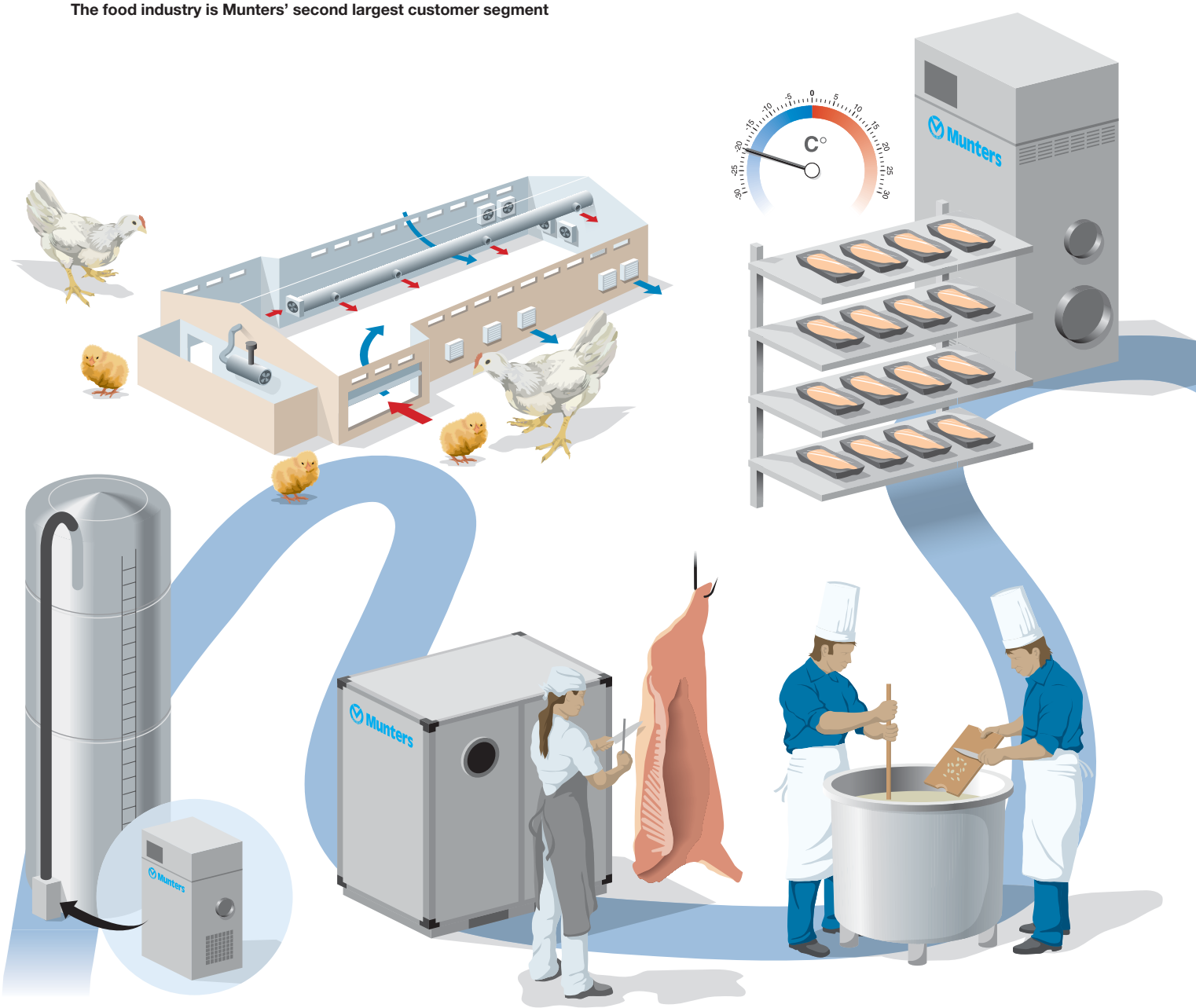
The negative effect on the environment is also reduced by Munters' technology for drying and restoration following water and fire damage instead of rebuilding properties. This method is the approach followed in Munters' MCS service offering. Munters' products for mist elimination are included in systems for cleaning emissions for coal-fired power plants, for example.

Munters shall meet and if possible exceed prevailing legal requirements with respect to the environment. In part, this means that key persons in the Group are involved and receive training in environmental issues. Munters' suppliers are involved in environmental work. Improvements with respect to the environment are measured and evaluated regularly.

Munters' quality and environment policies are available at www.munters.com.

Dehumidification and cooling

The food industry is Munters' second largest customer segment



Hygiene and quality are critical competitive factors in the food industry. The correct temperature and humidity restrict bacteria growth and increase the product shelf life. Munters offers solutions for optimal temperature and humidity that increase quality and productivity while contributing to greater food safety, in applications ranging from greenhouses to restaurants.

The food industry is one of the world's largest industries and is in large part fragmented with many local players. Increased internationalization of lifestyles increases demand for food from different parts of the world. This trend contributes to an internationalization of the food industry, which is at the same time increasing the internationalization of its products. Munters' solutions can contribute to identical manufacturing conditions for products produced in different climate zones.

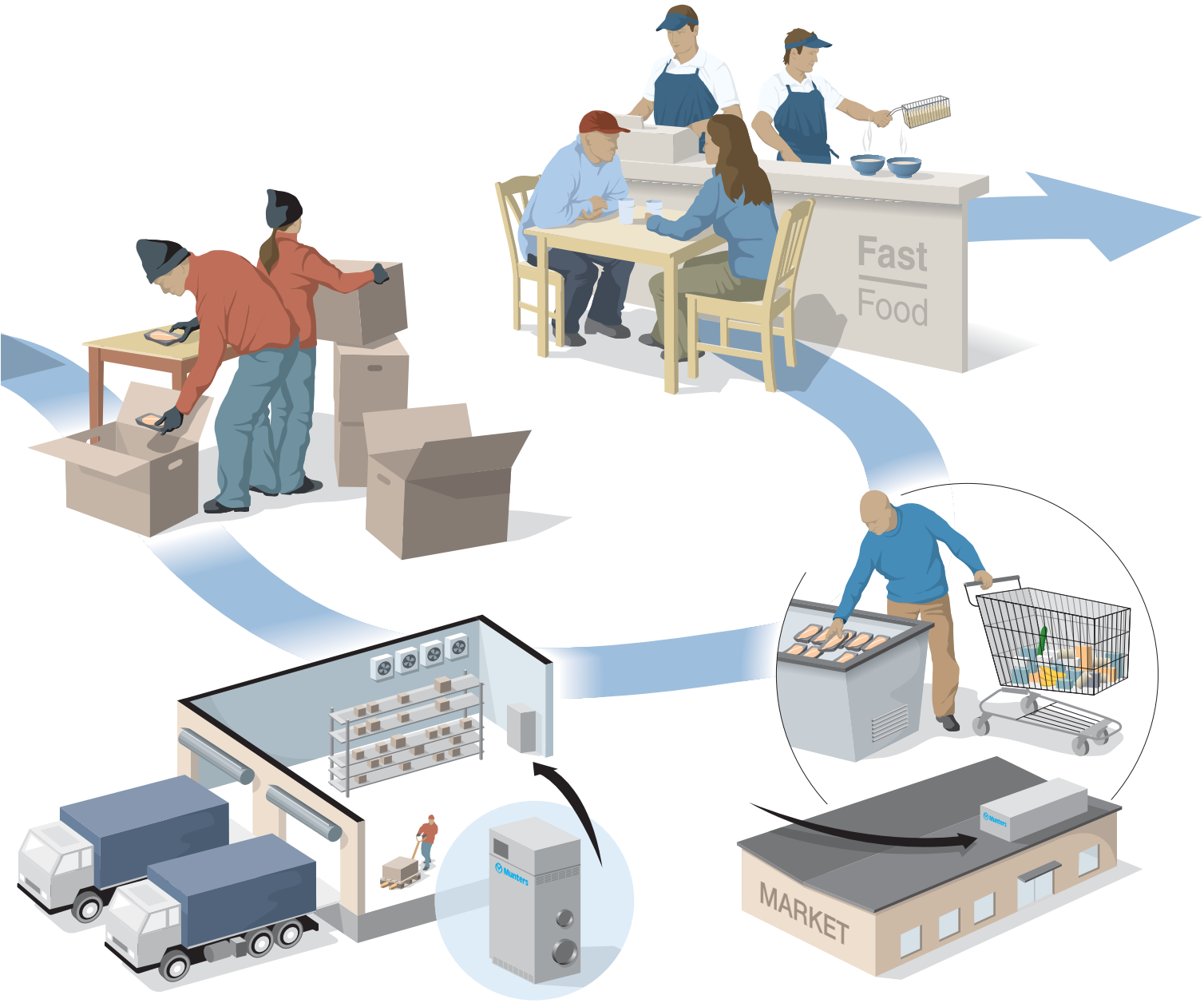
Common to all stages of the food industry is that food quality is directly linked to temperature and humidity in the air. At the same time, requirements naturally vary in different climate zones. The illustration above shows how Munters' products manage and control temperature and humidity throughout the entire process that begins with the manufacture of feed and ends with a well-prepared meal.

In a relatively short time, food producers around the world have become one of Munters' most important customer groups. The food industry accounts for 15 percent of the Group's total sales.

Munters' sales to food producers have grown by about 10 percent per year on average. The food industry is growing by about 2 percent annually.

Driving forces and trends in the food industry

- **Population growth.** Demand for food grows steadily as a result of population growth, rising household incomes, new consumer patterns and new markets.
- **Hygiene and quality.** Increased demands on product life and natural quality (without additives) result in an increasing need for quality assurance at every step in the refinement process.



- **Globalization and consolidation.** Increasing consolidation at both the producer and distributor levels in combination with expansion into new geographic markets means that the need is increasing for global suppliers and partners.
- **Product mix.** Increased demand for an ever-greater variety of foods throughout the year, not least fruits and vegetables, result in increased local production, which is more frequently in greenhouses.
- **Integration.** Increased private labeling of products among major food distributors means increased integration with producers to ensure quality and deliveries. Even large fast food chains are to an increasing extent being integrated with the producer level.

MUNTERS' OFFERING

Dehumidification

The outdoor climate may vary, but during the manufacturing process, the temperature and humidity must be constant. Munters has dehumidifiers that provide the correct humidity for the manufacture and storage of food, thus reducing problems with bacteria growth, mold, frost and poor hygiene.

By managing and controlling moisture in the air during the production process, during transport and in storage, food producers can also realize significant savings.

Munters has also developed a new generation of dehumidifiers that combines functions for dehumidification and cooling. These products consume less energy than previously, making it possible to use electricity instead of gas as energy source. This means that Munters can target customers that lack gas supplies, thus significantly increasing the potential.

HumiCool

Munters evaporative cooling systems for humidification make it possible to cultivate plants and breed chickens in hot, dry climates. Munters offers complete solutions for controlling the air in chicken houses. With the help of humidifiers, relative humidity and temperature can be controlled at a level that is favorable for fruit and vegetables.

The system's primary advantages are that it is environmentally friendly, operationally reliable, inexpensive and energy-efficient. In addition, the system can never saturate the air or spread mist, calcium or other minerals in the premises.

Human resources

Munters' growth is closely linked to how well the company succeeds in attracting, retaining and developing its leaders and employees. With global operations and many small units, clear guidelines are required for work methods and leadership. Munters places great importance in continuously conducting development programs based on these principles.

Munters business culture

Munters' company culture is dynamic and customer-focused. In many ways, this attitude is based on the innovative and entrepreneurial spirit that in turn is a prerequisite for Munters' ability to generate profitable growth. Munters' entrepreneurial spirit and delegated leadership results in an innovative capacity that drives the Group's development of products and services.

Guidelines and leadership

Munters' basic values are expressed in a number of guidelines and policies that have been formulated in order to define the Group's basic approach to social, ethical and environmental issues. Work with guidelines and policies is a process that must be able to reflect local, national and international changes in legislation, market conditions and social and cultural values. Descriptions include specific policies for information, environmental work, codes of conduct, working conditions and equal rights, for example. Each manager has considerable freedom in exercising authority within this framework.

Skills enhancement

Munters conducts extensive training programs to enhance employee skills. Training is a direct response to well-defined and relevant needs and is primarily conducted internally. Leadership development takes place largely within Munters Growth Academy, a leadership program that addresses issues relating to strategy, leadership, marketing, technology and personal development. During 2003, the theme was Market Orientation.

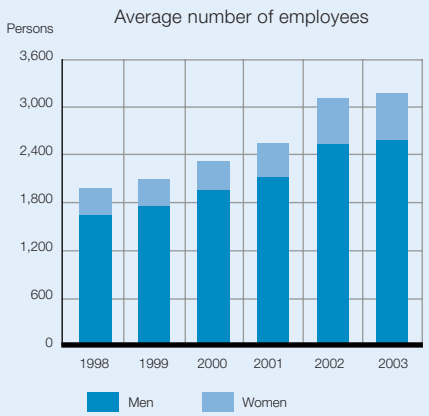
Munters arranges regular global and regional conferences at which the company's managers meet and share experience and discuss Munters' work methods and current business issues. A large portion of these conferences is devoted to application sharing to identify future growth areas and to share relevant knowledge.

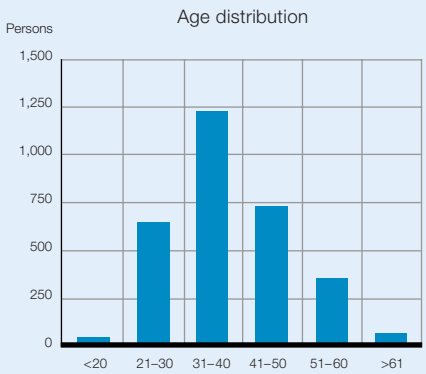
A training program was developed for managers within Region Americas. The program, which has a modular structure, consists of self-study, e-learning and seminars. The objective is to increase awareness and knowledge and to prepare participants for a continued career within Munters.

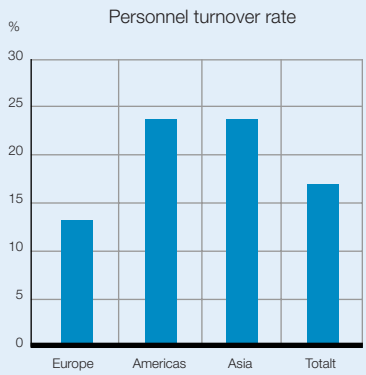
An overriding goal for Munters' work with human resources is to enhance product and service awareness among employees. As Munters to a greater extent becomes a service company, expanding the service offering is becoming a greater and more important priority. In collaboration with Chalmers University of Technology in Sweden, courses in building science and the mechanics of moisture are arranged regularly for employees within MCS. This training has been named Doctor Moisture. Within MCS, there is also regular technical and administrative training for depot and service managers.

In appointing both managers and specialists, internal recruitment is prioritized.

To improve overall efficiency throughout the Group, a new program called Munters Efficiency Program was introduced. By analyzing both production and administrative processes, unnecessary work can be eliminated and productivity and quality improved.







Incentive programs

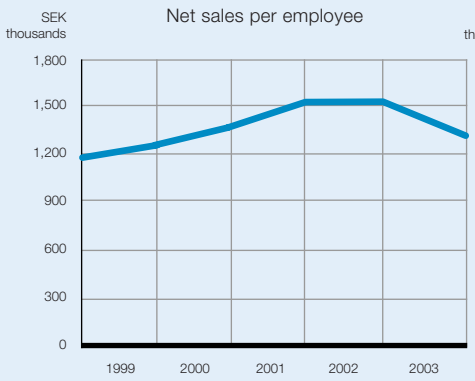
Munters incentive programs are intended to stimulate personal performance and contribute to the company's growth. Senior managers and key persons have a variable salary component that rewards development individual areas of responsibility. Improvement of financial results in comparison with the preceding year may generate a variable salary component that is maximized at 30 to 70 percent of fixed salary, depending on the position.

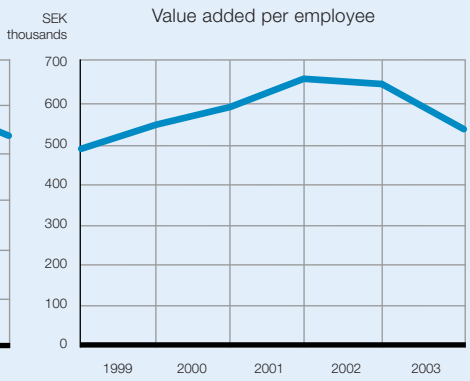
To stimulate growth in the Group, Munters also has regularly recurring option programs. The program provides an opportunity for some 100 executives to invest in options. The principles are described in note 32.

Employees in figures

The average number of employees increased by 2 percent during 2003 and amounted to 3,162 (3,100), primarily as a result of the acquisitions during 2002 of Svt and Aerotech. The personnel turnover rate increased to 17 percent (15) during the year as a result of personnel reductions implemented toward the end of the year. During 2003, Munters reduced personnel by nearly 200 employees. The average age is 39 years, and the age group from 31 to 40 is the largest, accounting for 40 percent of Munters' employees. Due to its nature, MCS has the highest personnel turnover, and the increasing share of MCS in total sales results in higher personnel turnover. Currency effects during the year had a negative impact on both net sales and added value per employee.

In a dynamic company culture characterized by openness, the individual has an opportunity to develop with the company. This encourages the entrepreneurial spirit that is characterisctic for Munters and which is a prerequisite for the company's continued growth.





The Munters share

The Munters share has been traded on the O list of Stockholmsbörsen (Stockholm Exchange) since October 21, 1997 and in the Attract 40 segment since January 1, 2003. As of December 31, 2003, Munters' market capitalization amounted to 4.35 billion SEK. The number of shares was 25,000,000 each with a par value of 5.00 SEK. Each share carries one vote. All shares carry equal rights to the Company's assets and earnings.

Shareholders

As of year-end, Munters had 6,285 shareholders, compared with 5,492 the preceding year. The ten largest shareholders control approximately 55.7 percent of capital and votes. About 67 percent of the shares are owned by Swedish institutional investors, while foreign investors hold some 20 percent of the capital.

Owner as Dec. 31,2003	No. of shares	Share of capital and votes, %
Industrivärden	2,705,750	10.8
Nordea funds	2,080,735	8.3
Third National Pension Fund	1,929,449	7.7
Robur funds	1,493,692	6.0
AMF Pension	1,300,000	5.2
AFA Insurance	1,247,860	5.0
Latour	1,235,000	4.9
Fourth National Pension Fund	668,380	2.7
SEB funds	640,850	2.6
Columbia Acorn funds	630,000	2.5
Total, ten principal shareholders	**13,931,716**	**55.7**
Other	**10,446,334**	**41.8**
Shares held by Munters	**621,950**	**2.5**
Total	**25,000,000**	**100.0**

During January and February 2004, Latour increased its shareholding to a total of 10.4 percent of Munters' share capital.

Distribution of shares as of December 31, 2003

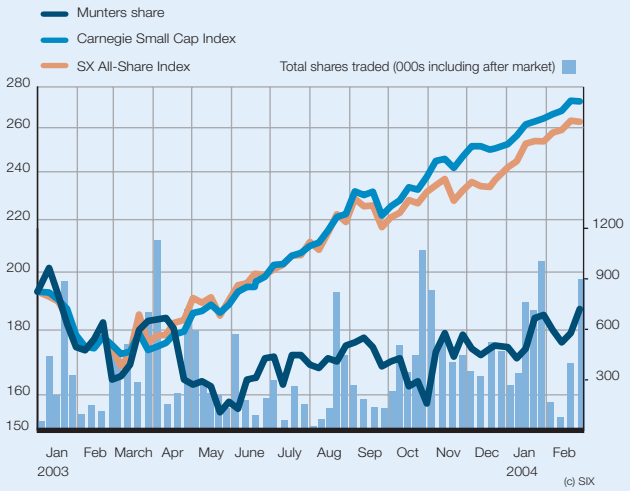
Shareholding	No. of owners	No. of shares	Share in %
1—500	4,983	1,021,148	4.1
501—5,000	1,099	1,599,970	6.4
5,001—50,000	137	2,218,386	8.9
50,001—	66	20,160,496	80.6
Total	**6,285**	**25,000,000**	**100.0**

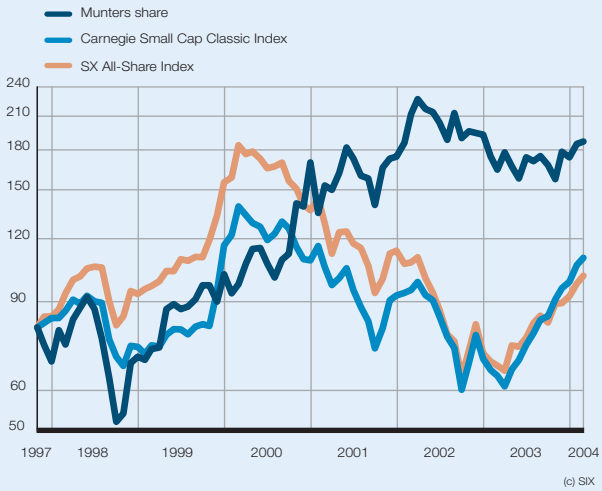
Total return

At year-end, the Munters share traded at 174.00 SEK, which was an increase of 118 percent since the exchange listing in October 1997. The annual total return[1] during the period from 1998 to 2003 amounted to 10.2 percent. The average change for the SIX Return Index expressed as a percentage for the same period was 3.8 percent. An investment in Munters shares thus gave a return that was 6.4 percentage points better per year, compared with an average investment on Stockholmsbörsen. Munters' earnings per share increased from 4.18 SEK on December 31, 1997 to 10.83 SEK up until 2002. Earnings per share amounted to 7.04 SEK in 2003.

[1] Increase in share value including reinvestment of dividends.

Share price trend





Price trend and trading volume

During fiscal 2003, 19.1 million Munters shares were traded with a total value of 3,295 MSEK. This means that 78 percent of the total shares changed owners. The highest price paid during the period was 201.50 SEK on January 10, 2003, while the lowest price paid was 154 SEK on May 26, 2003. During the year, the share price decreased from 192.50 SEK to 174.00 SEK, a decline of 10 percent.

In the production of electric power with gas turbines, Munters evaporative cooling systems can increase efficiency by 10 to 20 percent by cooling the turbine's intake air.

Dividend policy

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

Dividend

For the 2003 fiscal year, the Board of Directors proposes that the Annual General Meeting approve a dividend of 3.50 SEK (3.50) per share, unchanged compared with the preceding year. The dividend corresponds to 50 percent of earnings for the year.

Option program

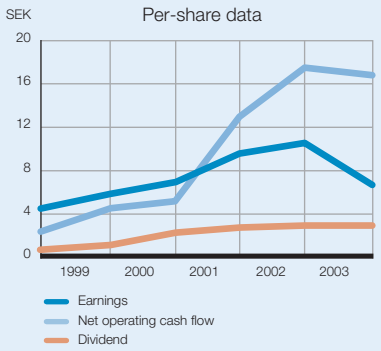
The stock option programs are described in note 32.

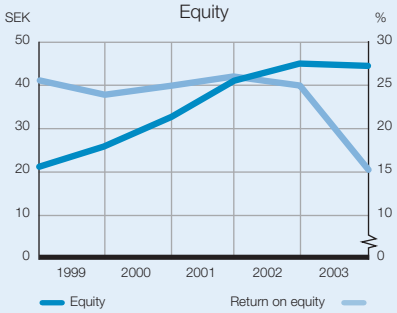
Analysts who continually monitor Munters

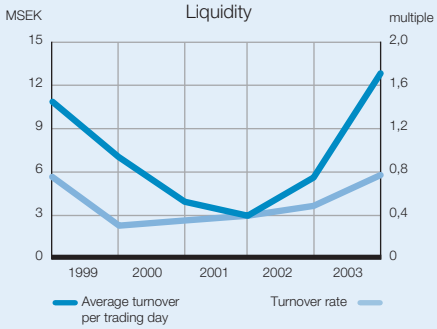
Firm and name	Telephone
ABG Sundal Collier, *Henrik Olsson*	+44 20 7905 5657
Carnegie, *Björn Enarsson*	+46 8 676 88 00
Cazenove, *Michael Yates*	+44 20 7512 8051
CAI Cheuvreux, *Sasu Ristimäki*	+44 20 7621 5173
Danske Bank, *Søren Samsøe*	+45 33 44 04 48
Deutsche Bank, *Karl Berglund*	+46 8 463 55 67
Enskilda Securities, *Anders Eriksson*	+46 8 522 295 00
Handelsbanken Markets, *Markus Almerud*	+46 8 701 34 01
Kaupthing Bank Sverige AB, *Henrik Alveskog*	+46 8 791 48 69
Merill Lynch, *Christer Beckard*	+44 20 7996 0824
Nordea Securities, *Johan Sivander*	+46 8 534 922 72
Swedbank Capital Markets & Securities, *Mats Larsson*	+46 8 585 925 42

Key figures per share data	2003	2002	2001	2000	1999
Earnings per share (EPS), SEK	7.04	10.83	9.69	7.40	5.78
EPS after dilution, SEK	7.03	10.80	9.67	7.40	5.78
Average no. of shares, millions	24.4	24.5	24.7	24.9	25.0
No. of shares on closing date, millions	24.4	24.4	24.6	24.8	25.0
Holdings of own shares, thousands	622	562	448	200	0
Net operating cash flow per share, SEK	16.76	17.57	13.33	5.22	4.21
Equity per share, SEK	44.53	45.59	41.23	33.10	26.20
Dividend per share, SEK	3.50 [1]	3.50	3.00	2.30	1.80
Share price on closing date, SEK	174.00	193.00	174.50	171.00	102.00
Market capitalization on closing date, MSEK	4 242	4 716	4 284	4 241	2 550
P/E ratio	24.7	17.8	18.0	23.1	17.6
Return on equity per share, %	15.6	25.0	26.1	25.0	24.1

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







Financial overview

Annual overview

GROUP	2003	2002	2001	2000	1999	1998	Pro forma[1] 1997	1996	1995	1994
Order intake, sales and earnings										
Order intake, MSEK	4,305	4,727	3,945	3,322	2,608	2,384	2,265	1,943	1,853	1,698
Net sales, MSEK	4,308	4,666	3,894	3,179	2,594	2,401	2,197	1,927	1,799	1,681
Growth, %	–7.7	19.8	22.5	22.5	8.0	9.3	14.0	7.1	7.0	8.6
EBIT, MSEK	298	465	401	306[2]	237	205	184	155	81	149
EBIT margin, %	6.9	10.0	10.3	9.6[2]	9.1	8.5	8.4	8.1	4.5	8.8
Earnings before tax, MSEK	280	436	389	289[2]	231	198	178	146	66	132
Net earnings, MSEK	172	266	239	184	144	124	105	90	41	82
Return figures and balance sheet										
Equity, MSEK	1,086	1,114	1,012	821	655	545	437	303	242	241
Return on equity, %	15.6	25.0	26.1	25.0	24.1	25.2	28.2	33.2	17.0	37.2
Capital employed, MSEK	1,553	1,617	1,360	1,242	1,006	763	717	594	601	663
Return on capital employed, %	19.4	31.5	31.8	28.1[2]	28.3	29.3	30.0	28.1	15.1	25.8
Capital turnover rate	2.7	3.1	3.0	2.8	2.9	3.2	3.4	3.2	2.8	2.6
Total assets, MSEK	2,365	2,732	2,228	1,993	1,689	1,252	1,199	1,027	976	975
Equity ratio, %	46.1	41.0	45.4	41.2	38.8	43.6	36.5	29.8	24.8	24.7
Net debt, MSEK	338	365	196	333	230	135	104	215	300	357
Net debt/equity ratio	0.31	0.33	0.19	0.41	0.35	0.25	0.24	0.71	1.24	1.48
Interest coverage ratio	11.3	14.2	16.3	11.7[2]	13.1	11.6	10.5	7.6	3.2	5.0
Other key data										
Investments in tangible assets, MSEK	130	183	140	148	114	109	84	72	88	71
Net operating cash flow, MSEK	409	431	330	129	105	65	127	100	31	116
Average number of employees	3,162	3,100	2,541	2,311	2,086	2,011	1,842	1,779	1,714	1,559

REGIONS	2003	2002	2001	2000	1999	1998	Pro forma[1] 1997	1996	1995	1994
Region Europe										
Order intake, MSEK	2,617	2,773	1,979	1,702	1,423	1,305	1,233	1,099	1,086	1,047
Net sales, MSEK	2,658	2,731	1,950	1,674	1,404	1,325	1,191	1,069	1,067	1,043
Growth, %	–2.7	40.1	16.5	19.3	5.9	11.3	11.4	0.2	2.2	6.3
Operating earnings, MSEK	175	275	182	154	103	90	92	65	46	97
Operating margin, %	6.6	10.1	9.3	9.2	7.4	6.8	7.7	6.1	4.3	9.3
Number of employees at year-end	2,090	2,156	1,662	1,470	1,347	1,153	1,107	1,048	1,128	1,081
Region Americas										
Order intake, MSEK	1,367	1,592	1,611	1,325	956	901	816	671	596	525
Net sales, MSEK	1,347	1,577	1,592	1,231	970	885	790	686	561	502
Growth, %	–14.6	–0.9	29.4	26.9	9,6	12.1	15.2	22.3	11.6	–0.8
Operating earnings, MSEK	150	205	198	145	104	96	84	87	61	55
Operating margin, %	11.2	13.0	12.4	11.8	10.7	10.8	10.6	12.7	10.9	11.0
Number of employees at year-end	663	701	621	647	559	591	536	505	413	348
Region Asia										
Order intake, MSEK	392	428	410	357	285	231	263	209	213	172
Net sales, MSEK	372	428	408	335	279	239	262	207	204	171
Growth, %	–12.9	4.6	21.8	20.3	16.8	–8.9	26.7	1.6	19.2	7.2
Operating earnings, MSEK	41	46	51	44	41	33	29	20	17	16
Operating margin, %	11.0	10.8	12.5	13.1	14.7	13.7	11.1	9.5	8.2	9.2
Number of employees at year-end	299	316	284	245	227	223	211	175	153	110

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

[2] Excluding items affecting comparability totaling 15 MSEK and related to surplus funds from pension administration in Alecta.

Definitions, see page 51.

Quarterly review

	2003				2002				2001			
GROUP	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Order intake, net sales and earnings												
Order intake, MSEK	1,025	1,032	1,114	1,134	1,196	1,228	1,159	1,144	1,029	982	974	960
Net sales, MSEK	1,052	1,059	1,109	1,089	1,286	1,179	1,149	1,052	1,063	1,020	960	851
Growth, %	–18.2	–10.2	–3.5	3.5	20.9	15.6	19.6	23.7	14.1	27.6	29.5	20.4
EBIT, MSEK	77	76	78	67	147	118	114	86	137	100	92	72
EBIT margin, %	7.4	7.2	7.0	6.2	11.5	10.0	9.9	8.2	12.8	9.8	9.6	8.5
Net earnings, MSEK	56	43	40	33	85	67	65	49	85	59	55	41
Other key data												
Investments in tangible assets, MSEK	35	28	32	35	48	42	53	40	49	27	33	31
Net operating cash flow, MSEK	129	103	94	82	178	52	129	72	196	45	73	16
Net debt, MSEK	338	403	456	383	365	525	381	345	196	322	337	316
Net debt/equity ratio	0.31	0.38	0.43	0.34	0.33	0.51	0.38	0.33	0.19	0.36	0.38	0.37
Interest coverage ratio	14.6	11.3	11.4	8.9	12.0	19.6	13.0	15.1	16.3	18.8	27.5	9.6
Number of employees at year-end	3,070	3,126	3,147	3,164	3,192	3,216	3,043	2,916	2,579	2,563	2,488	2,419
Key data per share												
Earnings per share, SEK	2.31	1.73	1.66	1.34	3.46	2.71	2.66	2.00	3.45	2.38	2.23	1.63
Earnings per share after dilution, SEK	2.30	1.73	1.66	1.34	3.45	2.70	2.65	2.00	3.43	2.38	2.23	1.63
Average number of shares, millions	24.4	24.4	24.4	24.4	24.4	24.5	24.6	24.6	24.6	24.7	24.8	24.8
Number of shares on closing date, millions	24.4	24.4	24.4	24.4	24.4	24.4	24.6	24.6	24.6	24.6	24.8	24.8
Equity per share, SEK	44.53	42.99	43.29	46.08	45.59	42.44	40.38	41.91	41.23	36.97	35.38	34.84
Share price on closing date, SEK	174.00	168.00	174.00	178.00	193.00	190.00	204.00	227.00	174.50	140.00	173.00	150.00
Market capitalization on closing date, MSEK	4,242	4,096	4,252	4,350	4,716	4,643	5,009	5,574	4,284	3,437	4,290	3,720

	2003				2002				2001			
REGIONS	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Region Europe												
Order intake, MSEK	617	616	669	716	762	720	651	639	538	481	475	485
Net sales, MSEK	675	643	673	667	814	682	630	605	562	476	477	435
Growth, %	–17.2	–5.7	6.8	10.2	45.1	43.3	32.0	39.1	13.9	17.1	24.7	11.0
Operating earnings, MSEK	51	42	40	42	111	66	51	47	73	33	42	34
Operating margin, %	7.6	6.6	5.9	6.3	13.7	9.7	8.1	7.7	13.1	7.0	8.9	7.7
Number of employees at year-end	2,090	2,117	2,131	2,145	2,156	2,181	2,081	1,972	1,662	1,644	1,550	1,500
Region Americas												
Order intake, MSEK	312	334	366	355	353	425	413	400	394	424	416	377
Net sales, MSEK	287	335	364	361	387	407	419	364	412	449	400	331
Growth, %	–26.0	–17.7	–13.1	–0.7	–6.1	–9.3	4.7	10.0	15.0	44.2	33.3	26.8
Operating earnings, MSEK	29	39	44	38	51	56	58	40	50	62	52	34
Operating margin, %	10.2	11.8	12.0	10.5	13.0	13.6	14.0	11.0	12.1	13.8	12.9	10.4
Number of employees at year-end	663	685	702	712	701	694	638	643	621	640	636	645
Region Asia												
Order intake, MSEK	113	99	90	90	94	97	116	121	109	92	94	115
Net sales, MSEK	108	96	89	79	103	104	125	96	104	109	95	100
Growth, %	5.0	–7.2	–28.6	–18.1	–1.3	–4.8	31.7	–4.1	7.8	14.8	23.3	50.4
Operating earnings, MSEK	14	10	10	7	9	14	14	9	15	13	10	13
Operating margin, %	12.6	10.5	11.3	8.9	9.3	13.1	11.1	9.7	14.4	12.5	11.1	12.9
Number of employees at year-end	299	306	296	289	316	321	310	289	284	269	292	262

Board of Directors' report

The Board of Directors and the President of Munters AB (publ), corporate registration no. 556041-0606, hereby submit the annual report for the 2003 fiscal year. Results of the year's operations for the Parent Company and the Group are presented in the following financial statements, which are to be approved at the Annual General Meeting.

Shareholders

The Munters share has been listed on the O list of Stockholmsbörsen (Stockholm Exchange) since October 21, 1997 and on the Attract 40 list since January 1, 2003. Munters' ten largest shareholders together own 56 percent of the capital and the voting rights in the Company.

Group operations

Munters AB is the Parent Company of a group that is a world-leader in humidity control with services for water and fire damage restoration and products for dehumidification, humidification and cooling of air.

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

Operations are organized in three regions, Europe, the Americas and Asia. Within each region, operations are divided into the Dehumidification, Moisture Control Services (MCS) and HumiCool divisions. Munters' business is often project-oriented, with extensive collaboration between the regions and divisions with respect to sales, production and product development. Manufacturing and sales are conducted through own subsidiaries in 28 countries. At year-end, the Group had 3,070 employees.

Order intake and net sales

Order intake declined by 9 percent during the year to 4,305 MSEK (4,727). Adjusted (previous year's figures restated to the 2003 fiscal year's structure and exchange-rates), the order intake declined by 5 percent. At year-end, the order backlog was 550 MSEK (622). With adjustments, the order backlog declined by 2 percent.

Consolidated net sales declined by 357 MSEK to 4,308 MSEK (4,666). Adjusted for exchange-rate fluctuations and the current structure, this was a decline of 4 percent.

Broken down by regions, net sales declined by 3 percent in Europe, 15 percent in the Americas and 13 percent in Asia. With adjustments, sales declined by 5 percent in Europe, 4 percent in the Americas and 5 percent in Asia.

The weak trend during 2003 was because the strong growth in MCS experienced at the beginning of the year did not continue due to warm and dry weather. Dehumidification and HumiCool also experienced weak demand. Within Dehumidification, this was due to long purchasing cycles for major projects, while HumiCool was negatively affected by such external factors as the war in Iraq, the SARS epidemic and changes in the competitive situation among Munters customers.

Gross earnings

Munters designs and develops its own products. However, a large proportion of components and parts are manufactured by sub-suppliers. Sub-suppliers are also often employed for major service assignments within MCS. Core components, such as dehumidification rotors, cooling panels and mist eliminators, are produced in Munters' own plants. The production machinery for manufacturing these components is also developed by Munters. The strategy of using sub-suppliers gives Munters substantial flexibility and the ability to adapt production volumes to changes in sales volumes. Munters' strategy of increasing the value content in deliveries, the increased share for MCS and the lower gross margins in units acquired during the preceding year had a negative impact on the consolidated gross margin.

Consolidated gross earnings declined by 317 MSEK during the year to 1,279 MSEK (1,596). Due to reclassifications in internal reporting, however, the booked amounts are not comparable with the preceding year. If these reclassifications were reversed, gross earnings would amount to 1,343 MSEK. The gross margin would then decrease by 3.0 percentage points from 34.2 percent to 31.2 percent. If the comparison is adjusted for currency effects, the decline would be 2.7 percentage points.

Indirect costs

Selling and administrative expenses decreased by 153 MSEK from 1,061 MSEK to 908 MSEK, corresponding to 21.1 (22.7) percent of net sales. If the reclassifications mentioned above were reversed, indirect costs would correspond to 22.6 percent of net sales, which would thus be in line with the preceding year.

Research and development costs amounted to 41 MSEK (43), corresponding to 1.0 (0.9) percent of net sales. Development costs in conjunction with customer projects and development costs for service concepts within MCS are reported as operating expenses.

EBIT

Consolidated EBIT declined by 36 percent to 298 MSEK (465). Amortization of goodwill and surplus values were included in an amount of 38 MSEK (33). The decline in EBIT was due to decreased sales, particularly for products with high margins (negative change in product mix) and negative exchange-rate effects. Adjusted (last year's figures restated for the 2003 fiscal year's structure and exchange-rates), the decline was 29 percent. Munters' highest margins are in the units that experienced the most negative exchange-rate effects. Translation of earnings in various currencies to SEK thus contributed to the decreased margin. The EBIT margin amounted to 6.9 (10.0) percent. Adjusted for exchange-rate fluctuations and the current structure, the EBIT margin was 9.4 percent in the previous year.

Action program

Given the weak demand, it was decided during the year to implement cost-saving measures. Total cost reductions are estimated to amount to 120 MSEK on an annual basis. Full effect is expected to be achieved from the beginning of the second quarter of 2004. Costs for the action program amounted to 20 MSEK during the year, while the savings during 2003 amounted to 53 MSEK, resulting in a positive net effect of 33 MSEK.

In conjunction with cost saving measures implemented in Great Britain, it was possible to reserve a provision of 12 MSEK for lease obligations in excess of the premises actually utilized. An agreement was signed to sub-lease these premises for the entire remaining lease period.

Munters' total service for restoration of water and fire damage is based on drying instead of rebuilding. This technology is increasingly the industry standard. Costs are reduced for the customer, since the damage is limited. With more than 300 service depots in 20 countries and more than 30 years' collective expertise, Munters is the world's leading supplier in this area.

Region Europe

Munters' operations in Region Europe showed a negative trend with respect to order intake, sales and operating earnings. MCS is the clearly largest division in the region, which is responsible for the markets in Europe, Russia, the Middle East and Africa.

Key data	2003	2002	Change	Adjusted change[1]
Order intake, MSEK	2,617	2,773	–6%	–8%
Net sales, MSEK	2,658	2,731	–3%	–5%
Operating earnings, MSEK	175	275	–37%	–38%
Operating margin, %	6.6	10.1	–	–
No. of employees on Dec. 31	2,090	2,156	–	–
No. of service depots	259	260	–	–

[1] Last year's figures restated for the 2003 fiscal year's structure and exchange-rates.

Region Europe had a weak year within MCS operations due to warm and dry weather. The proportion of large projects in Dehumidification was low, resulting in a weak margin trend. The effects of the war in Iraq, the SARS epidemic and a weaker competitive situation for the European poultry industry due to the strengthening of the EUR against the USD contributed to weak demand for cooling systems for poultry houses.

Order intake in Region Europe was 2,617 MSEK (2,773) during the year, a decline of 6 percent. When adjusted for exchange-rate fluctuations and the current structure, order intake declined by 8 percent. Sales fell by 3 percent to 2,658 MSEK (2,731). Adjusted for exchange-rate fluctuations and the current structure, this was a decline of 5 percent. Operating earnings (EBIT excluding amortization of goodwill and surplus values) fell by 37 percent and amounted to 175 MSEK (275). Operating earnings were affected by an unfavorable product mix and by 5 MSEK relating to exchange-rate fluctuations on translation of earnings to SEK.

Dehumidification

The division reported a weak order intake during the year, despite an improvement during the final quarter. Up to and including the third quarter, a significant decline was noted for large projects and system deliveries, which was only partially compensated by increased sales of smaller humidifiers. Market activity in the food industry continued at a favorable level, although purchasing cycles were generally longer than normal. Sales and operating earnings were lower than during the preceding year. During the year, a new office was established in Dubai in the United Arab Emirates to increase penetration in the Middle East. DesiCool™, which is the generic term for a group of air treatment units which both dehumidify and cool the air in an environmentally friendly manner, was expanded with new types of units. Responsibility for DesiCool™ was transferred to the Dehumidification division. A new manager for Dehumidification Europe was employed at the beginning of the year.

MCS

After a strong first quarter, the division developed negatively due to the dry weather and an unfavorable product mix. The number of insurance claims declined. At the same time, the magnitude of claims decreased. An increase in demand for small fire damage restoration projects could not compensate for the low demand for large water and fire damage restoration services. Order intake, sales and operating earnings fell compared with the previous year. In 2002, Munters enjoyed exceptionally high order intake and sales due to the extensive floods in Europe.

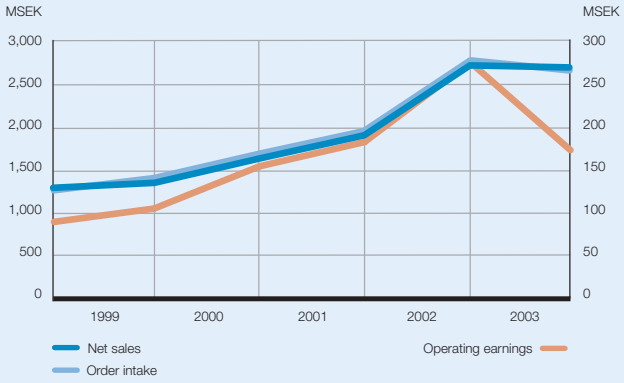
During the year, the proportion of central contracts with fixed prices signed with insurance companies increased. These contracts result in lower prices but higher capacity utilization for personnel and equipment. In addition, requirements increase for organizations with stringent routines and standardized work methods, which favors Munters.

HumiCool

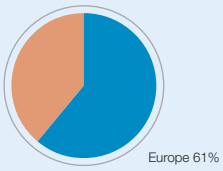
The division reported significantly reduced order intake, sales and operating earnings for 2003. The division was affected by a significant fall in demand for new cooling systems for the AgHort industry in the Middle East and weaker demand in Europe due to exchange-rate fluctuations, which affected the competitiveness of European poultry breeders. Components for the HVAC industry and mist eliminators for coal-fired power stations enjoyed high growth during the year. Demand for products for cooling inlet air to gas turbines was low for the second year in succession.

During the year, the division worked with HumiCool Americas to develop a new fan – WindPro – with improved performance and at a lower price than competing products. WindPro was launched in the beginning of 2004.

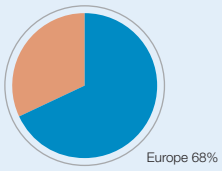
Largest segments	Product/service
Insurance/Water	Water damage restoration
Insurance/Fire	Fire damage restoration
AgHort/Food	Evaporative cooling systems/dehumidifiers



Share of consolidated sales



Share of Group employees



The world's largest company, the retail chain Wal-Mart, has selected Munters as its supplier in creating an optimal indoor climate. Munters systems both dehumidify and cool the air. With the right balance between temperature and humidity, customers enjoy a comfortable indoor climate, and frost on frozen foods and condensation in freezer counters is eliminated while saving energy.

Region Americas

Region Americas includes Munters' operations in North and South America. A negative trend was reported for the region with respect to order intake, sales and operating earnings. A significant portion of this negative trend was due to negative exchange-rate effects in translating USD results to SEK. The largest division in the region is Dehumidification, followed by HumiCool and MCS.

Key data	2003	2002	Change	Adjusted change[1]
Order intake, MSEK	1,367	1,592	–14%	–3%
Net sales, MSEK	1,347	1,577	–15%	–4%
Operating earnings, MSEK	150	205	–26%	–9%
Operating margin, %	11.2	13.0	–	–
No. of employees on Dec. 31	663	701	–	–
No. of service depots	33	33	–	–

[1] Last year's figures restated for the 2003 fiscal year's structure and exchange-rates.

During the year, order intake in the Americas fell by 14 percent to 1,367 MSEK (1,592). When adjusted for exchange-rate fluctuations and the current structure, order intake fell by 3 percent. Sales fell by 15 percent to 1,347 MSEK (1,577). When adjusted for exchange-rate fluctuations for the current structure, sales fell by 4 percent. Operating earnings for the year amounted to 150 MSEK (205). Operating earnings were affected by exchange-rate fluctuations of 34 MSEK on translation of earnings into SEK.

Dehumidification

In local currencies, the division reported slightly negative order intake during the year. Sales declined due to a decrease in major projects and generally weaker demand among many of Munters' customers. Operating earnings were lower than during the preceding year. Market activity in the food industry maintained a favorable level, as did the market for combined cooling and dehumidification systems for supermarkets. The HCU systems introduced during the previous year, which are more energy-efficient than previous generations, were sold to several new customers in new application areas.

A new generation of modular system products was introduced during the year, and several projects were completed. Demand in the semiconductor industry is very sensitive to economic conditions and declined further. Business in Brazil expanded during the year.

MCS

The division reported a 12 percent increase in order intake and sales in local currency, despite weak demand from floods. Operating earnings declined as a result of a higher share of small projects with lower margin. During the beginning of the year, the weather resulted in weak demand, the cold weather in northern USA during the latter part of the year, led to increased demand.

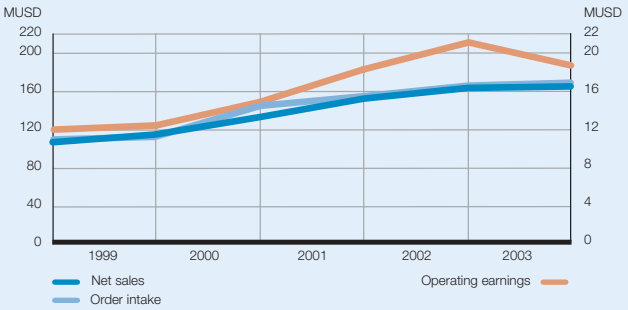
During the year, the division expanded service operations to include water damage restoration for private and commercial buildings.

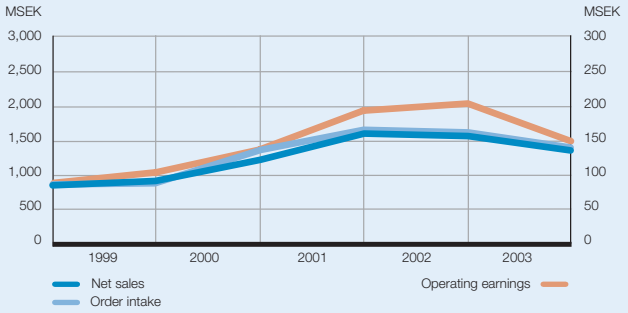
HumiCool

The division reported weak order intake, sales and operating earnings. Sales of cooling systems for the AgHort industry increased as a result of the acquisitions of Aerotech Inc. and Glacier-Cor during the previous year. Similar to the European operation, demand was low for products for cooling inlet air to gas turbines while the demand for mist eliminators for the process and power industries developed well. HumiCool reported a positive trend in Brazil.

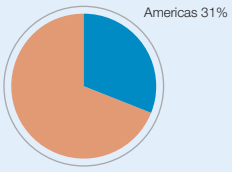
During the fourth quarter, a decision was taken to invest in a new production facility in Mexico. Production of HumiCool products, primarily CELdek®, will begin in April 2004 and employ about 75 persons. At the same time, capacity for these products will be reduced in the US. The total cost of this investment is estimated at about 2.2 MUSD, of which the major share was invested during 2003.

Largest segments	Product/service
Food	Products for dehumidification and cooling
Food/AgHort	Evaporative cooling systems
MCS	Temporary dehumidification

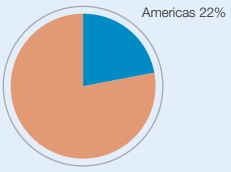




Share of consolidated sales



Share of Group employees



Munters' evaporative cooling systems are needed in warm climates where they create the perfect climate for greenhouse cultivation and prevent the occurrence of pests and mold, thus improving productivity and quality.

Region Asia

Region Asia includes Munters operations in Asia and Australia. Order intake in the region was slightly positive, while the trend was negative with respect to both sales and operating earnings, despite a strong finish to the year. The largest division in the region is Dehumidification, followed by HumiCool and MCS.

Key data	2003	2002	Change	Adjusted change[1]
Order intake, MSEK	392	428	–8%	–0%
Net sales, MSEK	372	428	–13%	–5%
Operating earnings, MSEK	41	46	–12%	–12%
Operating margin, %	11.0	10.8	–	–
No. of employees on Dec. 31	299	316	–	–
No. of service depots	8	8		

[1] Last year's figures restated for the 2003 fiscal year's structure and exchange-rates.

Munters' operations in Region Asia improved during the latter part of the year. They had previously been affected by the impact of the SARS epidemic, which led to the postponement of investment decisions by customers. The effects of the Avian flu, which was discovered during December, did not have any impact on the order intake during the year.

Dehumidification

The division reported increased order intake and sales and improved operating earnings. The new generation of dehumidifiers, which combines functions for dehumidification and cooling and which had previously been launched in the US, was also successfully launched in the region during the latter part of the year. Earnings were positively affected by improved margins in both the Japanese and the Chinese operations where a number of large industrial projects were delivered toward the end of the year.

MCS

The division, which represents a small part of Region Asia, reported lower sales and operating earnings than in the previous year. During the first quarter, a new management team took over the Australian operation, which is the region's largest MCS operation. The new management has implemented extensive structural change and a sharper focus for the operation, which led to an improvement during the latter part of the year.

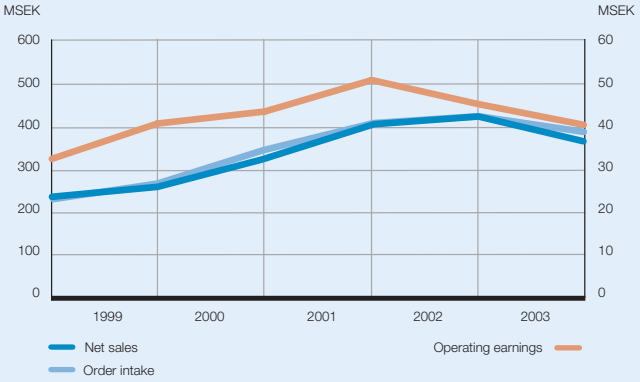
During the latter part of the year, the division received a number of orders in conjunction with floods in Australia.

HumiCool

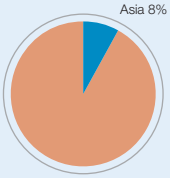
The division reported lower order intake, sales and operating earnings compared with the previous year. However, sales of evaporative cooling components in Australia and evaporative cooling systems for the AgHort industry in Thailand developed strongly. This compensated partly for the continued downturn in Japan.

When Munters in 2002 acquired the company Aerotech Inc. in the US with its primary focus on the American poultry industry, Munters also acquired a 25-percent share of Aerotech Asia Inc., which has successfully developed systems for cooling indoor air in factory buildings. During the year, Munters acquired an additional 25-percent of the share capital in the company. Aerotech Asia Inc. reported sales of 2.4 MUSD.

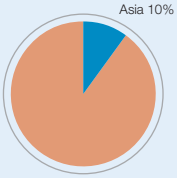
Largest segments	Product/service
Food/AgHort	Evaporative cooling systems
Electronics	Dehumidifiers
Insurance	Water and fire damage restoration



Share of consolidated sales



Share of Group employees



Associated company

The acquisition of Aerotech Inc. in the US during 2002 included a 25 percent holding in Aerotech Asia, which has operations in Vietnam. In addition, there was an option to increase the ownership to 50 percent, which was exercised during the year. The company produces and sells ventilation and evaporative cooling systems in the Vietnamese market. Aerotech Asia is reported as an associated company in accordance with the equity method in the Munters Group. Aerotech Vietnam has sales of approximately 2.4 MUSD and is profitable.

Tax

Tax expenses for the year amounted to 108 MSEK (169), corresponding to an effective tax rare of 38.6 percent (38.8), which was higher than the standard tax rate of 28.0 percent in Sweden. This was primarily due to the fact that a significant share of the Group's earnings were generated in foreign subsidiaries with higher tax rates and that amortization of goodwill is not deductible for tax purposes. Adjusted for amortization of goodwill that was not deductible for tax purposes and excluding surplus values, the tax rate was 34.5 (36) percent.

Net earnings and profitability measures

Net earnings for the year declined by 35 percent to 172 MSEK (266). Adjusted (last year's figures restated for the 2003 fiscal year's structure and exchange-rates), the decline was 30 percent. Earnings per share amounted to 7.04 SEK (10.83). Return on capital employed decreased from 31.5 percent to 19.4 percent. Return on equity declined from 25.0 percent to 15.6 percent.

Financial position

The equity/assets ratio amounted to 46.1 (41.0) percent at year-end. Liquid funds amounted to 125 MSEK (133), while interest-bearing liabilities (including interest-bearing pensions) amounted to 463 MSEK (498). Since the beginning of the year, net debt decreased by 27 MSEK to 338 MSEK. During the year, 86 MSEK was paid to the shareholders, 25 MSEK was paid as a supplementary payment relating to previous acquisitions and 11 MSEK was paid for the repurchase of the company's own shares. The interest coverage ratio was a multiple of 11.3 (14.2) during the year. The Group had unutilized credit facilities amounting to 243 MSEK. The net debt/equity ratio was 0.31 (0.33).

Investments and depreciation

The Group's total investments in tangible fixed assets amounted to 130 MSEK (183) during the year, of which the major share related to investments in MCS, production and IT equipment. Depreciation amounted to 170 MSEK (161), of which amortization of goodwill and depreciation of surplus values accounted for 38 MSEK (33).

During the fourth quarter, a decision was taken to invest in a new production facility in Mexico. Production of HumiCool products, primarily CELdek®, will begin in April 2004 and employ about 75 persons. At the same time, capacity for these products will be reduced in the US. The total cost of this investment is estimated at about 2.2 MUSD, of which the major share was invested during 2003.

Product development

Munters conducts continuous product development intended to improve existing products, develop new products and identify new application areas. A basic principle is that development should take place in close contact with the market and in partnership with customers and end users.

Costs for research and development, which amounted to 41 MSEK (43), are expensed as they are incurred and reported in the income statement under the item Research and development costs. The consolidated balance sheet does not currently include any capitalized costs for development.

Human resources

The number of employees at year-end was 3,070, which was an decrease of 122 persons over the preceding year. Personnel decreased by 66 persons in Region Europe, 38 in Region Americas and by 29 in Region Asia.

Information on environmental impact in accordance with Swedish legislation

Munters conducts operations subject to permit of type B according to the Swedish Environmental Code in its Swedish subsidiary Munters Europe AB. This permit covers all operations in Tobo and applies until further notice. The operations for which Munters Europe has permit and reporting obligations impact the external environment at the production plant in Tobo through emissions to air and water. No injunctions have been issued.

Preparations in advance of the introduction of IFRS

As of January 1, 2005, Munters, like all exchange-listed countries within the EU, will begin applying accounting principles in accordance with the International Financial Reporting Standards (IFRS). To prepare for the transition to IFRS, Munters surveyed the differences that currently apply between Swedish rules and IFRS, as well as the effects that the transition will have on Munters' financial reporting. In this comparison, consideration was also taken to the proposed changes in the current rules that are expected to be adopted by the International Accounting Standards Board (IASB) no later than during the first quarter of 2004.

According to the proposed change of IFRS, continuous amortization of goodwill may not take place. Instead, the book value is evaluated and a write-down considered at least once each year in conjunction with the closing of the accounts. An evaluation of goodwill values in the Munter Group as of December 31, 2003 was performed. This evaluation did not identify any need to write down goodwill values or other intangible fixed assets.

The transition to IFRS will not entail any significant changes in other respects for Munters' earnings and financial position. Munters continuously monitors and adapts its accounting to changes in accounting principles.

Options program

During the year, 33 senior managers subscribed for a total of 63,600 options in Munters AB. The outstanding options programs are described in note 32.

Buy-back of own shares

During the year, 59,750 of the Company's own shares were purchased. Holding of own shares amounted to 621,950 shares at year-end. Further details are provided in note 22.

Parent Company operations

Munters AB's operations consist of corporate functions. The Parent Company conducts no external business operations. Earnings after net financial items amounted to a loss of 22 MSEK (profit: 122). Dividends received from subsidiaries were included in an amount of 3 MSEK (47). Earnings also include a capital gain of 3 MSEK (94) from the intra-Group sale of a subsidiary. Liquid funds amounted to 10 MSEK (5) at year-end, while net debt was 114 MSEK (230). Investments during the year amounted to 1 MSEK (2), and the number of employees was 21 (19).

Working procedures for the Board of Directors
Munters' Board of Directors consists of seven members elected by the Annual General Meeting with no deputies, as well as two members appointed by employee organizations. The President is a member of the Board. Other employees participate in Board meetings as presenters.

According to the working procedures for the Board of Directors, one statutory meeting and five regular meetings must be held each year. During 2003, the Board of Directors held eight meetings, of which one was outside Sweden and one by correspondence. To meet the Board of Directors' information requirements, the Company's auditor participates in the Board meeting at which the year-end report is decided. The auditors report their observations from the reviews that they have conducted and their assessment of internal corporate controls.

The work of the Board of Directors is focused on strategic issues, such as business focus, finance and reporting, control and efficiency. The Chairman leads the work of the Board of Directors. Within the framework established by the Board of Directors, the President manages business operations and continuously informs the Chairman of significant business events.

Based on proposals from the Compensation Committee, which consists of Berthold Lindqvist (Chairman of the Board) and Board members Sören Mellstig and Sven Ohlsson, the Board of Directors approves the salary and variable compensation for the President and other members of executive management.

Nominating Committee
In accordance with a decision by the Annual General Meeting, a Nominating Committee was appointed prior to the forthcoming Annual General Meeting consisting of representatives for the Company's largest shareholders. The Nominating Committee's task is to present a proposal prior to the Annual General Meeting for election to the Board of Directors and, as appropriate, Auditors and fees. The Nominating Committee that was appointed prior to the Annual General Meeting consists of Berthold Lindqvist (Chairman of the Board of Directors), Carl-Olof By (Industrivärden), Peter Rudman (Nordea funds), Magnus Bakke (Robur funds), Mats Guldbrand (AMF Pension) and Tomas Nicolin (Third AP Fund). Carl-Olof By is the Chairman.

Options program 2004
The Board of Directors intends to propose that the Annual General Meeting grant authorization to issue an options program for senior managers within Munters in accordance with principles similar to the preceding year's program. The scope and terms of the program are currently being evaluated and will be presented well in advance of the Annual General Meeting.

Authorization to repurchase shares
The Board of Directors intends to propose that the Annual General Meeting renew the authorization granted to the Board to repurchase Munters shares and to divest such shares in order to cover the Company's obligations according to existing and proposed options programs. A full proposal will be presented well in advance of the Annual General Meeting.

Future prospects
Munters does not publish any forecasts for financial trends. The deterioration in sales and earnings during 2003 are considered to be a consequence of weak demand due to unfavorable weather for MCS, negative exchange-rate fluctuations, the war in Iraq and the weak economic conditions for several of Munters' most important customers. The negative trend for Munters in exchange-rate fluctuations relating to USD, EUR and SEK are considered to have a continued negative effect if the current exchange-rates prevail. The prerequisites for the Company's long-term development are not considered to have changed from these factors.

Proposed distribution of earnings
The following earnings are at the disposal of the Annual General Meeting:

Retained earnings	256,417,114
Loss for the year	–16,710,875
Total	**239,706,239**

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

Distributed to shareholders 3.50 SEK per share	85,323,175
Retained	154,383,064
Total	**239,706,239**

According to the consolidated balance sheet, non-restricted equity amounts to 782 MSEK. No transfers to restricted reserves are required.

Sollentuna, March 2, 2004

Berthold Lindqvist
Chairman

Bo Ingemarson

Bengt Kjell

Sören Mellstig

Sven Ohlsson

Lars Spongberg

Inge Nodfors

Gunnar Ståhlberg

Lennart Evrell
President

Our Auditor's Report was submitted on March 2, 2004

Björn Fernström
Authorized public accountant

Gunnar Widhagen
Authorized public accountant

Income statement

Amounts in SEK thousand	Note	GROUP 2003	GROUP 2002	PARENT COMPANY 2003	PARENT COMPANY 2002
Net sales	2, 3	4,308,291	4,665,577	20,654	25,644
Cost of goods sold		–3,029,418	–3,069,229	–1,143	–483
Gross earnings		**1 278 873**	**1,596,348**	**19,511**	**25,161**
Selling expenes		–546,172	–692,203	–1,142	–581
Administrative expenses		–361,477	–368,801	–48,187	–48,450
Research and development costs		–41,172	–42,937	–	–
Other operating income	4	4,612	2,751	3,447	3,094
Other operating expenses	5	–38,214	–30,253	–572	–
Share in earnings of associated companies	6	1,600	–	–	–
Earnings before interest and tax	7, 8	**298,050**	**464,905**	**–26,943**	**–20,776**
Earnings from participation in Group companies	9	–	–	5,930	141,007
Interest income and similar earnings items	10	6,786	7,061	14,790	19,193
Interest expenses and similar earnings items	11	–24,769	–35,785	–15,361	–17,254
Earnings after financial items		**280,067**	**436,181**	**–21,584**	**122,170**
Appropriations		–	–	–	2,673
Earnings before taxes		**280,067**	**436,181**	**–21,584**	**124,843**
Taxes	12	–108,042	–169,422	4,873	4,702
Minority share		–99	–1,137	–	–
Net earnings		**171,926**	**265,622**	**–16,711**	**129,545**
Earnings per share, SEK	13	7.04	10.83	–	–
Earnings per share after dilution, SEK	13	7.03	10.80	–	–

Cash flow statement

Amounts in SEK thousand	Note	GROUP 2003	GROUP 2002	PARENT COMPANY 2003	PARENT COMPANY 2002
CURRENT OPERATIONS					
Earnings after financial items		280,067	436,181	–21,584	122,170
Reversal of items not affecting cash flow					
Share in earnings of associated companies		–1,600	–	–	–
Depreciations	7	169,780	161,127	769	777
Unrealized exchange-rate differences		696	10,368	–	–
Earnings from sales and discards of fixed assets		–469	–883	–2,972	–94,270
Provision for pensions and similar commitments		11,120	10,218	483	1,683
Other provisions		–31,938	–17,745	–	–
Other earnings items not affecting cash flow		615	2,210	–	–252
		148,204	**165,295**	**–1,720**	**–92,062**
Taxes paid		–151,634	–198,223	–3,668	–1,464
Cash flow from current operations before changes in working capital		**276,637**	**403,253**	**–26,972**	**28,644**
Cash flow from changes in working capital					
Changes in inventory		24,007	27,580	–	–
Changes in accounts receivable – trade		97,308	41,917	–	1,113
Changes in other receivables		–6,271	28,287	231,531	16,050
Changes in accounts payable – trade		–67,907	–18,109	–1,213	–1,559
Changes in other liabilities		–66,483	–67,032	23,782	16,448
		–19,346	**12,643**	**254,100**	**32,052**
Cash flow from current operations		**257,291**	**415,896**	**227,128**	**60,696**
INVESTING ACTIVITIES					
Acquisitions of subsidiaries	14	–24,796	–289,494	–	–3,281
Investments in intangible assets	15	–3,335	–4,648	–	–
Investments in tangible assets	16	–129,547	–183,417	–687	–1,562
Sale of tangible assets		2,942	1,396	–	–
Change in other financial assets		–2,718	1,149	–14,655	–17,147
Cash flow from investing activities		**–157,454**	**–475,014**	**–15,342**	**–21,990**
FINANCING ACTIVITIES					
Payment received for issued stock options		1,005	2,918	1,005	2,918
Changes in loans		–3,215	139,671	–111,214	21,152
Dividend paid		–85,532	–73,658	–85,532	–73,658
Buy-back of own shares		–10,604	–25,092	–10,604	–25,092
Cash flow from financing activities		**–98,346**	**43,839**	**–206,345**	**–74,680**
Cash flow for the year		**1,491**	**–15,279**	**5,441**	**–35,974**
Liquid funds at the beginning of the year		132,927	151,842	4,815	40,789
Exchange-rate differences in liquid funds		–9,428	–3,636	–	–
Liquid funds at the end of the year		**124,990**	**132,927**	**10,256**	**4,815**
NET DEBT STRUCTURE					
Short-term loans		369,963	260,327	90,000	201,214
Long-term loans		6,664	155,548	–	–
Provisions for pensions		86,617	82,237	34,452	33,969
Liquid funds		–124,990	–132,927	–10,256	–4,815
Net debt		**338,254**	**365,185**	**114,196**	**230,368**

Net operating cash flow is reported in the financial overview on pages 24 and 25.
Interest payments amounted to an expense of 22,035 (expense: 20,741) in the Group and income of 4,605 (income: 171) in the Parent Company.

Balance sheet

Amounts in SEK thousand on December 31	Note	GROUP 2003	GROUP 2002	PARENT COMPANY 2003	PARENT COMPANY 2002
ASSETS					
FIXED ASSETS					
Intangible assets	15				
Patents, licenses and similar rights		21,088	23,269	467	550
Goodwill		350,768	445,866	–	–
		371,856	**469,135**	**467**	**550**
Tangible assets	16				
Buildings and land		196,902	224,917	–	–
Plant and machinery		154,331	200,498	–	–
Equipment, tools, fixtures and fittings		225,084	208,075	2,676	2,675
Construction in progress		23,384	33,553	–	–
		599,701	**667,043**	**2,676**	**2,675**
Financial assets					
Participation in Group companies	17	–	–	208,634	191,007
Long-term receivables from Group companies		–	–	406,101	23,058
Participations in associated companies	18	5,834	–	–	–
Other long-term securities holdings		146	–	–	–
Deferred tax assets	19	48,751	69,476	8,176	2,526
Other long-term receivables		17,806	22,581	–	3,719
		72,537	**92,057**	**622,911**	**220,310**
Total fixed assets		**1,044,094**	**1,228,235**	**626,054**	**223,535**
CURRENT ASSETS					
Inventories etc.					
Raw materials and consumables		137,217	153,790	–	–
Products in progress		22,483	41,889	–	–
Finished products and goods for resale		69,169	68,561	–	–
Work in progress		44,942	56,267	–	–
Advance payments to suppliers		1,940	8,030	–	–
		275,751	**328,537**	**–**	**–**
Current receivables					
Accounts receivables – trade		791,857	947,834	–	–
Receivables from Group companies		–	–	64,884	677,379
Income tax receivables		38,120	9,908	3,584	693
Other receivables		46,791	41,129	9,777	8,141
Prepaid expenses and accrued income	20	43,388	43,762	2,270	1,362
		920,156	**1,042,633**	**80,515**	**687,575**
Liquid funds		**124,990**	**132,927**	**10,256**	**4,815**
Total current assets		**1,320,897**	**1,504,097**	**90,771**	**692,390**
TOTAL ASSETS		**2,364,991**	**2,732,332**	**716,825**	**915,925**
Contingent assets		–	–	–	–
Pledged assets	21	17,558	27,398	–	–

Amounts in SEK thousand on December 31	Note	GROUP 2003	GROUP 2002	PARENT COMPANY 2003	PARENT COMPANY 2002
EQUITY AND LIABILITIES					
Equity	22				
Restricted equity					
Capital stock		125,000	125,000	125,000	125,000
Restricted reserves		178,840	187,811	75,519	74,514
		303,840	**312,811**	**200,519**	**199,514**
Non-restricted equity					
Non-restricted reserves		609,875	535,575	256,418	222,105
Net earnings		171,926	265,622	–16,711	129,545
		781,801	**801,197**	**239,707**	**351,650**
Total equity		**1,085,641**	**1,114,008**	**440,226**	**551,164**
Minority interest		**3,792**	**5,343**	**–**	**–**
Provisions					
Provisions for pensions and similar commitments	23	118,267	109,646	34,452	33,969
Deferred tax liabilities	19	28,211	33,962	–	–
Other provisions	24	43,504	78,197	–	–
		189,982	**221,805**	**34,452**	**33,969**
Long-term liabilities					
Interest-bearing liabilities	25	6,664	155,548	–	–
Liabilities to Group companies		–	–	94,926	–
Other liabilities		51,628	128,882	–	–
		58,292	**284,430**	**94,926**	**–**
Current liabilities					
Interest-bearing liabilities	25	369,963	260,327	90,000	201,214
Advance payments from customers		20,790	49,358	–	–
Accounts payable – trade		245,720	332,009	2,778	3,991
Liabilities to Group companies		–	–	43,499	113,371
Income tax liabilities		53,328	87,030	–	–
Other liabilities		112,698	126,843	867	2,257
Accrued expenses and deferred income	26	224,785	251,179	10,077	9,959
		1,027,284	**1,106,746**	**147,221**	**330,792**
TOTAL EQUITY AND LIABILITIES		**2,364,991**	**2,732,332**	**716,825**	**915,925**
Contingent liabilities	27	61,267	24,508	66,167	64,146

Changes in equity

Amounts in SEK thousand	Capital stock	Restricted reserves	Non-restricted reserves	Equity
GROUP				
December 31, 2001	**125,000**	**214,148**	**673,079**	**1,012,227**
Exchange-rate differences in translating foreign subsidiaries	–	–1,778	–66,231	**–68,009**
Transfer from restricted to non-restricted reserves	–	–27,477	27,477	**–**
Net earnings	–	–	265,622	**265,622**
Dividend	–	–	–73,658	**–73,658**
Buy-back of shares	–	–	–25,092	**–25,092**
Payment received for option program	–	2,918	–	**2,918**
December 31, 2002	**125,000**	**187,811**	**801,197**	**1,114,008**
Correction of year 2001 effect on changed accounting principle	–	–	–16,644	**–16,644**
Exchange-rate differences in translating foreign subsidiaries	–	–9,169	–79,349	**–88,518**
Transfer from restricted to non-restricted reserves	–	–807	807	**–**
Net earnings	–	–	171,926	**171,926**
Dividend	–	–	–85,532	**–85,532**
Buy-back of shares	–	–	–10,604	**–10,604**
Payment received for option program	–	1,005	–	**1,005**
December 31, 2003	**125,000**	**178,840**	**781,801**	**1,085,641**

PARENT COMPANY				
December 31, 2001	**125,000**	**71,596**	**315,261**	**511,857**
Group contributions	–	–	5,594	**5,594**
Net earnings	–	–	129,545	**129,545**
Dividend	–	–	–73,658	**–73,658**
Buy-back of shares	–	–	–25,092	**–25,092**
Payment received for option program	–	2,918	–	**2,918**
December 31, 2002	**125,000**	**74,514**	**351,650**	**551,164**
Group contributions	–	–	904	**904**
Net earnings	–	–	–16,711	**–16,711**
Dividend	–	–	–85,532	**–85,532**
Buy-back of shares	–	–	–10,604	**–10,604**
Received payment for option program	–	1,005	–	**1,005**
December 31, 2003	**125,000**	**75,519**	**239,707**	**440,226**

Further information about equity is disclosed in note 22.

Notes

NOTE 1 Accounting principles

Amounts in SEK thousand unless otherwise specified.

Accounting principles

The consolidated accounts were prepared in accordance with the Annual Accounts Act and the recommendations and statements of the Swedish Financial Accounting Standards Board. The accounting principles and calculation methods applied were unchanged compared with the preceding year with the addition of the recommendations of the Swedish Financial Accounting Standards Board that took effect on January 1, 2003: RR 2:02 Inventories, RR 22 Presentation of Financial Statements, RR 25 Segment Reporting, RR 26 Events after the Balance Sheet Date, RR27 Financial Instruments and RR 28 Government Grants. The application of these recommendations did not have any material effect on the Group's earnings or financial position. Recommendation RR 24 Investment Property also took effect during 2003 but addressed an area outside of Munters' operations.

Consolidated accounts

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

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

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

Associated companies

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

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

Translation of the accounts of foreign subsidiaries

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

Exchange-rates

The following exchange-rates were used for translation.

		Average rate		Closing date rate	
Currency	**Country**	**2003**	**2002**	**2003**	**2002**
AUD	Australia	5.26	5.28	5.43	4.98
CAD	Canada	5.77	6.19	5.56	5.63
CNY	China	0.98	1.17	0.88	1.07
DKK	Denmark	1.23	1.23	1.22	1.24
EUR	Euro	9.13	9.16	9.09	9.19
GBP	Great Britain	13.19	14.58	12.91	14.15
JPY	Japan	0.070	0.078	0.068	0.074
NOK	Norway	1.14	1.22	1.08	1.26
SGD	Singapore	4.64	5.43	4.28	5.09
THB	Thailand	0.19	0.23	0.19	0.21
USD	USA	8.09	9.72	7.28	8.83
ZAR	South Africa	1.07	0.92	1.09	1.01

Assets and liabilities in foreign currency

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

Net sales recognition

Revenues from the sale of goods are reported upon delivery when all the main risks and rights are transferred to the buyer. Net sales from major project assignments are reported in proportion to the degree of completion on the closing date, assuming that a reliable calculation of the profit can be made. Completion is determined primarily on the basis of accumulated project costs in relation to estimated total project costs on completion. Anticipated losses are directly expensed.

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

Significant net sales types are presented in note 3, where Dehumidification and HumiCool consist of sales of goods, while MCS consists of service assignments.

Inventory

Inventory is valued at the lower of cost or market value according to the first-in, first-out principle and actual value. Required allocations are made for obsolescence based on each item's age and turnover rate. Work in progress is valued as the sum of direct labor and materials costs plus a reasonable markup for indirect production costs.

Receivables

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

Liquid funds in cash flow statement

Liquid funds are classified as cash and bank balances, including bank deposits.

Depreciation

Depreciation according to plan is based on the original acquisition value of fixed assets and their estimated utilization period.

Write-down

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

Leasing

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

Provisions

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

Pensions

Provisions for pensions are calculated in accordance with the local laws and regulations in each country.

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

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

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

Equity
Expenses for the purchase of own shares reduced non-restricted equity in the Parent Company and the Group. When these shares are sold, the sale amount is included in non-restricted equity.

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

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

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

Changes in accounting principles for the year 2004
As of January 1, 2004, the Swedish Financial Accounting Standards Council's new recommendation RR 29 Employee Benefits will be applied. This recommendation adheres in all significant respects to the international standard IAS 19 Employee Benefits. With the application of RR 29, benefit-based plans relating to pensions and other benefits will be reported according to the common principles. Prior to 2004, these were reported in accordance with local regulations in each country. According to the recommendation's transitional rules, an initial pension liability will be established as calculated according to the new principles on January 1, 2004. Overall, this recalculation will not have any significant effect on Munters' consolidated accounts. In accordance with the recommendation's transition rules, previous fiscal years will not be restated. The recommendation entails additional reporting requirements in Munters' financial reports. The change in accounting principle will not affect Munters' obligations to the employees.

NOTE 2 Regions

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

	Europe		Americas		Asia		Eliminations, etc.		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Income statement										
External net sales	2,599,794	2,678,468	1,338,517	1,568,218	369,980	418,891	–	–	4,308,291	4,665,577
Internal net sales	57,907	52,934	8,906	9,044	2,001	8,611	–68,814	–70,589	–	–
Net sales	**2,657,701**	**2,731,402**	**1,347,423**	**1,577,262**	**371,981**	**427,502**	**–68,814**	**–70,589**	**4,308,291**	**4,665,577**
Operating earnings per region	175,055	275,374	150,425	204,524	40,752	46,377	–2,255	–771	363,977	525,504
Amortization of goodwill and surplus value									–37,879	–33,180
Undistributed costs									–28,048	–27,419
EBIT									**298,050**	**464,905**
Balance sheet										
Operating assets	1,063,995	1,248,653	411,095	524,585	210,301	201,895	3,006	–8,450	1,688,397	1,966,683
Earnings in associated companies	–	–	–	–	5,834	–	–	–	5,834	–
Other assets	281,936	265,417	88,434	66,435	106,623	109,900	193,767	323,897	670,760	765,649
Total assets	**1,345,931**	**1,514,070**	**499,529**	**591,020**	**322,758**	**311,795**	**196,773**	**315,447**	**2,364,991**	**2,732,332**
Operating liabilities	158,356	227,979	71,963	116,720	42,368	58,128	–6,177	–21,460	266,510	381,367
Other liabilities	1,075,532	1,285,128	150,327	247,029	110,509	108,050	–327,320	–408,593	1,009,048	1,231,614
Total liabilities	**1,233,888**	**1,513,107**	**222,290**	**363,749**	**152,877**	**166,178**	**–333,497**	**–430,053**	**1,275,558**	**1,612,981**
Other data										
Capital expenditures	77,042	123,647	45,053	42,757	9,882	19,916	896	1,745	132,873	188,065
Depreciation	85,115	76,954	36,859	41,186	7,995	7,279	39,811	35,708	169,780	161,127
Number of employees at year-end	2,090	2,156	663	701	299	316	18	19	3,070	3,192

NOTE 3 Product areas

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

	Dehumidification		MCS		HumiCool		Eliminations, etc.		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Net sales	1,262,470	1,503,371	1,982,130	2,003,618	1,102,883	1,214,697	–39,192	–56,109	4,308,291	4,665,577
Operating assets	479,768	528,017	655,504	790,321	555,808	622,065	–2,683	26,280	1,688,397	1,966,683
Operating liabilities	110,577	148,148	75,128	108,567	81,428	108,878	–623	15,774	266,510	381,367
Capital expenditures	15,908	20,987	84,351	105,209	31,718	60,030	896	1,839	132,873	188,065
Number of employees at year-end	771	816	1,618	1,620	661	737	20	19	3,070	3,192

NOTE 4 Other operating income

	Group		Parent Company	
	2003	2002	2003	2002
Insurance compensation	3,444	2,751	–	–
Royalty from Group companies	–	–	3,447	3,094
Compensation for damage	1,168	–	–	–
	4,612	**2,751**	**3,447**	**3,094**

NOTE 5 Other operating expenses

	Group		Parent Company	
	2003	2002	2003	2002
Amortization of goodwill	–35,139	–30,253	–	–
Exchange-rate differences	–3,075	–	–572	–
	–38,214	**–30,253**	**–572**	**–**

NOTE 6 Shares in earnings of associated companies

	Group	
	2003	2002
Aerotech Asia Inc.	1,600	–
	1,600	**–**

NOTE 7 Depreciation and write-downs

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

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

Goodwill is normally amortized over 5 to 10 years, Goodwill that is amortized at a rate of more than 10 years is attributable to strategic acquisitions that are considered to motivate a longer amortization period for market or technical reasons. Amortization of goodwill is reported among other operating expenses.

Depreciation was charged against the year's earnings as shown below.

	Group		Parent Company	
	2003	2002	2003	2002
Cost of goods sold	105,458	100,018	–	–
Selling expenses	8,832	10,719	–	13
Administrative expenses	20,100	19,871	769	764
Research and development costs	251	266	–	–
Other operating expenses	35,139	30,253	–	–
	169,780	**161,127**	**769**	**777**

There were no write-downs in 2003 and 2002.

NOTE 8 Leasing

Operating leases

The minimum costs for operating lease contracts amounted to 138,489 (154,432) during the year.

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

	Premises	Vehicles, etc.
2004	70,600	50,768
2005—2008	144,150	52,485
2009 and later	40,412	247
	255,162	**103,500**

Finance leases

Finance lease contracts are included in the balance sheet and classed under assets as plant and machinery in an amount of 210.

NOTE 9 Earnings from participations in Group companies

	Parent Company	
	2003	2002
Dividend	2,959	46,737
Capital gains	2,971	94,270
	5,930	**141,007**

The capital gains for both years relate to a sale of subsidiary within the Group.

NOTE 10 Interest income and similar items

	Group		Parent Company	
	2003	2002	2003	2002
Interest income, Group companies	–	–	14,138	18,776
Interest income, others	5,054	4,433	469	417
Other financial income	1,732	2,628	183	–
	6,786	**7,061**	**14,790**	**19,193**

NOTE 11 Interest expenses and similar items

	Group		Parent Company	
	2003	2002	2003	2002
Interest expenses, Group companies	–	–	–2,860	–2,744
Interest expenses, others	–26,381	–27,382	–6,991	–16,026
Exchange-rate differences	2,292	–6,729	–5,510	1,516
Other financial expenses	–680	–1,674	–	–
	–24,769	**–35,785**	**–15,361**	**–17,254**

NOTE 12 Taxes

	Group		Parent Company	
	2003	2002	2003	2002
Current tax expense	120,885	174,014	765	–2,176
Tax relating to previous years	415	3,585	12	–
Deferred tax related to temporary differences and loss carry-forwards	–14,079	–8,652	–5,650	–2,526
Deferred tax related to change in valuation reserves	888	464	–	–
Deferred tax related to changes in tax rates	–67	11	–	–
Tax expenses	**108,042**	**169,422**	**–4,873**	**–4,702**
Reconciliation of effective tax rate				
Earnings before tax	280,067	436,181	–21,584	124,843
Tax according to prevailing tax rate for the Parent Company	78,419	122,131	–6,044	34,956
Difference attributable to foreign tax rates	29,469	35,988	–	–
Non-deductible expenses	31,355	17,257	858	672
Non-taxable income	–32,878	–15,810	–1,666	–39,479
Change in valuation reserves	889	6,252	–	–851
Tax relating to previous years	415	3,585	12	–
Other	454	–	1,967	–
Changes in tax rates	–81	19	–	–
Tax expenses	**108,042**	**169,422**	**–4,873**	**–4,702**

Tax expenses amount to 38.6 percent (38.6) of earnings before tax. Adjusted for non-deductible amortization of goodwill and surplus values, the tax rate amounted to 34.5 percent (36).

NOTE 13 Earnings per share

	Group	
	2003	2002
Net earnings	171,926	265,622
Weighted average number of shares	24,419,834	24,518,153
– after dilution	24,459,903	24,586,057
Earnings per share, SEK	7.04	10.83
– after dilution	7.03	10.80

The dilution effect is a result of the options program of May 2000. Other option programs do not result in a dilution effect, since the present value of the subscription price exceeded the market price at year-end. In calculating the present value, a discount rate of 4.0 percent (4.0) was used. The average share price during the year was calculated as 172 SEK (200).

NOTE 14 Acquired assets and liabilities

	Group	
	2003	2002
Fixed assets	–	445,758
Current assets	–	249,680
Liquid funds	–	19,866
Total assets	**–**	**715,304**
Provisions	–	11,946
Loans and interest-bearing liabilities	–	134,422
Current liabilities	–	121,245
Total liabilities	**–**	**267,613**
Purchase price	–	447,691
Purchase price entered as liability	24,796	–138,331
Purchase price paid	**24,796**	**309,360**
Less acquired liquid funds	–	–19,866
Effect on liquid funds	**24,796**	**289,494**

The effect on liquid funds during the year was attributable to payments of purchase prices that were previously booked as liabilities in conjunction with the acquisition of operations.

NOTE 15 Intangible assets

Group	Patents, licenses and similar rights	Goodwill 5 years	Goodwill 10 years	Goodwill 15 years	Goodwill 20 years	Total goodwill	Total intangible assets
Acquisition value							
Amount on opening date	29,459	44,535	186,173	72,254	245,016	547,978	577,437
Capital expenditure for the year	3,326	–599	–19,290	–20,045	5,882	–34,052	–30,726
Reclassifications	136	–	–5,897	–	5,897	–	136
Translation differences for the year	–2,280	–2,436	–3,146	–10,726	–13,310	–29,618	–31,898
Amount on closing date	**30,641**	**41,500**	**157,840**	**41,483**	**243,485**	**484,308**	**514,949**
Accumulated amortization							
Amount on opening date	6,190	19,242	51,616	2,404	28,850	102,112	108,302
Reclassifications	127	–	–3,936	–	3,936	–	127
Amortization for the year	3,609	8,593	11,190	2,403	12,953	35,139	38,748
Translation differences for the year	–373	–1,363	–638	–667	–1,043	–3,711	–4,084
Amount on closing date	**9,553**	**26,472**	**58,232**	**4,140**	**44,696**	**133,540**	**143,093**
Book value	**21,088**	**15,028**	**99,608**	**37,343**	**198,789**	**350,768**	**371,856**

Patents, licenses and similar rights include 13 MSEK relating to capitalized expenses for business and Group accounting systems, as well as 5 MSEK relating to a lease in China. The negative amounts for capital expenditure for goodwill relate to reduced provisions for supplementary purchase prices for acquisitions where the acquisition price is conditional upon profits from the acquired operations during a number of years from the acquisition date.

Parent Company	Patents, licenses and similar rights
Acquisition value	
Amount on opening date	550
Amount on closing date	**550**
Accumulated amortization	
Amortization for the year	83
Amount on closing date	**83**
Book value	**467**

NOTE 16 Tangible assets

Group	Building and land	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total tangible assets
Acquisition value					
Amount on opening date	361,988	601,590	582,634	33,553	1,579,765
Capital expenditure for the year	3,350	25,745	61,497	38,955	129,547
Sales and discards	–574	–2,896	–14,553	–	–18,023
Eliminations/Group internal	–	–	–7,392	–	–7,392
Reclassifications	462	–98,754	142,996	–44,704	–
Translation differences for the year	–33,716	–56,395	–39,416	–4,420	–133,947
Amount on closing date	**331,510**	**469,290**	**725,766**	**23,384**	**1,549,950**
Accumulated depreciation					
Amount on opening date	137,071	401,092	374,559	–	912,722
Sales and discards	–	–1,761	–10,389	–	–12,150
Reclassifications	–23	–94,975	94,962	–	–36
Depreciation for the year	11,162	49,493	70,377	–	131,032
Translation differences for the year	–13,602	–38,890	–28,827	–	–81,319
Amount on closing date	**134,608**	**314,959**	**500,682**	**–**	**950,249**
Book value	**196,902**	**154,331**	**225,084**	**23,384**	**599,701**

Parent Company	Equipment, tools, fixtures and fittings
Acquisition value	
Amount on opening date	6,970
Capital expenditure for the year	687
Amount on closing date	**7,657**
Accumulated depreciation	
Amount on opening date	4,295
Depreciation for the year	686
Amount on closing date	**4,981**
Book value	**2,676**

Depreciation is based on the asset's acquisition value and the estimated period of utilization specified in note 7.

Reclassifications relate primarily to equipment within MCS operations that is reported as equipment and tools.

The book value of land amounts to 16,132.

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

NOTE 17 Participations in Group companies

Direct participations (corp. reg. no.)	Country	Share of votes and capital, %	Book value
AB Carl Munters (556035-1198)	Sweden	100	169,301
Munters Beteiligungs GmbH	Germany	100	3,452
Munters BV	Netherlands	100	41
Munters Corporation	USA	100	2,393
Munters France SA	France	100	3,056
Munters Group Ltd	Great Britain	100	4,323
Munters Holding Italy Srl	Italy	100	138
Munters Holding Norway AS	Norway	100	17,449
Munters Korea Co Ltd	South Korea	100	337
Munters (Thailand) Co Ltd	Thailand	100	505
Polygon A/S	Denmark	19	1,357
Sundsvalls Totalsanering AB (556467-1336)	Sweden	100	6,282
			208,634

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

NOTE 18 Participations in associated companies

	Country	Share of votes and capital, %	Book value	Book value in Group	Shares in earnings 2003
Aerotech Asia Inc.	British Virgin Islands	50	4,234	5,834	1,600

NOTE 19 Deferred tax assets and tax liabilities

Deferred tax assets relating to:	Group 2003	2002
Buildings	52	18,224
Machinery and equipment	10,301	10,690
Inventory	9,813	13,891
Accounts receivable – trade	4,530	5,893
Provisions	6,941	14,156
Accrued expenses and deferred income	16,436	15,919
Loss carry-forwards	12,532	6,370
Other	2,325	2,816
Offsets	–14,179	–18,483
	48,751	**69,476**
Deferred tax liabilities relating to:		
Untaxed reserves	18,877	18,043
Machinery and equipment	19,387	27,046
Inventory	404	529
Other	3,722	6,827
Offsets	–14,179	–18,483
	28,211	**33,962**

Deferred tax assets relating to unutilized loss carry-forwards are reported to the extent that it is considered probable that they will be used against taxable surpluses. At year-end, unutilized loss carry-forwards amounted to 75 MSEK (41), of which 36 MSEK had no time limits, 38 MSEK expire between 2004 and 2008 and 1 MSEK thereafter. Loss carry-forwards for which deferred tax assets were not reported amounted to 31 MSEK (21).

NOTE 20 Prepaid expenses and accrued income

	Group 2003	2002	Parent Company 2003	2002
Prepaid rent and lease charges	8,659	9,444	946	942
Accrued interest income	18	64	–	–
Prepaid insurance premiums	14,128	6,842	1,179	–
Other items	20,583	27,412	145	420
	43,388	**43,762**	**2,270**	**1,362**

NOTE 21 Pledged assets

Pledged assets for liabilities to credit institutes	Group 2003	2002
Chattel mortgages	4,592	13,766
Receivables	11,229	13,632
Fixed assets	1,737	–
	17,558	**27,398**

NOTE 22 Equity

Restricted and non-restricted equity

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

Accumulated exchange-rate differences are included in equity in an amount of –56,038 (32,480).

Capital stock

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

Cont. note 22

Holding of own shares

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

	Number	Nominal value, SEK
January 1, 2001	447,500	2,237,500
Repurchases during 2002	114,700	573,500
January 1, 2003	562,200	2,811,000
Repurchases during 2003	59,750	298,750
December 31, 2003	621,950	3,109,750

Own shares were acquired during the year for a total purchase price of 10,603,737 SEK, corresponding to an average price including commission of 177.47 SEK per share.

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

Number of outstanding shares

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

Proposed dividend

The Board of Directors and the President propose that the Annual General Meeting approve a dividend of 3.50 SEK per share be paid to the shareholders.

NOTE 23 Provisions for pensions and similar commitments

	Group 2003	2002	Parent Company 2003	2002
Interest-bearing pensions	86,617	82,237	34,452	33,969
Other pensions and similar commitments	31,650	27,409	–	–
	118,267	**109,646**	**34,452**	**33,969**

The Group finances pension plans for employees in several countries. These plans may be fee or benefit-based or a combination of both and generally follow common practice in each country. The Group's largest benefit-based pension plans involve employees in Sweden, Norway, Germany and Great Britain. In France and Italy, the companies make provisions for mandatory compensation when employment is terminated, either upon reaching pension age or due to dismissal or at the employee's request.

NOTE 24 Other provisions

	Group 2003	2002
Provisions for warranties	31,473	38,552
Provisions for rental obligations	7,430	19,120
Provisions for legal disputes	1,000	18,488
Provisions for taxes	3,274	1,000
Other provisions	327	1,037
	43,504	**78,197**

During the year, provisions relating to a legal dispute in the US from 1991 were settled in full in an amount of 17 MSEK. Reversal of this provision thus did not affect earning in 2003. In addition, provisions for a rental obligation in the UK were reversed in an amount of 12 MSEK. The reason was that an agreement was reached on sub-lease of part of the unutilized premises. The full amount of this reversal was credited to earnings. The remaining amount relates to rental obligations attributable to the same premises. There were no discounting effects during the year.

NOTE 25 Interest-bearing liabilities

	Group 2003	Group 2002
Credit line granted	400,000	400,000
Unutilized portion	–242,900	–173,087
Bank loans in addition to granted credit line	219,527	233,550
Bank guarantees	–	–44,588
	376,627	**415,875**

The debts fall due for payment as follows:	
2004	369,963
2005	6,664
	376,627

Bank guarantees are from 2003 no longer included in the credit line granted according to the above. Instead, they constitute a separate credit line on their own and are fully reported as contingent liabilities.

NOTE 26 Accrued expenses and deferred income

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Vacation pay liabilities	65,737	65,519	2,485	1,939
Social security expenses	51,782	48,282	3,957	3,086
Other personnel related expenses	45,782	71,260	951	1,776
Accrued interest	2,172	2,926	16	167
Received, non-invoiced goods, etc.	59,312	63,192	2,668	2,991
	224,785	**251,179**	**10,077**	**9,959**

NOTE 27 Contingent liabilities

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Guarantee commitments FPG	1,877	1,644	52,999	48,948
Bank guarantees	46,981	1,467	759	380
Parent Company guarantees	12,409	14,818	12,409	14,818
Other contingent liabilities	–	6,579	–	–
	61,267	**24,508**	**66,167**	**64,146**

The guarantee commitments to FPG relate to pension obligations in Sweden. The other guarantees are normal business related guarantees, such as advance payment and performance guarantees. Bank guarantees that were previously reported as a deduction in note 25 above constitute a separate credit line 2003. They are instead reported in full as a contingent liability.

NOTE 28 Financial instruments and financial risk management

Principles for financing and financial risk management

Munters financial management and handling of financial risks is regulated by a policy established by the Board of Directors. Finance operations are centralized to Group Staff in the Parent Company in Sollentuna, Sweden. The Parent Company acts as the Group's internal bank and is responsible for handling financing and financial risks.

Currency risks

Currency risk is the risk that exchange-rate fluctuations will have a negative impact on the consolidated income statement, balance sheet and/or cash flows. Currency risk can be divided into transaction exposure and translation exposure. Transaction exposure consists of the net of operative (export/-import) and financial (interest/amortization) in and outflows in currencies. Translation exposure consists of the equity in foreign currency of foreign subsidiaries and any goodwill in conjunction with acquisitions.

The objective of the currency hedging policy is to hedge 100 percent of contracted net flows in foreign currency, 90 percent of forecasted net flows within 6 months and 50 percent of forecasted net flows within an additional 6 months. Munters' policy is that currency hedging and currency trading shall be concentrated to the Group companies selling internally. The value of hedging contracts not yet booked against earnings amounted to an expense of 1.3 MSEK on December 31.

Currency exposure

A significant share of Munters' sales and costs are generated in foreign currencies. Fluctuations in exchange-rates affect Munters' sales, costs, operating earnings, equity and other balance sheet items.

The geographic spread of Munters' production facilities results in a significant matching of sales and costs in local currencies, which limits currency exposure. Munters' share of net sales and operating costs per currency during the year are shown below.

Currency	Share of net sales, %	Share of costs, %
EUR	35.4	33.4
USD	30.5	29.1
NOK	8.8	9.2
SEK	6.9	12.8
GBP	5.8	5.4
AUD	2.9	2.4
JPY	2.6	2.4

Translation exposure

The sensitivity of Munters' operating earnings to variations in certain currencies is shown in the table below. The analysis is based on operating earnings for 2003 and assumed that all other factors affecting earnings are unchanged.

SEK +1% compared with	Estimated translation effect on operating earnings MSEK	Estimated translation effect on operating earnings %
EUR	–1.6	–0.5
USD	–1.6	–0.5
NOK	–0.1	–0.0
GBP	–0.4	–0.1
AUD	–0.3	–0.1
JPY	–0.1	–0.0

In the translation of the net assets of foreign subsidiaries, Munters is exposed to exchange-rate fluctuations. The effect on Munters' shareholders' equity during the year was negative in an amount of 88.5 MSEK.

Cont. note 28

Interest risk

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

Interest risk is the risk that interest rate fluctuations will affect the Group's net interest and/or cash flows negatively. Munters' finance policy provides guidelines for fixed interest terms and average maturity periods for borrowing. The Group's policy is that the fixed interest period for borrowing should normally be between 6 and 12 months. Interest-bearing debts and maturity periods are presented in note 25.

Interest exposure

Munters' profitability is affected by interest-rate fluctuations. The estimated effect on earnings after financial items of a change of 1 percentage point in interest levels is about 4.0 MSEK

Financing risk

Munters' borrowing from banks consists partly of general approved credit line and in part of individually granted loans to subsidiaries, often in conjunction with acquisitions. The average period during which capital is tied up through borrowing is normally between 3 and 9 months. In order to reduce financing risks, the Group's ambition is to spread loan maturity dates over a longer period. When surplus liquidity arises, it is primarily used to repay loans.

Counterpart risk

Munters only accepts credit-worthy counterparties in financial transactions, such as currency swaps and other derivative transactions. For a given counterpart to be approved, a credit evaluation is required.

With respect to accounts receivable, the counterpart risk is spread across a large number of customers, primarily companies in various sectors. Within MCS, major insurance companies constitute a large share of the counterparts. Ratings of financial strength are required for the sale of credit intending to minimize the risk for customer losses.

Insurable risks

Insurance coverage is regulated by central guidelines. Most insurance policies are managed globally and purchased annually by corporate staff.

NOTE 29 Average number of employees, absence due to illness and gender distribution

Average number of employees	2003		2002	
Group	Number	Of whom men, %	Number	Of whom men, %
Australia	93	83	108	81
Austria	79	85	65	85
Belgium	30	80	27	80
Brazil	24	88	24	88
Canada	13	85	13	85
China	95	80	100	80
Denmark	64	75	67	70
Finland	215	90	206	89
France	111	75	120	78
Germany	578	84	504	86
Great Britain	185	59	182	60
Italy	114	82	150	82
Japan	53	89	49	84
Korea	7	71	6	67
Mexico	30	87	21	86
Netherlands	51	88	45	87
New Zealand	1	100	–	–
Norway	270	73	235	78
Poland	10	80	12	75
Saudi Arabia	5	100	5	100
Singapore	17	71	19	74
South Africa	18	73	23	78
Spain	13	54	12	58
Sweden	414	83	454	84
Switzerland	22	91	23	91
Thailand	28	82	27	89
USA	622	82	603	82
	3,162	**81**	**3,100**	**82**
Of whom Parent Company (Sweden)	21	67	19	68

Absence due to illness

Absence due to illness among employees of Munters AB for the period from July 1, to December 31 2003 amounted to 1.7 percent of the employees' normal working time. 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 and Group management, including the President, consisted entirely of men. Presidents of the subsidiaries included in the Group were also 100 percent men.

NOTE 30 Wages, salaries and other remuneration and social security expenses

	2003		2002	
	Wages, salaries and other remuneration	Social security expenses	Wages, salaries and other remuneration	Social security expenses
Parent Company	**15,953**	**14,008**	**14,751**	**10,960**
of which pension expenses		6,618		4,907
Subsidiaries	1,117,307	260,276	1,197,992	305,392
of which pension expenses		69,805		56,933
Group	**1,133,260**	**274,284**	**1,212,743**	**316,352**
of which pension expenses		76,423		61,840

	2003			2002		
Group	President and Board of Directors	Of which variable compensation	Other employees	President and Board of Directors	Of which variable compensation	Other employees
Australia	1,314	315	23,911	1,172	343	23,807
Austria	1,743	548	23,105	1,603	458	24,849
Belgium	1,232	91	9,527	431	0	8,805
Brazil	1,424	0	3,462	486	0	3,773
Canada	–	–	7,288	39	0	8,344
China	1,644	0	5,166	1,080	0	4,724
Denmark	969	0	26,356	1,010	0	25,759
Finland	1,332	292	60,937	1,026	0	52,530
France	–	–	53,327	–	–	34,223
Germany	3,304	529	215,104	3,070	513	197,455
Great Britain	–	–	64,970	3,966	919	65,842
Italy	840	0	33,315	1,842	284	44,310
Japan	2,068	0	24,135	6,057	0	27,957
Korea	–	–	1,446	358	0	1,104
Mexico	1,739	647	4,085	1,604	311	6,418
Netherlands	1,524	110	16,406	1,667	293	13,909
New Zealand	–	–	568	–	–	–
Norway	3,442	186	94,763	3,951	287	98,868
Poland	291	64	1,013	527	62	1,251
Saudi Arabia	–	–	1,295	–	–	1,913
Singapore	803	56	3,100	1,102	185	3,273
South Africa	864	21	3,992	597	0	3,224
Spain	–	–	4,225	–	–	5,232
Sweden	5,733	150	139,578	6,325	1,285	145,830
Switzerland	961	0	10,111	1,318	250	11,778
Thailand	1,033	28	1,967	994	309	1,850
USA	2,443	0	265,405	3,374	603	352,116
	34,703	**3,037**	**1,098,557**	**43,599**	**6,102**	**1,169,144**
Of which Parent Company (Sweden)	4,331	0	11,622	4,385	987	10,366

NOTE 31 Compensation to senior executives

Compensation and other benefits	Basic salary/ Board fees	Variable compensation	Other benefits	Pension-costs	Total
Chairman of the Board	350	–	–	–	350
Other Board members	800	–	–	–	800
President	3,000	0	100	2,058	5,158
Other senior executives (4 persons)	6,048	0	228	2,863	9,139
Total	**10,198**	**0**	**328**	**4,921**	**15,447**

Compensation to the Board of Directors totaling 1,150 was approved by the 2003 Annual General Meeting.

The group "Other senior executives" consists of Bernt Ingman, Mike McDonald, Sören Sjöström and Erik Williamsson.

Variable compensation for the 2003 fiscal year refers to expensed variable compensation that will be paid during 2004.

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

Principles

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

Compensation to the President and other senior executives consists of basic salary, variable compensation, other benefits and a pension. Other senior executives refers to those persons who together with the President constitute Group management.

Cont. note 31

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

For the President, the variable compensation is a maximum of 55 percent of fixed salary. The variable compensation is based on the Group's earnings after financial items.

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

Variable compensation

No variable compensation was expensed for the 2003 fiscal year.

Pension

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

Severance pay

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

Option programs

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

Procedure and decision process

The Board of Directors has appointed a Compensation Committee among its members consisting of Berthold Lindqvist, Sven Ohlsson and Sören Mellstig. The Committee met four times during 2003. Compensation to the President and other senior executives was decided by the Board of Directors on the basis of recommendations from the Compensation Committee.

NOTE 32 Option programs

During the years from 2000 to 2003, Munters has implemented option programs directed to senior executives in the Group. The options for all outstanding option programs were purchased at a market premium, which is reported as an increase in the Company's restricted equity. To cover the Company's commitments according to the option programs, own shares have been acquired, with the purchase price being reported as a reduction of the Group's non-restricted equity. In the future when options are exercised, the subscription price received will be reported as an increase in non-restricted equity. With the exception of the 2000 option program, the option premium for all option programs will be subsidized by 33.3 percent (2001 program) or 40 percent (2002 and 2003 programs) 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.

Starting year	Exercise period	No. of options	Option premium, SEK	Exercise price, SEK
2000	Jan 3—March 31, 2005	202,700	25.20	145.00
2001	May 1—Oct 29, 2004	245,500	9.30	263.00
2002	Sept 1, 2005—March 31, 2006	114,000	25.60	315.00
2003	Sept 1, 2006—March 30, 2007	63,600	15.80	226.00

Provisions for these subsidies amounted to 1,328 at year-end, of which 691 was charged against operating earnings for the year.

NOTE 33 Insider transactions

There are no significant contractual relations or transaction between Munters and insiders. Compensation and term of employment for senior executives and individual members of the Board of Directors are presented in note 31. Munters has not provided guarantees or guarantee commitments to or on behalf of Board members or senior executives. During 2002 and 2003, no member of the Board of Directors or senior executive was directly or indirectly involved in business transaction with the Company that is or was unusual in nature or with respect to its terms or that in any respect remains unsettled or incomplete.

The Parent Company's sales to Group companies amounted to 20,654 (25,644). Purchases from Group companies amounted to 5,001 (7,233).

NOTE 34 Fees to auditors

	Group		Parent Company	
	2003	2002	2003	2002
Ernst & Young				
Audit	5,263	5,487	257	215
Other assignments	3,095	2,144	668	486
KPMG				
Audit	198	207	–	–
Other assignments	160	256	–	–
Other				
Audit	641	503	–	–
Other assignments	604	637	–	–
	9,961	**9,234**	**925**	**701**

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

Board of Directors

Berthold Lindqvist
Date of birth 1938.
Chairman since 1997.
Director of Securitas AB, Trelleborg AB, Cardo AB, JM AB, Novotek AB, Probi AB et al.
Shares held: 1,000.

Bo Ingemarson
Date of birth 1950.
Director since 1997.
Chairman of Intrum Justitia AB and Ostnor AB. Vice Chairman of Uppsala Universitet.
Director of Modul 1 AB.
Shares held: 2,000.

Lennart Evrell
Date of birth 1954.
Director since 1997.
President, Chief Executive Officer of Munters.
Director of Sapa AB.
Employed since 1995.
Shares held: 14,043.
Options: 70,000.

Sören Mellstig
Date of birth 1951.
Director since 1997.
President and CEO of Gambro AB.
Director of MacGREGOR International AB and X-Counter AB.
Shares held: 1,800.
400 through companies.

Lars Spongberg
Date of birth 1945.
Director since 1998.
Partner in Nordic Capital.
Director of Addtech AB, Skyways Holding AB, Cibenon AB, LGP Allgon Holding AB, Intervalor AB, Westergyllen AB, Comhat-Provexa AB and portfolio companies of Nordic Capital.
Shares held: 400.

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

Bengt Kjell
Date of birth 1954.
Director since 2003.
Vice President of AB Industrivärden.
Chairman of Kungsleden AB,
Director of Pandox AB, Össur hf and Pukslagaren AB (HD).
Shares held: 0.

Inge Nodfors
Date of birth 1940.
Technical engineer.
Director since 1997.
Employee representative nominated by the Swedish Union of Clerical and Technical Employees in Industry.
Shares held: 100.

Thord Pettersson
Date of birth 1947.
Engineer.
Alternate director since 2002.
Employee representative nominated by the Swedish Union of Clerical and Technical Employees in Industry.

Gunnar Ståhlberg
Date of birth 1951.
Shipping agent.
Director since 2002.
Employee representative nominated by the Swedish Trade Union Confederation.

Ingela Hållkvist
Date of birth 1970.
Assembler.
Alternate director since 2001.
Employee representative nominated by the Swedish Trade Union Confederation.

Board of Directors' secretary

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

Executive Management

Lennart Evrell
Date of birth 1954.
President, Chief Executive Officer and Regional President Europe.
Employed since 1995.
Shares held: 14,043.
Options: 70,000.

Mike McDonald
Date of birth 1947.
Senior Vice President och Regional President Americas and President of Munters Corporation.
Employed since 1995.
Shares held: 2,300.
Options: 45,000.

Bernt Ingman
Date of birth 1954.
Executive Vice President and Chief Financial Officer.
Employed since 1997.
Shares held: 9,552.
Options: 57,500.

Sören Sjöström
Date of birth 1945.
Vice President Human Resources and Corporate Communication.
Employed since 2000.
Shares held: 500.
Options: 23,000.

Erik Williamsson
Date of birth 1950.
Senior Vice President and Regional President Asia.
Employed since 1984.
Shares held: 0.
Options: 32,000.

Independent auditors

Björn Fernström
Date of birth 1950.
Employed by Ernst & Young AB.
Company auditor since 2002.

Gunnar Widhagen
Date of birth 1938.
Employed by Ernst & Young AB.
Company auditor since 1997.

Magnus Röcklinger
Date of birth 1962.
Employed by Ernst & Young AB.
Company alternate auditor since 1997.

Peter Frygner
Date of birth 1966.
Employed by Ernst & Young AB.
Company alternate auditor since 2002.

Auditors' 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 2003 fiscal year. The board of directors and the president are responsible for the accounts and management of the company. 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 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 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.

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

Stockholm, March 2, 2004

Björn Fernström
Authorized Public Accountant

Gunnar Widhagen
Authorized Public Accountant

Definitions

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 opening and closing balances.

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

EBIT margin
EBIT divided by net sales.

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

Equity ratio
Equity including minority interest divided by total assets.

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

Liquid funds
Cash and bank balances including bank deposits.

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

Net debt/equity ratio
Net debt divided by equity.

Net operating cash flow
Earnings after financial items minus share in earnings of associated companies plus depreciation plus amortization plus change in operating working capital minus capital expenditures in intangible assets excluding goodwill minus capital expenditures in tangible assets.

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

Operating capital
Operating assets minus operating liabilities.

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

Operating liabilities
Advances from customers plus accounts payable.

Operating margin
Operating earnings divided by net sales.

Operating working capital
Inventory 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.

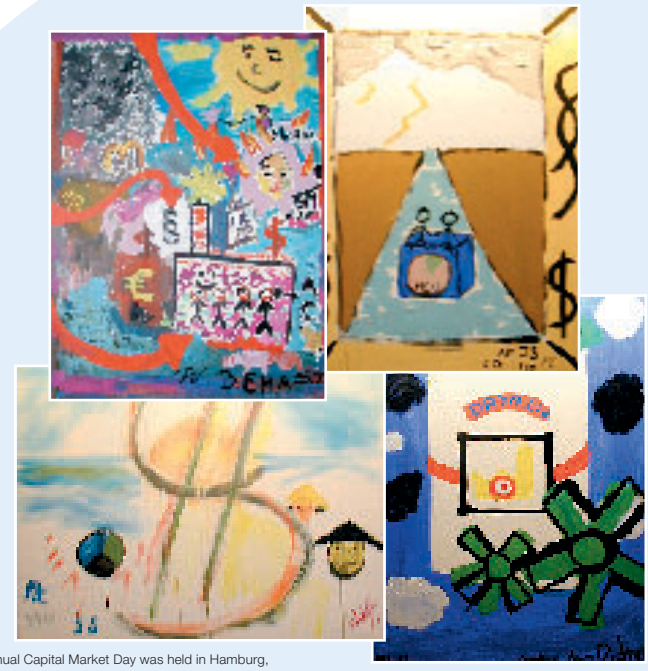
Return on capital employed
Earnings after financial items plus financial expenses (excluding exchange-rate differences) divided by average capital employed calculated on opening and closing balances.

Return on equity
Net earnings divided by average equity calculated on opening and closing balances.

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

Financial information 2004
Interim Report January—March, April 27
Annual General Meeting, April 27
Interim Report January—June, August 16
Interim Report January—September, October 28
Year-End Report, February 2005
Annual Report 2004, April 2005

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



In 2003, Munters' annual Capital Market Day was held in Hamburg, Germany. In addition to a general review of Munters' operations, the event was intended to provide a more detailed presentation of restoration services in Germany. After the business presentations, external participants were asked to identify Munters' greatest opportunities and threats. Their task was then to shoot down the threats on a shooting gallery, while the opportunities were immortalized in these creative works.

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Munters

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