Munters

ANNUAL AND SUSTAINABILITY REPORT 2018

FINANCIAL CALENDAR

Munters will release its financial reporting for financial year 2019 according to the following schedule:

24 April, Interim Report Q1 2019.

8 May, Annual General Meeting; 3:00 p.m. at Kista Entré Konferens, Knarrarnäsgatan 7, Kista, Sweden.

18 July, Interim Report Q2 2019.

24 October, Interim Report Q3 2019.

Because all amounts in this report are rounded, rounding differences can occur.

This English version of the Annual Report is a translation of the Swedish original. The Swedish text is the binding version and shall prevail in the event of any discrepancies.

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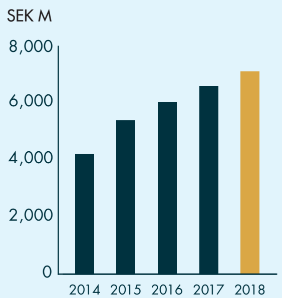
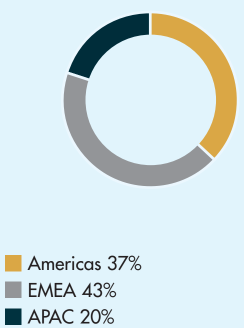
A leading global supplier

Munters is a global leader in energy-efficient and sustainable air treatment solutions. Using innovative technologies, Munters creates the perfect climate for demanding industrial applications, the largest being the food, pharmaceutical and agriculture sectors. Munters has been defining the future of air treatment since its founding in 1955, and has been listed on Nasdaq Stockholm since 2017.

NET SALES



NET SALES PER REGION



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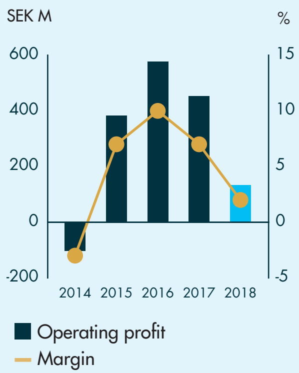


NUMBER OF EMPLOYEES

~3,700

NUMBER OF PLANTS

18

MANUFACTURING AND SALES, COUNTRIES

>30

Munters creates value in many industries

Munters offers innovative, efficient and sustainable climate solutions to customers in many different industries, in which control of moisture content and temperature are mission-critical. Customised systems yield higher quality, increased productivity and lower energy consumption.

Munters' products and solutions promote cleaner air, increased resource efficiency as well as reduced carbon emissions. At Munters, we see sustainability issues as an important part of strategy, and one of our most fundamental values is sustainable value creation. In all our business areas, we furnish products that reduce customers' climate and environmental impact, with a focus on our products' energy efficiency.

THE DRUG INDUSTRY

Munters offers customised dehumidification solutions for the drug industry that protect raw materials and finished products during production, storage and transport. Careful control and monitoring keeps humidity constant, and drugs in the form of tablets, capsules, granules and powder maintain their quality and shelf life.

FOOD AND DRINK

Our solutions control climate conditions the entire way "from farm to table," ensuring hygiene and optimal product quality while saving energy and increasing productivity. We deliver to customers in, for example, the dairy and meat industries, breweries, bakeries and restaurants.

FARMING

Munters develops and manufactures energy-efficient climate control systems for sustainable farming. By creating the perfect climate for poultry farming, egg production, pork farming and milk farms, we enable increased production and minimise resource waste while meeting strict requirements for quality, animal health, and food safety.

ELECTRONICS

Our solutions provide an optimal environment for demanding customers in the electronics industry. Manufacturers of lithium-ion batteries, monitors, components and LEDs obtain a perfect air environment for their sensitive processes, lower energy costs and reduced carbon emissions.

DATA CENTERS

Digitalisation and global data traffic continue to increase, and an ever increasing number of data centers are being built around the world. A data center needs to work around the clock, year in and year out. Advanced climate solutions for cooling are crucial for reliability; they also enable reduced energy consumption and carbon emissions.

GREENHOUSE

By providing the perfect climate for growing plants, Munters solutions provide growers with the opportunity to produce under optimal conditions. The innovative product range covers ventilation, evaporative cooling and heating.

FMCG AND RETAIL

Retail and grocery stores achieve higher sales and lower operating costs when Munters' efficient, high-performance HVAC systems are installed. Heating and ventilation systems work better, as do refrigerators and freezers. Both customers and employees can enjoy a pleasant, healthy environment.

AVIATION AND DEFENCE

In the defence and aviation industries, dehumidification is critical for protecting sensitive equipment, electronic systems and components from technical faults. Climate control in hangars and supply depots keeps vehicles and materials intact. At the same time, maintenance costs for the buildings also decrease.

SHIPBUILDING AND MARINE

Munters' mist eliminators remove 95 per cent of the harmful sulphur found in emissions from ships. Motors and ventilation systems on ships and offshore platforms, also need to be protected from everything that causes rust and soggy filters. Munters offers modern air intake systems that stop rain and snow, sea salt and harmful particles.

" Munters is a global leader in innovative, energy efficient and sustainable climate solutions for mission-critical processes

Events in 2018

CHANGES FOR INCREASED PROFITABILITY IN DATA CENTERS

Looking over the past several years, the business area has shown a strong net sales growth but has not achieved satisfactory profitability. Michael Gantert was recruited as the new head of Data Centers in October 2018 and tasked with managing the work on improving profitability.

As of Januari 2019, Data Centers will form part of the Air Treatment business area.

NEW CHALLENGES, NEW LEADERSHIP

In December 2018, the Board of Directors elected Johan Ek as interim President and CEO. The decision is in line with the ambition of the Board to improve growth and to increase profitability by delivering results and value to Munters' customers. Recruitment of a new CEO is in progress.

SONARECHO – LINKING THE ENTIRE VALUE CHAIN TO FOOD PRODUCTION

In 2018, Munters launched a new solution whose innovative technology allows customers to control and optimise their entire value chain in poultry farming. The solution consists of two parts: Echo, comprising a series of sensors for use in chicken coops; and Sonar, software that analyses information and presents it in an easy-to-grasp format. SonarEcho can easily be integrated with other software in the product portfolio, such as that used to optimise feed and logistics management. By linking the entire value chain and creating possibilities for real-time monitoring and analysis of information from the coops, Munters' customers can increase the animals' well-being as well as efficiency in production. The first contracts were signed in 2018 with customers in China and the US.

MAJOR ORDERS FOR LITHIUM-ION BATTERIES IN CHINA

In 2018, Munters received several orders for climate solutions in lithium-ion battery manufacturing, including three orders with a total order value of approximately SEK 120 million from a leader in the vehicle and electronics industries in China. Wolf Frank, President Munters China: "It is a privilege to be part of this project, in which the switch to sustainable transport through our climate solutions for lithium-ion battery production meets the tremendous demand for electric vehicles in China."

> **Munters climate systems facilitate 45 per cent of lithium-ion battery production in the world**

SERVICE A GROWING PART OF OUR OFFERING

Munters' service offering is a growing — and profitable — part of the Group that accounted for 11 per cent of sales in 2018. Through our in-depth knowledge of energy-efficient air treatment and applications, we offer our customers continuous service and support as well as valuable upgrades. The objective is to reduce customers' energy consumption, ensure quality and environmental performance, and extend the economic service life of our products. Our service organization offers everything from installation and monitoring to maintenance, spare parts and upgrades that ensure Munters' solutions are optimized for the customer's needs.

FORWARD FOR SUSTAINABILITY

After having conducted an internal self-assessment of our subsidiaries' regulatory compliance in the areas of the environment, human rights and business ethics, Munters adopted the UN Global Compact during the year and thereby committed to supporting and implementing the ten principles.

Munters' sustainability initiatives garnered attention in the Sustainable Companies 2018 ranking in Sweden's leading financial paper, Dagens Industri. Munters placed 11th out of 57 in the "Capital Goods" category.

WE SUPPORT

UN GLOBAL COMPACT

STRONG GROWTH IN THE MARINE INDUSTRY

The International Maritime Organization (IMO) has set limits on sulphur emissions of 0.5 per cent in international waters. During the year, it became clear that the guidelines would be implemented in 2020, which is why shippers in countries such as China are investing heavily in scrubbers that clean exhaust gases. This led to an approximately 600 per cent increase in order intake for Munters from the marine industry in 2018, with mist eliminators being one of the products in demand.

A year of challenges for Munters

2018 was a challenging year for Munters. Net sales increased 8 per cent, but despite this growth the Group reported an adjusted EBITA with a lower margin, in line with last year. Both of the major business areas, Air Treatment and AgHort, showed healthy growth in net sales during the year, driven by strong market positions and new innovations. Business Area Mist Elimination's refocused operations resulted in a healthy improvement to profitability, while order intake and profitability in Business Area Data Centers was lower than expected. To utilise Munters' full potential, a three-phase plan for stability, profitability and growth has been initiated.

Munters has not performed as expected during the year. As the interim CEO and President of Munters since mid-December 2018, I have led the work to analyse the business and to implement a program to ensure improved performance in line with our objectives, and shareholders' expectations. Munters has exciting growth opportunities based on strong fundamentals and solid technology, great people and team spirit, deep application knowledge and globally strong market positions in a number of attractive segments. All of this is focused on providing solutions to our customers around the globe. Our legacy of industry leadership will continue, accelerated by the measures now being launched.

STRONG ORDER INTAKE IN KEY SEGMENTS, BUT LOSS IN DATA CENTERS

Performance in the second half of 2018 was characterized by encouraging trends in many of our operations, but also ongoing disappointments in the Data Center business. Air Treatment, AgHort and Mist Elimination all reported positive trends in order intake and net sales, ahead of our expectations in some cases. Air Treatment, AgHort and Mist Elimination showed solid earnings increases year-on-year. However, Data Centers continued its negative earnings trend at the end of the year, mainly derived in the European business. The Group's net sales increased 8 per cent. However, the continued losses in Data Centers, as well as the Group earnings for full year 2018 being at the same level as last year, are unsatisfying.

THREE-PHASE PLAN TO CAPTURE THE FULL POTENTIAL OF MUNTERS

The Board of Directors and the management team are fully committed to strengthen the performance of Munters. During the past two years, net sales growth has been at a fairly good level whereas earnings and margins have been below expectations in all of Munters business areas, and most notably in Data Centers. The root causes have been identified and we have designed a comprehensive and ambitious plan to increase the overall performance of the company. We have therefore launched a three-phase plan to capture Munters full potential to improve Group earnings.

> **// The global trends continue to support long-term, stable demand for Munters climate solutions in key segments**

The first phase — stability

The first phase will focus on establishing a stable, profitable platform. We have designed a new organisational structure and new leadership team. Munters will consist of two business areas, Air Treatment and AgHort. Data Centers and Mist Elimination, currently run as separate business areas, will be integrated into Air Treatment during the first quarter 2019. The new organizational set up will create a simplified, leaner, more decentralized and more performance-oriented Munters.

As part of the first phase of the program, we have the intention to close down our European Data Centers factory in Dison, Belgium. This is subject to union negotiations. In our opinion, the prospects for establishing a profitable Data Centers business in Europe are limited. Our focus going forward will mainly be on the US Data Centers market where we have a more commercially viable base for achieving profitable growth.

The second phase — profitability

During 2019, we will gradually shift focus to the second phase of the program to capture Munters full potential. Activities include driving business mix towards most attractive applications, focused Product Development and driving continuous improvements to fine-tune business area organisations. This phase also includes continued development of our go-to-market models and pricing, more efficient purchasing and improved product design.

The third phase — growth

The third and final phase is to accelerate growth with focus on attractive segments where we see solid long-term demand and where we have or can establish strong market positions. Growth themes include continued development of our digital offering such as SonarEcho in business area AgHort, connecting farms and optimizing food chains and Munters Connected Climate for Air Treatment customers as well as pursuing further growth in Asia and selective M&A. We also see continued significant opportunities for profitable growth in Services through increased penetration of our installed customer base and an enhanced service offering.

OUTLOOK

Global trends continue to support long-term solid demand for Munters climate solutions in key segments. 2019 will be a year where we reset the business for significantly improved performance. Adjusted EBITA in the first quarter 2019 is expected to be lower year on year due to a continued loss in Data Centers in the first quarter. As a result of the now started program, we expect significantly improved Group adjusted EBITA for full year 2019.

An important asset for Munters is the great deal of competencies among its many employees around the globe. I would like to thank all employees for your efforts in 2018. I would also like to thank our customers, our suppliers and our partners. And finally, thanks to all our shareholders.

Stockholm April 2019

Johan Ek
Interim President and CEO

Megatrends

Munters benefits from strong global driving forces and trends, in all our markets, that support the use of advanced solutions for climate control.

ENERGY AND RESOURCE EFFICIENCY

Increased focus on climate and environmental impact, scarcity of resources as a consequence of global population growth, and a growing urban middle class that consumes more protein and drives demand for energy and resource-efficient solutions.

On the whole, Munters has the most energy-efficient solutions in the market:

- Exact climate control in livestock farming optimizes resource consumption in the form of food and water and improves animal health.
- Munters' solutions for data centers can provide significant energy savings compared with traditional cooling.
- Energy-efficient coolers in supermarkets lower energy consumption by up to 40 per cent.
- Environmentally friendly and energy-efficient air treatment systems, which recycle heat energy and transform it into cooling used in office properties, supermarkets and production facilities.

STRICT REGULATIONS

More rigorous laws and environmental standards drive demand for solutions to reduce pollution from exhaust and flue gases. Moreover, the requirements for efficient dehumidification in public buildings, in the US for example, are being tightened up.

Munters has many solutions to meet customers' needs for complying with new regulations:

- Requirements for purifying emissions from coal-fired power plants and vessels with Munters mist eliminators.
- Stricter requirements from ASHRAE* and an increased use of energy-efficient HVAC (Heating, Ventilation, and Air Conditioning) solutions are driving demand for Munters DOAS technology.

*ASHRAE is an organization whose purpose is to advance the arts and sciences of heating, ventilating, air conditioning and refrigerating to serve humanity and promote a sustainable world.

SUSTAINABILITY – AN INTEGRATED PART OF THE BUSINESS

There is an increasing demand globally for sustainable, energy-efficient solutions. Achieving the UN's Sustainable Development Goals requires major efforts; an increasing number of companies are taking responsibility for sustainability throughout the value chain with a focus on the environment, ethics, and social issues. Many are promoting sustainability as an integrated part of their operations.

Munters offers solutions that in general strengthen our customers' sustainability profile:

- Major players prioritize separation of ecologically hazardous substances in flue gases.
- Many customers now have sustainability programs that Munters can contribute to fulfilling through energy-efficient climate solutions.
- Increased focus on sustainability issues has created great demand for electric cars. Munters promotes this transformation through sales of climate equipment to companies that manufacture lithium-ion batteries. Munters facilitates 45 percent of lithium-ion battery production in the world by delivering ultra-dry air.

// Munters delivers ultra-dry air for global lithium-ion battery production

STRICT REQUIREMENTS FOR PRODUCTION ENVIRONMENTS

Heightened standards for quality, intensified competition, and increased understanding of the impact of indoor climates on productivity and product quality, increase the demand for advanced climate solutions.

Munters offers exact control of the climate, which meets our customers' requirements for better control of their environment:

- The food industry needs cost-efficient solutions for mist, ice formation, condensation and other moisture-related problems to meet zero-tolerance guidelines and avoid discrepancy reports. Munters' portfolio of Dedicated Outdoor Air Systems (DOAS) solutions is the most efficient in the industry with regard to moisture removal efficiency.
- A good climate in livestock farming is important both for the animals' well-being and for the employees' work environment.

INCREASED DIGITALIZATION

Increasing data traffic, greater use of cloud services and a larger number of connected devices are driving growth in industries that are exposed to digitalization. Digitalization also opens doors to new ways of creating value, interacting with customers, and offering connected service and support.

Munters' services support digitalization through, for example, efficient data center cooling and IoT solutions.

- Munters offers connection of devices, which enables new services and long-term potential for selling climate control as a service.
- SonarEcho, Munters' IoT solution for connecting farms and food plants, optimises the logistics chain and thereby minimises use of resources.
- Increasing demand for cooling of data centers.

Three-phase plan to utilise Munters' full potential

Over the last two years, growth in net sales has been at a relatively healthy level, whereas profits and margins in all Munters Business Areas — above all in Data Centers — have come in under expectations. The primary causes of this weak trend have been identified, and we are bound and determined to improve the Group's profitability. In February 2019, an extensive and ambitious three-phase plan — stability, profitability and growth — was launched to utilise Munters' full potential and to improve the Group's earnings.

Stability

ESTABLISH A STABLE, PROFITABLE BASE

- Strengthen the Management Team
- Simplify the Munters organisation into two decentralised business areas
- Create an easier, more efficient organisation and improve capital efficiency
- Pursue earnings improvements in Data Centers

Profitability

IMPROVE EARNINGS

- Actively drive the business mix towards the most attractive segments
- Pursue continual improvements to fine-tune the business area organisations and production units
- Further improve our go-to-market models and our pricing models
- Create cost savings through more efficient materials sourcing

Growth

INCREASE GROWTH IN ATTRACTIVE SEGMENTS

- Focus on rapidly growing segments and markets where Munters has leading positions
- Pursue digitalisation of the customer offering
- Carry out selective acquisitions to increase growth

Business model for sustainable value creation

Our mission: A global leader in innovative, energy-efficient and sustainable climate solutions for mission-critical processes.

1. PLATFORM AND BASIS

COMPETITIVE ADVANTAGES

- Deep technical expertise and market-leading components
- Extensive understanding of customer applications & production conditions
- Close relationships with customers and their decision makers

GLOBAL REACH

- 3,700 employees
- Sales in 180 countries
- 18 production facilities

EXTERNAL FACTORS

- Energy and resource efficiency
- Sustainability — an integrated part of our business
- Increased digitalization
- Strict requirements for production environments
- Strict regulations

2. A STRONG SUSTAINABILITY AGENDA

RESOURCE EFFICIENCY

- Sustainable products and offerings
- Sustainable production
- Sustainable transportation

RESPONSIBLE ENTREPRENEURSHIP

- Sustainable, profitable operations
- Business ethics
- Like-minded collaboration

PEOPLE & SOCIETY

- An equal and inclusive work environment
- Community involvement

3. PRODUCTS & SERVICES

CORE TECHNOLOGIES

- Cooling
- Humidification
- Energy recovery
- Heating
- Pollution control
- Dehumidification
- Mist elimination
- Ventilation
- Building comfort systems
- Control equipment
- Data analysis/visualisation

4. STRATEGY AND STRENGTHS

STRENGTHS

- Key technology areas
- In-depth application knowledge
- Wide range of products
- Service and support

STRATEGY

Three-phase plan to utilise Munters's full potential:

- Stability
  Establish a stable, profitable base
- Profitability
  Improve earnings
- Growth
  Increase growth in attractive segments

5. CREATED VALUE

CUSTOMERS

- Facilitates 45% of global lithium-ion battery production
- Energy-efficient coolers in supermarkets lower energy consumption by up to 40%
- 40% fan energy savings for forced ventilation at farms
- 99% reduction of sulphur oxides from coal-fired power plants
- Helps customers comply with laws and environmental requirements
- Major energy savings related to data center cooling

EMPLOYEES

- Employee and skills development through programmes such as Munters United
- Career opportunities, salaries and benefits
- Programs forincreased diversity and gender equality

SOCIETY

- Solutions that help to reduce climate impact
- Innovation
- Job opportunities

OWNERS

- Total return
- Sustainability integrated into operations

SUPPLIERS & PARTNERS

- Commitment to sustainability in the supply chain
- Long-term relationships

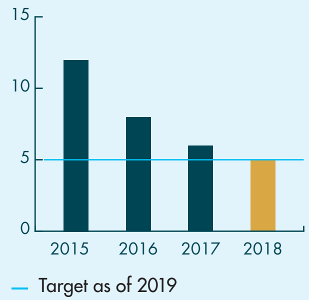
Future objectives

Both financial and sustainability goals benefit our strategy for profitable growth. Responsible operations with stable finances and efficient use of resources is the foundation that enables Munters to carry out its strategy.

Financial targets

NET SALES GROWTH

Annual growth in organic net sales of 5 per cent starting in 2019 (previously 7–10 per cent), supplemented with selected add-on acquisitions.

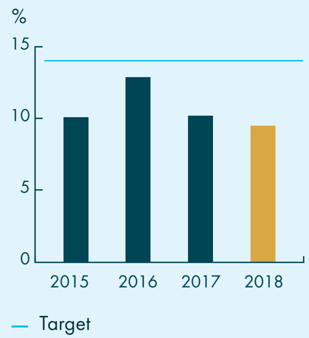


CAPITAL STRUCTURE

A ratio of net debt to adjusted EBITDA of 1.5x to 2.5x, and may temporarily exceed this level (e.g. as a result of acquisitions).

ADJUSTED EBITA MARGIN

An adjusted EBITA margin of 14 per cent in the medium term.



DIVIDEND POLICY

According to the dividend policy decided by Munters Board of Directors, Munters should aim to pay an annual dividend corresponding to 30–50 percent of its consolidated income after tax for the period. The pay-out decision will be based on the company's financial position, investment needs, acquisitions and liquidity position. There can be no assurances, however, that in any given year a dividend will be proposed or declared.

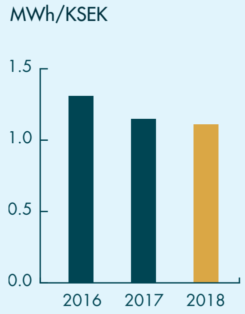
The Board of Directors proposes that no dividend be issued for 2018.

Sustainability goals

Resource efficiency

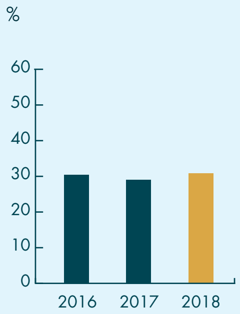
ENERGY EFFICIENCY

A continuous reduction of the electricity consumption in our production units.



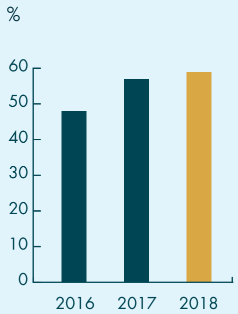
GREEN ELECTRICITY

The share of electricity from renewable sources in our production facilities will continually increase.



RATE OF RECYCLING

We strive to continually increase our rate of recycling (i.e. the proportion of waste reused or recycled out of the total amount of waste).



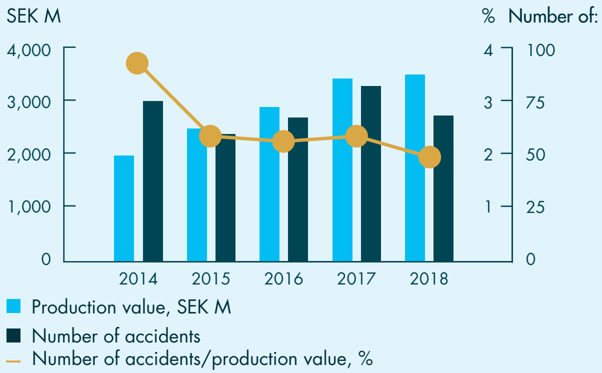
People & society

PROPORTION OF WOMEN

We strive to increase the proportion of women in the workforce and of women executives. The goal is 23 per cent by 2020 and 30 per cent by 2025.

ACCIDENTS

Continuously reduce the number of accidents in our production and we measure Total Recordable Incident Rate (TRIR), which we calculate as the number of accidents where the employee has had to seek medical attention multiplied with 200,000 / number of hours worked.

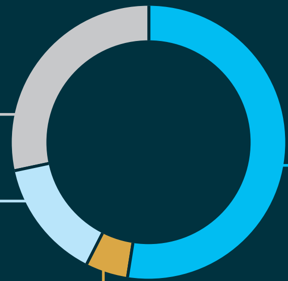


> **"Increase productivity and reduce climate impact and food waste**

Our business areas

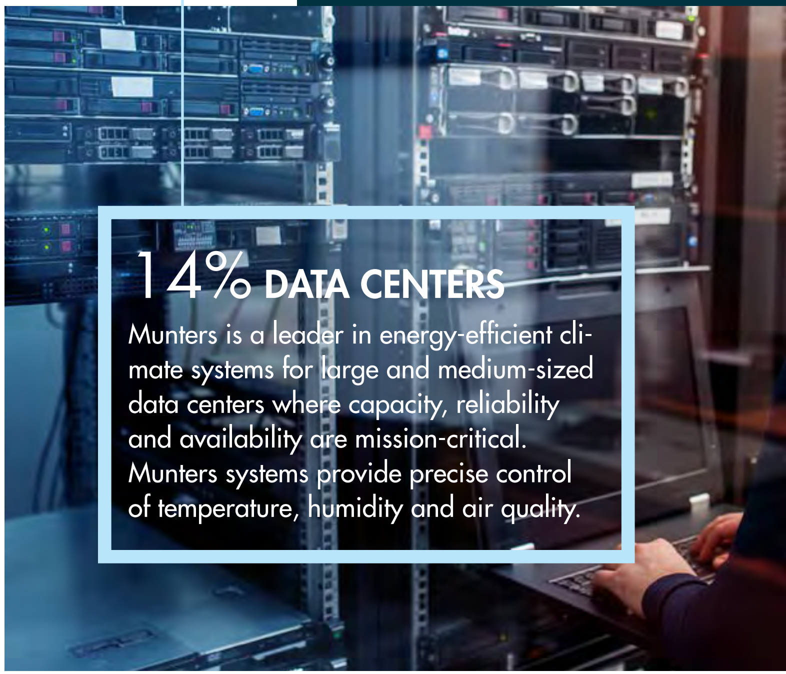
In 2018, Munters conducted operations in four business areas: Air Treatment, AgHort, Data Centers and Mist Elimination. **As of January 2019, Data Centers and Mist Elimination will form part of the Air Treatment business area.**

NET SALES PER BUSINESS AREA, 2018



28% AGHORT

AgHort is one of the world's leading suppliers of innovative, energy-efficient climate control solutions for livestock farming and greenhouses, as well as, software for controlling and optimizing the entire food production value chain. Munters solutions increase productivity while enabling sustainable food production in which strict requirements are placed on quality, animal health, and food safety.



14% DATA CENTERS

Munters is a leader in energy-efficient climate systems for large and medium-sized data centers where capacity, reliability and availability are mission-critical. Munters systems provide precise control of temperature, humidity and air quality.

52% AIR TREATMENT

We are a global leader in energy-efficient air treatment for industrial and commercial fields of application. The business area offers climate solutions for mission-critical processes that require exact control of moisture and temperature, with a focus on sustainable climate systems. Our climate systems also provide better indoor quality and comfort.

5% MIST ELIMINATION

Munters is a global leader in providing solutions for mechanical gas and liquid separation, as well as mass transfer. Our mist eliminators are key components in scrubbers that clean emissions from coal-fired power plants and ships across the world. Munters also creates optimal operating conditions and protects equipment in processing industries, windmills, gas turbines and ships.

OFFERING

AIR TREATMENT

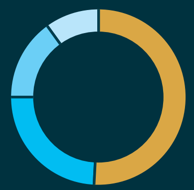
"Munters climate systems facilitate 45% of world lithium-ion battery production"

Air Treatment is a global leader in energy-efficient air treatment for industrial and commercial fields of application. We offer climate solutions for mission-critical processes that require exact control of moisture and temperature, with energy efficiency and sustainable climate systems in focus. Our climate systems also provide better indoor quality and comfort, as well as increased production capacity.

MARKETS

Americas 42%
EMEA 22%
APAC 36%

SUB-SEGMENTS



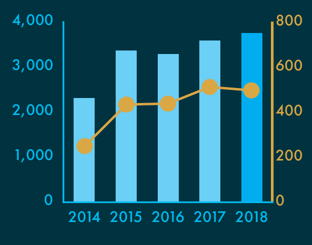
Industrial 51%
Service 24%
Components 15%
Commercial 10%

NET SALES

3,752

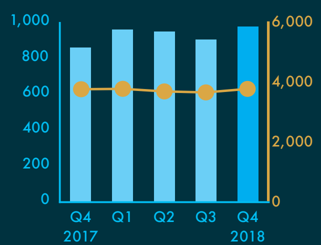
SEK MILLION

NET SALES AND OPERATING PROFIT



Net sales
Operating profit

ORDER INTAKE, ROLLING 12 MONTHS



Order intake, per quarter
Order intake, 12 months rolling

OPERATING PROFIT

496

SEK MILLION

IMPORTANT EVENTS 2018

- **The strong underlying** growth continued in priority segments including food, drugs and electronics.
- **Three major procurements** with a total order value of approximately SEK 120 million won from a leading automotive and electronics company in China with production facilities for lithium-ion batteries. The climate solutions will be delivered in the first half of 2019.
- **Continued high level of growth** in Services in all regions.
- **Improved production efficiency** at the manufacturing plant in Mexico.
- **Launch of DryCool® Focus**, a flexible and energy-efficient commercial Dedicated Outdoor Air Systems (DOAS) unit aimed at customers with higher airflow levels who use our DryCool® technology. A combination of sorption rotor-based dehumidifiers and complete energy recovery leads to reduced need for cooling and reheating.
- **Launch of Munters Connected Climate®** which connects our products to the Internet and creates opportunities for remotely monitoring, controlling and optimising all of a customer's units, which results in greater reliability and better control over the climate in the application. MCC comprises data logging, alarms, positioning and much more.

Order intake was unchanged but declined 3 per cent organically after strong growth in 2017. Weak demand in the end customer market, in combination with a strategic exit from general air handling solutions resulted in a reduction of order intake in the Supermarket segment. Order intake in the Industrial segment remained strong, with major orders in a lithium-ion battery project. Demand from OEM components was stable, and Services generated strong order intake during the year.

Net sales increased 5 per cent, and 2 per cent organically. The Industrial sub-segment, sales of components to OEM manufacturers and Services grew, but low demand from the end market for Supermarkets and our exit from general air handling solutions had a negative impact on net sales for 2018.

Operating profit decreased to SEK 496 million (511). A favorable trend in the gross margins, including improved results in production in Mexico, could not fully compensate for a weaker trend in the Supermarkets segment.

MARKETS AND TRENDS

The market is driven by global factors such as growth in population and GNP, industrialization and an increased standard of living. The demand for advanced air treatment is also supported by regulations and industry standards, a strong focus on production and energy efficiency, and stricter requirements placed on quality and sustainability.

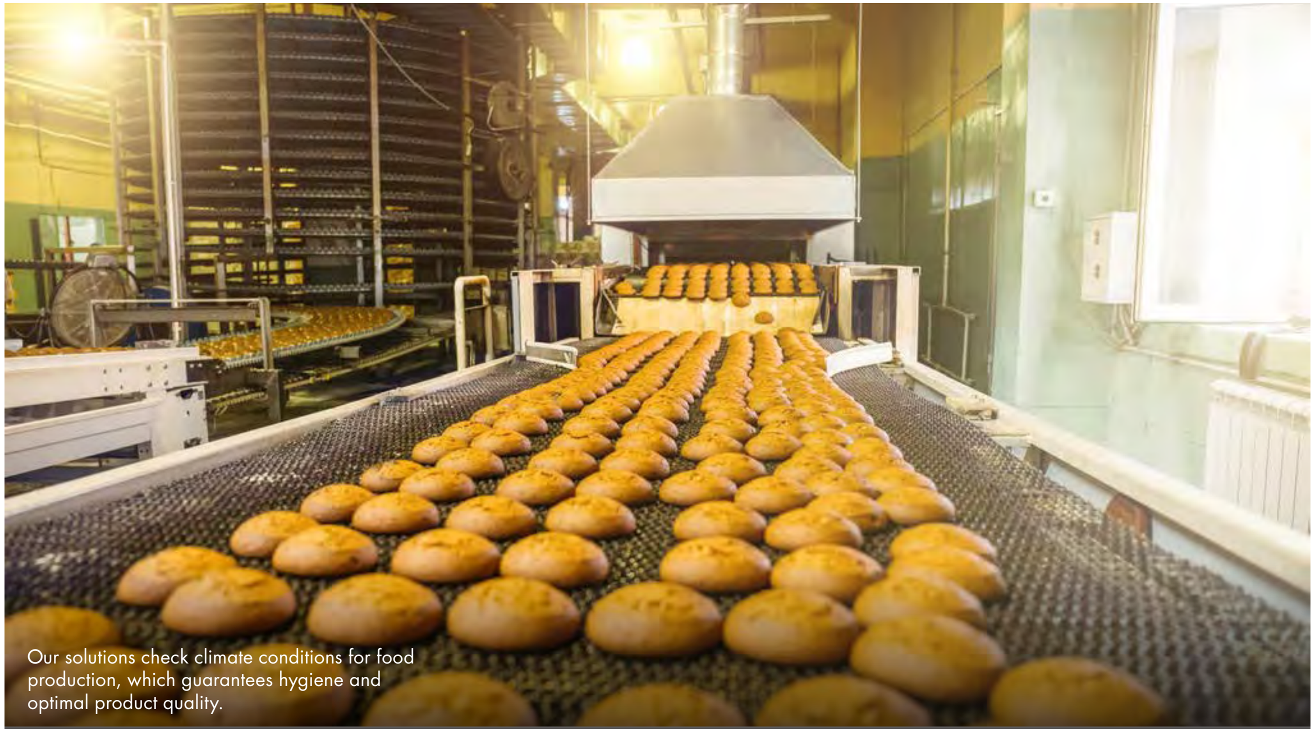
Air Treatment has a leading position in its core markets, which are characterized by a current consolidation with a small number of global participants. Growth is stable and the market is expected continue to grow. Munters focuses heavily on energy-efficient climate systems that can reduce the customer's electricity consumption and enables sustainable production environments. The demand for lithium-ion batteries, which are used in electric cars, electric tools and medical equipment, remains very strong and offers possibilities of increased business opportunities, including complete climate systems. Climate systems are mission-critical in the production of lithium-ion batteries in order to produce at a high level of quality. Munters' unique technological and application knowledge plays an important role here.

Fast Moving Consumer Goods is currently undergoing a transformation as e-commerce increases. As a result, new construction of stores decreased in 2018, which in turn resulted in significantly lower demand in the Supermarket segment. New construction is expected to remain at a lower level, and Munters is shifting focus to service, upgrades and replacement of the Group's major installed base of climate systems in Supermarkets, which is expected to display strong demand over the coming years. We have also boosted our investments in Dedicated Outdoor Air Systems products for the commercial sub-segment. DOAS products are an energy-efficient technology that pre-treats air before it is brought into the premises and can promote up to 40 per cent energy savings for grocery stores and other applications compared with conventional air conditioning systems.

Stricter requirements from ASHRAE* and an increased use of energy-efficient HVAC (Heating, Ventilation, and Air Conditioning) solutions are driving demand for Munters DOAS technology. We believe that this technology, which is very energy-efficient, has the potential to expand both geographically and into other areas such as schools, hospitals, offices and restaurants where the requirements for indoor air quality and energy efficiency are increasing.

*ASHRAE is an organization whose purpose is to advance the arts and sciences of heating, ventilating, air conditioning and refrigerating to serve humanity and promote a sustainable world.

The NHL has named Munters a "Preferred Supplier". The Group's patented desiccant dehumidifiers have been installed in more than 1,000 ice rinks in North America.


Our solutions check climate conditions for food production, which guarantees hygiene and optimal product quality.


Munters offers customised dehumidification solutions for the drug industry.

CUSTOMERS

Munters prioritized customer segments for the business area are the food industry, the pharmaceutical industry and lithium-ion battery manufacturers, as well as supermarkets and commercial venues, with a particular focus on energy savings and sustainable solutions. Markets with lower priority are being monitored and classified as potential areas of future growth; the aerospace and chemical industries, for example, are currently at this stage.

With its strong technology and solid application knowledge, Munters is well positioned to help existing and new industrial and commercial customers with complete systems of climate and energy-related solutions. Continued development of new applications and skills development provide good opportunities for growth.

Approximately 15 percent of sales relate to OEM components, for customers who use Munters products and technology as part of their solutions. Munters targets the OEM industry in growing markets, such as lithium-ion battery manufacturing, pollution control and direct evaporative cooling.

PRODUCTS, INNOVATION AND SERVICE

Air Treatment offers innovative solutions that provide a number of different climate control functions. We combine different technologies and components, and customize solutions that are optimized based on the customer's specifications and needs.

This work often takes place with Air Treatment's applications experts working with the customer's process owners. The most important product groups are dehumidifiers, VOC abatement systems and direct evaporative cooling.

Service of the major installed base of climate systems is becoming increasingly important; 2018 was a year of good growth. The broad selection of service products — everything from installation and startup of equipment to complete service contracts, spare parts sales and upgrades for increased energy efficiency — make it possible to better meet its customers' demands and to improve the long-term return on their investments.

We are seeing increased interest in real-time data collection and climate data analysis, and we are developing connected solutions such as results analysis and remote monitoring for our product portfolio. The goal is to further enhance our product development and services we can offer our customers. Advanced IoT (Internet of Things) solutions also promote increased productivity and energy efficiency, better customer service, and lower costs for service and maintenance.

LEADING TECHNOLOGIES

The business area's solutions cover several central technological fields, mainly in dehumidification rotors and evaporative media. **Dehumidification systems** use Munters rotor technologies, dehumidification rotors and patented sorption rotor technologies designed to offer energy-efficient, customized and mission-critical solutions that can be used in a range of different applications. VOC abatement systems remove harmful volatile organic compounds (VOCs) such as chemicals and petroleum products from indoor air.

Munters VOC systems can absorb 99 per cent of targeted hazardous substances, which are then heated up and converted to water vapor and carbon dioxide using a small amount of oxidizer.

Direct evaporative cooling is based on Munters core technologies, in which warm air is cooled when it is passed through high-capacity evaporator cooling pad designed to be weather-, algae-, and mold-resistant and to tolerate extreme wear. These solutions yield high efficiency in cooling while they manage high-speed conditions and changes in pressure, with minimal cleaning and maintenance.

RESEARCH AND DEVELOPMENT

Focus in R&D operations is currently on further improving dehumidification efficiency, as well as developing system software and adaptation to the Internet of Things (IoT). With our customer's continued focus on the environment and sustainability, R&D is currently working with patented Munters technologies that will increase the dehumidification system's efficiency and enable more sustainable products. We are also continuing to further develop the Genesys configuration tool, which allows Munters sales engineers to select complete solutions for our customers in minutes (instead of weeks).

DryCool® Focus is a flexible and energy-efficient commercial Dedicated Outdoor Air Systems (DOAS) unit aimed at customers with higher airflow levels who use our DryCool® technology, a combination of sorption rotor-based dehumidifiers and complete energy recovery leads to reduced cooling and reheating.

Munters Connected Climate® connects our products to the Internet and creates opportunities for remotely monitoring, controlling and optimising all of a customer's units, which results in less downtime and better control over the climate in the application. MCC comprises data logging, alarms, positioning and much more.

"Munters VOC systems can absorb 99% of targeted hazardous substances, which are then heated up and converted to water vapor and carbon dioxide

Case study: American AgCredit (US)

Better air and less expensive cooling

Founded in 1916, American AgCredit is a specialist in providing financial services to farmers and rural customers in the US.

The new head office in Santa Rosa, California, has won several awards for design and construction. The three-storey, 11,000 m² building is cased in glass and has a view of the surrounding vineyards. Great importance was placed on a sustainable design and energy efficiency.

Munters evaporative cooling technology drives the air conditioning system and delivers a total of 5,700 m³ of outdoor air per minute. The total cooling capacity is over 730 tonnes, or 8,760,000 BTU per hour on the hottest summer day when the temperature reaches 40°C. The combination of indirect evaporative cooling and direct evaporative cooling uses only 10–20 per cent of the energy consumption required in traditional cooling to cool the outdoor air.

With Munters evaporative cooling in the form of DOAS technology, American AgCredit's energy costs are reduced while the indoor air quality is improved.

Better ventilation can have a major impact on the health and productivity of employees. William Fisk, staff scientist at Lawrence Berkeley National Laboratories, has conducted studies showing that employee productivity can increase up to 4 per cent when the flow of outdoor air increases from the minimum requirement of 0.4 m³ to 3 m³ per minute per person. Another study showed that an increase in outdoor air flow from 0.7 m³ to 1.4 m³ per minute per person resulted in a 33 per cent decrease in sick leave. ■

Santa Rosa, California

Case study: By-Health (China)

Business-critical air treatment improves Chinese dietary supplements

By-Health is a Chinese company specialising in research, production and sales of various dietary supplements. The company was founded in 1995, and its share was listed on the GEM in Shenzhen Stock Exchange in 2010. Its products are sold around the globe. Since 2008, By-Health has been using Munters customised air treatment solutions to increase energy efficiency and production quality.

By-Health uses Munters rotor dehumidification equipment in the production of, for example, gelcaps. The equipment is used primarily to dry the capsules by controlling the moisture in the air. Munters solution has shortened the production process from 40 hours to around 12.

Munters rotor dehumidification also ensure that By-Health meets the stringent good manufacturing practice (GMP) requirements placed on humidity in the production of probiotics and certain effervescent tablets. The equipment's high level of performance and reliability as regards temperature and humidity stabilises the production process, thereby also guaranteeing uniform high production quality.

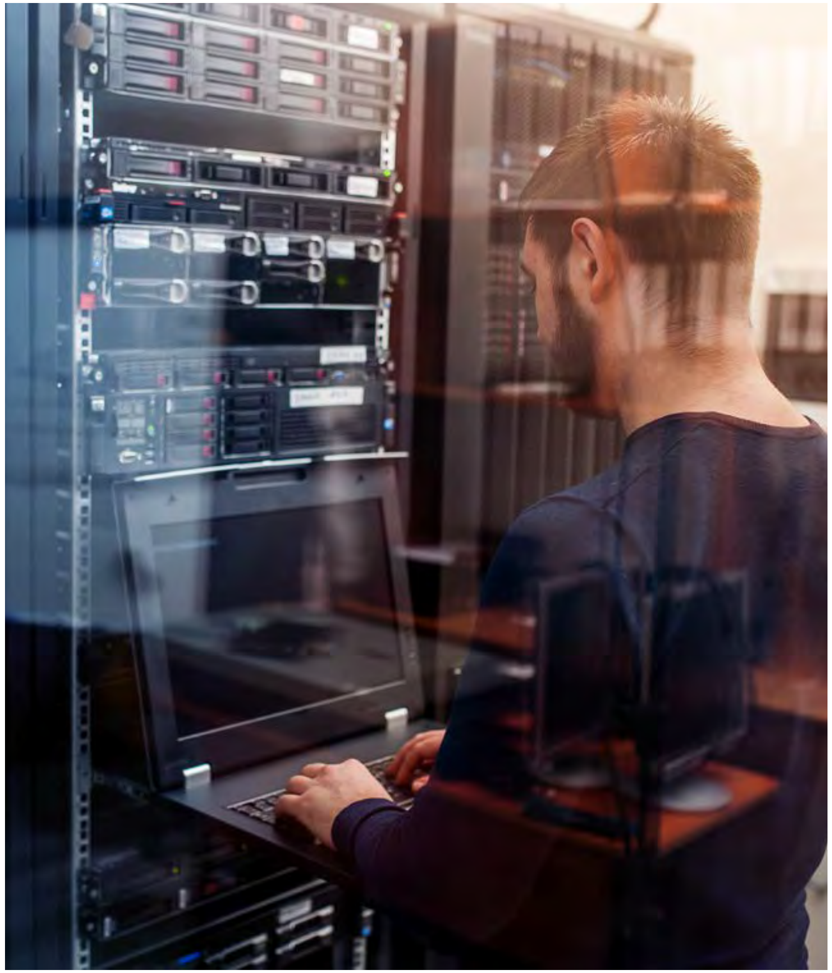
Munters also supports By-Health with technologically advanced service: installation, tests and start-up, as well as inspections and maintenance. ■

DATA CENTERS

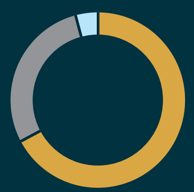
"Data center cooling represents nearly 4% of global electricity consumption. Munters products provide significant energy savings and are highly reliable"

Data Centers is a leader in energy-efficient climate systems for large and medium-sized data centers where capacity, reliability and availability are mission-critical. Munters systems provide precise control of temperature, humidity and air quality.

As of January 2019, Data Centers will form part of the Air Treatment business area.

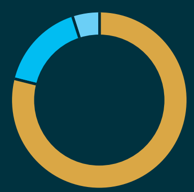


MARKETS



- EMEA 68%
- Americas 29%
- APAC 4%

SUB-SEGMENTS



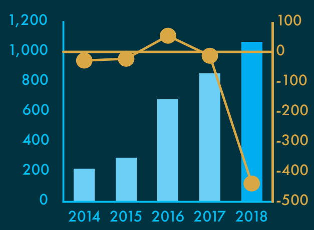
- Digital operators 79%
- Co-location providers 16%
- Enterprise operators 5%

NET SALES

1,068

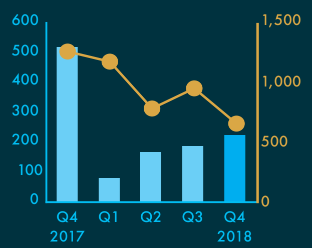
SEK MILLION

NET SALES AND OPERATING PROFIT



Net sales
Operating profit

ORDER INTAKE, ROLLING 12 MONTHS



Order intake, per quarter
Order intake, rolling 12 months

OPERATING PROFIT

-440*

SEK MILLION

*INCLUDES A SEK -323 M WRITE-DOWN OF GOODWILL.

IMPORTANT EVENTS IN 2018

- **The Data Centers business area** did not furnish the expected profitability and order intake during the year, particularly in the EMEA region. That is why at the end of 2018 an earnings improvement programme was launched to cover: expanding and customising the product portfolio, improving the sales and order system, and implementing more flexible and cost-efficient operations.
- **Michael Gantert** was elected the new President of Business Area Data Centers in October 2018.
- **A large order** from NTT Facilities in Japan was won at the end of the year; delivery will take place in early 2019.

Order intake decreased 48 per cent, due primarily to a lower order intake from a major customer in Europe. The downturn in Europe was partially compensated by a higher order intake in the Americas and in Asia.

Net sales increased 25 per cent owing to higher volumes through two major deliveries to a customer in Europe, which was partially counteracted by lower volumes in the US compared to 2017.

Operating loss fell to SEK -440 M (-13) and included a goodwill write-down of SEK -323 M as future economic outlooks have worsened. Increased volumes in Europe were counteracted by reduced gross margins and a loss on the start-up portion of a major contract, as well as lower volumes in the Americas compared to the preceding year.

MARKETS AND TRENDS

Global data traffic is increasing significantly, driven by the increased use of cloud services, video consumption, and linked services (the Internet of Things, or IoT). The introduction of new technologies such as autonomous vehicles, AI, VR/AR and blockchain further increase the demand for data center capacity. Society is becoming increasingly IT dependent, which has led to a global growth of data centers. With data centers now thought to be consuming around four percent of the world's electricity, a combination of cost pressures and environmental concerns is driving a growing demand for energy-efficient cooling solutions. Cooling is typically responsible for up to 40 percent of the total electricity consumption for a data center and is the largest single operating expense.

Up-time availability is business critical for a data center and service interreuptions can lead to major problems. Electronic equipment is sensitive, and exact control of temperature and humidity is crucial for reliability, functionality and availability. Servers must also be protected against pollutants such as salt, dust, or pollen.

The new generations of IT equipment require ever more efficient forms of cooling, which in the last few years has led to a shift in technology towards heat exchangers. Munters is recognized as a leading innovator in this field.

Heat exchangers accounted for over 90 per cent of the sales in the business area for 2018. These solutions use outside air to provide at least some of the cooling effect, either by passing the outside air directly through the data center, or indirectly through a heat exchanger that cools a separate flow of air that then passes through the facility. In both cases, the cooling effect can be boosted by incorporating the evaporation of water.

Depending upon the climate, direct evaporative cooling is generally recognized as the most cost effective way to cool a data center. Indirect systems, while marginally less energy efficient, have the advantage of keeping the outside air away from the servers, eliminating the risk of contamination from air pollen and other pollutants.

CUSTOMERS

Data Center operators can be categorized into three segments:

- **Digital operators** – comprises large corporations for whom computing in its various forms is the core business, including many global digital brands such as Google, Facebook, Microsoft, and so on.
- **Co-location providers** – for whom building and running data centers is a core activity. These firms build and operate data centers for enterprise customers, providing advantages that can include economies of scale, flexibility and operational expertise.
- **Enterprise operators** – comprises large organizations for whom computing is not a core activity, but are of such a scale that their IT requirements can justify building and running their own data centers.

Of these, the digital operators account for the largest share of Munters data center revenue, closely followed by the co-location providers. Enterprise operators tend to have only occasional needs for additional cooling capacity and are not, therefore, generally targeted on a pro-active basis.

Sales and service personnel in the business area work at multiple locations worldwide, while manufacturing has typically taken place at two regional production units in Dison, Belgium and Virginia in the US.

Munters' Data Center plant in Dison, Belgium will be shut down as part of the Full Potential Program. This is contingent on information disclosure and negotiations with the relevant trade union organisations. Our analysis of Data Centers operations is that the prospects for establishing profitable operations in Europe are limited, in a market characterised by overcapacity and ongoing pricing pressure. Going forward, Munters will focus primarily on the US Data Centers markets, where from a business perspective there is a much more stable base for achieving profitable growth. This includes established customer relations and previously achieved performances in the US market, which constitutes a strong foundation for future growth.

PRODUCTS AND SERVICES

Data Centers focuses on the growing market segment for advanced air-side heat exchangers. High capacity, reliability, and energy efficiency are business critical for the customer, and the systems Munters offers provide exact control of air volume, temperature, humidity and air quality. Alongside a range of standard units, we are developing customized solutions that meet specific requirements, in close collaboration with the customers.

Data Centers intends to further expand its product portfolio of cooling solutions in 2019 in order to include several products with the new, patented SyCool technology for indirect and direct cooling with the air-side heat exchanges and technologies for cooling systems that combine the energy efficiency in our thermosiphon technology with more traditional fan cooling.

Beyond product supply, the business also provides a range of on-site services, including installation, start-up, commissioning, routine maintenance and breakdown support.

TECHNOLOGIES AND INNOVATIONS

Data Centers products and solutions incorporate a range of core technologies, including Munters' patented EPX polymer heat exchanger, GlasDek® evaporative media and dehumidification through sorption rotors. These technologies are incorporated into air treatment modules and sub-assemblies, ready for on-site installation.

Munters is one of the pioneers in the market for indirect evaporative cooling. According to independent studies, the Munters Oasis system can provide significant energy savings when compared to traditional compressor-based cooling systems.

In the market for direct evaporative cooling, Munters provides a variety of solutions, ranging from loose media, through self-contained cooling modules with framed media and water circulation circuit, to a range of complete packaged air treatment units. For dry cooling systems that use no water, Munters offers a range of different products including heat exchanger technology and thermosiphon technology, which are included in a complete air treatment unit.

R&D NEWS

Another example of the type of patented technical solution that has helped Munters position itself as a leading innovator in data center cooling, is the Mineral Removal Media (MRM) System. This system uses an anodic portion of Munters media to evaporate waste water that would otherwise drain off. The result is a small extra cooling effect that reduces total water consumption and has the potential to separate particles from waste water before draining.

Munters intends to further develop its SyCool technology in 2019, offering a cooling system that combines different technologies to support customers' needs and demands. We also intend to expand our cooling solutions with patented cooling technology as part of a strategic partnership. ■

Case study: The DigiPlex data center (Norway)

Sustainable cooling at DigiPlex data center

The DigiPlex data center in Fetsund, Norway uses the latest technology and industry-leading functions for energy conservation. The innovative infrastructure, which was constructed specially to meet the digital requirements of the future, contains an energy-efficient system for indirect lighting designed specifically to make use of Norway's cool climate.

This groundbreaking solution allows the system to deliver a high level of cooling with extremely low energy consumption.

The facility consists of two air-cooled three-storey buildings, each with a capacity for 20,000 servers. Each building has a net floor area of 2,100 m^2 data halls with three server rooms, one on each floor. The facility has a Power Usage Effectiveness (PUE) factor of only 1.1 due to the unique Air-to-Air cooling technology.

The core of the cooling system is Munters Oasis® indirect evaporative cooling system, designed to give a partial PUE (pPUE) of an ultra-low 1.06.

DigiPlex and Munters prize-winning method uses natural, cost-free cooling to create significant environmental advantages through Oasis IEC, which reduces energy consumption and offers a safe, stable data hall climate. ■

> According to independent studies, the Munters Oasis system can provide significant energy savings when compared to traditional compressor-based cooling systems

OFFERING

MIST ELIMINATION

"Munters' mist eliminators remove 95% of the harmful sulphur found in emissions from ships"

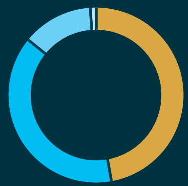
Mist Elimination is a global leader in providing solutions for mechanical gas and liquid separation, as well as mass transfer. Munters mist eliminators are key components in scrubbers to filter flue gases primarily from coal-fired power plants and ships across the world. Our mist eliminators create optimal operating conditions and protect equipment in processing industries, windmills, gas turbines and ships.

As of January 2019, Mist Elimination will form part of the Air Treatment business area.

MARKETS

- Americas 41%
- EMEA 23%
- APAC 36%

SUB-SEGMENTS



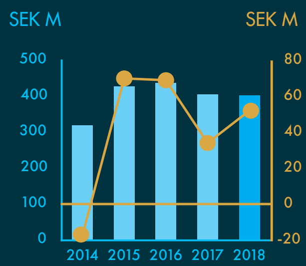
- Power 47%
- Process 38%
- Marine 13%
- Other 1%

NET SALES

403

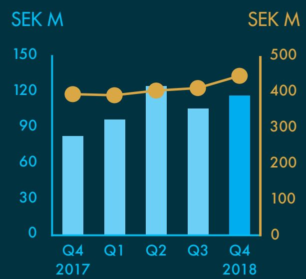
SEK MILLION

NET SALES AND OPERATING PROFIT



Net sales
Operating profit

ORDER INTAKE, ROLLING 12 MONTHS



Order intake, per quarter
Order intake, rolling 12 months

OPERATING PROFIT

52

SEK MILLION

IMPORTANT EVENTS 2018

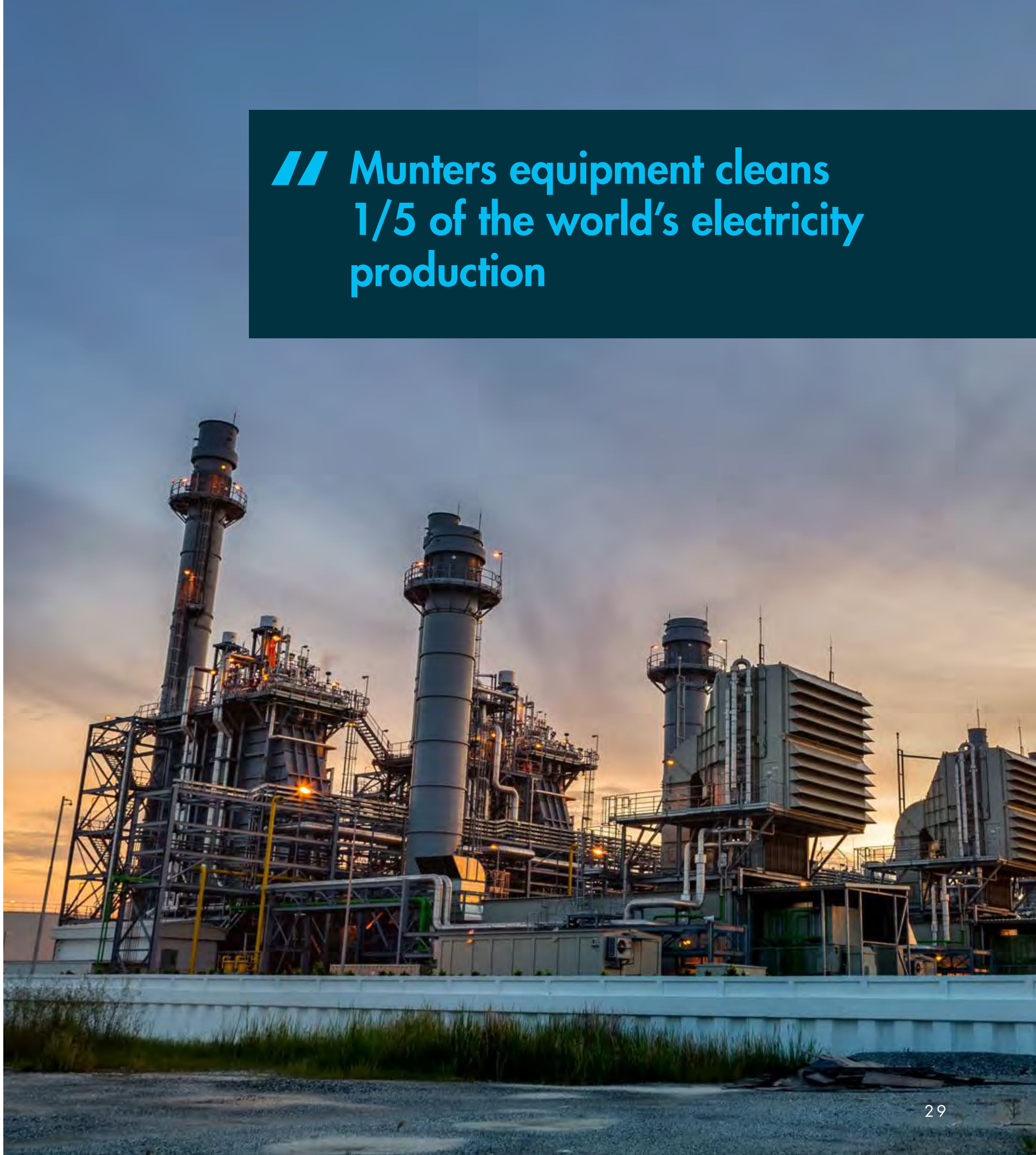
- **The planned reorganization** of Mist Elimination continues, in which new business opportunities in the marine segment (emissions purification for vessels) and processing industries are showing strong improvement, while projects for desulphurization of flue gases from coal-fired power plants continue to trend downward.
- **Kevin Enterprises**, acquired in 2017, was successfully integrated during the year and promoted growth in the processing industry.
- **Mist Elimination** exceeded earnings expectations by profitably re-focusing operations from weakening markets to growing markets and segments.

Order intake increased 13 per cent, and 8 per cent organically. The growth was primarily due to a large increase in the Marine segment for emissions purification with scrubbers on vessels, mainly in Europe. Even the process segment increased during the year, in APAC and the Americas. The power segment, with projects for flue gas desulphurization projects, decreased in 2018.

Net sales decreased 1 per cent, and decreased 6 per cent organically. Net sales impacted healthy growth in the marine and process segments, but this could not fully compensate for low volumes in flue gas desulphurization projects in China. Region Europe reported increased net sales in several subsegments, with the largest increase in the marine segment.

Operating profit increased to SEK 52 million (34), primarily attributable to lower overhead costs.

> Munters equipment cleans 1/5 of the world's electricity production



MARKETS AND TRENDS

Power: Around the world, stricter environmental requirements to reduce hazardous emissions are being introduced. Coal-fired power stations that cannot meet the new requirements risk being shut down; this is why the technology that Mist Elimination offers to remove sulphur oxides from flue gases has become mission critical for customers of this business area. The mature markets in North America and Europe are driven primarily by replacement installations, while newer, stricter laws affect both new construction and after-market installations in China and India. Munters is the leading player in North America in terms of supplying mist eliminators used to separate SOx in FGD systems, and also enjoys strong positions in Asia and Europe.

The competitive landscape in terms of mist elimination for Coal FGD consists of a small number of global players and many smaller manufacturers locally, the latter especially in Asia. A weaker market situation in China regarding projects for flue gas desulphurization (FGD) has been noted, with fewer after-market installation projects in Super-Clean segment, as well as a low level of market activity in Europe.

Wind turbines require clean air to function efficiently, and Munters mist eliminators purify intake air of dust and particles thereby protecting and prolonging filter lifetime. The proportion of wind power in electricity production is increasing, and the underlying wind power market is expected to show stable growth in the foreseeable future, supported by a strong global focus on climate and environmental issues. Munters enjoys a strong position, especially in the European market where a set of larger wind turbine manufactures are located.

Process: Pulp and paper, steel and metal, the chemical and petrochemical, as well as, refining industries, constitute a stable growth market with regional variations driven by increased streamlining and stricter environmental requirements. Munters mist eliminators are used to manage a range of problems that drops of fluid would otherwise cause, such as reduced efficiency, damage to components, and loss of product and processing fluids. Munters is focused on a set of specific niche applications, where it holds strong positions.

Marine: The marine market is driven by growth in international shipping traffic and increasingly stricter regulation of marine emissions. The UN's shipping agency, the IMO, has decided that by 2020, shipping must limit sulphur emissions and reduce the sulphur content of fuels from 3.5 percent to 0.5 percent, or alternately filter emissions to an equivalent degree. This has resulted in an increase in shipping companies' investments in modern scrubber systems in order to become compliant, which in turn will have a positive impact on the marine market for mist eliminators.

By purifying the flue gases with Munters mist elimination technology, the amount of environmentally hazardous emissions can be greatly reduced.

CUSTOMERS

The power industry – primarily coal-fired power plants in China and the US – accounted for 47 per cent (65) of business area sales in 2018. The processing industry, including the new mass transfer operations, accounted for 38 per cent (28), and the marine industry for 13 per cent (5) of external sales. The changed mix between segments was caused by strong growth in the marine and process segments, and a less favourable market trend in flue gas desulphurization.

Mist Elimination is focused on continued expansion in China and India through a broadened product portfolio and expansion in selected areas of application such as wind power, the processing industry, and marine scrubber systems. The main strategic reason for the acquisition of Kevin Enterprises was to enable accelerated growth in the process segment by broadening the product portfolio with mass transfer components. The acquisition also strengthened Munters footprint in the fast-growing Indian market.

PRODUCTS AND SERVICES

Mist Elimination offers products for different types of applications, all with a high degree of precision and performance. The product offering consists of a large set of different types of vane mist eliminators available in various materials such as steel and plastics. These are mainly used for emission gas scrubbing applications and for protecting equipment downstream from the air intake.

Munters also offers a full set of so-called mass transfer components and services used mainly in mass transfer and separation processes in refining and chemical plants. All products and solutions are durable and dependable, and can be designed to handle extreme operating conditions where needed. They are customized for specific industries and customer needs, and are often critical for customers' operations.

TECHNOLOGIES AND INNOVATIONS

Mist elimination: Regardless of application, vane-type mist elimination is a process in which droplets are removed from a gas stream passing through a set of stacked profiles.

In essence, the entering gas is forced to make a sharp bend and the droplets in the gas form a liquid film on the profile surface when they collide with it, after which the liquid is drained by gravity.

The Munters offering contains approximately 50 different profiles for vane-type mist elimination, each optimized for specific operating conditions and drop sizes.

Munters has been the leading provider of vane-type mist eliminators for many years, setting the industry standards in terms of developing and tailoring optimal mist eliminator configurations for customers in a variety of industries.

Mass transfer: Munters provides a complete range of mass transfer solutions and equipment typically found within towers/columns at petroleum refining, chemical, petrochemical and fertilizer plants world-wide. Components are typically divided into various component types, fractionation trays, mist eliminators, and all other column internals.

By selecting and installing the optimal set of mass-transfer equipment, the distribution of the liquid flowing down, and the gas flowing up, inside the column can be controlled. By controlling these flows, the interaction and mass transfer between the two phases can be improved and the process efficiency enhanced.

Munters will continue developing and delivering the latest technology of mass-transfer solutions in order to meet customer requirements as regards energy efficiency, sustainability and process results. ■

> **Munters system can achieve more than 99% reduction of sulphur oxides from coal-fired power plants**

OFFERING

AGHORT

"40% fan energy savings for forced ventilation in farming"

AgHort is one of the world's leading suppliers of innovative, energy-efficient climate control solutions for livestock farming and greenhouses, as well as software for controlling and optimizing the entire food production value chain. Munters solutions increase productivity while enabling sustainable food production in which strict requirements are placed on quality, animal health, and food safety.

MARKETS

Americas 31%
EMEA 24%
APAC 45%

SUB-SEGMENTS

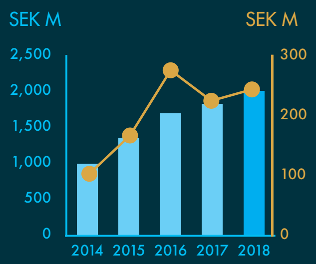
Broiler 43%
Swine 31%
Layer 14%
Greenhouse 5%
Dairy 4%
Other 3%

NET SALES

2,018

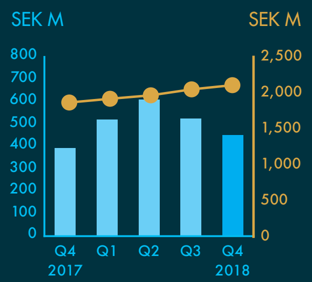
SEK MILLION

NET SALES AND OPERATING PROFIT



Net sales
Operating profit

ORDER INTAKE, 12 MONTHS ROLLING



Order intake, per quarter
Order intake, 12 months rolling

OPERATING PROFIT

244

SEK MILLION

IMPORTANT EVENTS 2018

- **Rapid growth in the** swine sub-segment in China.
- **The trade war** between China and the US has created uncertainty and decreased willingness to invest in many markets.
- **Outbreak of swine fever** in China has caused concern and decreased willingness to invest in the short term, but over the long term drives demand for advanced climate solutions.
- **Successful pilot installations** with our IoT solution, SonarEcho, paves the way for more business.

Order intake increased 13 per cent, of which 10 per cent organically. The increase was driven mainly by strong order intake from the swine segment in China but also by two large orders for SonarEcho. Order intake in EMEA and the Americas remained unchanged compared with the preceding year. Order intake decreased in the largest market, the US, primarily owing to low sales of cooling pads.

Net sales increased 10 percent, of which 7 percent organically. Growth in 2018 was driven primarily by the swine segment in China. Outbreaks of African swine fever weakened demand in China during the second half of the year, and the market situation remains uncertain. The trade war between China and the US dampened the willingness to invest in several markets. Sales in EMEA were stable compared with the preceding year.

Operating profit was SEK 244 million (225). The margin was impacted positively by higher volumes but weighed down by a less favourable product mix, fewer large projects and investments in software and the digital offering. The majority of growth took place in Asia, and the increased volume required investments in the local organisation.

MARKETS AND TRENDS

Demand in AgHort's various customer segments is driven by GDP and population growth, as well as increased protein consumption, but also by increased demand for advanced climate control solutions. The latter is driven by factors such as demand for decreased use of antibiotics and for relocating vegetable production closer to the consumers, which increases the demand for advanced greenhouses. An increasing number of consumers care about the well-being of animals and are placing strict demands on proper livestock farming. This has resulted in a shift towards more free-range chickens, which together with increased demands for food safety, sustainability, and increased production, drive the need for new or upgraded stalls with advanced ventilation solutions.

Increased traceability of food is a rapidly-growing need that leads to increased demands for data collection and analysis throughout the entire food chain, including feed production, stalls, production facilities and transportation all the way to the store. Together with increased demands for productivity, this has led to rapid development of the software used by food producers to plan, control and optimise the entire production chain from feed to finished product. Munters is a world leader in this area, above all in the broiler segment, through its Group company MTech Systems.

> // Munters products improve livestock farming and increase efficiency in food production

CUSTOMERS

AgHort is one of the world's leading suppliers of advanced climate control for various agricultural segments, with a particularly strong position in the layer and broiler markets in the US and Europe. AgHort is also one of the leading players on the swine farming market, with a strong position in the US and growing sales in China. In the Chinese market, a switch is taking place from smaller farms without climate control equipment to larger farms with advanced technology, which also includes advanced climate control. This development is driving demand for the business area's products. AgHort is also active in the dairy and greenhouse segments.

Efficient climate control is one of the most important factors in profitable, sustainable production. International companies and independent growers are among AgHort's customers. Through the Group company MTech Systems, AgHort has many of the world's largest food producers in the broiler segment as customers, since they use our software for planning and monitoring their operations.

Sales are primarily through distributors with a presence in local markets. Software solutions are most often sold directly to food producers. In certain geographic markets and segments, climate control products are also sold directly to the end customer.

PRODUCTS AND SERVICES

AgHort offers complete systems for controlling the environment in stalls, including equipment for ventilation, cooling, and heating, as well as, various types of control systems. The product portfolio also includes software, aimed mainly at food producers active along large parts of the value chain. Our offering is built on long experience and innovative products that are reliable and sustainable. We collaborate with end customers and resellers to optimize and tailor our units for customers with regard to moisture content, temperatures, emissions and energy consumption.

We are seeing great interest in data collection and analysis in real time. Digitalized processes are becoming an important factor for being able to optimize production, increasing the integration among various players, and strengthening the food production value chain. A new solution was launched in 2018: SonarEcho, comprising sensors and software for collecting, presenting and analysing data. We see great potential in these Internet-based solutions, but competition is stiff and requires continued investments in organisation and technology.

A new heat exchanger, Heat-X Rotate, was launched in 2018; it is used to reclaim heat from animal stalls. The product has received a very positive reception, especially in northern Europe where there is significant interest in energy efficiency and sustainability. Heat-X Rotate is a product that addresses a smaller portion of the market but can make a difference in total energy consumption on a farm.

TECHNOLOGIES AND INNOVATIONS

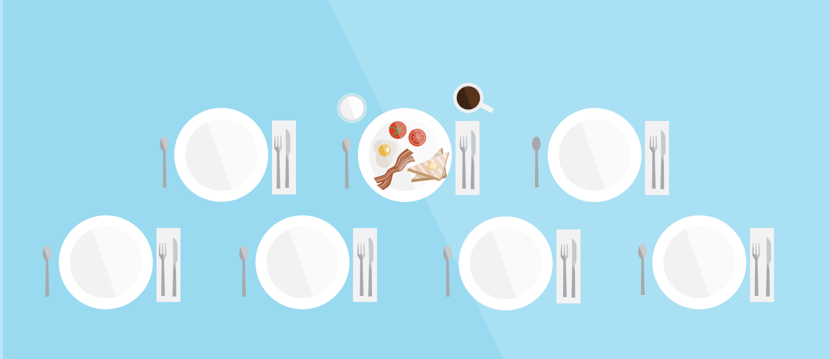
AgHort's offering covers a range of different products for climate control and data analysis. For example:

- **Controllers** and advanced software regulate climate and other functions such as feeding, lighting, the animals' weight, water consumption and air quality. Status updates are provided in real time.
- **Circulation and extraction fans** especially developed for animal stalls and greenhouses. The latest generation of fans with Munters Drive motors can reduce energy consumption and increase productivity by adapting ventilation in a more exact manner than was previously possible with traditional motors. Examples of other equipment that AgHort offers are heaters, air intakes, and cooling systems.
- **The portfolio also includes software** for food producers, primarily in the broiler and swine segments. The products are used to monitor, plan and optimise operations in such areas as animal health and feed management, as well as logistics and production. The introduction of technologies in 2018 has opened up new possibilities and further increased precision in the forecasts and plans that the software makes possible. ■

Munters can provide the perfect climate for growing crops, which provides growers the opportunity to produce under optimal conditions.

> **Munters is one of the world's leading suppliers of advanced climate control for various farming segments, with a particularly strong position in the layer and broiler markets in the US and Europe**

Munters helps to feed the world



> Munters climate solutions contribute to more than 1 of 7 meals around the world

The biggest challenge agriculture is facing is that the population of the world is growing but there is no more land to cultivate. By the year 2050, we need to produce 60 per cent more food. But there is only land available to produce 20 per cent of that need. To produce the other 80 per cent, we need to be more efficient, and this is where Munters can help.

Munters delivers complete climate solutions for agriculture. We offer a full line of fans, air intake, humidifiers, cooling systems and air treatment systems for livestock and greenhouses. We stand on a solid basis of cutting-edge research, with production and distribution networks across the globe.

Livestock farmers often encounter problems in their stalls with heat stress, low feed efficiency and various illnesses among their livestock. This is often related, directly or indirectly, to climate conditions in the stalls and can quickly affect production and animal health.

The weather outdoors may vary drastically, but the indoor climate in stalls must be kept constant, within strictly defined limits for warmth and humidity.

WE ARE ALWAYS IMPROVING

One of our core values is "There is always a better way." We work closely with our customers, and continually endeavour to improve and refine our products to increase efficiency and reduce energy consumption. By creating the perfect climate, our solutions make livestock farming possible under optimal conditions. Farmers achieve better animal health, higher productivity and increased profitability. For end consumers, this means high-quality, healthy food. ■

In 2050, we need to produce 60 percent more foodstuffs to supply the world's population with good quality food. Of that increase, only 20 per cent can come from more arable land. The remaining increase must come from increased efficiency.

Munters products and solution play an important role in enhancing the efficiency of food production.

> "I chose 100% to use Munters for their broad product offering, and also because of our excellent dialogue. Many of their engineers are farmers themselves and they understand my daily work

William Nofziger runs Nofziger Farms in the US, which produces over two million chickens every year.

Service is a fundamental part of the Munters offering

Our ambition is to make the perfect climate sustainable. To realise it, we are building a world-class global service organisation.

With solutions based on each customer's specific needs, we ensure that Munters equipment functions sustainably and efficiently. Service represented 11 per cent of the Group's net sales in 2018. At the end of the year, Munters had 40 own service centers around the world; we also offer services using a large global service network. With our local presence, we have close relationships with our customers and can offer quick support for the installed base of approximately 220,000 products.

Our knowledge of applications and in-depth product knowledge allows us to deliver a high standard of service and support. Alongside valuable upgrades, Munters can enable reductions in energy consumption, ensure quality and environmental performance, and extend the economic service life of our products.

SERVICE CONTRACT

- **ServiceCaire** – contracts that cover, for example, maintenance, performance checks with trend tracking and on-site training of personnel.
- **PrimaCaire** – contracts with an extended warranty period. All our contracts are tailored to meet the customer's needs.
- **Maintenance** – our service engineers are also available for customers who choose not to sign a service contract but are only requesting maintenance as agreed.

SERVICE OFFERING — EIGHT CATEGORIES

- **Installation** – installation services for all products and equipment.
- **Commissioning/Start-up** – usually offered and frequently sold in the original sales contract.
- **Performance checks and inspections** – to assess the condition of the equipment and to optimize the results.
- **Reconditioning/Repairs** – either at a specialized service center or on-site.
- **Upgrades/Retrofits** – component and system upgrades give the customers access to latest technology, and can thereby improve energy efficiency and equipment performance.
- **Spare parts** – original parts and spare parts kits for all types of installations.
- **Training** – of customers' technicians, both on-site and in training centers.
- **Munters Flex Rental** – solutions for customers who have temporary needs, are not willing to stop operations during a maintenance period, want to test that the equipment works or wish to rent instead of purchase.

NEW SERVICES PROVIDE UPSELLING FOR OUR EXISTING CUSTOMERS

Our goal is to guarantee our brand promise "Your Perfect Climate" by increasing sales of services to our existing customers. That is why we are focusing on developing service contracts that offer customers attractive solutions that optimise their operations and reduce stoppages in production as well as operating costs.

We develop our offering with new solutions intended to increase sustainability in our products. We are also continuing the work on offering more complex services in close collaboration with our customers.

BROAD SERVICE OFFERING

Installation monitoring or commissioning support is included in the majority of our sales agreements, and in connection with new sales Munters offers the customer a service contract with preventive maintenance and inspections.

ServiceCaire and PrimaCaire, our service contracts and extended warranty, are tailored to the customer's needs. They are usually multi-year and cover a range of services such as on-site training, planned maintenance, and monitoring of performance.

REGULAR INSPECTIONS GUARANTEE EFFICIENT, SUSTAINABLE OPERATIONS

Munters products are manufactured and installed with high-quality components and undergo comprehensive testing. Our solutions are often mission-critical, and certain components — sorption rotors, for example — require regular capacity checks to ensure efficient performance.

Our service technicians have the knowledge, the technology, and the tools needed to measure and analyze equipment performance. Special equipment and software is required to carry out capacity testing and to calibrate and optimize performance.

DEVELOPMENT OF SERVICES

In 2018, we developed our service offering in Data Centers and prepared for an expansion of services in AgHort. We have also enjoyed continued success with upgrade solutions that broaden our offering to customers with equipment other than Munters so that they can benefit from energy savings and more stable operation as well.

DIGITALISATION AND CONNECTED SERVICES

To increase the capacity of the service organisation, we began to introduce a shared management system for field service and the installed base in 2018. The system will constitute the backbone of the organisation globally.

Many years of experience in combination with modern technology allows us to diagnose and optimise the performance of our equipment remotely. The launch of the Munters Connected Climate platform facilitates monitoring and troubleshooting.

The work on broadening and improving the selection of connected services continued during the year. ■

Case study: Heathrow (UK)

Upgraded fans from Munters save 15 GWh at Heathrow Airport

With over 80 million passengers in 2018, Heathrow has more passengers than any other airport in Europe. It houses four enormous passenger terminals that take up nearly 600,000 m^2 of space; creating a pleasant indoor climate requires tremendous amounts of energy.

One of Heathrow's goals is a completely carbon dioxide-free airport infrastructure by 2050. Such an ambitious goal to reduce environmental impact requires serious energy savings initiatives. Since 2016, energy project manager Andy Dobbs, together with Munters climate control specialists, have been working on extensive upgrades to the air treatment equipment in the terminals.

By replacing older, often belt-driven air conditioning units such as exhaust and process fans with smaller, more energy-efficient and maintenance-free EC fans in a wall bracket fan configuration, Heathrow has been able to reduce its energy consumption in these air conditioning units by 30 to 60 per cent. In total, Munters has upgraded more than 150 air conditioning units, which has resulted in the installation of approximately 500 EC fans. The energy savings from these projects total an impressive 15 GWh, equivalent to the annual energy consumption of no less than 3,700 households. ■

OTHER ADVANTAGES TO UPGRADING THE AIR CONDITIONING SYSTEM:

- **Improved reliability:** If a fan breaks down, a high level of airflow can still be maintained despite this owing to the other fans, thus avoiding an emergency situation.
- **Reduced maintenance:** Since EC fans are 100 per cent maintenance-free, the wall bracket fan solution saves on such maintenance costs as lubricating stock and replacing V-belts.
- **Reduced need for spare parts storage:** No need to store different kinds of stock and V-belts for the various air conditioning units.
- **Lower noise and vibration levels:** Both technical staff and passengers experience lower noise and vibration levels thanks to the smooth, quiet operation of the EC fans.

> With Munters' experience and modular systems for the fans, an upgrade can be completed overnight. For Heathrow, this also means that the upgrade work itself has no negative impact on daily operations; passengers and partners at the airport are thus not affected.

Innovation for smarter and more efficient climate treatment

Munters was founded over 60 years ago by one of Sweden's foremost innovators of all time. We are proud to carry on Carl Munters' tradition, and we work continually to improve our products so we can provide our customers with smarter, more efficient climate control solutions. In a crucial way, we promote more sustainable operations and a more sustainable world.

Munters' products and solutions are often part of mission-critical processes, where they create a perfect climate with exact control of temperature and moisture. This yields guaranteed climate control in the customers' processes, with lower energy consumption and fewer emissions.

Our goal is to understand our customers' needs better than they themselves do. We have in-depth knowledge of specific applications and access to unique technology we often develop ourselves. During 2018, we invested SEK 217 million (167) in research and development.

INNOVATION

We have a long tradition of technical advances and innovations; Munters occupies a leading position in our central areas of technology. Over the last year, we have focused on such areas as the further development of SyCool, VOC systems and low dewpoint technology, the service life and performance of our evaporative cooling products and improvements to overall energy efficiency. We keep ourselves up to date on, and we experiment with, potentially disruptive technologies as part of our daily work.

CENTRAL AREAS OF INNOVATION

Close collaboration between teams from Munters and our customers both increases the precision and enhances the efficiency of our innovation efforts. Research, sales, and production also collaborate closely so as to improve our ability to develop products that meet specific customer needs. New technologies and insights are thus quickly introduced into more product groups and applications.

OUR BASIC TECHNOLOGIES INCLUDE:

- Dehumidification rotors
- Systems for direct evaporative cooling
- Heat exchangers with indirect evaporative technology
- Mist eliminators
- Controllers for monitoring the production climate
- Agricultural fans
- Air humidifiers
- Control equipment
- Data analysis/visualisation

In addition to these basic technologies, Munters has been developing software for several years that enables our technicians and partners to quickly configure optimised solutions. One example is Genesys, which collects technical specifications for specific projects and permits more exact calculations and a higher level of process quality.

INNOVATION BASED ON CUSTOMER NEEDS

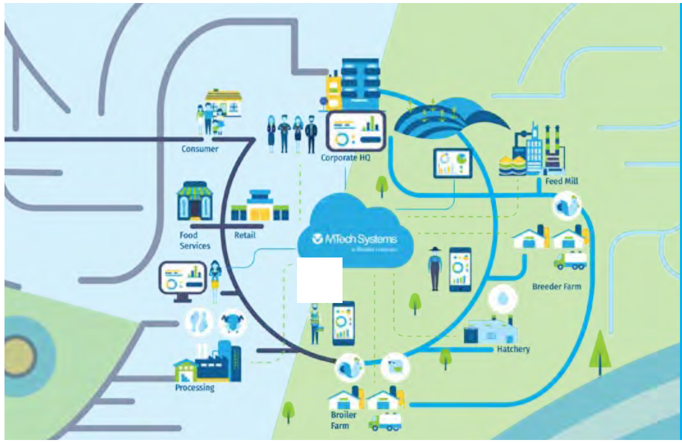
The orientation of our research and product development is governed by changed customer needs, as well as our knowledge and Munters' position in various areas of application. Each business area is responsible for research and development within their respective product areas, with technology centres close to our customers.

We use a shared development model: the Munters Product Development Model (MPDM), which is a multidisciplinary model with clear control points. This model leads to the development process being based on individual creativity, disciplined innovation, and direct insight into customer needs.

INNOVATION FOR INCREASED SUSTAINABILITY

Our products allow our customers to attain the perfect climate for production while reducing climate impact. Sustainability is one of the driving forces in our product development efforts.

During the year, we increased our focus on proactive maintenance and improving installed products. We provide our customers with information and a basis for decisions, rather than simply a product. This expanded service is extremely important. It creates new business models where our innovative products and services enable us to collaborate closely with our customers on delivering "Your Perfect Climate". ■



SONARECHO

Munters IoT technology is used to connect chicken farms with food producers' data systems, guaranteeing complete control throughout the supply chain. This leads to improved animal health and increased efficiency in production using wireless sensor technology and an innovative software solution.

DRYCOOL® FOCUS

A flexible and energy-efficient commercial Dedicated Outdoor Air Systems (DOAS) unit aimed at customers with higher airflow levels who use our DryCool® technology. A combination of sorption rotor-based dehumidifiers and complete energy recovery leads to reduced cooling and reheating. This offers various alternatives based on dewpoint requirements, and is a leading product on the market.

INNOVATIONS IN 2018

Several new products were launched during the year. The focus was on optimising the climate while reducing energy consumption.

A few examples:

- DryCool® Focus
- MCC – Munters Connected Climate®
- DSS – Dessicant System Solution
- SonarEcho

DSS – DESSICCANT SYSTEM SOLUTION

A new, improved sorption system with a broad selection of pre- and post-treatments. The system comes in a range of sizes and alternatives for heating, with various types of housing, rotors and completely configurable controllers to suit the needs of individual customers for dry air.

MCC – MUNTERS CONNECTED CLIMATE®

The latest addition to the digital world, from Munters. Internet connections for our products creates the possibility of remotely monitoring, controlling and optimising all of a customer's units, which results in less downtime and better control over the climate in the application. MCC comprises data logging, alarms, positioning and much more.

Efficient production and sustainable delivery chain

One of the mainstays of Munters is the work on efficiency in production and the supply chain. Central to this work, which we call Operational Excellence, is our employees' focus on the customer. We must guarantee the customer's need for high quality, precision in delivery, cost efficiency and sustainability at every step. Our goal is to build a world-class production and supply chain.

Katarina Lindström, Group Vice President Global Operations

EFFICIENCY IN RELATION TO THE CUSTOMER IS CRUCIAL

A high degree of innovation and a strong focus on quality in deliveries is the basis for long and trusting relationships with customers and suppliers. Our employees' cross-functional approach, with representatives of R&D, product management, production technology, purchasing, sales and service generates the improvements to products and production that will benefit our customers.

Now, we're taking it a step further. To increase precision in deliveries, shorten lead times, reduce stockholding and ensure the cost efficiency that permits a competitive offering, we have initiated development toward several standardised products and scalable production processes.

We routinely evaluate our supplier chain to safeguard the demands for proximity to customers, which facilitates adaptation and service and reduces lead times. At the same time as it means lower logistics costs and less of an impact on the environment and the climate.

STRATEGICALLY LOCATED FACILITIES

Munters has 18 manufacturing plants and six facilities for final assembly and customisation, strategically located near its most important markets. In general, Munters facilities in the US and Europe specialize in products within one of its business areas, whereas facilities in other parts of the world manufacture and assemble products for more than one business area. This reduces the Group's exposure to changes in local, regional or global trade policies. We are continually developing our production structure based on changing market conditions.

CONTINUAL IMPROVEMENTS

Our entire production platform is built on the Munters Production System (MPS), which is largely based on Lean principles. The aim is to improve safety, efficiency, quality and delivery precision. MPS enhances the efficiency of our entire supply chain by monitoring, organising, controlling and documenting processes for production, purchasing, distribution and after-market.
To strengthen the implementation of MPS in our plants, a VP Global Quality was appointed in October 2018, as well as a

Global Director Production Development who will take office in January 2019. The goal is for all divisions to be working under this system by the end of 2021.

INVESTMENTS FOR INCREASED CUSTOMER BENEFIT

In 2018, Munters made significant investments with a total value of around SEK 100 million to increase the capacity of its existing facilities.

In Tobo, Sweden, the capacity for rotors has increased at the same time as we invested in a more efficient production flow. In Italy, the plant in Pieve began production of CELdek evaporative cooling pads during the year.

The new plant in Jiang Yin, China, which produces goods for AgHort and Data Centers, went into operation during the year. Meanwhile, we are building a testing facility adjacent to the plant in order to ensure quality and deliveries.

Systematic improvement efforts have created efficiency and stability in Monterey, Mexico. Previous production problems have been resolved, and the delivery of evaporative cooling pads — exported primarily to the US market — has been working well.

SUSTAINABILITY IN PRODUCTION

All Munters plants are quality certified under ISO 9001, and seven facilities are also certified under the ISO 14001 environmental management system. The environment, health and safety are priorities, and our EHS policy applies to all divisions in the Group.

We are working on systematic risk evaluation of our production units for the purpose of preventively reducing environmental impact while increasing focus on health and safety. Other areas covered by the risk evaluation include fire safety, waste and chemical management, as well as an overhaul of electrical installations. All units are assessed on a rolling three-year schedule.

In 2018, risk evaluations were conducted at 10 manufacturing plants, which resulted in a number of measures focused on fire prevention.

WORKPLACE ACCIDENTS

Munters has a Vision Zero plan concerning serious workplace accidents, and reducing the number of accidents is one of our highest priorities.

Systematic health and safety work is part of MPS. This includes incident reporting, continual inspections, and mitigating areas of risk. The objective is to continually reduce the number of workplace accidents by working proactively. We believe the preventive work has yielded results; in 2018, fewer accidents were reported than in the preceding year*. The safety initiatives remain a high priority, and we are working hard to reduce the number of accidents. For more information, refer to pages 58 and 61.

All accidents are reported immediately to Group Management, and each individual case is followed up by the head of Operations, who ensures that the cause is analysed and measures are taken locally.

ENERGY

Climate impact from our manufacturing units comes mainly from energy for heating, ventilation, cooling and production processes. We are working actively on enhancing the efficiency of our production processes through increased availability and new, energy-efficient production equipment, using waste energy and installing LED lighting and sensors. We are also reviewing the possibility of increasing the share of renewable energy sources; our facilities in Belgium and Germany changed electricity contracts during the year and are now purchasing only renewable electricity.

The objective is to continually reduce energy use and to make the manufacturing plants and processes more energy-efficient. Munters monitors its energy efficiency by putting the electricity consumption in relation to production value. In 2018, this totalled 1.11 per cent (1.15). Renewable electricity made up 31 per cent (29) of the electricity used by our production facilities.

WASTE

Munters is working continually to reduce waste from its manufacturing plants and to improve the recycling rate. A linchpin in this work is continual quality work that reduces cassation and saves on costs and the environment.

In 2018, the rate of recycling was 60 per cent (57). The objective is to continually reduce the portion of waste that cannot be re-used or recycled.

WATER

Reduced water consumption and water purification in Munters production processes is an important part of the company's contribution to reduced environmental impact. Munters separates both chemicals and particles in the waste water from its facilities. The objective is to gradually reduce water consumption in the company's manufacturing plants and processes.

Questions for Katarina

What do you think of the possibilities for Munters to enhance production efficiency?
At Munters, we have numerous opportunities for improvement. By setting clear goals and monitoring them at the work team level, we drive work forward.

For Munters, efficient production based on continual improvements — as well as a stable, sustainable delivery chain — are important success factors. We are building our culture through a cross-function approach, eliminating losses and improving our operations and ability to deliver.

What are the biggest challenges for production and sourcing at Munters today?
Munters has customers in over 100 countries, production facilities in 11 and suppliers of raw materials and components in 28 countries. An efficient, sustainable delivery chain allows us to meet customers' varying needs with an excellent offering and valuable service.

What role do your employees have in this transformation?
Our employees' skills, commitment and involvement in our improvement efforts are the key to meeting and exceeding our customers' needs and expectations every day.

KATARINA LINDSTRÖM
Group Vice President
Global Operations

*We measure the number of accidents where the employee needed to seek medical treatment, in relation to the number of hours worked.

Safety is now a standing item at the quarterly meetings in Group Management.

MUNTERS PRODUCTION SYSTEM

Our approach, the Munters Production System (MPS), is largely based on Lean principles and world-class manufacturing. This approach is used in Munters' global supply chain — production, sourcing and transportation — to standardise and improve the procedures through continual improvement efforts. The goal is a competitive customer offering and the best customer service. We have a Vision Zero plan as regards safety, quality and workplace accidents.

By involving employees at all levels, we guarantee a culture that promotes innovation, exchange of experience among plants and functions, and systematic improvement efforts.

A STRONG SUPPLIER CHAIN

Our supplier network is valuable to us; it is built on mutual trust and many years of partnership. Munters sources goods and services from approximately 2,000 suppliers in 28 countries. A global sourcing organisation coordinates and enhances the efficiency of sourcing, the purpose of which is to achieve increased standardisation and consolidation of the sourcing volume to fewer suppliers. At the same time, sourcing is becoming increasingly regional, a trend driven by increased protectionism and new barriers to trade.

Direct material represents approximately two thirds of the total cost of a product. We place strict requirements on quality, efficiency and sustainability. Margin improvements and shorter lead times are also priority areas. Together with our suppliers, we are finding new technical solutions that reduce costs. A large part of the sourcing volume is negotiated annually, but we are endeavouring to increase the proportion of multi-year agreements to secure deliveries and shorten lead times, as well as to ensure quality and stable price levels.

The 25 largest direct material suppliers by volume represented 26 per cent of the total sourcing volume. The goal set in 2015 was to reduce the number of suppliers by 10 per cent per year over a business cycle. In 2018, the number of suppliers was reduced 8 per cent. A new goal of halving the number of suppliers has been set for the period from 2019 to 2021.

New trade barriers The year was characterised by trade wars, above all between the US and China; tariffs on steel, aluminium and other raw materials increased production costs in the US.

To ensure quick and secure deliveries, Munters has several main suppliers in each product group, and a detailed plan is drawn up for each individual plant.

PARTNERSHIP FOR INNOVATION

Munters sourcing organization is focused on creating innovative power together with the company's strategic partners. In 2018, seven Supplier Innovation Summits were conducted in which suppliers from around the world gathered to find valuable improvements that enable increased efficiency and sustainability throughout the supply chain.

RESPONSIBLE SOURCING

We are working to ensure sustainability throughout the entire supply chain and all suppliers are expected to comply with Munters ethical guidelines. In 2018, 66 per cent of our suppliers – who represented approximately 80 per cent of our directly sourced material – had signed the revised Code of Conduct. The Code has also been signed by the Group's IT and shipping suppliers.

Observance of the Code of Conduct will be monitored through visits and audits carried out by Munters or a third party. In the event the supplier does not meet the requirements, an action plan will be drawn up. If the schedule is not followed, the relationship will be terminated. No follow-ups were conducted in 2018. We are evaluating different digital tools to facilitate this work.

SOURCED RAW MATERIAL

Direct material represents approximately two thirds of the total cost of a product – and raw materials represent 30 per cent of that. Copper, the most important raw material, is part of electronic components and fan motors. Munters has tools that the Group uses to minimise the impact of price fluctuations.

SUSTAINABLE TRANSPORTATION ALL THE WAY

In 2018, we continued our efforts to find cost-efficient and sustainable logistics solutions that shorten lead times while endeavouring to reduce climate and environmental impact from transport throughout the entire chain, from suppliers to our facilities, distribution centers and out to the customer. We are just beginning this work, in which we see great opportunities for improvement. A stable production flow provides the possibility of coordinated transports, and a better process and control reduces the need for rapid air transport.

We actively select suppliers who offer sustainable transport solutions and switch from road and aviation transport to ships and trains where possible.

OHS — OUR APPROACH

The Occupational Health and Safety Program (OHS) is our approach to promoting health and safety at our workplaces. This includes:

- A global health and safety program.
- Visual standards for work functions based on a safety and risk analysis.
- Audits in which the safety of personnel is a key component. Munters will supplement OHS through education and training in order to build safety into all company processes.

> "The theme for the autumn workshop in Amesbury (US) was transportation, energy and sustainability, with a large number of important suppliers

NON PRODUCT-RELATED SOURCING

Munters spends approximately SEK 1 billion per year on non-product related materials and services (indirect material). The Group has grown quickly through acquisitions, and our work is now focused on guaranteeing that, through joint sourcing and advantageous contracts, we will make use of volumes and other financial economies of scale, with a focus on shipping and IT.

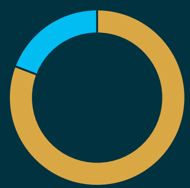
Increased commitment and better leadership

Our culture is characterised by our confidence in each other's abilities and collaboration across boundaries in multicultural teams. A colorful mix of engaged, competent employees makes Munters an innovative company focused on quality. Munters has manufacturing and sales operations in more than 30 countries, and 3,700 employees.

AVERAGE NUMBER OF EMPLOYEES PER REGION

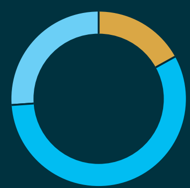
- EMEA 40%
- AMERICAS 40%
- ASIA 20%

GENDER DISTRIBUTION



- Men, 80%
- Women, 20%

AGE STRUCTURES



- <30 yrs, 17%
- 30–50 yrs, 57%
- >50 yrs, 26%

OUR VALUES

- Sustainable value creation
- Passion for results
- There is always a better way
- Team spirit

Sofia Gellar
Group Vice President HR,
Communications and CSR

> **"The culture in Munters is based on our confidence in each other's abilities and collaboration across boundaries in multicultural teams**

The Munters culture is built on shared values to ensure we deliver the promise of our brand – "Your Perfect Climate" – to every customer, and that all our employees are engaged, enjoy their work, and can develop professionally.

We work on the basis of four values: Sustainable Value Creation, Passion for Results, There is Always A Better Way, and Team Spirit.

Our values must permeate everything we do. Together with our Code of Conduct, they govern our attitude towards each other and in our relationships with our customers and other stakeholders.

All Munters products and solutions result in major environmental and economic advantages for our customers, thereby promoting a long-term sustainable society. We also strive for our own operations to have as little environmental impact as possible, to offer our employees a safe, inclusive work environment, and to ensure that we act responsibly and ethically.

EQUAL AND INCLUSIVE

We welcome and encourage diversity and individuality; Munters has a broad mix of employees with individual strengths and motivational factors. We know that different perspectives provide us with valuable insights which help us improve our company and our offering.

We strive for a more equitable gender distribution, and we place great emphasis on gender issues in our recruitment process. In 2018, the number of women employees was 20 per cent (18) and the number of women executives was 20 per cent (17). The goal for 2020 is 23 per cent women and women executives. In 2025, the number of women employees must total 30 per cent and the number of women executives must also total 30 per cent.

Our sustainability efforts are built on the UN's Global Compact and prescribe matters such as how all employees must be treated equally, having equal rights and opportunities. Our leadership program has included training around unconscious biases, so that we all become more aware of them and know how to identify and handle them. Naturally, salaries and compensation must be objective and fair.

In 2018, only a handful of cases of discrimination or harassment were reported, but the results from the employee survey show that 4 per cent of our employees feel that they have been subject to discrimination and 6 per cent to harassment. Preventing this is, therefore, an area of focus in the activity planning from the employee survey. Our goal is to be a workplace 100 per cent free of discrimination and harassment.

Our employees can also anonymously raise an alarm regarding serious improprieties in the Group through a special whistleblower channel provided by an external supplier.

DEVELOPMENT AND CAREER PATHS

Munters has a strong focus on innovations and continual improvement, and we encourage our employees to take responsibility and challenge themselves in new work tasks that promote their development.

We are always looking internally for talent; we support individual career paths and our positions are announced

Questions for Sofia

What are you most proud of in 2018?
I was quite pleased when we received the results of our annual employee survey. In all my years with HR, I have never seen such positive results. It showed a positive trend in nearly every area, especially in commitment, leadership and teamwork. In a comparison with two hundred organisations, we are above average on every question.

What were the most important global initiatives carried out during the year?
At Munters, we want to support our employees' development in different ways, and to strengthen our culture and inter-function collaboration. One example of this is our global mentor programme, in which 322 people from 22 countries participated during the year.

Another global initiative aimed at knowledge sharing and collaboration across borders is Munters United. Several successful activities were conducted in 2018, including nine workshops with discussions on shared strategies.

We have also implemented a global policy that permits more flexible working hours.

In 2018, we signed the UN Global Compact, thereby committing to supporting and implementing its ten principles.

Munters is a multicultural, committed and driven company. I look forward with confidence to continued development and many new exciting activities in 2019.

SOFIA GELLAR
Group Vice President HR,
Communications and CSR

MUNTERS UNITED – TRUST AND COLLABORATION ACROSS BORDERS

Munters operations are built on confidence and collaboration in global teams, to reach shared goals. We need to continually adapt ourselves and develop so that we remain successful in a dynamic market. Working with people who have different perspectives and knowledge leads to better ideas and results – of course, this requires positive collaboration, knowledge transfer and conflict management as well as clear goals, strategies, and procedures.

To achieve this, we have begun a global initiative: Munters United, with activities such as improved measurement methods, work rotations, sharing success stories and workshops focusing on mutual trust and shared strategies.

In 2018, nine successful Munters United workshops were conducted in the US, Mexico, Japan, Australia, Germany, Belgium, the Netherlands and Sweden.

internally. The annual performance review with an immediate supervisor is the foundation of every employee's development. Personal objectives are monitored here and a development plan is produced. 100 per cent of our employees had a performance review with their immediate supervisor in 2018.

MANAGERS WITH SKILL AND ABILITY

We expect that managers at Munters will promote an inclusive work environment in which all the employees' differences are welcomed and utilised. Our managers must create trust, and motivate and inspire their employees to form effective work groups. They must also support employees' development by setting clear goals directly linked to our business strategy and through regular feedback. Most of our managers are internally recruited and we offer various development programs for improving their skills and strengthening important leadership abilities.

All new managers participate in a two-day "Manager at Munters" introduction program. As a next step, there is the Munters Leadership Development Program, which particularly emphasizes inclusive leadership and reinforcing the visibility, self-esteem and networks of women managers.

For first-line managers, above all in production and services, there is a special Supervisor Development Program. The programme strengthens the ability of these managers to engage their employees by creating a good work environment with clear goals and expectations.

HEALTH AND WELL-BEING

Munters has an environmental, health and safety (EHS) policy that applies to all employees. We have a Vision Zero plan for work-related accidents and strive to continuously improve safety at our work sites. As part of our sustainability efforts, we monitor the Total Recordable Incident Rate (TRIR), which is calculated by putting the number of accidents in relation to the number of hours worked. For additional information, refer to pages 58 and 61.

For performance and development, a good balance between private life and working life is important. In 2018, we implemented a global policy that encourages managers to offer their employees the possibility of flex work, such as working from home and using flexible working hours.

MUNTERS LEADERSHIP DEVELOPMENT PROGRAM

"The Munters Leadership Development Program is exactly what it says it is: it really helps you understand how their leadership style needs to change to reach the next level. The programme doesn't focus just on turning managers into leaders; it's also building inclusion, diversity and collaboration."

Punit Nahar, Director of Strategic Sourcing APAC, Beijing, China

MANY ADVANTAGES TO FLEXTIME

In the US, a pilot program was conducted in 2018 to monitor the use and results of a flexible approach. The results were positive for both managers and employees, including increased trust and communication. Stress decreased, concentration improved and employees became more productive. A full 83 per cent of the employees felt they were more productive when they worked flexibly compared to when they did not.

EMPLOYEE SURVEY

The annual employee survey provides us with a very good overview of the organization's strengths and areas of improvement. Most important, however, is not the result itself, but the actions for improvement each group and executive take based on the results. Over 1,000 actions are taken every year and have resulted in the following improvements:

	Benchmark	2016	2017	2018
Response rate	82	97	98	**97**
Employee index	74	77	77	**80**
Leadership index	76	79	78	**82**
Engagement index	77	80	80	**81**
Net Promoter Score	9	16	10	**15**

Above benchmark

Every executive receives a report with the results for their own division, and support from HR for working on the most important areas for improvement.
The employee survey is conducted by our external partner, Netsurvey.

Sustainability report 2018

Resource efficiency, Responsible business practices and People & society are all parts of Munters's sustainability agenda. The following pages describe the three areas of the Munters Sustainability Agenda in detail, the opportunities and challenges we see, activities conducted during the year and our plans going forward.

Munters is covered by the requirements of the Annual Accounts Act for sustainability reporting; this report is an integral part of our Annual Report. See pages 52–61; Risks and risk management, pages 62–65; and diversity, page 73. These pages also constitute our Communication on Progress under the UN Global Compact. With this Sustainability Report, we wish to create transparency around our priorities, our activities, our challenges and our aims in the field of sustainability. This Report covers the operations of the entire Group.


RESPONSIBLE
BUSINESS PRACTICES
PAGE 56


PEOPLE & SOCIETY
PAGE 58

RESOURCE EFFICIENCY

> In 2018, our production facilities in Belgium and Germany signed green electricity contracts

Goals and outcomes

ENERGY EFFICIENCY
Electricity consumption in our production facilities is to continually decrease. (MWh/production value, TSEK).

OUTCOME 2018

1.11%

OUTCOME 2017: 1.15%

GREEN ELECTRICITY
The share of electricity from renewable sources in our production facilities is to continually increase.

OUTCOME 2018

31%

OUTCOME 2017: 29%

RATE OF RECYCLING
The proportion of waste reused or recycled out of the total amount of waste is to continually increase.

OUTCOME 2018

59%

OUTCOME 2017: 57%

EMPLOYEES' ASSESSMENT
The proportion of Munters employees in the employee survey who believe that Munters is a sustainable and environmentally responsible company. The goal is 100 per cent.

OUTCOME 2018

96%

NEW MEASUREMENT

ENVIRONMENTAL FINES
Fines received owing to insufficient compliance with environmental laws and regulations. The goal is to have no such fines.

OUTCOME 2018

0 SEK

OUTCOME 2017: 0 SEK

SUSTAINABLE DEVELOPMENT GOALS (SDG)
The activities that Munters carries out in the area of resource efficiency support the following areas in the UN's 2030 Agenda for Sustainable Development.

GOVERNANCE

- Policy for the environment, health and safety: Munters commitments for environmentally friendly and safe production.
- ISO 14001: seven of eighteen facilities are certified under ISO 14001.
- Review process: governance for achieving Munters sustainability goals, see page 60.
- Code of Conduct for suppliers: describes the requirements Munters imposes on its partners (e.g. suppliers and distributors) in the areas of environmental and social responsibility, as well as business ethics.

Areas of Focus

SUSTAINABLE PRODUCTS AND OFFERINGS

1 We strive to offer our customers energy- and resource-efficient solutions so that they can reduce their environmental impact.

Resource efficiency, and energy efficiency in particular, have been catchwords for Munters product development since the company was founded. Energy-efficient products and solutions are not only good for the environment and the climate, but also result in lower operating costs for the customer. Success in providing the most energy-efficient solutions gives us great competitive advantages. We also see more of our customers producing their own sustainability agendas with a focus on energy efficiency, which provides us with new business opportunities.

The challenges revolve around prioritising the projects to be pursued in order to make our products even more energy-efficient and also more sustainable from a broader perspective. Choice of materials and eco-design, for example, are something customers will likely demand more of, going forward.

SUSTAINABLE PRODUCTION

2 We reduce our own environmental impact through energy- and resource-efficient production units.

The climate changes currently taking place are something we must all confront, and at Munters we want to minimise the environmental and climate impact of our operations. The Group has 18 production facilities in 11 countries. Success in making production more energy efficient also means lower costs. We receive numerous questions from customers regarding how we work on environmental and safety issues; in addition, we have many committed employees who want to make a difference and involve themselves in this work by implementing the sustainability agenda. Taken together, all this creates a natural internal focus on the issues.

Among the challenges, we see that access to electricity from renewable sources such as water and the sun are limited in most of the areas where we conduct production.

SUSTAINABLE TRANSPORTATION

3 We limit the environmental impact of all the transportation we utilize by selecting low-emission alternatives and through logistics planning.

Munters has customers and suppliers in large parts of the world, and shipping materials and products — as well as our business travel — entail a significant environmental impact. For business travel, new improved technology for virtual meetings provides us with opportunities to meet without travelling. We made some serious efforts in the area in 2018, which we hope will lead to fewer business trips going forward. For shipping, we have identified opportunities to improve our internal processes and governance to ensure, for example, that we minimise the amount of goods transported by air.

One challenge we see is that electric and hybrid technology for vehicles needs to be improved so that switching over completely to these vehicle types is justified. Since the range of these batteries is still relatively short, it is difficult to find models that suit our service engineers and vendors. Shipping of material and products is procured from various shipping companies, and we need to place clear requirements on these suppliers concerning the environmental impact of their transport. This is an area we can work on more.

ACTIVITIES 2018

- CO_2 calculations have been made to understand the current situation at three of our facilities (Australia, Italy and Sweden).
- A Supplier Summit with a focus on sustainability was held for suppliers of electricity and transport services in the US.
- Munters production facilities in Italy, China and Sweden underwent ISO 14001 audits during the year.
- The production facilities in Belgium and Germany switched electricity contracts during the year so that they now purchase electricity from renewable sources.

PLANNED ACTIVITIES 2019

- The continued work on CO_2 measurements and investigating the possibility of setting relevant goals.
- Continued focus on renewable energy and the opportunity to switch to electricity contracts with green electricity.
- Review of the policy for the environment, health and safety (EHS).

RESPONSIBLE BUSINESS PRACTICES

// Munters adopted the UN Global Compact in 2018

Goals and outcomes

CODE OF CONDUCT FOR SUPPLIERS

Our largest suppliers account for 80 per cent of purchases. The goal for 2018 was that 66 percent of these would sign the Code of Conduct, which was achieved.

OUTCOME 2018

66%

NEW MEASUREMENT

ONLINE TRAINING

Proportion of Munters salaried employees who have undergone online training concerning our Code of Conduct, and other important internal governing documents.
Goal: 100 per cent.

OUTCOME 2018

97%

NEW MEASUREMENT

EMPLOYEES' ASSESSMENT

The proportion of Munters employees in the employee survey who stated that they consider Munters to be an ethical company.
Goal: 100 per cent.

OUTCOME 2018

97%

NEW MEASUREMENT

WHISTLEBLOWER CASES

Number of whistleblower cases via the external reporting channel.

OUTCOME 2018

7

NEW MEASUREMENT

SUSTAINABLE DEVELOPMENT GOALS (SDG)

The activities that Munters carries out in the area of responsible business practices support the following areas in the UN's 2030 Agenda for Sustainable Development.

GOVERNANCE

- Code of Conduct: defines Munters fundamental view of issues in the areas of the environment, ethics and human rights.
- Code of Conduct for suppliers: see description in the section on Resource efficiency.
- Anti-corruption policy: Munters commitment that employees and partners will comply with anti-corruption laws and regulations.
- Review process: governance for achieving Munters sustainability goals, see page 60.
- Data protection policy: provides guidance on how personal data is to be processed correctly, in compliance with the law.
- Compliance with competition rules: explains the foundation of competition legislation to prevent violations.
- Whistleblower policy: see description in the section on People & society.
- Compliance with sanction regulations: defines the checks employees need to carry out in conjunction with movement of goods, services and technology across national borders to ensure that we do not violate any sanctions.
- Insider policy: provides guidance for employees on insider regulations; intended to reduce the risk of insider trading.

Areas of Focus

SUSTAINABLE, PROFITABLE OPERATIONS

4 We create value for our stakeholders, such as shareholders and employees, by carrying out sustainable and profitable operations.

The exhaustive debate in progress concerning climate change and ethical questions is here to stay; this presents Munters not only major opportunities but challenges as well. The companies that succeed in weaving long-term sustainability thinking into their business model will be rewarded with more — and more satisfied — customers, employees and shareholders. In 2018, management worked on launching Munters updated strategy internally; one clear message has been that sustainability and digitalisation must permeate our strategic work over the coming years.

Conducting operations sustainably often requires a more long-term perspective on many issues, which can be challenging both internally and externally. This places great demands on uniform, clear communication concerning the value of sustainable long-term operations.

BUSINESS ETHICS

5 We conduct our operations ethically, honestly, and in abidance of the law. Sound decisions and ethical choices in our daily work build confidence in each other, as well as among our customers and collaborating partners.

Complying with laws and regulations is the foundation of ethical and sustainable operations. We expect our employees and partners to understand how important this is for the Munters brand and reputation, and that they do not put this at risk for short-term personal gain. Acting ethically results in credibility and strong relationships that create opportunities for fruitful collaboration and profitable business.

Munters conducts operations in many countries, and the views on what is moral and ethical differs among various cultures. A number of countries in which Munters operates rank relatively low on Transparency International's annual Corruption Perception Index. In these countries, we place extremely strict requirements on having a functional procedure for ensuring compliance with laws and regulations and that human rights are not put at risk.

LIKE-MINDED COLLABORATION

6 We require our collaborating partners – such as suppliers and distributors – to observe the same business ethics guidelines that we have pledged ourselves to.

If our partners do not act in abidance of the law and in an ethical manner for business, it could affect Munters negatively in many ways — for example, in the form of negative publicity and that the quality of our products and services suffers. This is why we place clear requirements on our partners in the Code of Conduct, requiring them to read through it and affirm that the understand and will comply with its content. Routine dialogue with our partners concerning these issues yields several advantages and opportunities for in-depth, long-term relationships and prevents risk in the area.

Munters uses a large number of suppliers scattered throughout many countries in which the cultures and attitudes towards questions concerning human rights and the environment differ widely. This requires effective tools, a clear procedure and training by the organisation in order to check that suppliers are meeting our extremely strict requirements. We have come a long way, but the work on refining the process and the tools is still in progress.

ACTIVITIES 2018

- After having conducted an internal self-assessment of our subsidiaries' regulatory compliance in the areas of the environment, human rights and business ethics, Munters adopted the UN Global Compact, thereby committing to support and implement the ten principles.
- Munters published a position paper in accordance with the UK Modern Slavery Act.
- The Code of Conduct has been sent to our most important suppliers, and they have been encouraged to affirm that they are in compliance with it. Suppliers who do not accept the Code of Conduct will be promptly phased out. Moreover, we have evaluated various digital tools to facilitate administration and monitoring of the our suppliers' self-assessments of routines and procedures in the areas covered by the Code of Conduct.
- Follow-up work on online training was conducted during the year; the focus was on ensuring that even newly hired personnel were included in the process.
- An Ethics Advisory Board was created to manage various ethical questions as they arise. The forum consists of people from Munters Group Management.

PLANNED ACTIVITIES 2019

- Further development of the procedure for supplier self-assessment and our evaluations on site at our suppliers of the areas covered by the Code of Conduct. The goal is to invest in and implement software that facilitates and automates this work, and to produce a checklist that can be used when our purchasers are out on site visits to suppliers.
- Initiate an evaluation of annual sustainability checks. The areas concerned could, for example, be business principles, discrimination, harassment, competition regulations and bribes.
- The sourcing function will continue its work on getting all our most important suppliers to affirm their compliance with the Code of Conduct for suppliers.

PEOPLE & SOCIETY

// All our subsidiaries drew up equality plans in 2018

Goals and outcomes

PROPORTION OF WOMEN

We strive to increase the proportion of women in the workforce. The target is 23 per cent by 2020 and 30 per cent by 2025.

OUTCOME 2018

20%

OUTCOME 2017: 18%

WOMEN EXECUTIVES

We strive to increase the proportion of women managers. The target is 23 per cent by 2020 and 30 per cent by 2025.

OUTCOME 2018

20%

OUTCOME 2017: 17%

TOTAL RECORDABLE INCIDENT RATE* (TRIR)

Munters strives to continually reduce the number of accidents in production, and we measure the Total Recordable Incident Rate (TRIR).

OUTCOME 2018

3.4

OUTCOME 2017: 3.5

EMPLOYEES' ASSESSMENT

The proportion of Munters employees in the employee survey who considered themselves free of discrimination at work. Goal: 100 per cent.

OUTCOME 2018

96%

OUTCOME 2017: 95%

SUSTAINABLE DEVELOPMENT GOALS (SDG)

The activities that Munters carries out in the area of people and society support the following areas in the UN's 2030 Agenda for Sustainable Development.

* The number of accidents where the employee needed to seek medical assistance multiplied by 200,000 and divided by the number of hours worked.

GOVERNANCE

- Policy for the environment, health and safety: Munters commitments for environmentally friendly and safe production.
- Policy for diversity and inclusion: Munters commitments for an equitable, inclusive and collaborative workplace marked by diversity.
- Review process: Governance for achieving Munters sustainability goals, see page 60.
- Anti-discrimination and harassment policy: Munters commitment to protect its employees against discrimination, harassment and bullying at the workplace.
- Policy for flex work: Encouragement for managers in Munters, where possible, to offer employees the opportunity to work flexibly.
- Whistleblower policy: defines Munters view on bad conditions and impropriety and the procedure employees can apply to make Group Management and the Board of Directors aware of similar situations.

Areas of Focus

AN EQUAL AND INCLUSIVE WORK ENVIRONMENT

7 We offer a fair, safe, and inclusive workplace to a workforce marked by diversity.

Ensuring we deliver the promise of our brand — "Your Perfect Climate" — requires that all employee are committed, enjoy their work and can develop professionally. We are convinced that diversity provides us with different perspectives and valuable insights that help us improve our company and our offering. A few years ago, Munters set a goal that 30 per cent of both employees and managers must be women by 2025. All aspects of diversity are equally important, but since we ascertained that the proportion of women in the company was low (only 16 per cent when measurements began in 2016), management chose to focus on equality first.

There was a clear focus on safety work at our production facilities during the year, and all accidents are now routinely reported to Group Management with a clear analysis of the accident itself, what caused it and what needs to change in order to ensure that the same type of accident is not repeated.

As regards both diversity and safety, this is work that will never be finished and the challenges lie in keeping focus on the issue by routinely conducting various kinds of activities to ensure that the subject remains of topical interest.

COMMUNITY INVOLVEMENT

8 We conduct dialogue with our stakeholders and with the local communities where we operate.

Our collaboration with other players in the locations where we operate is important so that we can attract both customers and workers. In addition, many of the projects create a sense of community and pride among our employees, which also creates value for Munters. Examples of activities that are routinely conducted at our facilities are: participation in various type of job fairs arranged by schools, collaboration with schools in which we offer such benefits as mentoring and project work, open houses for members' families and various forms of support for sports clubs and relief organisations.

Currently there is no central governance concerning the activities conducted in the area; it is up to each facility to determine what is suitable there. It could be a challenge to find projects that are not simply charities but also contribute positive effects for Munters from a business perspective.

ACTIVITIES 2018

- A global EHS forum (environment, health and safety) with representatives from Global Operations, Global Services and Group CSR has been established; safety is now a standing item at the quarterly meetings in Group Management.
- All subsidiaries have drawn up an equality plan to concretise their contributions to the Group's equality objectives.
- Awareness of the policy for flex work, for example the opportunity of working from home and applying flex time, has increased and several pilot projects are under way around the Group.
- The external and anonymous whistleblower channel introduced in 2017 has been established as a reliable channel for reporting improprieties. The cases of discrimination or harassment reported through this channel are extremely important in the work on creating a safe and just work environment.

PLANNED ACTIVITIES 2019

- Ensure that the local equality plans are implemented and kept up to date through adding a review as a standard item on the agenda at the local companies' board meetings.
- Revise global guidelines concerning manager training on discrimination and harassment and ensure a uniform Group message, as well as continuing to spread the message about the whistleblower channel to continue efforts toward the goal of workplaces that are 100 per cent free of discrimination and harassment.
- Further strengthen safety efforts at the workplace and increase focus on the number of healthy employees at work, for example, through introducing regular measurements.

Stakeholder dialogue and materiality

Sustainability is a fundamental part of Munters long-term strategy and value creation. To verify that our strategic priorities in the field of sustainability are correct, we get information and draw inspiration via various channels. For example, we monitor the most important macro-trends – both long and short-term – and the work of the UN, other countries and other companies on Agenda 2030.

An important source of information is the routine dialogue with our stakeholders. In 2018, we discussed the outcome of the stakeholder dialogue and materiality analysis in Group Management in order to ensure internal and external consensus around the priorities in the area of sustainability.

ORGANIZATION AND GOVERNANCE

The Munters sustainability agenda is part of the company's business strategy. The CEO bears ultimate responsibility for integrating the sustainability agenda and business strategy, as well as for achieving the company's sustainability objectives. The Management Group is responsible for developing proposals concerning priorities in the field of sustainability, coordinating and planning Group-wide sustainability efforts, and monitoring established goals as well as regularly communicating the results of these efforts to the Board of Directors, Group Management and the parts of the organization concerned.

The Group's position on various issues in the field of sustainability is described in a number of policies and governing documents. The two most fundamental documents are the Code of Conduct and the special Code of Conduct for suppliers. These documents are built on the ten principles in the UN Global Compact and describe Munters' view of issues concerning the environment, social responsibility, business ethics and human rights. We monitor the implementation of our policies every year at the Board Meetings of the Group's companies. In 2018, we also introduced a number of additional measures to guarantee compliance with laws and regulations, as well as with Munters' internal policy documents. This year's annual employee survey was expanded, for example, with a number of questions concerning the environment, sustainability and ethical business practices. A survey of all subsidiaries' compliance with local laws and regulations and global conventions regarding human rights, as well as their community involvement, was conducted in the autumn. Moreover, the majority of our salaried employees underwent online training dealing with the Code of Conduct and other important policy documents in 2018.

The sustainability risks are surveyed and evaluated as part of the yearly risk assessment process. For more information on the principal risks in the area of sustainability and how we handle them, refer to pages 62–65.

STAKEHOLDER OVERVIEW

Stakeholders	Channels for dialogue	Important Issues
Business partners		
Customers Distributors Suppliers	Question lists from customers regarding the environment, health and safety Annual customer survey Supplier Summits	Compliance in environment, business ethics, and social issues such as labour legislation and human rights Continual improvement in our products' energy and resource efficiency
Employees		
Current employees Potential employees	Employee surveys Surveys conducted in conjunction with employee meetings and conferences Employment interviews Meetings with students, for example at job fairs and exhibitions Results from various types of studies	Diversity and inclusion Health and safety Discrimination and harassment Further improvement of our products and customer offering from an environmental perspective
The capital market		
Shareholders Analysts Investors Lenders	Individual meetings with owners and Board members Information regarding responsible investments on our owners' websites Nasdaq's guide to ESG reporting Road shows and investor meetings Annual General Meeting Queries from investors	Compliance in environment, business ethics, and social issues such as labour legislation and human rights. Sustainability agenda and focus areas

CPIS WITH EXPLANATION OF TREND DURING THE YEAR

Goal	Outcome 2018	2017	2016	Comments on the trend
Our objective is to continually reduce electricity consumption in our production facilities. (MWh/production value, TSEK).	1.11%	1.15%	1.31%	In the production facilities where electricity consumption has been reduced, the switch to LED lighting, preventive maintenance of machinery and sensors for lighting and ventilation are common measures.
Our objective is to continually increase the share of electricity from renewable sources. The measurement includes the electricity consumed in our production facilities.	31%	29%	*	The production facilities in Belgium and Germany switched electricity contracts during the year so that they now purchase electricity from renewable resources. In Brazil and Italy, the share of green electricity in the mix decreased in 2018, which impacted this measurement negatively. Currently, there is no renewable electricity at all in Israel, Mexico and the US.
We strive to continually increase our rate of recycling (i.e. the proportion of waste reused or recycled out of the total amount of waste).	59%	57%	48%	Positive trend, but challenges in classification during the year continued to indicate the need of stricter definitions for re-use and recycling.
Proportion in per cent of our most important suppliers who have signed Munters Code of Conduct for suppliers.	66%	*	*	66 per cent of 80 per cent of Munters' annual sourcing of direct materials from Class 1 and 2 suppliers. Suppliers of direct materials are divided into three categories: Classes 1, 2 and 3. We have also encouraged suppliers of indirect materials to sign the Code of Conduct for suppliers, and then used a risk assessment as the basis for determining which categories were considered most critical. Suppliers of shipping and IT hardware were selected; 100 per cent of these are in compliance with the Code of Conduct, corresponding to 29 per cent of indirect sourcing.
Number of whistleblower cases via the external reporting channel.	7	*	*	During the year, we received and handled seven whistleblower cases through the channel. The cases pertained to suspicions of discrimination, corruption and fraud.
We strive to increase the proportion of women as a percentage of the workforce. The goal is 23 per cent by 2020 and 30 per cent by 2025.	20%	18%	18%	Positive trend that was confirmed in the equality plans prepared locally to promote the Group's equality objectives. The proportion of women in our production facilities remained constant during the year (11 per cent); the increase thus took place on the salaried employee side (28 per cent women at the end of the year).
We strive to increase the proportion of women managers. The goal is 23 per cent by 2020 and 30 per cent by 2025.	20%	17%	17%	Positive trend; two women on the Munters Board of Directors and now a total of three women in Group Management, corresponding to 23 per cent. (Since February 2019 there have been 2 women out of a total of 6 people in Group Management, equivalent to 30 per cent)
We continually strive to reduce the number of workplace accidents and we measure the Total Recordable Incident Rate (TRIR), which is calculated as the number of accidents where the employee needed to seek medical treatment multiplied by 200,000 and divided by the number of hours worked.	3.4	3.5	3.1	Our clear focus on safety, in which all accidents are now routinely reported to Group Management with analysis, cause and preventive measures has yielded results, as evidenced in the lower number of accidents in 2018 (70 accidents compared with 84 in 2017).

Risks and risk management

Risks are a natural element of all business operations, and effective risk management is crucial for Munters to achieve its business goals and to pursue long-term profitable and sustainable operations. Moreover, in certain cases risks can be transformed into opportunities if they are managed correctly.

A properly defined procedure for identifying, evaluating, managing and reporting risks enables:

- A competitive customer offering
- Compliance with laws and regulations
- A healthy, safe work environment
- Long-term sustainable profitability and performance

The Group's activities are directed at customers in all industries and market segments. Munters has production and assembly plants, combined with sales, in some 15 countries and sales-only offices in another 15. All together, this provides Munters with favorable underlying risk diversification, which is positive; at the same time, a global presence creates challenges linked to differences in culture, legislation and political climate.

RESPONSIBILITY

Managing risks is an important part of internal control. The Board of Directors has ultimate responsibility for the Group's risk management and approves the company's risk management policy. Group Management identifies, evaluates, and manages risks in their respective areas of responsibility. The CFO is responsible for coordinating risk evaluation and compiles the documentation reported to the Audit Committee and to the Board of Directors.

ANNUAL RISK EVALUATION

Every year, Munters conducts a Group-wide risk evaluation as a link in its strategy process. Risk evaluations are taken in from the business areas and Group functions, which identify and evaluate risks based on likelihood and potential impact on the operations.

The evaluations are compiled and then become the subject of discussion in Group Management. For each risk deemed to have significant impact on the Group, a person in Group Management is given the responsibility of producing and pursuing an action plan. "Significant impact" denotes a risk with a risk value of 12 or higher. The risk value is calculated by multiplying the factors for likelihood and impact.

RISK CATEGORIES

Risks are divided into four categories: Strategic, Operational, Regulatory and Financial. This concerns both general risks due to political and macroeconomic trends, and specific risks directly related to the Group's operations. A number of risks lie outside Munters' direct control, while others can be controlled.

Strategic risks

Strategic risks are those associated with decisions that management at different levels in the company take concerning strategic orientation, organisational structure and resource allocation, as well as major investments and acquisitions. This category also includes risks associated with internal and external communication.

Operational risks

Operational risks are linked to the company's internal resources: systems, procedures and employees. For example, it could be an issue of interruptions to operations owing to fire, breakdowns in machinery or extreme weather. Examples of operational risks concerning staff are risks associated with succession planning, the ability to retain core competences and the relationships with trade unions. In the area of IT, it could be an issue of risks associated with information security.

Regulatory risks

Regulatory risks include risk of loss of reputation and costs owing to violations of laws and regulations. This category also covers risks resulting from violations of provisions in signed agreements with employees, customers and other business partners.

Financial risks

Financial risks mainly consist of currency, interest and financing risks. None of these were deemed to be a particularly major risk in this year's risk evaluation. A description of the financial risks and how they are monitored and managed can be found in Note 3.

SUSTAINABILITY RISKS

The Group is also exposed to risks related to the field of sustainability, for example, risks concerning environmental issues, climate change, health and safety, respect for human rights, bribery and corruption. These risks are part of — and evaluated among — the strategic, operational, and regulatory risks.

Risks associated with regulatory compliance in the areas of corruption and bribery, as well as sanctions, were assessed as being of particular priority in the risk assessment for the year; on the following pages there is information on how we are working to manage these risks.

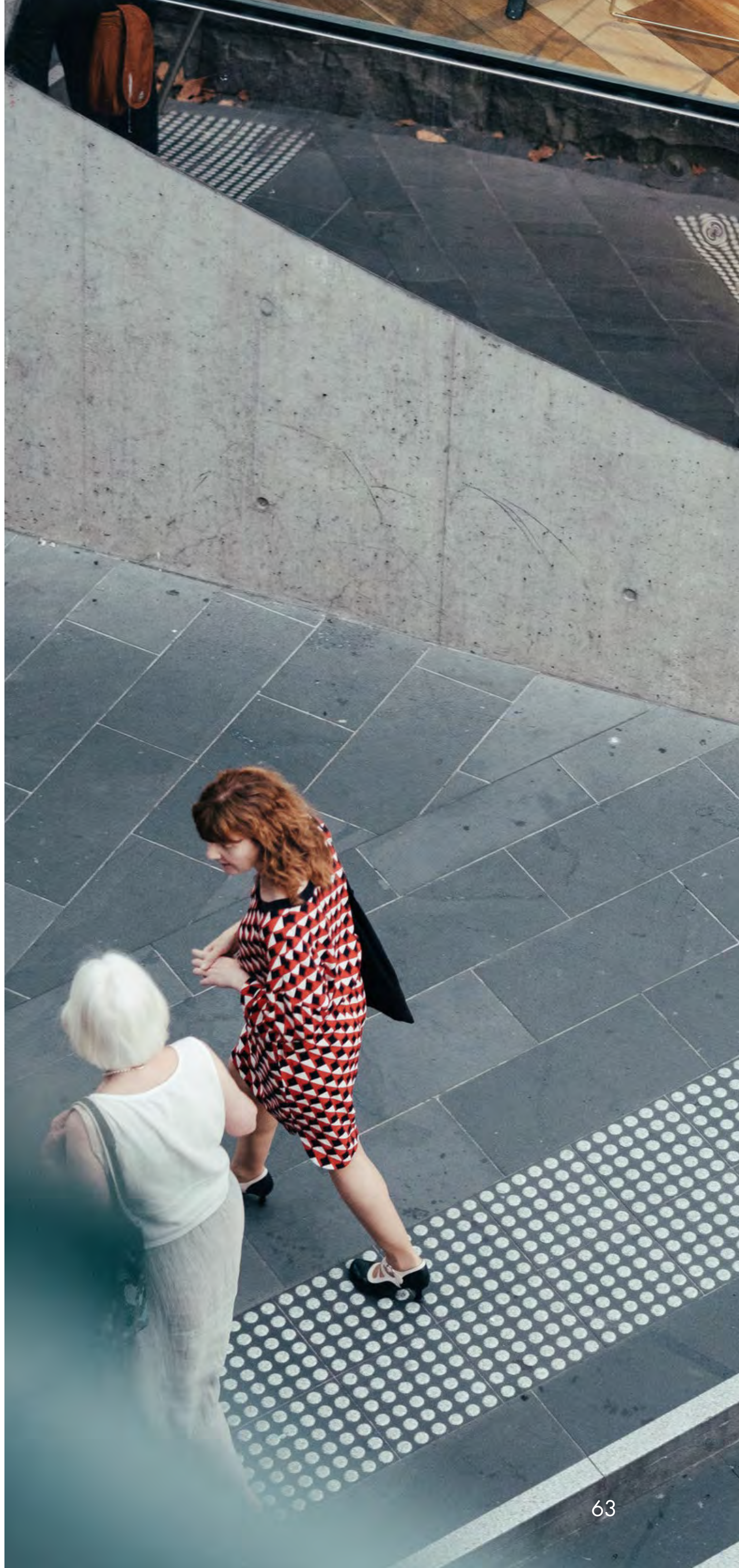
Risks related to the environment, climate change, health and safety, respect for human rights and a responsible supply chain were also evaluated, but were not deemed to be particularly high priority risks. For more information on how we are working on these areas, see the Sustainability Report on pages 52–61.

INSURABLE RISKS

Munters works actively with insurance solutions, and Group-wide insurances are governed by central guidelines. This includes general liability and product liability, property, business interruption, transportation, crimes against property, the liability of Board members and the CEO, and employment practices liabilities.

MUNTERS LOSS PREVENTION STANDARD

We are also working preventively to minimize the risks related to fire, the work environment, and health and safety. The Munters Loss Prevention Standard (LPS) is built on the Group's standards but also local laws and other regulations, as well as insurance requirements. LPS is used in the risk evaluations conducted by our production and assembly facilities. The objective is for all production plants to be evaluated over a three-year cycle; in 2018, evaluations of ten facilities were conducted. LPS is also used for evaluations in conjunction with business acquisitions, investments, and construction.



SPECIALLY PRIORITIZED RISKS, 2018

In the risk assessment for the year, a total of fourteen risks were deemed as potentially having significant impact on the Group. A brief description of these risks and how they are being monitored and managed follows below. The risks are presented grouped by risk category, in alphabetical order.

STRATEGIC RISKS

Allocation of production capacity

The risk that Munters will not have sufficient production capacity to realise its business plans, or will experience overcapacity that negatively affects the company's possibility for generating competitive profit margins.

Management

The work on developing the Sales and Operations Planning (S&OP) procedure continued during the year, and regular S&OP meetings are now being held with the entire Group Management.

Change management

The risk that Munters does not have effective procedures and project management for implementing changes in the organisation.

Management

The internal project management organisation (PMO) added further resources during the year; these resources are working on supporting the business areas in implementing Munters' strategy and on managing priority projects for change.

Trade barriers

Political instability and increased customs duties in important markets can affect the possibility of marketing and selling our products and services.

Management

The business areas are working together with Operations both to routinely monitor trends in the area and to guarantee that sourcing and production are planned in such a way that the effect of any trade barriers are minimised, for example, through the most important products being manufactured at several sites around the world.

M&A implementation, planning and integration

The risk of not being able to seize opportunities for acquisition and sales, or not achieving goals set for investments and acquisitions already completed, for example, as regards synergies.

Management

One central function responsible for managing M&A projects has been established.

PMO, the internal project function, spent the year working on monitoring acquisitions carried out over the last few years.

Forecasts

Risk of forecast errors that negatively impact allocation of resources and reporting to the market.

Management

Monthly updates and careful reviews of forecasts enable rapid measures.

The forecasts are analyzed on several levels in the organizations: regional, business area and Group, before they are published and reported internally and externally.

Technology changes, IoT

Risks associated with the rapid switch to digital and connected products and services.

Management

An IoT council with representatives from all business areas, Global Services and IT headquarters meets regularly to discuss and coordinate development projects in progress.

One person has been designated responsible for IT security regarding connected products.

OPERATIONAL RISKS

Dependence on small number of customers

Risks associated with dependency on a small number of major key customers (applies mainly in the Data Centers business area).

Management

Data Centers management works actively to broaden its customer base and increase the proportion of after-market business (i.e. spare parts and services).

Dependence on small number of manufacturing plants

Risks associated with important product components only manufactured in one or a small number of manufacturing plants leading, for example, to long lead times.

Management

Operations management works on guaranteeing that critical products and components are manufactured at strategically selected sites with a suitable geographic spread. This is coordinated with the work done to manage the risk associated with trade barriers (see above under "Strategic risks").

Quality control

Risk of insufficiently thorough procedures for quality control, which can result in the company's products needing to be recalled or not functioning as promised, thereby negatively impacting earnings and customer relationships.

Management

A Global Quality Manager position was added during the year. The purpose was to create an efficient, uniform quality system at Munters.

A Global Production Development position was appointed who will take office in January 2019. The role is responsible for developing and implementing the Munters Production System.

Employees and key competences

Risk that Munters fails to attract and retain employees with the competences needed to implement the company's strategies.

Management

A long-term incentive programme was introduced in 2018.

HR is working on a salary survey to ensure that Munters is offering competitive salaries.

New managers, managers in production and experienced managers who wish to take their leadership to the next level are offered leadership development courses.

Volatility

Risk that order volatility in the project-based Data Centers business area has major effects on both net sales and earnings.

Management

During the year, Data Centers management worked together with Operations management to investigate the possibilities of, for example, increasing flexibility on the supplier side, outsourcing parts of production and/or adding products from other business areas to Data Centers production facilities.

In addition, Data Centers management routinely works to increase sales of spare parts and services, thereby becoming less dependent on product sales.

In conjunction with the release of the Q4 2018 report in February 2019, Group Management announced the intent going forward to focus primarily on the US market as regards Data Centers. The intent is also to close down production in Dison, Belgium.

REGULATORY RISKS

Agreement routines

Risk that contracts with customers and suppliers are not negotiated and approved in accordance with applicable internal routines and that this results in contract risks such as commitments that are too far-reaching.

Management

The internal contract vetting process was expanded during the year to apply to all business areas (previously only to Data Centers). The same applies to the internal risk committee.

A checklist for contracts that are not built on standard terms and conditions has been developed and launched in the business areas.

Bribery and corruption

Risk that the Group's employees and distributors do not comply with laws against bribery and corruption, and that this results in legal and financial consequences as well as damaging the Group's reputation.

Management

There are policies in the area in the form of the Code of Conduct and a specific anti-corruption policy.

Online training for all salaried employees at Munters implemented in 2018.

Contract with distributors contains paragraphs stipulating that the distributors must comply with anti-corruption laws and regulations.

Whistleblower channel that facilitates anonymous reporting.

Self-assessment form for evaluating internal control routines at subsidiaries.

Sanctions

Risk that Munters signs agreements with customers who violate applicable sanction regulations in the US, the EU and the UN and that this results in legal and financial consequences as well as damaging the Group's reputation.

Management

Sanctions policy and guidance available.

Online training for all salaried employees at Munters implemented in 2018.

Routine collaboration with external advisers for monitoring trends in the area.

Strong position in growing segments create growth in value

Munters has strong customer relationships and products that are market leaders in advanced climate control solutions. The Group's position benefits from a number of strong trends in all our markets that create good conditions for growth. This provides opportunities for long-term growth in value for our shareholders.

Increased focus on climate and environmental impact, scarcity of resources as a consequence of global population growth, and a growing urban middle class that consumes more protein and vegetables and drives demand for energy and resource-efficient solutions. There is an increasing demand globally for energy-efficient solutions. On the whole, Munters has the most energy-efficient solutions in the market, and we offer climate solutions such as separation of environmentally hazardous substances, that strengthen our customers' sustainability profile. Increased focus on sustainability issues has also created great demand for electric cars. Munters contributes to this transformation through, for example, sales of climate equipment to companies that manufacture lithium-ion batteries.

Strict requirements for production environments and increased understanding of the impact of indoor climates on productivity and product quality, increase the demand for advanced climate systems. Munters offers exact control of climate, which meets our customers' requirements for better control of their environment. We see increased demand, for example, from the food industry, where hygiene requirements are being tightened up.

INNOVATIVE AND SUSTAINABLE PRODUCTS MAKE CUSTOMERS' OPERATIONS POSSIBLE

Munters products and solutions are often part of mission-critical processes with exact control of temperature and moisture. This provides guaranteed climate quality in our customers' processes, with reduced energy consumption and lower emissions. We have deep knowledge of specific applications, a great deal of expertise about the customer's business, and access to unique technologies we have often developed ourselves. Our products guarantee an excellent climate, which is crucial for increased productivity, improved food safety and — in livestock farming — for the animals' well-being with a reduced need for medication. Climate is also important for the employees' work environment.

Our internal and external global partnerships for developing new products, our organisation, and our in-depth understanding of the customer's applications are the foundation for our continued ability to innovate. Examples of new, innovative products are Munters Connected Climate, DryCool Focus and SonarEcho; for more information refer to Pages 42–43.

CONTINUAL WORK ON EFFICIENCY IN PRODUCTION

Munters' entire production platform is built on a shared platform that is largely based on Lean principles. We continually invest in increased resource efficiency and safety in the production process. The current structure is designed to balance the requirements for proximity to customers — which facilitates adaptation and service, and reduces lead times — with global cost advantages and reduced logistics costs.

Munters routinely evaluates its production platform in our effort to increase efficiency and flexibility in the production process and to improve delivery times. The vast majority of Munters products are manufactured and assembled in our own plants. Read more about efficient production on Pages 44–47.

STRONG EARNINGS IN STABLE SEGMENTS

Munters has strong earnings and balanced sales, with both new sales and after-market, as well as a growing and profitable service business. The after-market segment accounts for a larger part of sales and is stable and less affected by cyclical fluctuations. New sales and new installations represent a slightly smaller portion of business. Service, which represents 11 per cent of sales, is growing with a high level of profitability in Munters' offering. ■

The share

The Munters share trended negatively during the year. In 2018, the share price decreased 38.4 per cent at the same time as the Stockholm stock exchange as a whole fell 7.8 per cent over the same period and the OMX Stockholm Industrials index decreased 14.2 per cent.

The closing price on the last trading day of the year was SEK 34.00 (55.25), which was equivalent to a market capitalization of SEK 6.2 billion (10.1). The highest price paid in 2018 was SEK 58.50 (84.75), and the lowest price was SEK 31.90 (49.02).

TRADE IN MUNTERS SHARES

During 2018, a total of 65.8 million shares (63.8) were sold, at a value of SEK 2.99 billion (4.08). Average sales over the year totaled 263,155 shares per day (408,781).

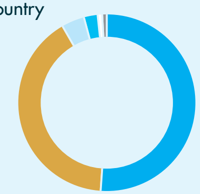
DIVIDEND

Under the dividend policy the Board of Directors adopted, Munters aims to pay an annual dividend corresponding to 30–50 percent of its consolidated income for the period. Decisions on any dividend proposals are taken by the Board in consideration of the company's financial position, investment needs, acquisitions and liquidity position.

The Board of Directors proposes that no dividend be issued for 2018.

OWNERSHIP DISTRIBUTION

by country



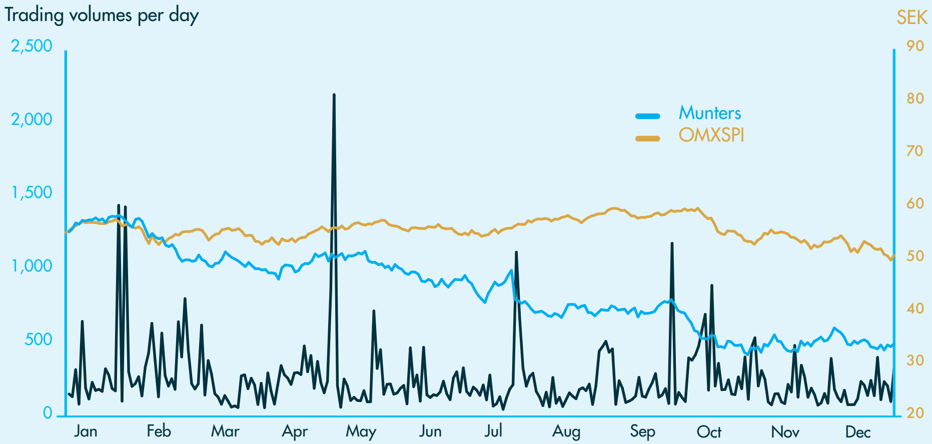
- Luxembourg 51%
- Sweden 40%
- United Kingdom 4%
- USA 3%
- Belgium 1%
- France 1%

KEY FIGURES

Number of shares at year-end, millions	184 (184)
Market capitalization at year-end, SEK M	6.2 (10.1)
Number of shareholders	6,673 (6,514)
Share price at year-end, SEK	34.00 (55.25)
Earnings per share, SEK	-0.57 (1.45)
Change in share price during the year, %	-38.4 (0.45)
Regular dividend, SEK/share	0.00* (0.30)
Dividend as a percentage of earnings per share	00 (21)
Proportion of shares in Sweden, %	39.97 (33.20)
Proportion of shares owned by the ten largest shareholder groups, %	86 (86)

* Proposed dividend.

THE MUNTERS SHARE



SHARE CAPITAL

At December 31, 2018, the number of shares and votes in Munters totaled 183,597,802. Each share has a quota value of SEK 0.03, and share capital totaled SEK 5,507,934.06. Munters' share capital is composed of one share class, in which each share has the same number of votes and yields the same right to a dividend. Under the Articles of Association, the number of shares may not fall below 150,000,000 and not exceed 600,000,000. The company's share capital may not fall below SEK 4,500,000 and not exceed SEK 18,000,000. The company's shares are registered with Euroclear Sweden AB, which administers the Company's share register and records the shares for individual persons. Munters Group AB has own holdings of 1,467,000 shares related to employee incentive programmes.

OWNERS

The number of shareholders as at December 31, 2018 totalled 6,673, and the proportion of shareholders outside Sweden at year-end was 60 per cent. The ten largest individual shareholders had 86.3 per cent of the share capital at that time.

At the end of the year, the members of Munters Group Management held a total of 520,211 shares in Munters. Members of the Board of Directors, excluding the CEO, owned 177,912 shares at the same point in time. Total Group Management and Board of Directors holdings in Munters shares corresponded to 0.4 per cent of total shares outstanding in the Company. Nordic Capital was the largest shareholder, with 50.1 per cent of the share capital.

ANALYSTS

Below are the analysts who actively cover the Munters share.

Bank	Name	Telephone
Carnegie	Kenneth Toll Johansson	+46 (0) 8 58 86 89 11
Goldman Sachs	Jack O'Brien	+44 (0) 207 552 2998
Danske Securities	Oscar Stjerngren	+46 (0) 8 568 806 06
Danske Securities	Max Frydén	+46 (0) 8 568 805 23
Nordea	Agnieszka Vilela	+46 (0) 101 572 870
Kepler Cheuvreux	Mats Liss	+46 (0) 8 723 51 18
Jefferies	Peter Reilly	+44 (0) 207 029 8632
Jefferies	Graham Phillips	+44 (0) 207 029 8346
Pareto	Anders Roslund	+46 (0) 8 402 52 88

THE TEN LARGEST SHAREHOLDER GROUPS

Name	Holding	Holding, %
Nordic Capital	91,999,607	50.11
FAM AB	20,967,907	11.42
AMF Försäkringar och Fonder	14,530,048	7.91
First Swedish National Pension Fund	11,324,746	6.17
ALECTA Pensionsförsäkring, Ömsesidigt	9,190,000	5.01
JP Morgan Chase Bank N.A.	3,446,931	1.88
Fourth Swedish National Pension Fund	2,127,981	1.16
Leesi, John Peter	1,823,829	0.99
State Street Bank and Trust CO	1,661,041	0.90
BNY MELLON SA/NV (FORMER BNY), W8IMY	1 339 157	0.70

SHAREHOLDING, BY SIZE

Holding	Number of shareholders	Holding, %	Votes, %
1–500	5,346	0.34	0.34
501–1,000	533	0.25	0.25
1,001–5,000	522	0.68	0.68
5,001–10,000	110	0.48	0.48
10,001–15,000	35	0.24	0.24
15,001–20,000	21	0.21	0.21
20,001–	124	97.80	97.80

Comments from Chairman of the Board Magnus Lindquist

When, just before Christmas, I was elected chairman of Munters, I could state that the company needed a restart and changes. The first step consisted of taking into account what management, the rest of the Board of Directors and the major shareholders saw as both the company's problem and what needed to be achieved in order to improve the situation. There was a very strong sentiment among Board members that things needed to be done differently. When I took office, there was thus no complete or given agenda; it has its basis in intensive and broad support work.

My guiding light has always been being part of building something better, more durable, with a higher level of quality, and thus better for all stakeholders such as customers, employees, shareholders and society in general. Really striving to bring out the company's full potential and actually daring to invest in doing what is required. Often this is just talked about, but it is a question of putting it into practice and actually daring to do it systematically and efficiently. Continually developing business acumen, allocating clear overall responsibility and always starting from the customer's needs forms the conditions for creating a world-class company — which is my ambition for Munters.

Achieving this requires a combination of listening to people — employees as well as colleagues at other companies, but also people with experience of the same journey I see before me, the one we will now take with Munters.

At present, Munters operates in several segments that are bringing the major trends with them, while the company is not unaffected by the business cycle. Of course, we are affected in the short term by political decisions and other uncertainties linked to the prevailing market conditions. That is why we must keep our ears to the ground in order to understand the trends affecting our customers, so as to adapt ourselves more rapidly than we did previously.

Embracing a sustainable approach to our business is also part of belonging to society undergoing change. For a company like Munters that believes in and works hard for sustainability, this is a natural motivator. Our employees feel both responsible for and proud of being part of this work, and our offering is becoming even more relevant for our customers. Donning the yellow jersey for sustainability challenges us all to contribute to a company that is creating long-term societal value — something that is required for Munters to remain competitive.

In Air Treatment, which is the business area at the very heart of Munters, the company has a very strong market position. At the same time, there is great potential in further strengthening the area through developing new products and services, and an increased focus on customer segments where the company is creating clear added value. There is untapped potential in after-market with service and maintenance. Digitalisation and AI will naturally also lead to more intelligent, smarter solutions for managing humidity and temperatures in various kinds of industrial properties and food processing facilities. In pace with increased requirements, this will become even more advanced; here, Munters must be part of leading development.

In our other core operation, AgHort, we see a great deal of potential in general — especially for SonarEcho, our connected solution, which has the potential to fundamentally change the poultry industry. This software solution provides increased control and efficiency throughout the production chain, and we are seeing a great deal of interest from our customers.

The new business model is not completely ready, but an initial step is further simplifying the organisation and further decentralisation. As I mentioned earlier, a modern world requires a customer-focused offering and an understanding of rapidly changing needs, which is why more decisions will be taken in the respective business areas with minimal involvement from the Group. This increases both transparency and demands for responsibility, strengthens efficiency and promotes expanded customer knowledge.

In conjunction with the year-end report, we launched a three-phase plan that will steer Munters back toward clear priorities and ensure coherent internal objectives with consistent, transparent communication both internally and externally. The most important work for the Board of Directors over the short term will be following up on the action plan, ensuring that it is implemented in the manner agreed upon with management and that it leads to the desired results.

As regards the company's dividend policy, it remains firm, but in light of the major reorganisations the company is undergoing, the Board does not deem it suitable to propose any dividend to the Annual General Meeting. We hope and believe that all shareholders will consider this the correct approach. Steering Munters back in a profitable direction requires a strong balance sheet in order to subsequently increase the pace of the company's ambition for growth. ■

Corporate Governance Report

The goal of corporate governance is to guarantee that the company is managed as efficiently as possible for the shareholders. This entails establishing an effective organisational structure, systems for internal control and risk management, and transparent internal and external reporting.

Munters Group AB (Munters, or "the Company") is a Swedish public company listed on Nasdaq Stockholm Large Cap. Corporate governance is primarily regulated by the Swedish Companies Act and other Swedish legislation, the Nasdaq Stockholm rulebook for Issuers, and the Swedish Corporate Governance Code ("the Code"). Munters has applied the Code starting from May 19, 2017, when the company's shares were admitted for trade on Nasdaq Stockholm, and hereby submits its Corporate Governance Report for fiscal year 2018.

CORPORATE GOVERNANCE STRUCTURE

COMPLIANCE WITH RULES

External governance systems

The external governance systems that constitute the framework for Munters' corporate governance consist primarily of the Swedish Companies Act, the Swedish Annual Accounts Act, the Nasdaq Stockholm rulebook for Issuers and the Code, as well as other applicable regulations and relevant legislation.

Internal governance systems

The Articles of Association adopted by the Annual General Meeting (AGM), the Munters Board Rules of Procedure adopted by the Board, the instructions for the CEO and the instructions for the Compensation and Audit Committees constitute the key internal governance systems.

In addition to this, the Group has a number of policies and instructions with rules and principles for the Group's operations and employees. In 2018, the Munters Board of Directors passed resolutions on the following policies and instructions:

- Rules of Procedure for the Board of Directors
- Instructions for the CEO
- Rules of Procedure and instructions for the Audit Committee
- Rules of Procedure and instructions for the Compensation Committee
- Code of Conduct
- Steering documents
- Certification and Authorization rules
- Treasury policy
- Anti-corruption and bribery policy
- Purchasing policy
- Communication policy
- Insider Policy
- Policy for internal control
- IT policy
- Risk management policy
- Whistleblower policy
- Policy for gifts
- Policy for conflicts of interest
- Sanctions policy

Deviations from the Code
The Code applies to all Swedish companies whose shares are listed on a regulated market in Sweden. The Code indicates a norm for good corporate governance at a higher level of ambition than the minimum requirements of the Swedish Companies Act and other rules.

The Code is built on the "comply or explain" principle. This means that the company does not have to observe every rule in the Code at all times, but can choose other solutions deemed to better address the circumstances in the individual case provided that the company openly reports every such deviation, describes the solution chosen instead and indicates the reasons for this in the corporate governance report.

Munters deviates from Rule 9.7 in the Code with respect to the warrant programme introduced in connection with listing the company's shares on Nasdaq Stockholm. Pursuant to the terms of one of the two warrant series, participants may exercise such warrants to subscribe for shares after a two-year period, a shorter period than the minimum three years prescribed by the Code. The other warrant series entitles participants to exercise the warrants to subscribe for shares after a three-year period. The offering of warrants with terms of exercise after two and three years, respectively, is considered to be in line with Munters' long-term business plan, strategy, and financial targets. In future, Munters intends to implement only three-year programs.

In 2018, Munters deviated from Rule 9.8 of the Code in that former CEO John Peter Leesi's fixed salary during the notice period and severance pay upon the company's termination of his employment amounts to three years' fixed salary, which exceeds the two years' fixed salary prescribed by the Code. During the notice period (12 months) and the period when severance pay is paid (24 months), the CEO is subject to a non-competition undertaking, which the company considers to be in the interest of the company and its shareholders, and thus justified the deviation from Rule 9.8 of the Code.

In 2018, Munters deviated from Rule 1.2 in the Code in that Christopher Curtis, former Chairman of the Board of Munters, did not attend the Extraordinary General Meeting on December 18, 2018 which is a requirement under the Code. The deviation was justified for cost reasons, as the Board did not consider it necessary or motivated for Christopher Curtis to travel from the US to Sweden to attend the General Meeting where it was proposed he be replaced by Magnus Lindquist as Board member and Chairman of the Board.

MUNTERS' ARTICLES OF ASSOCIATION

Munters' Articles of Association were adopted at an Extraordinary General Meeting on May 7, 2017 and contain no particular provisions on the appointment and dismissal of Board members or on changes to the Articles of Association. For the complete Articles of Association, refer to the Munters website.

1. Shareholders

Shares in Munters have been listed on Nasdaq Stockholm Large Cap since May 19, 2017. At year-end, share capital totalled SEK 5,507,934.06 distributed among 183,597,802 shares. All shares are of the same type, and have equal rights in every respect. On December 31, 2018, Munters had 6,673 shareholders (compared with 6,514 on December 31, 2017). The largest shareholders were Nordic Capital (50.1 percent of votes) and FAM (11.4 percent of votes). Additional information on the share and shareholders can be found in the section on the Munters share and on the Munters website.

Buy-back of own shares

For the purpose of guaranteeing delivery of shares to participants in the long-term incentive programme resolved at the 2018 AGM, the Board of Directors was authorised by the AGM to decide on the acquisition of at most 1,467,000 own shares for the period up to the next AGM. The Board of Directors decided to make use of the buy-back authorisation on May 17, 2018, and the buy-back was conducted between 22 and 28 August 2018. In total, 1,467,000 shares were bought back at an average share price of SEK 40.27, which is the total number of own shares Munters holds and is approximately 0.8 per cent of the share capital.

2. General Meeting

The right of the shareholders to decide on matters concerning Munters is exercised at the General Meeting (GM). Shareholders who are recorded in the share register on the record date and have registered for the GM within the time period indicated in the notice to attend have the right to participate in the GM, either in person or by proxy.

Decisions at the GM are normally taken by simple majority. On certain issues, however, the Swedish Companies Act prescribes a qualified majority of votes, and in certain individual cases a certain portion of shareholders present, as well, in order to achieve a quorum.

The AGM must be held within six months from the end of the financial year. Munters AGMs are held in Stockholm, Sweden, every calendar year before the end of June.

Under the Articles of Association, notices convening General Meetings are issued through announcement in Post- och Inrikes Tidningar (the Swedish Official Gazette) as well as on the Munters website. Announcement to the effect that a notice convening a GM has been issued shall be made in Svenska Dagbladet.

Apart from the AGM, Extraordinary General Meetings may be held if the Board considers it to be necessary, or if Munters' auditor or owners of at least 10 percent of total shares in the company requests one.

All shareholders who are directly recorded in the share register maintained by Euroclear Sweden five weekdays (Saturdays included) prior to the AGM and who have notified the company of their intention to participate in the AGM not later than the date indicated in the notice of the AGM, are entitled to attend the AGM and vote for the number of shares they hold. In addition to notifying the company, shareholders whose shares are nominee registered through a bank or other nominee must request that their shares be temporarily registered in their own names in the register maintained by Euroclear Sweden, in order to be entitled to participate in the AGM. Shareholders should inform their nominees well in advance of the record date.

Shareholders who wish to have an issue brought before the General Meeting must submit a request in writing to the Board of Directors. The request should normally be submitted to the Board of Directors seven weeks before the General Meeting at the latest.

2018 Annual General Meeting
At the AGM on May 17, 2018 at the Clarion Hotel Sign in Stockholm 95 shareholders were represented corresponding to 87.3 per cent of the share capital. The meeting was held in Swedish with simultaneous interpretation into English. All Board members, and the Group's auditor in charge, were in attendance.

The AGM resolved on issues including the following:

- Dividend of SEK 0.30 per share for fiscal year 2017
- Re-election of Board members Christopher Curtis, Helen Fasth Gillstedt, Per Hallius, Joakim Karlsson, John Peter Leesi, Andreas Näsvik, Lena Olving, Kristian Sildeby and Joachim Zetterlund
- Re-election of Christopher Curtis as Chairman of the Board
- Fees to the Board of Directors
- Guidelines for remuneration to senior executives
- Long-term incentive programme for Group Management and certain other key employees, containing resolutions on issuance of employee stock options and hedging measures in connection with it
- Authorisation for the Board of Directors on one or more occasions, up to the time of the next Annual General Meeting, to decide on issuance of shares and/or convertible instruments and/or warrants totalling 18,359,780 shares that can be issued, as convertible instruments that can be converted to shares and be subscribed to through the utilisation of warrants.

2018 Extraordinary General Meeting
At an extraordinary General Meeting on December 18, 2018, Magnus Lindquist and Johan Ek were elected as ordinary Board members for the period up to the end of the next AGM to replace Christopher Curtis and Joakim Karlsson. In addition, Magnus Lindquist was elected as the new Chairman of the Board.

2019 Annual General Meeting
The 2019 Annual General Meeting will be held on May 8, 2019, in Stockholm, Sweden. For further information, refer to the Munters website.

3. Nomination Committee

Nomination Committee activities
The Nomination Committee is charged with preparing and submitting proposals on behalf of the shareholders for electing the Chairman of the AGM and electing a Chairman of the Board and other Board members, in addition to a reasoned statement, election of auditors, decisions on fees to auditors and to the Board (divided between the Chairman and the other members, as well as remuneration for committee work) and, where necessary, proposing changes to the appointment of the Nomination Committee. In addition, the Nomination Committee also assesses the independence of Board members in relation to the company and its major shareholders. The company's Audit Committee assists the Nomination Committee in its work on proposing the election of auditors; the Nomination Committee's proposals to the GM regarding the election of auditors must contain the recommendation of the Audit Committee.

Prior to submitting its proposals to the Board, the Nomination Committee may read through the evaluation of the activities of the Board and its members and inform itself in general of the Board's activities through interviews with the company's CEO and selected committees and Board members.

Shareholders who wish to submit proposals to the Nomination Committee may do so via the Committee's e-mail: valberedningen@munters.se or by post: Munters Group AB, Nomination Committee, Box 1188, SE-164 26 Kista, Sweden.

Composition of the Nomination Committee
Under the Nomination Committee instructions adopted by the 2017 AGM, which are in force until further notice, the Nomination Committee shall be composed of representatives from the four largest shareholders in terms of voting rights listed in the share register maintained by Euroclear Sweden AB as of August 31, each year. The Nomination Committee also includes the Chairman of the Board, who also convenes the first Nomination Committee meeting.

The composition of the Nomination Committee for the AGM shall normally be announced no later than six months before that meeting. Remuneration shall not be paid to the members of the Nomination Committee. Changes in the composition of the Nomination Committee shall be made public immediately.

Nomination Committee prior to the 2019 AGM
The composition of the Nomination Committee was published on the Munters website on September 19, 2018. The Nomination Committee for the 2019 AGM consists of Robert Furuhjelm (Nordic Capital), Lars Wedenborn (FAM AB), Tomas Risbecker (AMF Försäkringar och Fonder), Johan Grip (First Swedish National Pension Fund) and Magnus Lindquist (Chairman of the Board of Munters). Magnus Lindquist was appointed as a member of the Nomination Committee in conjunction with his replacement of Christopher Curtis as Chairman of the Board of Munters at the Extraordinary General Meeting on December 18, 2018. Prior to this, Christopher Curtis was a member of the Nomination Committee. From the time it was constituted up until the submission of the Annual Report, the Nomination Committee held five meetings.

4. Board of Directors

Board activities
The duties of the Board of Directors are primarily set forth in the Swedish Companies Act and the Code. In addition to this, Board activities are guided by formal rules of procedure that the Board adopts every year. The rules of procedure govern the division of work and of responsibility among the members of the Board, its committees, its Chairman and the CEO. The instructions for the CEO also contain instructions for financial reporting. The tasks of the Board of Directors include adopting strategies, business plans and targets, and issuing interim reports and year-end financial statements and managing risks, as well as setting policies and guidelines. The Board is also required to follow economic developments and ensure the quality of financial reporting and the internal controls, and evaluate the Group's operations based on the objectives and guidelines set by the Board of Directors. The Board is also responsible for appointing the CEO. Finally, the Board of Directors decides on major investments and changes in organization and activities.

NOMINATION COMMITTEE PRIOR TO THE 2019 AGM

Name	Appointed by	Holdings/votes
Robert Furuhjelm, Chairman, Nomination Committee	Nordic Capital	50.1%
Lars Wedenborn	FAM AB	11.4%
Tomas Risbecker	AMF Försäkringar och Fonder	7.9%
Johan Ek	First Swedish National Pension Fund	6.2%
Magnus Lindquist	Chairman of the Board, Munters	

COMPOSITION OF THE BOARD OF DIRECTORS

Name	Elected in	Fee, SEK [1]	Committee fees	Independent	Present: Board Meetings	Present: Audit Committee	Present: Compensation Committee
Christopher Curtis, chairman[2]	2015	618,493	45,833[3]	Yes	14/14	-	3/3
Helen Fasth Gillstedt	2017	400,000	150,000[4]	Yes	14/15	5/5	-
Per Hallius	2013	400,000		Yes[5]	15/15	-	-
Joakim Karlsson[6]	2010	241,573		No	10/14	-	-
John Peter Leesi, President and CEO[16]	2011	-		No[7]	15/15	-	-
Andreas Näsvik	2011	400,000	150,000[3] [4]	No[8]	15/15	5/5	4/4
Lena Olving	2017	400,000	100,000[4]	Yes	14/15	4/5	-
Kristian Sildeby	2017	400,000		No[8]	15/15	-	-
Joachim Zetterlund	2012	400,000	100,000[3]	Yes	15/15	-	4/4
Magnus Lindquist, Chairman[9]	2018	431,507	4,167[3]	Yes	1/1	-	1/1
Johan Ek, interim President and CEO[10]	2018	-		No[11]	1/1	-	-
Pia Nordqvist[12]	2004	-		-	15/15		
Robin Hedén[12] [13]	2017	-		-	10/11		
Simon Henriksson[14] [15]	2017	-		-	14/15		
Robert Wahlgren[14]	2009	-		-	13/15		

1) Remuneration determined regarding work from the 2018 AGM to the 2019 AGM.
2) Christopher Curtis left the Board of Directors on December 18, 2018. Received pro rata Board fees as of the 2018 AGM up through December 18, 2018.
3) Compensation Committee fee.
4) Audit Committee fee.
5) Per Hallius has a consulting agreement with Nordic Capital Limited and Nordic Capitals Fonder.
6) Joakim Karlsson left the Board of Directors on December 18, 2018. Received pro rata Board fees as of the 2018 AGM up through December 18, 2018.
7) Independent in relation to the company's major shareholders, but not to the company and Group Management.
8) Independent in relation to the company and Group Management, but not to the company's major shareholders.
9) Magnus Lindquist elected to the Board of Directors at the Extraordinary General Meeting on December 18, 2018. Receiving pro rata Board fees as of 18 December 2018 up through the 2019 AGM.
10) Johan Ek elected to the Board of Directors at the Extraordinary General Meeting on December 18, 2018. Appointed interim CEO on the same day; will receive no Board fees while he is interim CEO.
11) Not independent in relation to the company and Group Management, or in relation to the company's major shareholders.
12) Employee representative.
13) Robin Hedén left the Board of Directors as ordinary employee representative on November 1, 2018.
14) Employee representative, deputy.
15) Simon Henriksson elected ordinary employee representative on November 1, 2018.
16) President and CEO until December 18, 2018.

Composition of the Board of Directors

Under the company's Articles of Association, Munters' Board of Directors shall consist of at least three and no more than ten members elected by the AGM for a term of office until the end of the next AGM. At the 2018 AGM, all nine Board members were re-elected. Under Swedish law, the trade unions have the right to representation on the Board; in 2018 they were represented by two members and two deputies. A presentation of the Board members can be found in the section on the Board of Directors on pages 78–79.

The CEO of Munters is part of the Board of Directors, and the CFO participates as a presenter at Board meetings. Lawyer Johan Lekholm serves as the Board's secretary. Other company officers participate in Board meetings to provide presentations on specific issues.

The reasoned statement of the Nomination Committee for the 2018 AGM states that the Nomination Committee applied Rule 4.1 of the Code as its diversity policy in drawing up its proposal for the Board of Directors. The goal of the policy is for the Board, in consideration of the company's operations, phase of development and conditions in general, to have a suitable composition marked by diversity and breadth as regards the competence, experience and background of the members elected by the GM, and that an equitable gender distribution is desirable. The 2018 AGM resolved to elect Board members in accordance with the proposal of the Nomination Committee. In preparing its proposal, the Nomination Committee stated that the gender distribution of the proposed Board was not satisfactory. In the opinion of the Committee, however, continuity in the Board's activities was of great importance for the time being and in this light proposed the re-election of all members. In its reasoned statement, the Committee emphasized the importance of future committees continuing to work actively to achieve greater diversity in the Board, striving in particular for an equitable gender distribution among its members. Nine members were elected at the 2018 AGM: two women and seven men.

Changes to the composition of the Board in 2018

At an Extraordinary General Meeting on December 18, 2018 Magnus Lindquist and Johan Ek were elected as ordinary Board members for the period up to the end of the next AGM to replace Christopher Curtis and Joakim Karlsson. In addition, Magnus Lindquist was elected as the new Chairman of the Board. In a press release dated December 18, 2018 the Board of Directors of Munters announced that John Peter Leesi was leaving his

2018 BOARD MEETINGS

During 2018, the Board of Directors held 15 meetings. Below is an overview of the most important issues addressed at these meetings.

■■ February
Decision on dividend proposal regarding fiscal year 2017.
Decision on approval and release of the year-end (Q4) report.

■■ April
Approval of the 2017 Annual Report.
Decision on approval and release of the Q1 report.

■■■ May
Approval of proposed policies from management.
Re-election of all members of the Compensation and Audit Committees.
Decisions on adoption of the rules of procedure for the Board of Directors, and the rules of procedure for the Compensation and Audit Committees.

■ July
Decision on approval and release of the Q2 report.

■ August
Decision on buy-back of own shares by virtue of the authorisation from the 2018 AGM, to safeguard commitments under the incentive programme.

■ September
Business area strategy plans for 2019–2021.

■■ October
Approval and release of the Q3 report.
Updated plan for increased profitability in Business Area Data Centers.

■ November
Decision on notice to attend an Extraordinary General Meeting to resolve on proposals for changes to the Board.

■■ December
Election of Magnus Lindquist as new member of the Compensation Committee.
Election of Johan Ek as interim President and CEO.
2019 financial plan.

■ Number of meetings

role as President and CEO. In conjunction with this, John Peter Leesi was also leaving his assignment as Board member. On November 1, 2018 Robin Hedén left the position as ordinary employee representative on the Board. In conjunction with this, the IF Metall trade union elected Simon Henriksson, former deputy employee representative, as the new ordinary employee representative.

Independence of the Board
The company meets the requirements in the Code through a majority of the members elected by the AGM being independent of the company and company management, and that at least two of them are independent of the major shareholders. The independence of the Board members at the time of publication for this report is shown in the table, "Composition of the Board of Directors", on page 73.

Responsibilities of the Chairman of the Board
The Chairman of the Board of Directors leads and governs the work on the Board, ensuring that its activities are conducted efficiently. The Chairman also ensures that the Swedish Companies Act and other applicable laws and regulations are observed, and that the Board is given the training required and that it improves its knowledge of Munters. The Chairman follows operations in close dialogue with the CEO, conveys opinions from shareholders to the other Board members, and serves as spokesperson for the Board. The Chairman of the Board is responsible for other Board members receiving sufficient information to perform their work effectively, and for ensuring that the decisions of the Board are implemented. The Chairman of the Board is also responsible for the Board evaluating its work on a yearly basis.

Board fees
At the 2018 AGM, it was resolved that fees of SEK 1,050,000 would be paid to the Chairman and of SEK 400,000 each to the other members elected at the meeting. It was further resolved that fees of SEK 150,000 would be paid to the chair of the Audit Committee, with SEK 50,000 to each of the other members of the Committee; and SEK 100,000 to the chair of the Compensation Committee, with SEK 50,000 to each of the other members of the Committee.

Evaluation of Board activities
Every year, an evaluation must be conducted to ensure the quality of Board activities and to survey the need, if any, for additional competence or experience. The Chairman of the Board is responsible for conducting this evaluation and for providing it to the Nomination Committee. Upon request of the Nomination Committee, the Board members must participate in interviews with the Nomination Committee so as to facilitate the evaluation.

In 2018, the Board conducted a Board evaluation in which the members of the Board had to respond to a comprehensive questionnaire concerning issues such as strategies and objectives, investments, reporting and control, organization and directors, the forms of the Board's work, the composition and overall function of the Board of Directors, and their competence and their own work on the Board. The Nomination Committee was notified of the outcome of the Board evaluation in December 2018.

Board Committees
The Board of Directors has two committees: the Audit Committee and the Compensation Committee. Reports to the Board on issues addressed during the meetings of the Committees are either in writing or given orally. The work of each committee is performed in accordance with written policies and the rules of procedure stipulated by the Board of Directors. Minutes of committee meetings are provided to all Board members.

5. Audit Committee
The overall task of the Audit Committee is to ensure fulfilment of the Board of Directors' supervisory duty in relation to internal control, audit, financial risk management, accounting and financial reporting; to prepare matters regarding the procurement of audit and other services provided by the auditor; and to prepare certain accounting and auditing matters to be resolved by the Board.

The Audit Committee must review procedures and routines for the aforementioned areas. The Audit Committee shall submit recommendations and proposals to ensure the reliability of the financial reporting and its compliance with generally accepted accounting principles, and continually discuss the efficiency of the company's accounting principles and financial control with the auditors and Group Management, and consider any recommendations regarding improvements to internal control. In addition, the Audit Committee shall monitor the impartiality and independence of the auditor, evaluate the audit work and discuss collaboration between the auditor and the company's internal control function. The Audit Committee shall also assist the Nomination Committee in preparing nominations for auditor and proposals in respect of audit fees by submitting recommendations to the Nomination Committee.

The Audit Committee shall, during the period between two consecutive AGMs, hold at least five meetings, normally in conjunction with ordinary meetings of the Board of Directors.

In 2018, the Audit Committee consisted of Helen Fasth Gillstedt (chair), Andreas Näsvik and Lena Olving. The Audit Committee fulfills the requirement in respect of accounting and auditing competence as set forth in the Swedish Companies Act. The Audit Committee had five meetings during 2018. Board member attendance is shown in the table, "Composition of the Board of Directors", on page 73.

6. Compensation Committee
The task of the Compensation Committee is to prepare issues relating to compensation for the CEO and Munters' other senior management. The Compensation Committee proposes guidelines for, among other things, the relationship between fixed and variable compensation, the principal conditions for bonuses and incentive schemes, conditions for non-monetary benefits, pensions, termination and severance pay. The Committee also makes proposals on individual compensation packages for the CEO and other executives in the company's senior management. Furthermore, the Compensation Committee shall monitor and evaluate the outcome of variable compensation schemes and the company's compliance with compensation guidelines adopted by the Annual General Meeting.

In 2018, the Compensation Committee consisted of: Joachim Zetterlund (chair), Christopher Curtis (until December 18, 2018), Andreas Näsvik and Magnus Lindquist (as of December 18, 2018). The Compensation Committee held four meetings in 2018. Board member attendance is shown in the table, "Composition of the Board of Directors", on page 73.

7. Group Management and CEO
Apart from the President and CEO, Group Management in 2018 consisted of four business area Vice Presidents and the CFO, and seven Group Vice Presidents responsible for the following central functions: Global Operations, Global Services, Innovation and Technology, HR & Communications, Strategy & Business Development, CSR and Investor Relations.

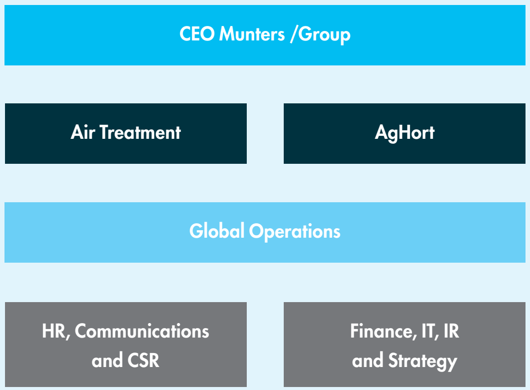
The CEO is responsible for day-to-day management in accordance with the guidelines and instructions of the Board of

Directors. The CEO's responsibilities include taking all measures necessary to ensure that the organization and control of the company's accounting takes place in accordance with current rules and regulations. The CEO shall also prepare all necessary information and supporting documentation for Board meetings and, if requested by the Chairman of the Board, to summon the meeting. The CEO reports at the Board meetings and shall submit motivated proposals for decision to the Board of Directors.

The CEO shall ensure that the Board members continually receive all information necessary to assess the company's financial situation. The quality of the report shall be such that it permits the Board of Directors to make a well-grounded assessment.

Changes to Group Management in 2018
Katarina Lindström took office as Group Vice President Global Operations in May 2018. Sofia Gellar was appointed Group Vice President HR & Communication in October 2018. She replaced Per-Arne Håkansson, who retired. Michael Gantert was appointed Group Vice President Data Centers in October 2018. He replaced Neil Yule, who will be leaving the company in June 2019. Johan Ek was appointed interim President and CEO for Munters in December 2018; previously, John Peter Leesi had been President and CEO.

GROUP STRUCTURE



Changes to Group Management in 2019
In conjunction with the publication of the Q4 2018 report, Munters announced that Jonas Ågrup, CFO, would be leaving Munters at the end of 2019 and that recruitment of a new CFO had begun. Additionally, it was announced that Peter Lindquist had been appointed interim Group Vice President Air Treatment as of February 13, 2019, replacing Scott Haynes. It was also announced that, as a result of certain structural changes in Munters, Group Management would consist of six members compared with the previous 13. The new Group Management will consist of the President and CEO, Group Vice President and CFO, Group Vice President Air Treatment, Group Vice President AgHort, Group Vice President Global Operations and Group Vice President HR, Communications and CSR.

Guidelines for remuneration to senior executives
Guidelines for remuneration to senior executives are evaluated and put forward for approval on a yearly basis at the AGM by the Board of Directors. Compensation for the CEO and CFO is prepared by the Compensation Committee and decided by the Board of Directors. Compensation for other senior executives is prepared by the CEO and decided by the Compensation Committee.

Munters will endeavour to offer total compensation that is reasonable and competitive in relation to what applies in the country or region of employment for the respective Group Management members and enables Munters to recruit and retain the senior executives needed for the company to reach its short-term and long-term targets.

Compensation can consist of:
- Fixed salary
- Variable salary
- Other benefits such as pension and insurance

The Board of Directors will evaluate annually whether or not a long-term incentive programme is to be proposed to the AGM. The 2018 AGM resolved to introduce a long-term incentive programme in the form of an employee stock option programme for Group Management and certain other key employees.

For additional information on compensation to senior executives, long-term incentive programmes and pension benefits, refer to Note 31 and 32.

8. External Auditor
Munters external auditor is appointed by the AGM. The auditor reviews the Annual Report and the consolidated financial statements, as well as management by the Board of Directors and the CEO. The audit is conducted in accordance with the International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit is reported on a continual basis over the year to the company's Audit Committee. Over the year, the auditor participated in all Audit Committee meetings and in the Board meeting where the annual accounts were addressed. The auditor participates in the AGM, describing the audit work and the observations made in the audit report there.

The fee for the auditor for their audit work is paid out on a continual basis according to approved invoices. Apart from audit work, Munters audit firm EY provided other services during the year, primarily in acquisitions and tax-related issues. For information on remuneration to EY, refer to Note 30.

EY has been Munters auditor since 2010, and Erik Sandström, authorized public accountant and member of FAR (the professional institute for authorized public accountants in Sweden), has been auditor-in-charge since 2012. At Munters AGM in 2016, EY was re-elected as auditor for a term of office of four years, up through the 2020 AGM.

Erik Sandström
auktoriserad revisor, EY

INTERNAL CONTROL OF FINANCIAL REPORTING

Internal control deals with clarity and order, as well as with ensuring that what is to be done is done the way it was intended. Internal control is the collective term for the organization and the systems, processes, and routines that enable this.

Munters' internal control of its financial reporting is based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework covers five different main areas: control environment, risk assessment, control activities, information and communication, and monitoring.

Control environment

Internal control is formed by the overall control environment. The Board of Directors is responsible for adopting an efficient system of internal control and governing the work through the CEO. Group Management sets the tone for the operation, influencing employees' awareness regarding control. One precondition for a strong control environment is that there are clearly defined values in terms of ethics and integrity, and that these are communicated through policy documents such as policies, guidelines, manuals and codes. For financial reporting, Group Management in Munters issues policies and guidelines to all its subsidiaries, which are followed up with newsletters, telephone conferences, and direct control activities. Courses are also conducted for many areas of accounting, internal reporting requirements and systems.

Risk assessment

Risk assessment is conducted on a yearly basis pursuant to the Group's risk management policy. The purpose is to identify, document and quantify the consequences and likelihood of events occurring that prevent Munters from achieving its objectives. Risk assessments comprises identifying and evaluating strategic, operational, financial, legal and regulatory risks. Furthermore, an action plan for the most material risks is prepared. For more information on Munters' risk assessment efforts, refer to pages 64–67.

Control activities

Controls have been designed based on the risks identified to detect, prevent and correct errors and discrepancies. Controls can take place at the transaction level, as Group level controls and as IT general controls. Control activities are carried out in the entire organization, at all levels, and for all functions. Transaction-based controls, which can be either manual or automatic, are performed to manage the risk of errors in financial reporting. Reconciliation and analysis are examples of this type of control. Company-wide controls pertain to such actions as guaranteeing compliance with instructions for payment approval rights, authorisations and responsibilities in credit granting. Examples of general IT controls are change management, back-up routines and authorisations. The company's CFO is responsible for ensuring that identified risks relating to financial reporting at Group level are addressed. In each legal entity, the accounting staff is responsible for having the necessary control activities in place, and that accounting and the financial statements are fair and correct. Global controllers, as well as financial directors, in each legal entity update forecasts and conduct outcome analyses. All business areas present their financial results in written reports on a monthly basis to the CFO, who in turn presents these to Group Management.

Information and communication

Munters has informational and communications channels that aim at ensuring that information is identified, collected, and communicated in a way and within a time frame that enables employees and directors to perform their tasks. Instructions for reporting and accounting guidelines are conveyed to the employees concerned through monthly newsletters and quarterly telephone conferences. The Group uses a shared system for reporting and consolidation of financial information. Governing documents – in the form of policies, guidelines, and manuals for financial reporting – are communicated primarily via the intranet and the Group's financial handbook, which is updated as needed. Information for external parties is communicated on Munters' website together with other news and press releases. Quarterly reports are published and supplemented with presentations and investor meetings. The Annual Report is provided to shareholders and other stakeholders through publication on Munters' website, and in print upon request.

Monitoring

Monitoring and testing of control activities are routinely conducted throughout the year to ensure that risk has been taken into account and satisfactorily managed. Testing is carried out by employees who are independent of the performance of the control and possess the competence to evaluate the performance of the controls. Failed controls must be mitigated, which means that actions must be taken and implemented to correct deficiencies. Reports are presented to the Audit Committee twice yearly.

The Board of Directors has final responsibility for all decisions regarding compliance within Munters. The Board reviews and approves internal control policies on a yearly basis. If needed, review and approval are conducted more frequently.

Every head of division is ultimately responsible for the financial information for their respective divisions. The information is further followed up at the business area level, by Group Management and, finally, by the Board of Directors. Munters' financial position, strategies, and investments are discusses at every Board meeting. The Board is also responsible for monitoring internal control. This effort encompasses tasks such as ensuring that measures are taken to manage any deficiencies, and following up on proposals for measures that were pointed out in conjunction with the external audit.

Assessment of the need for a separate internal audit function

Munters has no internal audit function, as it is the Board's opinion that the company's internal organization and processes for monitoring fulfill this function in a satisfactory manner. For certain special audits, external efforts can also be conducted. ■

MUNTERS CONTROL ENVIRONMENT

Board of Directors

MAGNUS LINDQUIST

Born 1963. Chairman of the Board since December 2018.[1]

Principal education and professional experience: Bachelor in Economics and Business Administration, Stockholm School of Economics. More than 20 years of experience in executive positions with global industrial companies, primarily as Group Vice President at Autoliv and the Perstorp Group. Many years of experience as Senior Partner at Triton.

Current assignments/positions: Chairman of the Board of Ryds Bilglas.

Selected previous assignments: Chairman of the Board of Norma, Ambea, Alimak and Polygon, and Board member at Bravida, Mycronic and Ovako.

Holding in Munters Group AB: 3,000,000 call options.[3]

[1] Chris Curtis was Chairman of the Board until 18 December 2018.

JOHAN EK

Born 1968. Interim President and CEO.[2] Board member since December 2018.

Principal education and professional experience: M.Sc. in Economics from Hanken School of Economics, Helsinki, Finland. Broad experience in both executive positions and Board activities. President and CEO of Realcom; President of Powerwave Technologies Inc. and LGP Allgon.

Current assignments/positions: Chairman of the Board of Sunrise Medical. Board member of Handicare.

Selected previous assignments: Chairman of the Board of Handicare, Saferoad and Corob Engineering; board member of Acino and Ramirent.

Holding in Munters Group AB: 3,000,000 call options.[3]

[2] Since 18 December 2018. John Peter Leesi was President and CEO until 18 December 2018.

PER HALLIUS

Born 1962. Board member since 2013.

Principal education and professional experience: MBA, Harvard Business School. M.Sc. in Economics and Business Administration, Stockholm School of Economics. Independent adviser, Board member and investor. Nearly 25 years of experience in the management consulting industry, most recently as Senior Partner of the Boston Consulting Group.

Current assignments/positions: Chairman of the Board of Nefab Group AB. Vice Chairman of the Board of Ruukki Construction Oy. Board member of PMH Affärsutveckling AB, Kemetyl Holding AB, Beowulf AB and Quant AB. Industrial adviser to the Nordic Capital Funds. Adviser to senior executives of large industrial multinationals.

Selected previous assignments: Chairman of the Board of United Minds Samhällsanalys AB and My Academy Sweden AB.

Holding in Munters Group AB: 84,031 shares.[3]

HELEN FASTH GILLSTEDT

Born 1962. Board member since 2017. Chairman of the Audit Committee.

Principal education and professional experience: M.Sc. in Finance & Control and International Business, Stockholm School of Economics. Studies in Sustainable Development at Stockholm Resilience Center, Stockholm University and KTH Royal Institute of Technology. Over twenty years of experience in executive positions at Statoil and SAS Group.

Current assignments/positions: Board member of Handelsbanken Fonder AB, Samhall AB, Humana AB and PowerCell AB; CEO of Blong AB.

Selected previous assignments: Board member of AcadeMedia AB, Lindorff Group AS, Intrum Justitia AB, Swedesurvey AB and Svefa Holding AB.

Holding in Munters Group AB: 3,000 shares.[3]

ANDREAS NÄSVIK

Born 1975. Board member since 2011. Member of the Audit Committee and the Compensation Committee.

Principal education and professional experience: M.Sc. in Economics and Business Administration, Stockholm School of Economics. Work with corporate finance, private equity, mezzanine investing and debt restructuring at Deutsche Bank, Goldman Sachs Investment Banking and Goldman Sachs Capital Partners.

Current assignments/positions: Board member of Ryds Bilglas, partner of NC Advisory AB, adviser to the Nordic Capital Funds, and Board member of Intrum AB.

Selected previous assignments: Board member of Lindorff AB.

Holding in Munters Group AB: –[3]

KRISTIAN SILDEBY

Born 1976. Board member since 2017.

Principal education and professional experience: M.Sc. in Economics and Business Administration, Stockholm School of Economics. Investment Manager and CFO in FAM AB. Former Vice President, Head of Finance and Risk Management at Investor AB.

Current assignments/positions: Chairman of the Board of 82an Invest AB; Board member of Höganäs AB, Nefab Holding AB, Sol Voltaics AB, QuNano AB and Kivra AB.

Selected previous assignments: Chairman of the Board of Blasieholmen 54 Restaurang AB. Board member of Lindström & Göthberg Executive Development AB, Power Wind Partners AB, Elk Holding AB and Mathias Dahlgren Innovations AB.

Holding in Munters Group AB: 6,000 shares.[3]

[3] No indirect holdings.

LENA OLVING

Born 1956. Board member since 2017. Member of the Audit Committee.

Principal education and professional experience:
M.Sc. in Mechanical Engineering, Chalmers University of Technology. President and CEO of Mycronic AB (publ). Several executive positions, including Group Management for Volvo Cars. COO and Deputy CEO of Saab AB (publ) and CEO of Samhall Högland AB.

Current assignments/positions:
Chairman of the Board of Kungliga Operan AB. Board member of ASSA ABLOY AB (publ), Investment AB Latour (publ), IVA:s Näringslivsråd, the Association of Swedish Engineering Industries and the Swedish Corporate Governance Board.

Selected previous assignments:
Board member of Alfa Laval AB (publ), Gunnebo AB (publ), Norsk Hydro A/S (publ) and Novozymes A/S (publ).

Holding in Munters Group AB:
500 shares.[3]

JOACHIM ZETTERLUND

Born 1963. Board member since 2012. Chairman of the Compensation Committee.

Principal education and professional experience:
Executive Vice President Europe Corechange, Managing Director Preferred Accounts Division Dell UK, Vice President Northern Europe Cambridge Technology Partners and Business Area Manager Expressen Digitala Medier.

Current assignments/positions:
Chairman of the Board of One Agency AB and FörlagsSystem AB. Board member of MHI Investments AB, JZ Business Development AB, Quant AB and Xpeedio Support Solutions AB.

Selected previous assignments::
Chairman of the Board of Office IT-Partner i Sverige AB. Board member of Basset AB and Tailor-made Consulting Group Sweden AB.

Holding in Munters Group AB:
84,031 shares.[3]

PIA NORDQVIST

Born 1973. Board member since 2004. Employee representative appointed by Unionen.

Position at Munters:
Senior Business Application Specialist, Munters AB.

Holding in Munters Group AB: –[3]

ROBERT WAHLGREN

Born 1969. Deputy member since 2009. Employee representative appointed by Unionen.

Position at Munters:
Customized Project Engineering Coordinator, Munters Europe AB.
Holding in Munters Group AB: –[3]

SIMON HENRIKSSON

Born 1984. Deputy member since 2017. Employee representative appointed by IF Metall.

Position at Munters:
Material supplier, Tobo plant.

Holding in Munters Group AB:
350 shares.[3]

[3] No indirect holdings.

Group Management

JOHAN EK

Born 1968. Interim President and CEO since December 2018.[1]

Principal education and professional experience:
M.Sc. in Economics from Hanken School of Economics, Helsinki, Finland. Broad experience in both executive positions and Board activities. President and CEO of Realcom; President of Powerwave Technologies Inc. and LGP Allgon.

Current assignments:
Chairman of the Board of Sunrise Medical. Board member of Handicare.

Selected previous assignments:
Chairman of the Board of Handicare, Saferoad and Corob Engineering; Board member of Acino and Ramirent.

Holding in Munters Group AB:
3,000,000 call options.[2]

JONAS ÅGRUP

Born 1960. Group Vice President and Chief Financial Officer since 2011.

Principal education and professional experience:
BA in Business and Economics, Stockholm University. Various positions in ÅF, WM-data, Cardo and Atlas Copco.

Current assignments:
Board member of Handelsbanken Kista.

Holding in Munters Group AB:
319,035 shares and 415,000 warrants.

SOFIA GELLAR

Born 1971. Group Vice President HR, Communications and CSR since 2018.

Principal education and professional experience:
B.Sc. in Human Resources Development and Labor Relations from Stockholm University. More than 20 years of experience in the HR field, including as Head of Corporate HR and Head of HR Support at Scania, Head of Talent Management at SSAB EMEA, and VP Human Resources at Ruukki Construction.

Holding in Munters Group AB:
35,770 warrants.

PETER GISEL-EKDAHL

Born 1970. Group Vice President AgHort since 2011.

Principal education and professional experience:
M.Sc. in Chemical Engineering, KTH Royal Institute of Technology. MBA, Copenhagen Business School. Various positions at Wedholms and Hackman.

Current assignments:
Board member of ABECE AB and Wedcooling AB.

Previous assignments:
Deputy Board member of Drivec AB.

Holding in Munters Group AB:
191,176 shares and 295,000 warrants.

PETER LINDQVIST

Born 1961. Interim Group Vice President Air Treatment since February 2019.

Principal education and professional experience:
BA in Finance from Schiller University, London. More than 25 years of experience in executive positions, including as Executive Vice President of Handicare AB, Sales & Marketing; President & CEO of AxIndustries AB and Human Care HC AB. Experience as Board member in several companies.

Holding in Munters Group AB: –

KATARINA LINDSTRÖM

Born 1965. Group Vice President Global Operations since 2018.

Principal education and professional experience:
M.Sc. in Materials Science, KTH Royal Institute of Technology in Stockholm. Various executive positions at Volvo since 1988, including Senior Vice President International Manufacturing, Volvo Group Trucks Operations; and SVP Operations and Supply Chain Management at Volvo Group Trucks Operations.

Current assignments:
Board member of Gränges and member of the Royal Swedish Academy of Engineering Sciences.

Holding in Munters Group AB:
10,000 shares.

[1] John Peter Leesi was President and CEO until 18 December 2018.

[2] No indirect holdings.

Auditor's report

AUDITOR'S STATEMENT ON THE STATUTORY SUSTAINABILITY REPORT

To the Annual General Meeting of the shareholders of Munters Group AB (publ.), corporate registration number 556819-2321

Engagement and responsibility
It is the Board of Directors who is responsible for the statutory sustainability statement for the year, for which the extent is presented on page 52 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit
Our examination has been conducted in accordance with FAR's auditing standard RevR 12, the auditor's opinion regarding the statutory sustainability statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions
A statutory sustainability statement has been prepared.

Stockholm, 12 April 2019
Ernst & Young AB

Erik Sandström
Authorized Public Accountant

AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

To the Annual General Meeting of the shareholders of Munters Group AB (publ.), corporate registration number 556819-2321

Engagement and responsibility
It is the Board of Directors who is responsible for the corporate governance statement for the year 2018-01-01–2018-12-31 on pages 70–77 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit
Our examination has been conducted in accordance with FAR's auditing standard RevU 16, the auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions
A corporate governance statement has been prepared. Disclosures in accordance with Chapter 6, Section 6, second paragraph, Points 2–6 of the Annual Accounts Act and Chapter 7, Section 31, second paragraph of the same law are consistent with the annual accounts and the consolidated accounts and are in agreement with the Annual Accounts Act.

Stockholm, 12 April 2019
Ernst & Young AB

Erik Sandström
Authorized Public Accountant

Board of Directors' Report

The Board of Directors and the CEO of Munters Group AB (publ), corp. reg. no. 556819-2321, with its registered office in Stockholm, Sweden, hereby submits the consolidated accounts and annual report for the fiscal year 1 January – 31 December 2018. "Munters Group AB" or "the Parent Company" refer to Munters Group AB (publ), and "Munters" or "the Group" refer to the Munters Group, which comprises Munters Group AB and its Group companies.

The Board of Directors approved the annual accounts for publication April 9, 2019. The consolidated and Parent Company income statements and balance sheets will be submitted for approval at the Annual General Meeting on May 8, 2019.

OPERATIONS

The Munters Group is a world-leading supplier of energy efficient dehumidification and air treatment solutions. Using innovative technology, Munters' experts create the perfect climate for customers in our focused business segments. Our largest customers are found in the food, pharmaceutical, retail, data centers, livestock and power industries. Munters has been a pioneer in the field of air treatment since the company was founded in 1955. As of 2017, the operation is organized into four business areas: Air Treatment, AgHort, Data Centers and Mist Elimination.

Five-year summary	**2018**	2017	2016	2015	2014
Order intake, SEKm	6,914	7,197	6,373	5,420	4,323
Net sales, SEKm	7,122	6,604	6,040	5,399	4,216
Organic growth, %	5	6	8	12	7
Earnings before interest and tax, SEKm	134	453	577	384	-104
EBIT margin, %	2	7	10	7	-2
Profit/Loss after financial items, SEKm	7	152	153	13	-513
Income for the year, SEKm	-94	173	85	-18	-435
Net debt, SEKm 1)	2,843	2,661	2,724	2,617	2,148
Equity/assets ratio, % 1)	40	41	38	37	39
Total assets, SEKm	9,268	9,198	8,991	8,008	7,271
Investments, SEKm	231	170	184	113	104
Average number of employees	3,653	3,559	2,953	2,874	2,635

1) Net debt and equity ratio are calculated excluding shareholder loans for the years 2014 to 2016.

Order intake and net sales

Group

Order intake for 2018 decreased by 4% to SEKm 6,914 (7,197) and decreased 7% organically. The decrease was mainly due to lower order intake in Data Centers.

Net sales increased by 8% to SEKm 7,122 (6,604) and 5% organically, driven by growth in all business areas except Mist Elimination.

Air Treatment

Order intake for the full year was flat and declined by 3% organically as a function of low investment level within the Supermarket end-market in the US, along with the strategic exit of general air handling solutions affecting order intake in other Commercial applications. Order intake in Services continued to grow in 2018.

Net sales for the full year 2018 grew by 5%, of which 2% was organic. The slow down in the Commercial sub-segment impacted sales negatively and Component sales remained on the same level as in 2017. Net sales in Services continued to grow in 2018.

AgHort

Order intake in 2018 increased by 13% whilst the organic growth was 10%. The growth was primarily driven by strong performance in the Swine sub-segment in China, but also by two large orders for SonarEcho. Order intake in EMEA and Americas were at the same level as last year. Order intake in the biggest market US was down, primarily due to low sales of cooling pads.

Net sales in 2018 increased by 10%, of which 7% was organic. The Swine sub-segment in China primarily drove the growth.

Data Centers

Order intake for the full year 2018 decreased by 48% and decreased by 52% organically, primarily due to lower order intake from large digital customers in Europe. The decrease in Europe was partially offset by higher order intake in Americas and Asia during the year.

Net sales year to date increased by 25%, due to higher volumes from two large orders from a digital customer in Europe, partially offset by lower volumes in the US compared to 2017.

Mist Elimination

Order intake for the full year of 2018 grew by 13% and organically by 8%. Order intake increased in the sub-segments Marine in Europe and Process in APAC and Americas.
Net sales for the full year declined by 1% and declined by 6% organically, affected by lower volumes for FGD projects in China but largely compensated by growth in both the Marine and Process sub-segments. Europe showed increased net sales across several sub-segments, with the largest increase in Marine.

Gross profit

Gross profit for Munters amounted to SEKm 2,271 (2,146) and the gross margin was 31.9% (32.5).

Indirect costs

Selling and administrative costs for Munters amounted to SEKm 1,929 (1,566) corresponding to 27.1% (23.7) of net sales. Selling costs in 2018 was affected by a write-down of goodwill amounting to SEKm 323.

Operating profit (EBIT) and adjusted EBITA
Group
Operating profit (EBIT) for the full year amounted to SEKm 134 (453), including depreciations of SEKm -99 (-79) and amortizations and write-down of SEKm -503 (-209), whereof SEKm -133 (-189) was related to surplus values derived through acquisitions and SEKm -323 (0) was write-down of goodwill in Data Centers.
Adjusted EBITA for the full year amounted to SEKm 676 (675), corresponding to an adjusted EBITA margin of 9.5% (10.2).

Air Treatment
EBIT amounted to SEKm 496 (511) and adjusted EBITA increased to SEKm 497 (466). Favorable development of gross margins, including the improved results in the Mexican production, increased profitability for the year.

AgHort
EBIT amounted to SEKm 244 (225) and adjusted EBITA was SEKm 249 (236). The adjusted EBITA margin for the full year was slightly lower year on year. The margin was positively impacted by higher volumes but burdened by less favorable product mix, fewer large projects and investments in the software and digital offering. In addition, the majority of the growth in 2018 have been in Asia and the increased volume have required investments in the local organization.

Data Centers
EBIT amounted to SEKm -440 (-13) and included a write down of goodwill of SEKm 323 (0). EBITA decreased to SEKm -80 (-9). Increased volumes in Europe were offset by margin deviations and a loss on the commissioning of a large contract, as well as by lower volumes in Americas during the year compared with 2017.

Mist Elimination
EBIT amounted to SEKm 52 (34) and adjusted EBITA was SEKm 52 (36). The profit increase was mainly related to lower overhead costs and by reduced warranty accruals.

Net finance items
Financial income and expenses amounted to SEKm -127 (-301). The first part of previous year was affected by interest cost on the former shareholder loan and large cost at the termination of the previous loan arrangement. The total average weighted interest rate per year end, including financing fees, was 4.6% (3.5).

Taxes
Income taxes amounted to SEKm -101 (21). The tax cost for the full year was negatively impacted by SEKm 71 related to write-down of goodwill.

Items affecting comparability
Items affecting comparability that affected earnings for 2018 was costs that amounted to SEKm 39 where SEKm 22 incurred due to the CEO change and SEKm 16 were costs related to a profit improvement program within Data Centers.
Items affecting comparability that affected earnings for 2017 was costs that totaled SEKm -13, consisting primarily of preparation costs for listing Munters amounting to SEKm 73, a gain of SEKm 7 related to a property sale and a positive effect of SEKm 53 after final agreement on the purchase consideration for HB Group.

Investments
Investments in tangible assets totaled SEKm 148 (126). One part relates to machinery and equipment for the production operations in Mexico, Italy, the US, China, and Germany. Deprecations totaled SEKm 99 (79).
Investments in intangible assets excluding goodwill and other intangible assets related to acquisitions totaled SEKm 84 (44). Amortization and impairments totaled SEKm 503 (209), where of SEKm 323 was write down of Goodwill in Data Centers.

Goodwill
Goodwill as of December 31, 2018 amounted to SEKm 4,218 (4,251). The decline was attributable to a write-down of SEKm 323 (0), linked to the business segment Data Centers where our economic outlook has deteriorated, however partially counteracted by positive exchange rate effects owing to a weaker SEK against USD compared to the previous year.

Financial position and liquidity
Munters primary financing facilities consist of a term loan of USDm 250 and a multi-currency revolving credit facility of EURm 185. The facilities have no mandatory amortization requirement. The final maturity date is in May 2022. The loan agreement has one financial covenant (consolidated net debt in relation to adjusted EBITDA). Of the Revolving Credit Facility, EURm 20 is allocated to ancillary facilities made available for overdraft and guarantee purposes. Available unutilized credit facilities as of December 31, 2018, amounted to SEKm 918 (811). Interest-bearing liabilities amounted to SEKm 3,013 (2,855). Cash and cash equivalents amounted to SEKm 404 (402) as of December 31, 2018.

SIGNIFICANT EVENTS DURING THE YEAR
At an extra General Meeting in Munters Group AB at December 18, 2018 Magnus Lindquist and Johan Ek was appointed ordinary board members and replaced Christopher Curtis and Joakim Karlsson. Magnus Lindquist was appointed Chairman. John Peter Leesi left his position as President and CEO at December 18. The recruitment of a new CFO started immediately. Johan Ek was appointed interim President and CEO at December 18. Katarina Lindström has been appointed President Global Operations and Michael Gantert has been appointed new head of business area Data Centers.

Incentive program
At the General Meeting on May 17, 2018, it was resolved in accordance with the Board's proposal on the implementation of a long-term incentive program. The program shall comprise no more than 1,257,000 employee stock options to be granted to members of the group management and certain other key employees, approximately 75 employees in total. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Options are granted under the plan for no consideration and carry no dividend or voting rights.
Each employee stock option that is not cash settled shall entitle the holder to acquire one share in the company at an exercise price equivalent to SEK 55. Each cash-settled employee stock option shall entitle the holder to a cash amount equivalent to the value of one share in the company, calculated as the volume-weighted average price paid for the company's shares at Nasdaq Stockholm during a period of ten business days immediately prior to the exercise of the option, with deduction of an exercise price of SEK 55.
The participants shall be able to exercise the employee stock options from the third anniversary of the allotment, up to and including the fourth anniversary of the allotment. Exercise of the employee stock options shall, as a principal rule be conditional upon the program participant still being employed with the Group. The costs of the program are estimated to SEKm 7.4 that will be incurred over the three-year period.
The Board of Directors of Munters Group AB ("Munters") resolved, pursuant to the authorization granted by the Annual General Meeting held on May 17, 2018, to repurchase the

company's own shares on Nasdaq Stockholm. The purpose of the repurchase was to secure the delivery of shares to the participants of Munters' long-term incentive program, which was resolved by the Annual General Meeting 2018, and to cover cash flows related to the program. Repurchase was to comprise a maximum of 1,467,000 shares on one or several occasions and to be made on Nasdaq Stockholm in accordance with its Rule Book for Issuers. The repurchases was made at a price per share within the from time to time registered trading interval. Payment for the shares was made in cash and amounted to SEKm 59. As at December 31, 2018, Munters Group AB held 1,467,000 shares in own custody which equaled 0.7% of the outstanding shares.

FINANCIAL INSTRUMENTS

Financial instruments in the Group, beyond those arising in operating activities, consist of interest-bearing bank borrowings and currency derivatives. Further information on the financial instruments is presented in Notes 3, 19 and 20.

RESEARCH AND DEVELOPMENT

Overall, research and development costs incurred by the Group amounted to SEKm 217 (167), corresponding to 3.0 % (2.5) of net sales. Capitalization of internally generated intangible assets totaled SEKm 60 (31). Activities in the area comprise research initiatives, technology and product development and product ownership.

To ensure sustainable and long-term value creation, innovation, development and product launches are balanced delicately. A clear trend has been to focus on digitization and smarter products, which will generate great opportunities in both business areas. Sustainability and energy efficiency are something we consider very important and a large part of our research resources are being used for the development of technologies in these areas.

EMPLOYEES

The number of permanent employees at year-end was 3,518 (3,496). The increase in the number of permanent employees is primarily attributable to increased production personnel in Data Centers. The average number of employees during the period was 3,653 (3,559), an increase of 2.5 % compared with the previous year. Women accounted for 19% (18) of all employees. Staff turnover totaled 19% (20). The high staff turnover relates mainly to the US and Mexico where Munters has large production operations. The average age was 42 (42). For remuneration to senior management as well as adopted remuneration guidelines, Note 31.

FINANCIAL RISKS

Financial risks mainly consist of currency, interest and financing risks. The continued development of the global economy including changes of interests and currency rates is a factor of uncertainty for future profitability. A description of the Group's financial risks and Munters Treasury risk management, are disclosed in Note 3.

PARENT COMPANY

The Parent Company does not engage in sales of goods and services to external customers. Cash and cash equivalents at the end of the period amounted to SEKm 77 (134). The Parent Company had two permanent employees, one man and one woman.

SHARE CAPITAL AND OWNERSHIP

The share capital of SEK 5,507,934 comprises 183,597,802 shares, whereof 1,467,000 shares in own custody, with a par value of SEK 0.03 per share, which amounts to 0.7 %. The shares in Munters Group AB are listed on Nasdaq Large Cap under the symbol MTRS. The ten largest owners in Munters Group AB holds 86.3% (83.2) of the number of shares outstanding. Of these, Nordic Capital was the biggest shareholder 50.1% (50.1) followed by FAM 11.4% (11.4). No other shareholder holds more than ten percent of the shares, either directly or indirectly.

PROPOSAL ON DISTRIBUTION OF DIVIDEND

Earnings of SEK 4,149,872,124 are at the disposal of the Annual General Meeting. The Board of Directors of Munters Group AB proposes that the Annual General Meeting 2019 resolves on a dividend of SEK 0.00 per share.

PROVISIONS IN ARTICLES OF ASSOCIATION

The Annual General Meeting is charged with appointing and dismiss Board members. The Annual General Meeting decides on changes to the Articles of Association.

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

For the guidelines for remuneration to senior executives in effect during 2018, refer to Note 31. The auditors have reviewed that the guidelines adopted by the Annual General Meeting have been followed.

The Board of Directors proposes that the annual general meeting 2019 resolve on guidelines for the remuneration of senior executives to apply up to the annual general meeting 2020, pursuant to the following.

The group of senior executives encompassed by the guidelines comprises the CEO and other members of Group executive management, as well as members of the Board of Directors of the company, to the extent employment or consulting agreements are entered into. The guidelines are valid for remuneration under agreements entered into after the approval of the guidelines by the annual general meeting, and for changes made to existing agreements thereafter.

The remuneration to the management may consist of fixed salary, variable compensation, long-term incentive programmes, pension and other benefits. The total remuneration package should be based on market terms, be competitive and enable the company to recruit and retain the managers the company needs to meet its short-term and long-term targets.

Fixed salary

The fixed salary for the CEO and the other members of the senior management shall mirror the demands and responsibility that the position entails as well as individual performance. The fixed salary for the CEO and the other members of the senior management is to be reviewed on a yearly basis.

To the extent a member of the Board of Directors carries out work for the company or for another group company, in addition to the board work, consulting fees and/or other remuneration for such work may be payable.

Variable compensation

Variable compensation in cash is conditional upon the fulfilment of defined and measurable criteria and should be maximised to 140 per cent of the annual fixed salary for the CEO and 70 per cent for the other members of senior management.

The criteria for variable compensation in cash are determined for the promotion of the company's and the group's short-term and long-term targets, long-term development, value creation and financial growth and shall be designed not to encourage excessive risk taking. Terms and conditions for variable compensation in cash should be designed so that the Board of Directors, if exceptional economic circumstances prevail, has the option of limiting or refraining from payment if such a measure is considered reasonable. In this context, fixed annual salary means cash salary earned during the year, excluding pension, supplements, benefits and similar.

Long-term incentive programmes

The aim of having long-term incentive programmes is to create a long-term commitment to the company, to attract and retain members of the senior management and key employees and to align the interests of the participants with the interests of the shareholders.

Long-term incentive programmes, if any, should constitute a complement to the fixed salary and the variable compensation in cash, with participants to be nominated based on, among other things, competence and performance.

Pension

Pension benefits should be defined contribution. For senior executives outside Sweden, pension benefits may vary due to legislation or practice in the local market.

Other benefits and compensation

Fixed salary during notice periods and severance payment, including payments for any non-compete restrictions, shall in aggregate not exceed an amount equivalent to the fixed salary for two years for the CEO and 18 months for the other members of senior management.

Other compensation may consist of other benefits that are customary and in line with market practice, such as healthcare insurance, which shall not constitute a material portion of the total remuneration.

Additional compensation may after decision by the Board of Directors be paid out in extraordinary circumstances, provided that such arrangement is made for management recruitment or retention purposes and is agreed only in individual cases. Such extraordinary arrangements may for example include a one-off cash payment, or a support package including relocation support or similar.

Deviation from the guidelines

The Board of Directors may resolve to deviate from the guidelines if the Board of Directors, in an individual case, is of the opinion that there are special circumstances justifying that.

SIGNIFICANT EVENTS AFTER PERIOD END

Management changes

Jonas Ågrup will leave his position as CFO at end of 2019 and the recruitment of a new CFO has been initiated. Further, Peter Lindquist were appointed interim President of Business Area Air Treatment, replacing Scott Haynes from February 13, 2019. The new Group Management team will consist of six members (previously thirteen members); CEO, CFO, President Air Treatment, President AgHort, President Global Operations and Vice President HR.

Business segments

Data Centers and Mist Elimination, currently run as two separate business areas, will be integrated into Air Treatment during the first quarter of 2019.

Three phase plan to capture the full potential of Munters

The Board of Directors and the management team are fully committed to strengthen the performance of Munters. During the past two years, net sales growth has been at a good level whereas earnings and margins have been below expectations in all of Munters business areas, and most notably in Data Centers. The root causes have been identified and we have designed a comprehensive and ambitious plan to increase the overall performance of the company. A three-phase plan has been launched to capture Munters full potential, to increase customer focus and to improve Group earnings.

As part of the first phase of the program, we have the intention to close down our European Data Center factory in Dison, Belgium. This is subject to union negotiations. Our analysis of our Data Centers operations has convinced the Board of Directors and the management team, that the prospects for establishing a profitable Data Center business in Europe are limited in a market with overcapacity and ongoing price pressure. Our focus going forward will mainly be on the US Data Center market where we have a more commercially viable base for achieving profitable growth. This include established customer relations and proven record of accomplishment in the US market, which provides a good platform.

The overhead cost saving from the program are estimated to SEKm 160. In addition, the intended closure of our Data Center factory in Europe, subject to union negotiations, will give an estimated profit improvement of SEKm 50, this in spite of Data Center net sales drop of SEKm -600 of which approximately 80% in 2019. In total, we expect a positive Group adjusted EBITA effect of SEKm 105 in 2019 and SEKm 210 in annual effect from 2020.

Nonrecurring charges for the Munters full potential program of SEKm 350 will be incurred, with 60% be taken during the first six months of 2019, and the remaining 40% in the last six months of the year. The Munters full potential program will temporarily increase the leverage during 2019 and necessary consent from the lending banks have been received. We expect Group leverage to be in line with our mid-term financial leverage target in 2020. The Board proposes no dividend to be paid for 2018 with consideration taken to the costs for the restructuring initiatives.

Revised mid-term financial target for net sales growth

Munters has revised its mid-term financial target for organic net sales growth to 5% (previously 7-10%), reflecting the new business mix.

Munters mid-term financial targets are:

Net sales growth – Munters' objective is to achieve an annual organic sales growth of 5%, supplemented by selective acquisitions.

Adjusted EBITA Margin – Munters' objective in the medium-term is to have an adjusted EBITA margin of 14%.

Capital structure – Munters aims to maintain a ratio of net debt to adjusted EBITDA of 1.5x to 2.5x, and may temporarily exceed this level (e.g., as a result of acquisitions).

Dividend policy – Munters aims to pay an annual dividend corresponding to 30–50% of its consolidated income for the period. The decision will be based on the financial position, investment needs, acquisitions and liquidity position. There can be no assurances, however, that in any given year a dividend will be proposed or declared.

CORPORATE GOVERNANCE REPORT AND SUSTAINABILITY REPORT

Munters Group AB has chosen to prepare the Corporate Governance Report and Sustainability Report as a separate document from the Annual Report. The Corporate Governance Report is outlined on Pages 70–77 and the Sustainability Report on Pages 52–61. For descriptions of risks and controls in conjunction with preparation of the consolidated accounts, refer to the Corporate Governance Report.

FINANCIAL STATEMENTS AND NOTES

The Group's income and financial position in other respects are presented in the following statements of comprehensive income, financial position, cash flows and changes in equity, as well as in the Notes. The Parent Company's income and financial position in other respects are presented in the following income statement and balance sheet, statement of changes in equity, cash flow statement and notes. All amounts are in millions of Swedish kronor (SEKm) unless otherwise specified.

Statements of comprehensive income

GROUP

Amounts in SEKm	Note	2018	2017
Net sales	4, 6	7,122	6,604
Cost of goods sold		-4,851	-4,458
Gross profit/loss		**2,271**	**2,146**
Other operating income	7	14	53
Selling expenses		-1,362	-978
Administrative costs		-567	-588
Research and development costs		-217	-167
Other operating expenses	7	-6	-14
Earnings before interest and tax (EBIT)	5, 8, 9	***134***	***453***
Financial income	10	5	8
Financial expenses	10	-131	-309
Profit/Loss after financial items		***7***	***152***
Tax	11	-101	21
Income for the year		***-94***	***173***
Attributable to Parent Company shareholders		-105	174
Attributable to non-controlling interests		11	-1
Average number of outstanding shares before dilution		183,165,852	119,658,011
Average number of outstanding shares after dilution		183,165,852	119,720,995
Earnings per share before dilution, SEK	21	-0.57	1.45
Earnings per share after dilution, SEK	21	-0.57	1.45
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange-rate differences on translation of foreign operations		193	-89
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains and losses on defined-benefit pension obligations, incl. payroll tax	24	-17	-13
Income tax effect on other comprehensive income not to be reclassified to profit or loss in subsequent periods	11	4	3
Other comprehensive income, net after tax		***179***	***-99***
Comprehensive income for the year		***85***	***74***
Attributable to Parent Company shareholders		75	75
Attributable to non-controlling interests		10	-2

Earnings per share, basic and diluted, are calculated based on income for the year related to Parent Company ordinary shareholders.

Statements of cash flows

GROUP

Amounts in SEKm	Note	2018	2017
OPERATING ACTIVITIES			
Earnings before interest and tax (EBIT)		134	453
Reversal of non-cash items;			
Depreciation, amortization, and impairments	8	602	288
Provisions		-15	13
Other profit/loss items not affecting liquidity		19	-24
Cash flow before interest and tax		***740***	***730***
Paid financial items		-109	-176
Taxes paid		-123	-109
Cash flow from operating activites before changes in working capital		***507***	***445***
Cash flow from changes in working capital		***-67***	***-210***
Cash flow from operating activities		***441***	***235***
INVESTING ACTIVITIES			
Business acquisitions	12	-37	-268
Sales of tangible assets		2	1
Sales of intangible assets		1	1
Business divestment	12	-0	-27
Investment in tangible assets	13	-148	-126
Investment in intangible assets	14	-84	-44
Cash flow from investing activities		***-266***	***-464***
FINANCING ACTIVITIES			
New share issue		-	99
Warrants		-	18
Loans raised	20	407	3,749
Amortization of loans	20	-472	-3,662
Repurchase of shares	23	-59	-
Dividends paid	23	-55	-
Cash flow from financing activities		***-180***	***205***
Cash flow for the year		***-5***	***-24***
Cash and cash equivalents at January 1		402	432
Exchange-rate differences in cash and cash equivalents		8	-6
Cash and cash equivalents at December 31	19	***404***	***402***

Interest received totaled 3 (8). Interest paid on bank debt totaled -124 (123).

Statements of financial position

GROUP

Amounts in SEKm at December 31	Note	**2018**	2017
ASSETS			
NON-CURRENT ASSETS			
Goodwill	8, 15	4,218	4,251
Patents, licenses, brands, and similar rights	8, 14,15	1,480	1,456
Buildings and land	8, 13	168	155
Plant and machinery	8, 13	270	219
Equipment, tools, fixtures, and fittings	8, 13	137	142
Construction in progress	13	62	48
Other financial assets	19	11	14
Deferred tax assets	11	227	242
Total non-current assets		***6,575***	***6,526***
CURRENT ASSETS			
Raw materials and consumables		391	386
Products in process		106	135
Finished products and goods for resale		288	259
Advances to suppliers		20	18
Accounts receivable	3, 17, 19	1,095	1,204
Prepaid expenses and accrued income	18	224	106
Derivative instruments	19	3	2
Current tax assets		53	35
Other receivables	19	109	126
Cash and cash equivalents	19	404	402
Total current assets		***2,693***	***2,672***
TOTAL ASSETS		***9,268***	***9,198***

Statements of financial position

GROUP

Amounts in SEKm at December 31	Note	**2018**	2017
EQUITY AND LIABILITIES			
EQUITY			
Attributable to Parent Company shareholders	23		
Share capital		6	6
Other capital contributions		5,083	5,083
Reserves		543	351
Profit brought forward		-1,912	-1,691
		3,719	3,748
Non-controlling interests		-4	0
Total equity		***3,716***	***3,748***
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	19, 20	3,002	2,848
Provisions for pensions and similar commitments	24	230	207
Other provisions	25	16	22
Other liabilities	19	137	137
Deferred tax liabilities	11	421	394
Total non-current liabilities		***3,805***	***3,607***
CURRENT LIABILITIES			
Interest-bearing liabilities	19, 20	11	7
Advances from customers		285	382
Accounts payable	19	535	581
Accrued expenses and deferred income	26	590	486
Derivative instruments	19	1	2
Current tax liabilities		28	52
Other liabilities	19	181	212
Provisions for pensions and similar commitments	24	8	8
Other provisions	25	107	114
Total current liabilities		***1,746***	***1,843***
TOTAL EQUITY AND LIABILITIES		***9,268***	***9,198***

Statements of changes in equity

GROUP Amounts in SEKm	Share capital	Other capital contri-butions	Trans-lation reserve	Profit brought forward	Total	Non-controlling interests	Total equity
	Attributable to Parent Company shareholders						
Opening balance, January 1, 2018	**6**	**5,083**	**351**	**-1,691**	**3,748**	**0**	**3,748**
Changes in equity, 2018							
Put/call option related to non controlling interests				-4	-4	-	-4
Acquisition of non-controlling interests				14	14	-14	0
Dividends paid*				-55	-55	-	-55
Repurchase of shares				-59	-59	-	-59
Share option plan				1	1	-	1
Income for the year				-105	-105	11	-94
Other comprehensive income, net after tax			193	-13	180	-1	179
Comprehensive income for the year			193	-118	75	10	85
Closing balance, December 31, 2018	**6**	**5,083**	**543**	**-1,912**	**3,719**	**-4**	**3,716**
Opening balance, January 1, 2017	**0**	**2,167**	**439**	**-1,850**	**756**	**11**	**767**
Changes in equity, 2017							
Set off issue**	6	2,798			2,803	-	2,803
Warrants		18			18	-	18
New share issue		99			99	-	99
Change in non controlling interest				-	-	-10	-10
Put/call option related to non controlling interests				19	19	-	19
Acquisition of non-controlling interests				-24	-24	1	-23
Income for the year				174	174	-1	173
Other comprehensive income, net after tax			-89	-10	-98	-1	-99
Comprehensive income for the year			-89	164	75	-2	74
Closing balance, December 31, 2017	**6**	**5,083**	**351**	**-1,691**	**3,748**	**0**	**3,748**

* Dividends paid amounts to SEK 0.30 per share
**The new share issue put SEKm 103 into the Group; together with transaction costs of SEKm 4, net SEKm 99.

Statements of comprehensive income

PARENT COMPANY

Amounts in SEKm	Note	2018	2017
Net sales		-	-
Gross profit/loss			
Administrative costs		-11	-77
Earnings before interest and tax (EBIT)		**-11**	**-77**
Financial expenses	10	-0	-84
Profit/Loss after financial items		**-11**	**-161**
Group contributions		-	86
Profit/Loss before tax		**-11**	**-75**
Tax	11	0	-
Income for the year		**-11**	**-75**

OTHER COMPREHENSIVE INCOME

Amounts in SEKm	Note	2018	2017
Profit/Loss for the year		-11	-75
Other comprehensive income, net after tax		-	-
Comprehensive income for the year		**-11**	**-75**

Statements of financial position

PARENT COMPANY

Amounts in SEKm, at Dec 31	Note	2018	2017
ASSETS			
NON-CURRENT ASSETS			
Participations in subsidiaries	16	4,086	4,086
Total non-current assets		***4,086***	***4,086***
CURRENT ASSETS			
Prepaid expenses and accrued income	18	0	0
Current tax assets		0	-
Receivables from subsidiaries		0	86
Other receivables		-	0
Cash and cash equivalents		77	134
Total current assets		***77***	***220***
TOTAL ASSETS		***4,163***	***4,306***
EQUITY AND LIABILITIES			
EQUITY	23		
Restricted equity			
Share capital		6	6
Unrestricted equity			
Share premium reserve		4,074	4,074
Other capital contributions		18	18
Profit brought forward		68	257
Income for the year		-11	-75
Total equity		***4,155***	***4,281***
CURRENT LIABILITIES			
Accounts payable		0	1
Accrued expenses and deferred income	26	2	2
Liabilities to subsidiaries		3	20
Other liabilities		2	2
Total current liabilities		***8***	***25***
TOTAL EQUITY AND LIABILITIES		***4,163***	***4,306***

Statements of cash flows

PARENT COMPANY

Amounts in SEKm	Note	2018	2017
OPERATING ACTIVITIES			
Profit/Loss after financial items		-11	-161
Profit/loss items not affecting liquidity		0	82
Taxes paid		-0	-
Cash flow from operating activities before changes in working capital		***-12***	***-78***
Cash flow from changes in working capital		***-1***	***4***
Cash flow from operating activities		***-12***	***-74***
FINANCING ACTIVITIES			
New share issue		-	99
Warrants		-	18
Group contributions		89	27
Loans raised		-	20
Loan amortization		-20	-
Repurchase of shares	23	-59	-
Dividends paid	23	-55	-
Cash flow from financing activities		***-45***	***165***
Cash flow for the year		***-57***	***90***
Cash and cash equivalents at January 1		134	44
Cash and cash equivalents at December 31		***77***	***134***

Statements of changes in equity

PARENT COMPANY

Amounts in SEKm	Restricted equity	Unrestricted equity				
	Share capital	Share premium reserve	Other capital contribu-tions	Profit brought forward	Income for the year	Total
Opening balance January 1, 2018	***6***	***4,074***	***18***	***257***	***-75***	***4,281***
Changes in equity, 2018						
To be carried forward				-75	75	-
Dividends paid				-55		-55
Repurchase of shares				-59		-59
Income for the year					-11	-11
Closing balance, December 31, 2018	***6***	***4,074***	***18***	***68***	***-11***	***4,155***
Opening balance January 1, 2017	***0***	***1,177***	***-***	***437***	***-180***	***1,434***
Changes in equity, 2017						
Debt conversion	6	2,798				2,804
Warrants			18			18
New share issue	0	99				99
To be carried forward				-180	180	-
Income for the year					-75	-75
Closing balance, December 31, 2017	***6***	***4,074***	***18***	***257***	***-75***	***4,281***

Notes

NOTE 1 ACCOUNTING POLICIES

Munters Group AB, corp. reg. no. 556819-2321, is a Swedish public limited company registered in Sweden with its registered office in Stockholm, Sweden. The address of the headquarters is Munters Group AB, Box 1188, SE-164 26 Kista, Sweden. This Annual Report and Consolidated Accounts were signed by the Board of Directors for Munters Group AB on April 9, 2019, and approved for release by the Board on the same date. The income statements and balance sheets for the Parent Company and the Group published in the Annual Report and Consolidated Accounts is to be adopted by the Annual General Meeting on May 8, 2019. The most important accounting policies applied in preparing the financial reports are reported below. In the main, the same principles applied to the Parent Company were applied to the Group. The extent to which the Parent Company's accounting policies differ from those of the Group, or to which it was deemed important to explain the principle applied in the Parent Company, is indicated under a special heading at the end of this Note.

BASIS OF PREPARATION

The Consolidated Accounts were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1 – Supplementary Accounting Rules for Corporate Groups. The Parent Company's Annual Report has been prepared in accordance with the Annual Accounts Act and with the application of the Swedish Financial Reporting Board's recommendation RFR 2 – Accounting for Legal Entities. IFRS rules for measurement and disclosure are thus applied, with the exception of the deviations indicated in the section titled "Accounting Policies of the Parent Company."

Basis for assessment

The Consolidated Accounts are based on historical acquisition costs with the exception of financial derivatives, acquisition options and purchase considerations.

New and amended IFRS applied from January 1, 2018

IFRS 9 Financial Instruments

IFRS 9 *Financial instruments* is the new standard on accounting for financial instruments and has replaced IAS 39. The standard comprises classification, valuation and impairment of financial instruments as well as hedge accounting. IFRS 9 has overall had a limited impact on the Group's financial statements. IFRS 9 has introduced new classifications of financial instruments, however the measurements under the new classifications are the same as previous classifications and due to that no impact on prior year financial statements. Last year's classification as "*Loans receivable and accounts receivable*" are classified as "*Financial assets measured at amortized cost*", however the classifications "*Financial assets at fair value through profit/loss*", "*Financial liabilities measured at amortized cost*" and "*Financial liabilities at fair value through profit/loss*" remain the same.

The area impacted relates to the new methodology for impairment on accounts receivables. The implementation of the impairment model in IFRS 9, the expected credit loss model, has however not had any material effect and no adjustment of the opening balance at January 1, 2018 has been necessary.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers establishes a new regulatory framework to account for revenue from contracts with customers and has replaced IAS 11 Construction Contracts, IAS 18 Revenue and all revenue related IFRICs (International Financial Reporting Interpretations Committee) and SICs (Standing Interpretation Committee of the IASC, predecessor to the IFRIC).

The new standard is designed according to a control-based five-step model framework. The standard regulates commercial agreements (contracts) with customers in which delivery of goods/services is divided into separately identifiable performance obligations that are recognized independently. In certain cases, the good/service can be integrated with other obligations in the contract, whereby a package of goods/services comprises a joint obligation. The standard establishes rules for calculating the transaction price for delivery of goods and services and the manner in which this can be allocated among the various performance obligations. Revenue is recognized when control has passed to the customer by the customer being able to use or benefit from the good/service, at which point it is deemed to have been transferred. Control may be passed at a given point in time or over time.

Three different criteria have been established for determining whether a performance obligation is satisfied over time. Either the customer receives and consumes all of the benefits as the obligation is performed; the company's performance enhances an asset that the customer controls; or finally the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for performance completed to date.

Munters has used the full retrospective approach for transition to the new revenue standard which means that prior reporting periods are to be adjusted should deviations exist, however the new revenue standard has not had a material impact on Munters' historical consolidated financial statements, based on the fact that Munters as of December 2017 did not have open contracts of material values that would have been treated differently should IFRS 15 been applied. Munters has therefore not reported any prior period adjustments.

Even if the new revenue standard has not had any material impact on the financial statement IFRS 15 introduces a number of additional qualitative and quantitative disclosure requirments. Disclosures in terms of disaggregation of revenue in to categories, information on when Munters typically satisfies performance obligations, significant payment terms in customer contracts, explanations of how the timing of satisfaction of performance obligations relates to the typical timing of payment , allocation of transaction prices and for performance obligations that are satisfied over time, which methods is used to recognize revenue, can all be found in Note 4.

New and amended IFRS that have not started being applied

IFRS 16 *Leases* is the new standard on accountng for leases and will go into effect for fiscal years beginning after January 1, 2018, and have not been applied in the preparation of these financial reports. IFRS 16 was issued in January 2016 and the new standard will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability (to pay rentals) are recognised. The only exceptions are short-term and low-value leases. Munters will apply the standard from its mandatory adoption date of 1 January 2019 and will apply the simplified transition approach and therefore not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). Munters will apply the transision exempt rule under IFRS 16 not to make a new assessment if a contract is or contains parts that constitute a lease and will therefore apply the standard for all contracts that have previously been identified as leases, or parts that constitute leases under IAS 17 and IFRIC 4

Munters will use the incremental borrowing rate to discount the lease liability. The incremental borrowing rate will be decided based on contract length and contract transaction curency. Munters will also apply the exemption rule to excluede intitial direct costs when calculating the right of use asset when applying IFRS 16 at the first application date.

To prepare for the new lease standard a project team was set up to review all of the Group's leasing arrangements over the last year in light of the new accounting rules under IFRS 16. The standard will affect the accounting for the Group's operating leases. As at the reporting date, Munters has non-cancellable operating lease commitments of SEKm 451, see Note 9. Of these commitments, approximately SEKm 101 relate to short-term and low value leases which will both be recognised on a straight-line basis as expenses in the profit or loss. For the remaining lease commitments Munters expects to recognise right-of-use assets of approximately SEKm 475 on January 1, 2019, lease liabilities of SEKm 458 (after adjustments for prepayments and accrued lease payments recognised as at December 31, 2018) and provision for dismantling expenses of SEKm 18.

Net profit after tax expects to decrease, provided no new agreements are added, by approximately SEKm 13 for 2019 as a result of adopting to the new rules. EBITDA is expected to increase with approximately SEKm 109 as the operating lease payments were included in EBITDA but the depreciation of the right-of-use assets and interest on the lease liability are excluded from this measure. Adjusted EBITA is expected to increase by approximately SEKm 1, as the operating lease payments were included in EBITA but the interest on the lease liability is excluded from this measure. Cash flow timings will not be affected.

Munters activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

Reconciliation lease obligations	SEKm
Operating lease commitments disclosed at December 31, 2018, (Note 9)	451
Less low value and short term leases	-101
Adjustments as a result of a different treatment of extension and termination options	186
	536
Operating leasing obligation per December 31, 2018 (not discounted)	536
Discount effect from incremental borrowing rate	-78
Lease liability recognised at January 1 , 2019	***458***

No other IFRS or IFRIC amendments that have not yet been adopted expects to not have any significant effect on the Group's financial statements.

BASIS FOR CONSOLIDATION

The Consolidated Accounts encompass Munters Group AB (the Parent Company) and its subsidiaries. Subsidiaries are all companies over which the Group has a controlling influence. The Group has controlling influence over a company when it is exposed to, or has the right to, variable returns from its holdings in the company and can impact the returns through its controlling influence in the company. Subsidiaries are included in the Consolidated Accounts as of the date on which controlling influence was transferred to the Group. They are excluded from the Consolidated Accounts as of the date on which controlling influence ceases.

The financial statements for the Parent Company and its subsidiaries included in the Consolidated Accounts refer to the same period and have been prepared in accordance with the accounting policies that apply to the Group. All intra-Group transactions, revenues, costs, gains, or losses that arise in transactions between companies included in the Consolidated Accounts have been wholly eliminated.

Business acquisitions

The Consolidated Accounts have been prepared using application of the acquisition method, which involves eliminating the acquisition cost of shares in subsidiaries against their equity at the time of acquisition. Transaction costs related to acquisitions are not included in the acquisition cost, but are expensed on an ongoing basis. The equity acquired in the subsidiaries is established using a market-based evaluation of assets, liabilities and contingent liabilities at the time of acquisition. The Group's equity thus includes only that part of the subsidiaries' equity that arose after the time of acquisition. In the event of business combinations where the sum of (i) the acquisition cost of shares in subsidiaries; (ii) the value of holdings without controlling influence; and (iii) the fair value of previous holdings exceeds the fair value at the time of acquisition as regards the Group's share of the identifiable net assets required, the difference is recognized as goodwill. A potential negative difference – "negative goodwill" – is recognized as income immediately after being established.

The useful life of each individual intangible asset is established and then amortized over the established useful life. If the useful life is deemed indefinite, no amortization is recognized. An assessment that causes the useful life of an intangible asset to become indefinite takes all the relevant circumstances into account and is based on the premise that there is no predictable maximum time limit for the net cash flow generated by the asset. The useful life of goodwill is assumed to be indefinite and goodwill is not amortized.

If the initial recognition of a business combination is incomplete at the end of the reporting period when the business combination took place, the amounts for items where recognition is incomplete is recognized on a preliminary basis. These preliminary amounts can be adjusted during the evaluation period, or additional assets or liabilities can be recognized, to reflect new information obtained about the facts and conditions that existed as of the time of acquisition, and would have impacted the recognized amounts at that time if the information had been available.

Contingent considerations are classified as financial liabilities and re-evaluated every period to fair value. Re-evaluation profits and losses, if any, are recognized in income for the year. If the business combination is carried out in several steps, the previous equity shares in the acquired company are re-evaluated to their fair values at the time of acquisition. Any resulting profit or loss arising out of the re-evaluation is recognized in income for the year.

Munters has call options and has issued put options regarding non-controlling participations, which were agreed on in conjunction with the business combination. Depending on the conditions in the options as well as in the shareholder agreements, each of the options are classified and recognized based on one of the two following principles:

- In the event the conditions are deemed to mean that all economic benefits and disadvantages accrue to Munters right from the time of acquisition, no non-controlling interest is recognized but a liability equivalent to the fair value of the future redemption price, on the other hand, is; changes in value attributable to the liability are recognized over the income statement. At 31 December 2018, Munters recognizes no options based on this principle.
- In the event the conditions in the put/call options are not deemed to mean that all financial benefits and disadvantages accrue to Munters as of the time of acquisition, Munters recognizes non-controlling participation initially and allocates this part of the income. The Group also recognizes a liability corresponding to the discounted expected redemption price for the options whereupon non-controlling participations attributable to the options are eliminated. The difference between liabilities for the options and the non-controlling participations to which the options refer is recognized directly in equity and disclosed separately from other changes in equity. The dissolution of the discounting effect is also therefore directly recognized against equity. Munters recognized the option attributable to MTech Systems in the US based on this principle.

Associated companies

"Associated company" refers to a company in which the Parent Company directly or indirectly has a long-term holding corresponding to not less than 20% and not more than 50% of the voting rights, or otherwise has a significant influence. Munters has no holdings in associated companies.

Non-controlling interests

In the event of acquisitions under one hundred percent but where controlling influence is achieved, non-controlling interest is determined either as a proportional share of fair value on identifiable net assets excluding goodwill, or at fair value. This choice of principle is made for each individual business combination.

Non-controlling interests are recognized as individual items in the Group's equity. The Group's earnings and each component in other comprehensive income are attributable to the Parent Company's owners and to non-controlling interests. Losses attributable to non-controlling interests, if any, are also recognized if it means that the share is negative. Transactions with non-controlling interests that do not lead to loss of control are recognized as equity transactions (i.e. as transactions with owners in their role as owners). A change in holdings is recognized through an adjustment of the recognized values for controlling and non-controlling interests so that they reflect the changes in their relative interests in the subsidiary. Upon acquisition from non-controlling interests, the difference between fair value of purchase consideration paid and the actual share acquired of the recognized value of the subsidiary's net assets are recognized in equity. Profits and losses on divestments to non-controlling interests are also recognized in equity.

When the Group no longer has controlling interest, each remaining holding is evaluated at fair value at the time when controlling interest was lost. The change in recognized value is recognized in the income statement. Fair value is used as the initial recognized value and constitutes the basis for the continued recognition of the remaining holding as an associated company, joint venture or financial asset.

Translation of the accounts, functional currency and reporting currency of foreign subsidiaries

Items included in the financial reports for the various units in the Group are valued in the currency used in the economic environment where the respective companies primarily operate (functional currency). The Consolidated Accounts are prepared in SEK, which is the functional and reporting currency of the Parent Company. Results of operations and financial condition for all Group companies that have a functional currency other than the reporting currency are translated into the Group's reporting currency as follows:

- Assets and liabilities are translated into the exchange rate on the balance date;
- revenue and costs are translated into the average exchange rate; and
- all exchange-rate differences that arise are recognized in other comprehensive income.

Goodwill and adjustments of fair value that arise in connection with acquisition of foreign operations are handled as assets and liabilities in that operations and are translated into the exchange rate as of the balance date.

Exchange-rate differences attributable to translation of a net investment in foreign operations are recognized in the Consolidated Accounts, together with exchange-rate differences attributable to borrowing or other financial instruments classified as hedging instruments for such investments, in Other comprehensive income and classified as hedge reserves in equity. Accumulated gains and losses in equity are recognized in the income statement when foreign operations are fully or partially divested.

The following foreign exchange rates have been used in translating accounts:

		Average rate		Closing rate	
Currency	***Country***	***2018***	2017	***2018***	2017
AUD	Australia	6.49	6.54	6.32	6.42
CAD	Canada	6.71	6.58	6.59	6.56
CNY	China	1.31	1.26	1.31	1.26
DKK	Denmark	1.38	1.29	1.38	1.32
EUR	Euro zone	10.26	9.63	10.28	9.85
GBP	United Kingdom	11.59	10.99	11.35	11.10
JPY	Japan	0.08	0.08	0.08	0.07
NOK	Norway	1.07	1.03	1.02	1.00
SGD	Singapore	6.44	6.18	6.56	6.16
THB	Thailand	0.27	0.25	0.28	0.25
USD	United States	8.69	8.54	8.97	8.23
ZAR	South Africa	0.66	0.64	0.62	0.67

TRANSACTIONS IN FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates that apply on the transaction date. Exchange-rate gains and losses that arise in connection with payment of such transactions and upon translation of monetary assets and liabilities in foreign currency to the exchange rate on the balance date are recognized in the income statement. Exchange-rate differences concerning operating receivables and operating liabilities are recognized in EBIT, while exchange-rate differences attributable to financial assets and liabilities are recognized as financial income or financial expense. Realized and unrealized exchange-rate differences are thus recognized in income for the year.

SEGMENT REPORTING

Operating segments are reported using a method that tallies with the internal reporting submitted to the chief operating decision maker. The chief operating decision maker is the function responsible for allocating resources and evaluating the Group's financial position and earnings. In Munters, this function has been identified as Group Management. Group Management monitors operations from a product-based perspective, which also constitutes Munters' operating segments: Air Treatment, Data Centers, AgHort and Mist Elimination.

The accounting policies applied to the segments are the same ones applied to the Group.

REVENUE RECOGNITION

Munters provides goods such as equipment, components and spare parts to customers within four operating segments. Customer contracts can contain pure equipment orcomponent sales or sales of equipment including activities such as installation, startup and commissioning services. Both equipment and installation, startup and commissioning services are all distinct in accordance with the definitions in IFRS 15 meaning any bundled sales will comprise several performance obligations under IFRS 15.

Sale of goods

The majority of customer contracts within Munters operating segments Air Treatment, AgHort and Mist Elimination fulfill the requirement to recognize revenue at a point in time, which means revenue for the performance obligation to deliver equipment is recognized when this performance obligation is satisfied (when control passes of the equipment). Revenue was already prior to IFRS 15 recognized at a point in time (when control had passed) and there is no change from prior principles.

Customer contracts within the operating segment Data Centers fulfill the requirement to recognize revenue over time, i.e. equipment is highly customized and customer contract terms stipulate that cost incurred will be recovered with a reasonable profit margin should the customer decide to terminate the contract. Revenue for the performance obligation to deliver equipment is recognized over time using a measurement of progress towards complete satisfaction method. Munters uses an output method for this purpose (equipment produced and passed internal quality control), meaning number of equipment in relation to total equipment in the customer contract.

Within Air Treatment and AgHort there are a number of customer contracts that fulfills the requirement to recognize revenue over time according to the criteria's mentioned above.

Contracts including installation, startup and commissioning activities (bundled sales) include several separate performance obligations and the performance obligations to provide installation, startup and commissioning services are satisfied over time, which means revenue related to these performance obligations is recognized over time according to the progress of completetion. Revenue relating to these activities was already prior to IFRS 15 recognized over time as they were performed.

In a bunded sale the total transaction price is allocated to each performance obligation according to each performance obligations relative standalone selling price. There are in general no significant variable considerations in the customer contracts, but some contracts agree to volume and cash discounts. In such cases an estimate is made of the variable remuneration that is expected to be refunded to the customer and that part of the transaction price is recognized as a liability.

Rendering of service

In addition to installation, startup and commissioning services that comes from bundled sales Munters provides other kind of services to customers such as maintenance services. Revenue from service contracts are recognized over time as the customer simultaneously receives and consumes the benefits of the services. These services were already prior to IFRS 15 recognized over time.

Warranty obligations

Munters provides assurance-type warranties where the warranty is a guarantee of quality of the goods provided. These warranties will continue to be accounted for under IAS 37 *Provision, Contingent Liabilities and Contingent Assets*. Munters' commitment to repair or replace defective products in accordance with normal warranty rules is reported as a provision, see Note 25 for details.

There are a number of contracts with customers that include extended warranty. These warranties are regarded as service-type warranties and accounted for as separate performance obligations with revenue recognized over the contraced time.

Interest income
Interest income on receivables of long maturity is calculated using the effective-interest method. Interest income includes the accrued amount of transaction costs and any discounts, premiums, and other differences between the original value of the receivable and the amount received when due.

Dividends
Dividends are recognized as revenue when the right to receive payments has been established. This applies even if the dividends are disbursed from profits resulting before the time of acquisition. Consequently, the investment may need to be tested for amortization.

WARRANTY COMMITMENTS
Warranty costs are recognized in cost of goods sold. Provisions for warranty costs are calculated at a standard rate in an amount that corresponds to the average warranty costs in relation to sales in the most recent 24-month period, with an adjustment for known warranty claims exceeding the standard provision. Provisions for warranty commitments are related to the stated warranty period.

INCOME TAXES
Tax expenses for the period cover current tax calculated on taxable earnings according to the prevailing tax rate. Current tax costs are adjusted with changes to deferred tax assets and liabilities attributed to temporary differences and loss carry-forwards. Current tax costs are calculated on the basis of the tax regulations decided, or decided in practice, in the countries where the Parent Company and its subsidiaries operate and generate taxable income. Taxes are recognized in the income statement except when the underlying transaction is recognized directly in equity or other comprehensive income, in which case the associated tax is also recognized in equity or other comprehensive income.

Deferred tax is recognized on all temporary differences arising between the carrying amount on assets and liabilities and their recognized tax base in the Consolidated Accounts. Deferred tax liability, however, is not recognized if it arises out of the initial recognition of goodwill. Nor is deferred tax liability recognized if it arises out of a transaction constituting the initial recognition of an asset or liability that is not a business combination and at the time of the transaction impacts neither recognized nor taxable earnings. Deferred income tax is calculated by applying the prevailing tax rate (and laws) that were decided or announced as of the balance date and are expected to be in effect when the deferred tax asset is realized or a deferred tax liability is settled. Deferred tax assets on loss carry-forwards are recognized to the extent that it will be possible to deduct such losses from future profits.

Deferred taxes attributed to temporary differences regarding holdings in subsidiaries, associated companies or joint ventures are recognized only to the extent to which the Parent Company can control the timing of reversal of the temporary differences and that it is probable that such a reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legal right to offset for current tax assets and tax liabilities, and when the deferred tax assets and liabilities are attributed to taxes levied by the same tax authority and relate to either the same tax subject, or different tax subjects when there is an intent to settle accounts through net payments.

TANGIBLE AND INTANGIBLE FIXED ASSETS
Non-current assets are recognized in the statement of financial position at acquisition cost, less accumulated depreciation according to plan and any impairment losses. The assets of acquired companies are recognized at fair value on the date of acquisition, less accumulated depreciation or amortization.

The acquisition cost of the asset is depreciated or amortized on a straight-line basis to the estimated residual value over the anticipated useful life of the asset. For anticipated useful lives, refer to Note 8, Depreciation, amortization and impairment losses. Each asset's remaining useful life is tested at the end of each accounting period, and adjusted as necessary.

Buildings, machinery and equipment
Land is not subject to depreciation because it is considered to have an indefinite useful life. Normal maintenance and repair costs are expensed as they arise. More extensive renovation and upgrade costs are reported as an asset and depreciated over the remaining useful life of the asset.

Leases
Lease of tangible fixed assets where the Group, as lessee, essentially holds the financial risks and benefits associated with ownership of an asset classified as a finance lease. Leases in which a significant part of the risks and benefits of ownership are retained by the lessor are classified as operating leases.

Recognition of finance leases entails recognizing a non-current asset as an asset item in the statement of financial position, at the lower of the fair value of the asset or the estimated present value of the underlying lease payments, and initially reporting a corresponding liability. The asset is depreciated according to plan over its useful life, while the lease payments are recognized as interest and repayment of the liability. For an operating lease, the lease payments during the lease period are expensed in the income statement.

Goodwill
Goodwill relates to the value by which consideration remitted, non-controlling interest (if any) in one's own company and the fair value of previous equity share in the acquired company at the date of acquisition (if the business combination was carried out in steps) exceed the fair value of identified net assets. If the amount falls below fair value for the net assets acquired (in the event of an acquisition at low price), the average difference is recognized directly in the income statement.
Goodwill is not amortized, but the impairment is tested yearly or more often if events or changes in circumstances indicate a possible decrease in value. Goodwill is reported at acquisition cost less accumulated amortizations. In connection with the sale of a unit, the recognized value of goodwill is included in the resulting profit/loss.

Patents, licenses and similar intellectual property rights
Direct external expenses for the development of software for internal administrative use are capitalized, provided future efficiency gains are probable and exceed the expenses committed. Activities during the feasibility study phase, and maintenance and training costs, are expensed on an ongoing basis.

Research and development
The Group's outlays for research are expensed as they are incurred. Research outlays are recognized as an intangible asset in the statement of financial position, provided that it is technically feasible and also that the Group intends to complete the asset for use or sale. There should also be conditions to use and sell the asset, and it should be possible to demonstrate the probability of future financial benefits. In addition, adequate resources are required to complete the development and to use or sell the asset. Outlays arising before the mentioned criteria are met are expensed. Depreciation of capitalized development starts when the asset is complete and ready to use. Amortization occurs on a straight-line basis over the useful life, usually three to five years, and is recognized in the report on comprehensive income as research and development costs.

Impairment testing
When there is an indication that a non-current asset's value has declined, the carrying amount of the asset is assessed. Goodwill and other intangible assets with an indefinite useful life are impairment tested on a yearly basis, or more often if there are indications of impairment.

Impairment testing of individual assets
In the event a recognized value of an asset exceeds its estimated recoverable amount, the asset is depreciated to its recoverable amount. The recoverable amount is the higher of the asset's fair value minus sales costs, and its value in use. The recoverable amount is assessed individually for each cash-generating unit.

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

Value in use is normally measured using discounted cash flow models, which requires assumptions of such parameters as a discount rate, future cash flows, and the expenses necessary to generate the estimated cash flows. Any impairment previously recognized is reversed, if the recoverable amount is deemed to exceed the carrying amount. The reversal amounts are limited such that a carrying amount must not exceed what it would have been if no impairment had been recognized in prior periods.

Impairment testing of goodwill
For the purpose of testing the need for amortization, goodwill acquired in a business combination is allocated to cash-generating units or groups of cash-generating units expected to be favored by synergies in the acquisition. Each unit or group of units goodwill has been allocated to corresponds to the lowest level in the group at which the goodwill in question is monitored in internal governance. It is not a larger part of the group than a segment (i.e. a business area according to the Group's segment reporting). Amortization of goodwill may never be reversed.

INVENTORY
Inventory (raw materials and consumables, products in process and finished products and goods for resale) is valued at the lower of acquisition cost and net sales value. Net sales value is the estimated sale price in operating activities less applicable variable sales costs.

For products manufactured in-house, the acquisition cost consists of direct manufacturing costs plus a reasonable share of indirect manufacturing costs. Interest expenses are not included in the value of inventory. Measurement has taken into account normal capacity utilization. The acquisition cost is determined using the first-in, first-out method. Otherwise, weighted average cost may be used if this method is a good approximation of the first-in, first-out method. Required impairment is recognized for obsolescence based on each item's age and rate of turnover.

FINANCIAL INSTRUMENTS
Financial instruments are all forms of contracts that give rise to a financial asset in one company and a financial liability or an equity instrument in another company.

Classification
From January 1, 2018, Munters classifies its financial assets and financial liabilities in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss (FVPL), and
- those to be measured at amortized cost.

Measurement
At initial recognition, the group measures a financial instrument at its fair value plus, in the case of a financial instruments not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial instruments. Transaction costs of financial instruments carried at FVPL are expensed in profit or loss. Subsequent measurement depends on the group's business model for managing the instruments and the cash flow characteristics of the instruments. There are three measurement under IFRS 9:

- Amortised cost: Instruments that are held for collection/payment of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income/expense from these financial instruments is included in finance income/expense using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Instruments that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

As at December 31, 2018 Munters only had financial instruments in the categories amortised cost and FVPL.

Accounts receivable and other receivables
As the expected tenor of accounts receivable is short, they are recognized at the amount expected to be paid based on estimated credit losses with consideration of historical default rates. Any amortization of accounts receivable affects operating profit or loss. Accounts receivables and other receivables are measured at amortized cost.

Derivatives
Derivatives are recognizes in the statement of financial position on the trading date and measured at fair value both initially and in subsequent revaluations at the end of every reporting period. Changes in value are recognized in the income statement, no hedging is applied.

Cash and cash equivalents
Cash and cash equivalents are defined as cash, bank balances, investments in securities maturing in three months or less and utilized overdraft facilities. Utilized overdraft facilities are recognized in the statement of financial position as current liabilities.

Accounts payable and other payables
Accounts payable are commitments to pay for goods and services acquired from suppliers in operating activities. The amounts are unhedged and most often paid within 30 days. Accounts payable and other liabilities are classified as current liabilities if they fall due within one year. If not, they are recognized as non-current liabilities. Accounts payables and other liabilities are measured at amortized cost.

Borrowing
Borrowing is initially recognized at fair value, net after transaction costs. It is subsequently recognized at amortized cost, and any difference between the amount received and the amount repaid is recognized in the income statement, allocated over the borrowing period using the effective-interest method. Fees paid for loan facilities are recognized as transaction costs for borrowing to the extent it is probable that the credit line will be used, either in whole or in part. In such cases, the fee is recognized when the credit line is used. When no proof exists that it is probable the credit line will be used, either in whole or in part, the fee is recognized as an advance payment for financial services and allocated over the tenor of the loan commitment in question.

Contingent purchase considerations and put/call options
Contingent purchase considerations and put/call options are initially and thereafter, recognized at fair value in the statement of financial position. Changes in value are recognized in the income statement, or alternately in other operating expenses.

Recognition and derecognition
Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Impairment
From January 1, 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see Note 17 for further information.

Offsetting of financial instruments
Financial assets and liabilities may be offset against each other and recognized net in the Consolidated Accounts in cases where Munters has agreed with the counterparty that assets and liabilities will be netted. No offsetting has taken place in the statement of financial position as of December 31, 2018.

Accounting policies applied until 31 December 2017
IFRS 9 has introduced new classifications of financial instruments, however the measurements under the new classifications are the same as previous classifications and there is therefore no impact on prior year numbers. Last year's classification as "Loans receivable and accounts receivable" are classified as "Financial assets measured at amortized cost", however "Financial assets at fair value through profit/loss", "Financial liabilities measured at amortized cost" and "Financial liabilities at fair value through profit/loss" remains the same.

PROVISIONS
Provisions are recognized 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 payments will be required to fulfill the obligation. An additional prerequisite is that it must be possible to reliably estimate the amount to be paid. Provisions for restructuring measures are allocated when a detailed, formal plan for the measures is established and well-founded expectations have been created among those who will be affected by the measures.

Provisions are measured as the present value of the amount expected to be required to settle the obligation. In this connection a discount rate before tax is used that reflects a current market assessment of the time value of money and the risks associated with the provision. The increase in the provision owing to time passing is recognized as an interest expense.

CONTINGENT LIABILITIES
Contingent liabilities are reported when there are possible obligations relating to transpired events that will only become actual obligations given the occurrence or non-occurrence of one of more uncertain future events that are not entirely within the control of Munters. Contingent liabilities may also be an obligation arising from transpired events but not reported as a liability or a provision because it is not

probable that the obligation will be settled or because the amount of the obligation cannot be calculated with sufficient reliability.

EMPLOYEE BENEFITS

Short-term employee benefits

Liabilities for salaries and benefits expected to be settled within 12 months after the end of the fiscal year are recognized as current liabilities at the undiscounted amount that is expected to be paid when the liabilities are settled. The cost is recognized as the services are performed by the employees.

Post-employment benefits

Within the Group, there are several defined-contribution as well as defined-benefit pension plans and other non-current employee benefits, including some with pension plan assets.

Defined-contribution pension plans

In defined-contribution pension plans, the Group pays a predetermined premium to a separate legal entity and does not have any legal or informal obligation to make additional payments if, when compensation to the employee is to be paid, the legal entity has insufficient assets. The Group's payments relating to defined-contribution plans are recognized as an expense during the period the employee performed the services to which the expense relates. Deferred fees are recognized as an asset to the extent that cash repayment or reduction in future payments can be of benefit to the Group.

Defined-benefit pension plans

All other plans for post-employment benefits other than defined-contribution plans are defined-benefit plans. The liability or asset regarding defined-contribution pension plans that is recognized in the statement of financial position is the present value of the defined-benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined-benefit pension obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined-benefit obligation is established by discounting estimated future cash flows using the interest rate for high-quality corporate or housing bonds issued in the same currency that the benefits will be paid in, with tenors comparable to the pension obligation in question. For Swedish plans, the discount rate equals the housing bond rate. Net interest is calculated by applying the discount rate to defined-benefit plans and to the fair value of the plan assets. This cost is included in labor costs in the income statement.

Revaluation gains and losses arising out of experience adjustments and changes to actuarial assumptions are recognized in other comprehensive income during the period in which they arose. They are included in profit brought forward in the statement of changes in equity and in the statement of financial position. Expenses for employment during previous periods are recognized directly in the income statement. Expenses for the year for employment in the current year are recognized in administrative costs and the interest expense for the defined-benefit net liability is recognized in financial expenses in the income statement.

Special employer's contribution in Sweden is calculated on the difference between the pension obligation adopted according to IAS 19 and according to the rules applied for the legal entities. Calculated future employer's contribution is recognized in the statement of financial position as a part of the pension obligation. The change in the provision is recognized, to the extent that it pertains to the effects of revaluations, in other comprehensive income.

SHARE CAPITAL

Ordinary shares are classified as equity. Mandatory redeemable preferential shares are classified as liabilities. Transaction costs that can be directly attributed to issue of new shares or options are reported, net after tax, in equity as a deduction from proceeds.

DIVIDENDS

Dividends to the Parent Company's shareholders are recognized as a liability in the Group's financial reports in the period when the dividend was approved by the Parent Company's shareholders.

EARNINGS PER SHARE

Earnings per share before dilution are calculated by dividing earnings attributable to the Parent Company's shareholders, excluding dividends attributable to preferential shares, by a weighted average number of ordinary shares outstanding during the period. Earnings per share after dilution are calculated by adjusting the amount used for calculating earnings per share before dilution through observing the effect after tax of dividends and interest expenses on potential ordinary shares and of the weighted average of additional ordinary shares that would have been outstanding in the event of a conversion of all potential ordinary shares.

RELATED PARTY DISCLOSURES

The companies related to Munters are defined as the Parent Company, subsidiaries, and associated companies as well as other companies managed by Nordic Capital. "Related physical persons" are defined as Board members, senior executives, and close family members of such persons. Companies in which any of the mentioned physical persons have significant influence are also defined as companies related to Munters. Information on transactions that entail a transfer of resources, services, or obligations between related parties is disclosed, regardless of whether or not remuneration is paid. The disclosure contains information as to the character of the relationship and the effect of the relationship on the financial statements.

EVENTS AFTER THE END OF THE REPORTING PERIOD

If events arise that are significant but should not be taken into account when the amounts in the statement of comprehensive income and statement of financial position are adopted, then the character of the event and, if possible, an estimate of its financial impact will be disclosed in the Board of Directors' Report and notes. "Significant" implies that an omission to disclose the information could influence financial decisions made by users of the financial statements.

Significant events that confirm the situation existing at the end of the reporting period and occur after the reporting period but prior to the signing of the Annual Report will results in adjustments to the amounts in the Annual Report.

ACCOUNTING POLICIES OF THE PARENT COMPANY

The Parent Company's Annual Report has been prepared in accordance with the Annual Accounts Act and with the application of the Swedish Financial Reporting Board's recommendation RFR 2 – Accounting for Legal Entities. This means that IFRS are applied with the deviations and additions presented below.

Financial statements

Under the requirements in RFR 2. the Parent Company's financial statements deviate from those presented for the Group. This means that the Parent Company has the following five statements in the Annual Report: income statement, other comprehensive income, balance sheet, statement of cash flow and statement of changes in equity.

Financial instruments: Recognition and measurement

The Parent Company does not apply IFRS 9 Financial Instruments for 2018, nor applied IAS 39 Financial Instruments: Recognition and Measurement for 2017. Instead, measurements are based on the acquisition costs of assets and liabilities.

Ownership of subsidiaries

Holdings in subsidiaries are recognized in the Parent Company using the cost method. If there are indications of a decline in value, the value is tested and, if required, the holdings are impaired.

Group contributions

The Parent Company recognized all Group contributions, paid and received, as appropriations.

Shareholders' contribution

Shareholders' contributions from the Parent Company are recognized directly in the receiver's equity and capitalized in the shares and participations of the Parent Company, to the extent impairment is not required.

NOTE 2 SIGNIFICANT ESTIMATES AND ASSESSMENTS

In preparing the financial statements, Company management and the Board of Directors makes assessments and assumptions that affect the final accounts and disclosures. These assessments are based on experience and the various assumptions that management and the Board consider reasonable under the prevailing circumstances. The conclusions thus drawn form the basis for determinations concerning carrying amounts of assets and liabilities in cases where they cannot be readily determined using information from other sources. Actual outcomes may differ from these assessments, if other assumptions are made or other conditions applied.

The estimates and assessments that are considered to have the greatest impact on Munters earnings and financial position are outlined below.

Measurement of goodwill

The Group tests for impairment of goodwill each year. This test requires an estimation of parameters affecting future cash flows and a determination of a discount rate. Then the recoverable amount of each individual cash-generating unit is established by calculating the value in use. Note 15 presents the significant assumptions made to test goodwill and describes the effects of reasonable and possible changes to the assumptions on which the calculations were based. At the end of 2018, the Group recognized goodwill to a value of SEKm 4,218 (4,251).

Acquired intangible assets and establishing useful lives

When businesses are acquired, the intangible assets acquired are measured at fair value. In cases where there is an active market for the acquired assets, the fair value is determined based on prices in that market. Because active markets are often lacking for these assets, valuation models have been developed to estimate fair values. One example of a valuation model is discounted future cash flows. These assets are amortized based on established useful lives. Company management makes assumptions and judgements regarding how long each asset will generate financial benefits for the Group. At the end of 2018, the Group recognized Technology, Customer relationships and Brands to a value of SEKm 1,326 (1,341).

Development expenses

Determining whether an intangible asset resulting from development should be recognized as an asset requires an assessment of the extent to which certain specific conditions are satisfied. With regard to capitalized development projects, management's assessment is that their technical and financial feasibility are confirmed. At the end of 2018, the Group recognized intangible assets regarding product development to a value of SEKm 105 (72).

Deferred tax assets on loss carry-forwards

The Group recognizes deferred tax assets on loss carry-forwards to the extent that it is probable such losses can be deducted from future profits. The actual outcome may deviate from the assessments made because of factors such as changes in the business climate or to tax regulations.

At the end of 2018, the Group's total tax loss carry-forward was SEKm 951 (968). In the consolidated balance sheet, a value for tax purposes of capitalized loss carry-forwards was recognized in the amount of SEKm 101 (120), relating primarily to Australia, the Netherlands, Mexico, Germany and Sweden.

Contingent purchase considerations

A contingent purchase consideration in connection with acquisitions is often dependent on future financial performance related to the acquired unit. Actual results may differ from these assumptions, which involve changing a previously recognized contingent consideration.

Legal disputes

Provisions for legal disputes are estimates of the future cash flows that will be required to settle the obligations. The disputes primarily related to contracted obligations attributable to contracts with customers and suppliers, though other types of disputes also arise in normal business operations. Management considers it improbable that any of the known disputes in which Munters is currently involved will have a significant negative effect on the Group's accounts.

Critical judgements in recognizing revenue

A number of customer contracts fulfill the requirement to be recognized over time based on the degree of completion. The forecasts for each contract constitute an estimate of final revenue and expenses.

NOTE 3 FINANCIAL RISK MANAGEMENT

Through its operations in a global environment, Munters is exposed to several different financial risks, such as currency risk, interest rate risk, credit risk, and liquidity risk.

The financial risks are controlled and managed based on a financial policy approved by the Board of Directors. The policy covers the entire Group and is updated on an annual basis. The purpose of the policy is to create a framework for managing the various financial risks. Risk management and financing activities are handled centrally by the CFO and the Group Treasury function, under control and monitoring of the Board of Directors, Audit Committee and CEO. The overall objective is to limit the volatility attributable to financial factors in the income statement and balance sheet, protect financial assets and future cash flows, as well as optimize the Group's financing and meet covenants. The Treasury function, which acts as the Group's internal bank, identifies, evaluates, and hedges financial risks in close cooperation with the Group's operational units.

	Percentage of revenue, %		Percentage of costs, %	
Currency	**2018**	2017	**2018**	2017
USD	38.4%	43.3%	34.2%	38.4%
EUR	28.2%	26.1%	33.6%	29.7%
CNY	12.0%	9.8%	9.3%	7.3%
DKK	4.7%	3.5%	1.5%	1.5%
SEK	2.7%	3.3%	7.3%	8.9%
JPY	2.2%	2.2%	2.0%	2.1%
GBP	1.9%	1.7%	2.8%	2.3%
BRL	1.6%	1.7%	1.5%	2.1%
KRW	1.3%	1.5%	0.6%	0.7%
AUD	1.8%	1.5%	1.3%	1.1%
THB	1.3%	1.2%	0.7%	0.7%
SGD	0.9%	0.9%	0.7%	0.5%
Other	3.0%	3.2%	4.5%	4.8%
Total	***100***	100	***100***	100

Currency risk

Due to Munters global presence, the Group is exposed to transaction exposure in transactions in foreign currency and through translation exposure translating income statements and balance sheets into SEK.

Transaction exposure

Group internal sales in foreign currency primarily occur through the Group's production companies, which invoice the Group's sales companies in their functional currency. By doing so, transaction exposure and hedging operations are concentrated to a few companies in the Group.

The hedging of transaction exposure shall primarily occur through so-called natural hedges, whereby incoming and outgoing cash flows in foreign currencies are matched in order to minimize the net exposure. For example, Munters has decided to have their major part of its external loans in USD to get a natural hedge towards the large inflows of USD presented in the table above. Otherwise, hedging shall primarily occur through the forward selling of currency. The value of forward contracts at year-end was about SEKm 1.7 (-0.1), see Note 19. Munters does not apply hedge accounting for these financial instruments.

A significant proportion of Munters' income and expense is generated in foreign currencies, of which the most significant are presented in the table above. The geographic distribution of Munters' production plants results in a matching of revenues and expenses in local currencies, which limits the currency exposure.

Munters' sensitivity to variations in exchange rates is presented in the table below. The analysis includes transaction exposure and is based on EBIT for 2018. All other factors influencing earnings are assumed unchanged in the calculation.

	Estimated effect on EBIT	
SEK +10% compared with	SEKm	%
USD	-54.0	-11%
CNY	-27.6	-6%
DKK	-28.1	-6%
KRW	-6.5	-1%
THB	-5.0	-1%
AUD	-4.9	-1%
SGD	-1.5	0%
CAD	-1.0	0%
TRY	-2.3	0%
CZK	3.1	1%
ILS	6.8	1%
MXN	8.6	2%
EUR	28.1	6%
Other currencies	-3.3	-1%
Total	***-87.7***	***-18%***

Translation exposure

A large proportion of Munters' subsidiaries have net assets in their functional currency, which is different from the Group's reporting currency. When these are translated into SEK, translation differences arise which are recognized in other comprehensive income. Translation differences attributable to net investments in foreign currency are not hedged. However, pursuant to the financial policy, this is monitored and calculated regularly in order to determine its impact on earnings and financial position. The effect on other comprehensive income of the translation of foreign subsidiaries' net assets into SEK totaled SEKm 193 (-89). This refers mainly to subsidiaries that have USD, EUR and CNY as functional currency.

Interest rate risk

Interest rate risk refers to the risk of the value of financial instruments and interest-bearing assets and liabilities changing due to changes in interest rate levels.

To ensure efficiency and risk control according to policy, the majority of borrowings are managed by the Group Treasury function.

Munters is exposed to interest rate risk through interest-bearing borrowings, which are one of the Group's sources of financing in addition to equity and cash flow from operating activities. Interest-bearing borrowings consist primarily of a long-term bank loan with a variable interest rate. In addition, few subsidiaries are permitted to keep individual third party bank debt.

The Group has no significant interest-bearing assets besides bank balances, so revenues and cash flow from operating activities are largely independent of changes in market interest rates.

The Group had at the end of 2018 no outstanding interest rate derivatives.

Interest exposure

The average fixed interest term for the Group's external loans was 2 months (2.1) at year-end 2018. If the interest rate increases with one percentage in all countries where Munters has loans or investments, the impact on net financial income and expense would be approximately SEKm 25 (24). This sensitivity analysis assumes that all other factors, such as exchange rates, remain unchanged.

Credit risk

Credit risk is the risk of Munters incurring losses due to a counterparty failing to pay.

Credit exposure

For Munters, the predominant portion of credit risk relates to accounts receivable. Munters works actively to limit this risk. An approved credit rating is required for a counterparty to be approved. Advance payment is generally encouraged, and partial advance payment is required when the value of the order is a significant amount and delivery extends over a long period of time. Accounts receivable are also mainly spread among many customers, primarily companies in different industries and with wide geographical distribution, which limits concentration of the credit risk. The Group's five largest customers accounted for 15% (14) of total revenues, calculated on a full-year basis. At December 31, 2018, the five largest customers accounted for 13% (17) of total outstanding accounts receivable.

To ensure that the Group's accounts receivables are paid, the management of receivables is regulated in a special policy. According to this policy, each business unit must have established and documented processes for handling unpaid receivables. The documented processes include specifications of time limits for taking various actions, including legal action, as well as who is responsible at various stages of the process. Documentation of actions taken ensures that follow-up is possible. The measures are matched to amounts and to different groups of customers and business areas in a manner that will result in efficient handling of overdue accounts receivable.

Counterparty exposure

A list of approved counterparties and maximum exposure to each approved counterparty is established in the financial policy. Approved counterparties should be characterized by high ethical values and have a credit rating of at least A-/A2 according to Standard & Poor's/Moody's credit assessments. Exceptions may sometimes be made for local banks, but such cases must have the advance approval of the CFO.

Liquidity risk

Liquidity risk refers to the risk of Munters, at a given point in time, not having sufficient liquidity to cover expected or unforeseen expenses.

The liquidity reserve is defined as bank balances or invested funds that can be released within two banking days without any additional or minor cost, plus any unutilized credit facilities, committed for minimum 12 months, less any outstanding uncommitted debt. Management continually monitors forecasts of Group cash flows and liquidity reserves to ensure that the Group has sufficient funds to satisfy the needs of operating activities and to cover interest payments and loan repayments. According to the financial policy, the long-term liquidity reserve shall exceed an amount equivalent to 1.5 months of disbursements. Short term the liquidity reserve can fall below that level to SEKm 350. A risk to go below the permitted threshold level requires immediate actions. At the end of 2018, the Group had unutilized credit facilities of SEKm 918 (811). The Group's total liquidity reserve less trapped cash per end of 2018 amounted to SEKm 1 275 (1 085).

Group Treasury works actively to ensure an effective cash management structure by centralizing the liquidity to the parent company through cash pools and other form of sweeping mechanisms. Cash surplus shall primarily be used to repay on external debt. The Group's cash and cash equivalents shall be deposited in bank accounts or high-liquidity interest-bearing instruments. Any surplus liquidity in subsidiaries shall be deposited with Group Treasury. By securing accessibility to guaranteed long-term credit facilities, spreading maturities and sources of financing for borrowings, the Group will avoid expensive financing and refinancing difficulties. For more information about the Group's borrowings, see Note 20.

Capital structure

Munters aims to have a capital structure that ensures long-term stability in operations, satisfies various investment requirements and safeguards the value of the Group. Munters endeavors to ensure that Group's subsidiaries shall have an optimal capital structure relating to financing requirements, foreign exchange and tax regulations in each jurisdiction. Subsidiary financing shall mainly be done by internal loans or capital contributions. Requirements in the Groups external loan agreement and common praxis following the type of business of the individual subsidiary and country shall be taken into consideration when deciding form of financing. An analysis of the subsidiaries' capital structure is done on a yearly basis to secure that the different requirements are met.

NOTE 4 NET SALES

Satisfaction of performance obligations and payment terms

Munters overall supply consists of goods, such as equipment, components and spare parts, and services, such as installation, startup commissioning and maintenance services, within four different operating segments: Air Treatment, Data Centers, AgHort and Mist Elimination.

Customer contracts range from pure component deliveries, mainly within AgHort and Mist Elimination, to contracts comprising equipment, installation, startup and commissioning services, mainly within Air Treatment and Data Centers.

The performance obligation to deliver goods within Air Treatment, AgHort and Mist Elimination is in the great majority of contracts satisfied when Munters delivers the goods according to the delivery terms in the contract, however there are contracts within Air Treatment that are satisfied over time as Munters produces the goods. The performance obligation to deliver goods within Data Centers is satisfied over time as Munters produces the goods. This because the Data Centers customer contracts are customer-specific deliveries without alternative use for Munters and with the right to recovere cost incurred with a reasonable profit margin should the customer decide to terminate the contract.

Installation, startup and commissioning services are services satisfied over time as Munters performs The same relates to aftermarket services, such as maintenance services and extended warranties, and services and subscription contracts within Munters software delivery.

Within AgHort and Mist Elimination, payment terms are in general at point of delivery, which also correlates to time of revenue recognition Within Air Treatment and Data Centers customer advance payment is generally encouraged, and partial advance payment is required when the value of the order is a significant amount and delivery extends over a long period. In these customer contracts, there is not a one to one correlation between payment terms and revenue recognition, which creates customer balances in the financial statement.

Allocation of Net sales

The majority of customer contracts within Munters operating segments Air Treatment, AgHort and Mist Elimination fulfill the requirements to recognize net sales at a point in time, however there are a number of customer contracts within these business areas that requires to recognize net sales over time, which is reflected in the below matrix. In contrast, the majority of customer contracts within the Data Centers business requires to recognize net sales over time.

In addition equipment sales Munters also provides different kinds of services to customers such as installation, commissioniong, startup and maintenance. Net sales from services are recognized over time as these services are performed.

Allocation of the transaction price in a customer contract with several performance obligations is based on standalone selling prices.

2018	AirT	DC	AgH	ME	Total
Allocation timing of revenue recognition					
Goods transfered at a point in time	2,787	13	1,851	385	5,035
Goods transfered over time	628	985	1	–	1,614
Services transfered over time	309	22	139	4	473
Total	***3,723***	***1,019***	***1,991***	***389***	***7,122***

2017	AirT	DC	AgH	ME	Total
Allocation timing of revenue recognition					
Goods transfered at a point in time	2,726	–	1,670	394	4,790
Goods transfered over time	592	804	–	–	1,397
Services transfered over time	251	28	137	1	418
Total	***3,569***	***833***	***1,808***	***395***	***6,604***

Contract balances

Accounts receivables are non-interest bearing receivables with a general payment term of 30-90 days. Within AgHort and Mist Elimination revenue recognition and billing in general aligns. However, within AgHort there are contracts with billing annually in advance. These contracts qualifies for revenue recognition over time and therefore deferred revenue balances arises. Within AgHort there is also other contracts qualifying over where payment terms deviates from revenue recognition, which result in both deferred revenue and accrued income balances.

Within Air Treatment and Data Centers, it is common with advanced billings, which creates advances from customers. Within Air Treatment the great majority of customer contracts qualifies for at a point in time revenue recognition meaning that once equipment are delivered, revenue is recognized fully for that performance obligation and any advances in the balance sheet is netted off and remaining balance is recognized as an accounts receivable. However, within Data Centers the great majority of the customer contracts qualifies for over time revenue recognition meaning that as soon as the measurement of progress of a performance obligation exceeds any advanced billings contract assets are recognized due to the fact that the billing terms does not allow for further billing until further milestones have been reached.

Contract balances	***2018***	2017
Accounts receivables (Note 17)	1,095	1,204
Accrued income (Note 18)	139	35
whereoff Contract asset	125	0
Contract liabilities		
Advances from customers	285	382
Deferred revenue (Note 26)	55	61

Transaction price allocated to remaining performance obligations
For information on the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period (Order backlog), see segment information in Note 6.

NOTE 5 INFORMATION ON COSTS BY NATURE

2018 Group	Cost of goods sold	Sales costs	Administrative costs	R&D costs	Other costs
Material costs	-3,083	-	-	-	-
Other production costs	-906	-	-	-	-
Personnel and other administration	-707	-894	-546	-180	-
Cost of depreciation	-72	-6	-18	-3	-
Amortization and write downs on surplus values	-4	-462	-3	-35	-
Other costs	-78	-	-	-	2
Total	***-4,851***	***-1,362***	***-567***	***-217***	***2***

2017 Group	Cost of goods sold	Sales costs	Administrative costs	R&D costs	Other costs
Material costs	-2,797	-	-	-	-
Other production costs	-896	-	-	-	-
Personnel and other administration	-706	-781	-570	-153	-
Cost of depreciation	-60	-8	-18	-13	-
values	-	-189	-	-	-
Other costs	0	-	-	-	-14
Total	***-4,458***	***-978***	***-588***	***-167***	***-14***

NOTE 6 OPERATING SEGMENTS

Munters is a global leader in energy-efficient solutions for air treatment based on its expertise in humidity- and climate-control technologies.

Reportable operating segments

The Group's reportable operating segments have been identified from a management perspective. Thus the segment information disclosed is based on internal reporting to the chief operating decision maker, which at Munters has been equated with Group management.

The Group's operations are managed and reported by four business segments as described below.

Air Treatment manufactures and markets products and holistic solutions for controlling humidity and improving the indoor climate. Customers' manufacturing processes and warehousing are becoming more efficient and product quality, shelf life, and hygiene are improving.

Data Centers manufactures and markets products and precision climate control systems to medium and large scale data centers.

AgHort manufactures and markets energy-efficient products and systems to create the right indoor climate for the animal husbandry and horticultural industries.

Mist Elimination manufactures and markets environmentally friendly solutions and products for mist elimination, such as for cleaning flue gas.

Business segment consolidation is performed applying the same policies as for the Group as a whole. Transactions between business segments are conducted on market terms. Key control and reporting concepts are order intake, net sales, EBIT, and operating working capital. No individual external customer represents 10% or more of Munters' sales.

In 2019, Munters will integrate Data Centers and Mist Elimination into Air Treatment.

	Air Treatment		Data Centers		AgHort		Mist Elimination		Other & Eliminations 1)		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Order backlog	1,158	1,079	470	792	518	368	171	127	0	0	2,317	2,365
Whereof recognized to net sales within one year 2)	1,102		461		371		155		0		2,088	
Order intake	3,798	3,787	660	1,261	2,107	1,866	445	394	-96	-112	6,914	7,197
Sales from external customers	3,723	3,569	1,019	833	1,991	1,808	389	395	0	0	7,122	6,604
Transactions between business segments	29	19	49	23	27	30	14	11	-118	-83	0	0
Net sales	***3,752***	***3,588***	***1,068***	***856***	***2,018***	***1,837***	***403***	***406***	***-118***	***-83***	***7,122***	***6,604***
Earnings before interest and tax (EBIT)	***496***	***511***	***-440***	***-13***	***244***	***225***	***52***	***34***	***-217***	***-303***	***134***	***453***
Change in accounts receivable	-24	-11	206	-13	-11	-51	-12	3	3	-4	164	-76
Change in inventories	1	18	44	-98	-14	-50	-1	-5	0	0	30	-135
Change in accounts payable	80	-17	-94	50	-36	52	-7	3	-18	-28	-74	59
Change in advances from customers	-32	-4	-60	42	-18	40	-8	4	0	-3	-117	79
Change in operating working capital	***26***	***-13***	***96***	***-20***	***-78***	***-9***	***-28***	***4***	***-14***	***-35***	***2***	***-72***
Internal reallocations	-10	5	-5	0	-7	-0	-1	1	23	-5	0	0
Investment	-127	-83	-20	-23	-66	-50	-7	-4	-10	-10	-231	-170
Add back of depreciation, amortization, and impairments	54	42	359	13	45	37	7	6	137	189	602	288
Operating cashflow	***438***	***462***	***-9***	***-43***	***138***	***203***	***22***	***41***	***-82***	***-165***	***507***	***498***
Other disclosures												
Number of permanent employees at year end	1,856	1,886	413	452	875	770	290	318	84	70	3,518	3,496

1) Pertains group internal eliminations and group items not allocated to any operating segment.

2) As permitted under the transitional provisions in IFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2017 is not disclosed.

GEOGRAPHIC INFORMATION

The information above is based on where customers have their registered head office.

External net sales	2018	2017
Sweden	160	155
United States	2,338	2,413
Germany	521	424
China	904	783
Other countries	3,200	2,829
Total revenues from external customers	**7,122**	**6,604**

Non-current assets	2018	2017
Sweden	499	484
United States	3,922	3,654
Euro countries	1,621	1,889
Other countries	294	243
Total non-current assets	**6,336**	**6,270**

The information presented in the table above regarding non-current assets is grouped according to assets location, i.e. where the entity carries on its production of goods and services. Non-current assets consist of buildings and land, plant and machinery, equipment, tools, and installations, construction in progress, patents, licenses, brands and similar rights and goodwill.

NOTE 7 OTHER OPERATING REVENUE AND OPERATING EXPENSES

	Group	
	2018	2017
Other operating income		
Change in contingent price considerations	-	53
Other	14	0
Total	**14**	**53**
Other operating expenses		
Other	-6	-2
Exchange-rate differences	0	-12
Total	**-6**	**-14**

NOTE 8 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

Amortization of intangible assets and depreciation of property, plant, and equipment are based on the historical acquisition cost and the estimated useful life of different groups of assets. For assets acquired during the period, depreciation or amortization is calculated from the acquisition date. Depreciation and amortization are charged primarily on a straight-line basis over the following useful lives.

Leasehold improvements	3-7 years
Research and development work	3-5 years
Patents, licenses, brands (with definitive useful life)	3-10 years
Customer relationships	7-12 years
Technology	6-10 years
Brands (with indefinitive useful life)	not amortized
Machinery and equipment	3-10 years
Buildings	20-33 years
Land lease	50 years

The brands that emerged in connection with business combinations acquired when Munters Group AB acquired Munters AB via Munters Holding AB are deemed to have an indefinite useful life, while the useful life of customer relationships and technology also identified are estimated at 6–12 years. In addition, the brands that emerged in connection with the acquisition of Proflute are deemed to have an indefinite useful life.

Depreciation, amortization, and impairment losses on non-current assets were charged to income for the year as shown below.

	Group	
	2018	2017
Cost of goods sold	-76	-60
Selling expenses	-468	-197
Administrative costs	-21	-18
Research and development costs	-37	-13
Total	**-602**	**-288**

A write down by SEKm 323 was made during 2018, which was related to goodwill in Data Centers. In addition, a write down of SEKm 18.6 was made on internally generated intangible assets. A write down by SEKm 19.6 was made during 2017, which was related to customer relations in Mtech. Amortization of other acquisition-related intangible assets totaled SEKm 133 (189) and is included in selling expenses.

Write down of inventory	Group 2018	Group 2017
Opening balance	-77	-71
Write down current year	-5	-13
Reversal of previous years write down	6	5
Organizational change	-	1
Exchange rate differences	-1	1
Closing balance	***-77***	***-77***

Most of the write downs and reversal of write down are related to the obsolescence that is made at each period end.

NOTE 9 LEASES

Operating leases
The period's expense for operating leases on assets, such as leased premises, machinery, and major computer and office equipment, is recognized among operating expenses and totaled SEKm 143 (106). The minimum future lease payments for irrevocable operating leases have the following maturity.

2019	139
2020-2023	276
2024 and later	36
Total	***451***

Finance leases
Like last year, there are no significant amounts of financial leases.

NOTE 10 FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2018	2017	**2018**	2017
Financial income				
Interest income, subsidiaries	0	-	-	-
Interest income, other	5	8	-	-
Other financial income	0	0	-	-
	5	***8***	***-***	***-***
Financial expenses				
Interest expenses subsidiaries	0	-	-	-
Interest expenses, loans	-132	-224	-0	-83
Financing Fees	-8	-69	-	-
Exchange-rate differences	15	-12	-0	-1
Other financial expenses	-6	-6	-	-0
	-131	***-309***	***-0***	***-84***
Total financial incomeand expenses	***-127***	***-301***	***0***	***-84***

NOTE 11 INCOME TAXES

	Group		Parent Company	
	2018	2017	**2018**	2017
Current tax	-79	-107	-	-
Deferred tax related to temporary differences and loss carry-forwards	-22	128	0	-
Tax recognized in income statement for the year	***-101***	***21***	***0***	***-***

Reconciliation of effective tax				
Profit/Loss before tax	7	152	-11	-75
Tax according to prevailing tax rate for the Parent Company	-1	-33	3	17
Tax effect of;				
Difference attributable to foreign tax rates	5	2		-
Non-deductible expenses 1)	-14	-23	0	-17
Non-deductable write-down of goodwill	-71	-		
Non-taxable income	4	17	-	-
Utilization of losses not recognized as an asset in the balance sheet	2	1	-	-
Change in valuation of deferred tax on temporary differences and losses	-26	-1	-2	0
Revaluation of deferred tax assets/liabilities due to change in tax rate 2)	2	69	-	-
Non-income-related taxes	-2	-3	-	-
Tax attributable to prior years/withholding tax	-1	-6	-	-
Tax recognized in income statement for the year	***-101***	***21***	***0***	***-***

1) Mainly related to interest cost on shareholder debt in 2017.
2) Mainly related to decreased tax rates in the US and Belgium in 2017.

Tax attributable to components of other comprehensive income	**2018**	2017
Deferred tax attributable to:		
Actuarial gains and losses on defined-benefit pension obligations	4	3
Total	***4***	***3***

	Group	
Deferred tax assets	**2018**	2017
Buildings	0	0
Machinery and equipment	3	3
Inventory	31	24
Accounts receivable	6	6
Provisions	9	9
Accrued expenses and prepaid income	36	49
Goodwill	4	5
Loss carry-forwards	101	120
Provisions for pensions	25	22
Other	10	5
Closing balance	***227***	***242***

	Group	
Deferred tax liabilities	**2018**	2017
Buildings	3	3
Machinery and equipment	28	21
Brands	301	281
Goodwill	16	11
Other intangible assets	60	74
Accrued expenses and prepaid income	13	-
Other	1	4
Closing balance	***421***	***394***

Reconciliation of net change in deferred tax assets from the beginning of the year to the end of year:

	Group	
Change in deferred taxes	**2018**	2017
Opening balance	152	283
Acquisition of subsidiaries (Note 12)	4	22
Charges recorded in this year's profit	22	-128
Tax on amounts recorded in Other comprehensive income	-4	-3
Exchange-rate differences for the year	20	-22
Closing balance	***194***	***152***

Deferred tax assets for pension provisions refer to the difference between the calculation of defined-benefit pension obligations based on local tax legislation and IAS 19 Employee Benefits.

Deferred tax assets relating to loss carry-forwards are recognized to the extent that it is deemed likely that the losses will be used to offset taxable income.

At year-end, there were tax loss carry-forwards in the group companies amounting to SEKm 951 (968), of which SEKm 904 (929) may be carried forward for an unlimited period of time. Loss carry-forwards for which deferred tax assets are not recognized totaled SEKm 533 (496), of which SEKm 533 (496) may be carried forward for an unlimited period of time. Consequently, deferred tax assets on loss carry-forwards totaling SEKm 418 (472) were recognized. These losses relate to the subsidiaries in Australia SEKm 17 (18), Germany SEKm 62 (56), Belgium SEKm 0 (97), Brazil SEKm 0 (5), Mexico SEKm 40 (17), Netherlands SEKm 33 (30), Turkey SEKm 0 (8) and Sweden SEKm 266 (241). Tax losses in Mexico may be carried forward for ten years and tax losses the Netherlands may be carried forward for nine years. In the other countries, losses may be carried forward for an unlimited period of time.

SEKm 73 (47) out of the SEKm 418 (472) that has been included in the basis for calculating a deferred tax asset relate to Mexico and the Netherlands. During 2018 additional deferred tax assets relating to old loss carry-forwards were recognized in Sweden since the business conditions have improved and the loss carry-forward is thus deemed possible. Mexico, Netherlands and Germany has generated tax losses during the year and these losses are deemed possible to use and thus a deferred tax asset was recognized on these losses.

The deferred tax liabilities are mainly attributable to surplus values identified in connection with the acquisition of Munters in 2010.

NOTE 12 BUSINESS ACQUISITIONS AND DIVESTMENTS

ACQUISITIONS 2018

Humi-Tech Services Ltd

On July 2, 2018, Munters UK acquired 100% of the issued share capital of Humi-Tech Services Ltd, a company registered in the UK providing services and maintaining humidifiers predominantly within the UK market. Humi-Tech Services Ltd has a strong reputation in the market for being reliable and providing high quality work and the main reason for the acquisition was to increase Munters service footprint in the UK market. Humi-Tech Services Ltd has contributed with seven highly qualified service engineers with knowledge in the humidification industry together with a strong customer base.

The purchase consideration amounted to SEKm 22 of which SEKm 14 upfront and an earn out of maximum SEKm 8 contingent on the level of EBITDA in FY18 and FY19. We have estimated the full earn out to be paid out and provided for it fully. The surplus values arising from the acquisition relates to customer relationships. In 2017 Humi-Tech Services Ltd generated revenues of SEKm 14 with a reported EBITDA of SEKm 5. Acquisition costs incurred amounted to SEKm 0.5. Acquired cash amounts to app. SEKm 1.

MTech Systems

A part of the option in Mtech was exercised where another 6.4% was acquired for SEKm 23. The original option remains and after this transaction there is a call option to acquire the remaining 33.6% which terminates as of December, 2022.

ACQUISITIONS 2017

MTech Systems

On February 1, 2017, Munters completed an acquisition of 60% of the shares in the US based software company MTech Systems. The company is operating within the business area AgHort. The purchase price amounted to SEKm 222, corresponding to a debt-free enterprise value for 100% of the company of SEKm 370. Munters also has an option to acquire the remaining 40% of the shares that are held by senior executives of MTech Systems, who also have an option to sell, starting in December 2020. The purchase consideration on exercising the option will be based on the financial result for the 12 months prior to the date of exercising the option. As a consequence of the option Munters recognize non-controlling interest initially and allocate such part of income. The Group also recognizes a liability corresponding to the discounted expected redemption price for the option whereupon non-controlling interest attributable to the option is eliminated. The difference between liabilities for the options and the non-controlling participations to which the options refer is recognized directly in equity and disclosed separately from other changes in equity.

Compared with the purchase price allocation presented in the first quarter of 2017, the value of technology has been decreased by SEKm 25 and goodwill increased with the same amount during the second quarter. Final purchase allocations have been performed during the fourth quarter and has resulted in increased goodwill of SEKm 61. The main adjustments related to deferred income which increased by SEKm 36 and other current assets which was decreased by SEKm 27.

The acquisition of MTech Systems was financed by raising bank loans. In 2016 MTech Systems had revenues amounting to approximately SEKm 140. Acquisition costs incurred amounted to SEKm 10, which is reported as administrative costs. The goodwill arising from the acquisition, SEKm 223, was primarily attributable to future synergies expected through combining MTech Systems expertise in advanced data analysis with data from Munters controllers, creating a complete overview of the supply chain for poultry and swine producers. Overall this will significantly expand Munters offering to our customers in business area AgHort.

The acquired business contributed revenues of SEKm 124 and net profit of SEKm 34 to the group for the period from February 1 to December 31, 2017. If the acquisition had occurred on January 1, 2017, consolidated pro-forma revenue and profit for the year ended December 31, 2017 would have been SEKm 136 and SEKm 37 respectively.

Information about acquired net assets and goodwill follows	According to final purchase price allocation
Cash purchase consideration paid	222
Total purchase consideration	**222**
Fair value of non-controlling interests	162
Fair value of acquired net assets	-161
Goodwill	**223**

Acquired net assets at time of acquisition	Fair values according to final purchase price allocation
Assets	
Property, plant and equipment	10
Customer relationships	29
Technology	97
Brands	19
Accounts receivable	51
Other current assets	12
Cash and cash equivalents	35
Total assets	***252***
Liabilities	
Non-current interest-bearing liabilities	0
Current interest-bearing liabilities	0
Accounts payable	1
Accrued expenses and deferred income	56
Deferred tax liabilities	22
Other current liabilities	12
Total liabilities	***91***
Net identifiable assets and liabilities	***161***
Cash purchase consideration paid	222
Cash and cash equivalents in acquired company	-35
Change in the Group's cash and cash equivalents on acquisition	***187***

Kevin Enterprises

On April 1, 2017, Munters completed an acquisition of Kevin Enterprises Private Limited, a privately owned company headquartered in Mumbai, India. The acquisition was structured as an asset deal, acquiring company being Munters India

Humidity Control Private Limited, Munters India. Since April 2017, the acquired business is reported as a separate reporting unit within Munters India, and is consolidated into Business Area Mist Elimination, which is also the cash-generating unit to which the acquisition has been allocated. The purchased consideration, after net working capital and net debt adjustments, amounted to SEKm 76. Fair value of transferred net working capital and net fixed assets amounted to SEKm 18 and 35 respectively. Value of intangible assets, including goodwill, was estimated at approximately SEKm 23. Net debt items were approximately SEKm 0.2. In 2016, Kevin Enterprises generated revenues of approximately SEKm 65. Acquisition costs incurred amounted to SEKm 6, which is accounted as administrative costs.

The acquired business contributed revenues of SEKm 28 and net profit of SEKm SEK -5 to the group for the period from June 1 to December 31, 2017. If the acquisition had occurred on January 1, 2017, consolidated pro-forma revenue and profit for the year ended December 31, 2017 would have been SEKm 38 and SEKm -7 respectively.

Information about acquired net assets and goodwill follows	According to final purchase price allocation
Cash purchase consideration paid	76
Total purchase consideration	***76***
Fair value of acquired net assets	61
Goodwill	***15***

Acquired net assets at time of acquisition	Fair values according to final purchase price allocation
Assets	
Property, plant and equipment	35
Technology	6
Order backlog	1
Favourable contract to use Brand name	1
Inventories	11
Accounts receivable	10
Other current assets	-
Total assets	***64***
Liabilities	
Accounts pay able	3
Accrued expenses and deferred income	-
Other current liabilities	-
Total liabilities	***3***
Net identifiable assets and liabilities	***61***
Cash purchase consideration paid	76
Change in the Group's cash and cash equivalents on acquisition	***76***

Edata

On May 30, 2017, Munters Group acquired Brazilian-based Edata specializing in key software for food processing plants, primarily for poultry production. The purchased consideration amounted to SEKm 5. Edata provides software to keep track of production within food processing plants and is a long-term partner to MTech Systems, the leading supplier of software solutions to the live production industry, which was acquired by Munters on Feb 1, 2017. Edata delivers form-fit solutions for tracking finished products, measuring quality and yield, and for controlling waste in the food production process. Edata's software will be fully incorporated into MTech's suite enabling Munters to integrate data from farms, hatcheries, feed mills in the food producers' production system. Identified goodwill from the acquisition were allocated to the AgHort cash-generating unit. Acquisition costs incurred totaled SEKm 1 and were recognized as administrative expenses. Edata had a turnover of approximately 15 SEKm in 2016 and had 34 employees.

The acquired business contributed revenues of SEKm 8 and net profit of SEKm -6 to the group for the period from June 1 to December 31, 2017. If the acquisition had occurred on January 1, 2017, consolidated pro-forma revenue and profit for the year ended December 31, 2017 would have been SEKm 13 and SEKm -11 respectively.

Krako

Munters has divested its 50 percent share in the company Hebora SRO for SEKm 30. In connection with the divestment of Hebora SRO, Munters acquired the remaining shares in HB Krako SRO for SEKm 57, in which Munters previously had the controlling interest. HB Krako SRO is 100 percent owned by Hebora SRO. HB Krako SRO conducts operations in premises owned by Hebora SRO. A ten-year lease agreement has been drawn up between HB Krako SRO and Hebora SRO. The total effect of the transaction on cash flow totaled SEKm -27, which was reported as a divestment in the statement of cash flow.

NOTE 13 PROPERTY, PLANT, AND EQUIPMENT

2018 Group	Buildings and land	Plant and machinery	Equipment, tools, fixtures, and fittings	Construction in progress	Total
Acquisition cost					
Opening balance	371	756	460	48	1,634
Acquisition of subsidiaries (Note 12)	0	0	0	0	1
Investment for the year	2	53	46	48	148
Sales and disposals	0	-8	-13	-0	-21
Reclassifications	22	12	-1	-36	-3
Exchange-rate differences for the year	19	42	21	4	86
Closing balance	***414***	***854***	***514***	***62***	***1,844***
Accumulated depreciation					
Opening balance	215	537	319	-	1,070
Acquisition of subsidiaries (Note 12)	0	0	0	-	0
Sales and disposals	-	-7	-12	-	-19
Reclassifications	7	-14	6	-	-0
Depreciation for the year	11	40	48	-	99
Exchange-rate differences for the year	12	28	16	-	57
Closing balance	***246***	***584***	***377***	***-***	***1,207***
Closing carrying amount	***168***	***270***	***137***	***62***	***637***

2017 Group	Buildings and land	Plant and machinery	Equipment, tools, fixtures, and fittings	Construction in progress	Total
Acquisition cost					
Opening balance	393	731	454	69	1,647
Acquisition of subsidiaries (Note 12)	26	6	6	0	38
Investments for the year	1	42	35	49	126
Divestment of subsidiaries	-28	-	-	-	-28
Sales and disposals	-15	-38	-33	-	-86
Reclassifications	7	48	12	-67	0
Exchange-rate differences for the year	-15	-33	-14	-3	-65
Closing balance	***371***	***756***	***460***	***48***	***1,634***
Accumulated depreciation					
Opening balance	237	559	321	-	1,117
Divestment of subsidiaries (Note 12)	-7	-	-	-	-7
Sales and disposals	-12	-34	-31	-	-77
Reclassifications	0	1	-1	-	0
Depreciation for the year	7	33	39	-	79
Exchange-rate differences for the year	-10	-23	-10	-	-42
Closing balance	***215***	***537***	***319***	***-***	***1,070***
Closing carrying amount	***155***	***219***	***142***	***48***	***563***

Depreciation is based on an asset's acquisition cost and its estimated useful life as specified in Note 8. The carrying amount of land totaled SEKm 36 (35).

NOTE 14 PATENTS, LICENSES, CUSTOMER RELATIONS AND OTHER INTANGIBLE ASSETS WITH DEFINITE USEFUL LIFE

2018 Group	Technology	Customer relationships	Internally generated intangible assets	Other intangible assets	Total
Acquisition cost					
Opening balance	592	852	116	147	1,707
Acquisition of subsidiaries (Note 12)	-	26	-	-	26
Investment for the year	-	-	60	24	84
Sales and disposals	-	-	0	-1	-1
Reclassifications	-	-	2	-1	0
Exchange-rate differences for the year	41	56	8	3	106
Closing balance	***632***	***933***	***185***	***170***	***1,921***
Accumulated amortization					
Opening balance	423	688	44	104	1,260
Amortization for the year	57	73	16	14	160
Impairment for the year	-	-	19	-	19
Exchange-rate differences for the year	30	47	2	2	82
Closing balance	***510***	***809***	***81***	***120***	***1,520***
Closing carrying amount	***122***	***124***	***105***	***50***	***401***

Technology
This item includes technology, SEKm 122 (169), where the majority of which was identified in conjunction with the acquisition of Munters AB in 2010.

Customer relationships
This item includes customer relationships, SEKm 124 (163), where the majority of which was identified in conjunction with the acquisition of Munters AB in 2010. The impairment of customer relationships in 2017 was related to the segment AgHort.

Internally generated intangible assets
Internally generated intangible assets mainly relates to recognized development costs within AgHort, AirT and Data Centers. During 2018 development costs related to Data Centers have been written down with SEKm 19 due to deteriorated economic outlook has, see further in Note 15.

Other intangible assets
Other intangible assets mainly include patents, tradenames, licenses, and similar rights in Sweden, Germany, the United States, the Netherlands and China.

2017 Group	Technology	Customer relationships	Internally generated intangible assets	Other intangible assets	Total
Acquisition cost					
Opening balance	519	864	89	135	1,607
Acquisition of subsidiaries (Note 12)	105	30	-	1	136
Investments for the year	-	-	31	13	44
Sales and disposals	-	-	-	-1	-1
Exchange-rate differences for the year	-32	-43	-4	0	-79
Closing balance	***592***	***852***	***116***	***147***	***1,707***
Accumulated amortization					
Opening balance	375	607	34	89	1,106
Amortization for the year	69	93	11	16	189
Impairment for the year	-	20	-	-	20
Sales and disposals	-	-	-	-1	-1
Exchange-rate differences for the year	-21	-31	-1	0	-54
Closing balance	***423***	***688***	***44***	***104***	***1,260***
Closing carrying amount	***169***	***163***	***72***	***42***	***446***

NOTE 15 GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

Intangible assets with indefinite useful life consist of brands and goodwill.

2018 Group	Brands	Goodwill
Acquisition cost		
Opening balance	1,015	4,275
Exchange-rate differences for the year	71	293
Closing balance	***1,086***	***4,569***
Accumulated impairment		
Opening balance	6	25
Impairment of the year	-	324
Exchange-rate differences for the year	0	2
Closing balance	***6***	***351***
Closing carrying amount	***1,080***	***4,218***

2017 Group	Brands	Goodwill
Acquisition cost		
Opening balance	1,055	4,253
Acquisition of subsidiaries (Note 5)	21	243
Exchange-rate differences for the year	-61	-220
Closing balance	***1,015***	***4,275***
Accumulated impairment		
Opening balance	6	26
Exchange-rate differences for the year	-0	-1
Closing balance	***6***	***25***
Closing carrying amount	***1,010***	***4,251***

Recognized brands per cash-generating unit	**2018**	2017
Air Treatment	881	832
Data Centers	-	-
AgHort	133	119
Mist Elimination	66	59
Closing carrying amount	***1,080***	***1,010***

Recognized amount of goodwill per cash-generating unit	**2018**	2017
Air Treatment	2,955	2,835
Data Centers	0	300
AgHort	1,121	980
Mist Elimination	143	136
Closing carrying amount	***4,219***	***4,251***

Goodwill as of December 31, 2018 amounted to SEKm 4,218 (4,251). The decline was attributable to a write-down of SEKm 323 (-), linked to the business segment Data Centers where our economic outlook has deteriorated, however counteracted by positive exchange rate effects owing to a weaker SEK against USD compared to the previous year.

During 2017 goodwill increased through three acquisitions, refer to Note 12. At the same time, the goodwill value decreased owing to the Swedish crown strengthening against the US dollar.

Management estimates that brands have an indefinite useful life because there is no predictable limit for the period of time during which the brand is expected to generate net payments for the company.

IMPAIRMENT TESTING OF GOODWILL AND BRANDS

The values of goodwill and brands are tested annually, or more frequently if necessary, to ensure that the value does not deviate negatively from book value. The carrying amounts for goodwill and brands were tested at September 30 and at December 31, 2018.

Goodwill and brands with indefinite useful life are allocated to the Group's cash-generating units, which are the smallest identifiable groups of assets that, as part of continual usage, generate cash inflows that are substantially independent of other assets or groups of assets. The Group's cash-generating units are consistent with the Group's four business areas, which also comprise the Group's operating segments: Air Treatment, Data Centers, AgHort and Mist Elimination.

Impairment testing of recognized goodwill and brands were based on recoverable amounts for cash-generating units established through calculating future value in use. Future cash flows for the first five years mainly based on the forecasts approved by the Board and Group management, and progress thereof. The growth rate in the terminal period after the first five years has been determined at 2% (2).

Significant assumptions used to calculate values in use are the progression of sales growth and EBITA margin, utilization of operating capital employed, and the discount rate. Management has established the forecast growth rate based on previous results and expectations about the future market trend by operating segment, which for Air Treatment substantially exceeds the current sales levels. These assessments observe various economic indicators and internal and external analyses thereof. In addition, important aspects are observed pertaining to the future financial trend, described in the Group's strategic plan.

The impairment testing has resulted in a write-down of goodwill and other intangible assets amounting to SEKm 342. The write-down was attributable to the business segment Data Centers where our economic outlook has deteriorated.

These calculations use a nominal discount rate (average weighted cost of capital before tax) of 11.7% (9.4). Increased interest rate in the US, increased cost of funding and increased business risks in Data Centers are the main reasons behind the higher rate.

A sensitivity analysis for the parameters discount rate, sales growth and EBIT margin has been performed for each cash-generating unit, as below. The effects refer to a change in the individual parameter, all else being equal.

Sensitivity analysis

Discount rate

A 3.0 percentage point (3.9) increase in the discount rate would be required for goodwill and brands impairment to be necessary in the Air Treatment cash-generating unit, a 4.0 percentage point (6.6) increase in Mist Elimination, a 6.5 percentage point increase (9.0) in AgHort. Goodwill, allocated to Data Centers, was fully written off in 2018.

Net sales growth

For Air Treatment, AgHort and Mist Elimination no reasonable declines in net sales growth are judged to lead to a need for impairment.

EBITA margin

A decrease of 4.4 percentage points (5.8) in the EBITA margin for the period from 2020 to 2023 would be required for impairment of goodwill and brands to be necessary in the Air Treatment cash-generating unit, a decrease of 3.7 percentage points (5.9) in Mist Elimination. For AgHort, no reasonable changes in EBITA margin are judged to lead to a need for impairment.

NOTE 16 PARTICIPATIONS IN SUBSIDIARIES

Direct shareholdings, 100%	Country	Carrying amount
Munters Holding AB (corp. reg. no. 556818-9749)	Sweden	4,086
Registered office: Stockholm		
		4,086

Material indirect shareholdings	Country	Percentage, %
Munters AB (Corp.reg. no. 556041-0606)	Sweden	100
AB Carl Munters (Corp.reg. no. 556035-1198)	Sweden	100
Munters Europe AB (Corp.reg. no. 556380-3039)	Sweden	100
Pro Component Sweden AB (Corp.reg. no. 556904-0891)	Sweden	100
Proflute AB (Corp.reg. no. 556558-3415)	Sweden	100
Munters Corporation	United States	100
Munters Canada Inc	Canada	100
Munters de Mexico S de RL de CV	Mexico	100
Shelf Service Company No 1 S de RL de CV	Mexico	100
Munters Brasil Industria e Commércio Ltda	Brazil	100
Munters Beteiligungs GmbH	Germany	100
Munters Euroform GmbH	Germany	100
Munters GmbH	Germany	100
Munters Reventa GmbH	Germany	100
Munters Netherlands BV	Netherlands	100
HB Beheer BV	Netherlands	100
Munters BV	Netherlands	100
Munters Spain S.A.U.	Spain	100
HB KRAKO s.r.o.	Czech	100
Munters France S.A.S.	France	100
Munters Italy SpA	Italy	100
Munters Ltd	United Kingdom	100

Material indirect shareholdings	Country	Percentage, %
Munters Management Service Ltd	United Kingdom	100
Munters Belgium SA	Belgium	100
HB Drying Belgium	Belgium	100
Munters Finland OY	Finland	100
Munters Israel Ltd	Israel	100
Munters A/S	Denmark	100
Munters (Pty) Ltd	South Africa	100
Munters-Form Endüstri Sistemleri Sanayive Ticaret A.Ş.	Turkey	80
Munters India Humidity Control Private Ltd	India	100
Munters Air Treatment Equipment (Beijing) Co., Ltd	China	100
Jiangyin SAT Air Treatment Equipment Co Ltd	China	100
Munters Korea Co., Ltd	South Korea	100
Munters Company Ltd	Thailand	100
Munters (Thailand) Co. Ltd	Thailand	100
Munters K.K.	Japan	100
Munters Pte Ltd	Singapore	100
Munters Pty Ltd	Australia	100
M-Tech Systems USA, LLC	United States	66
M-Tech Systems America Latina Ltda	Brazil	66
M-Tech Processing, LLC	United States	46
M- Tech Processing Brazil Sistemas Da Informacao, Ltda	Brazil	46
Humi-Tech Services Ltd	United Kingdom	100

No restrictions exist regarding Group's access to the subsidiaries assets, as a result of regulations or minorities.

	2018	2017
Acquisition cost at January 1	4,086	4,086
Accumulated acquisition cost at December 31	***4,086***	***4,086***

NOTE 17 ACCOUNTS RECEIVABLES

Time analysis of accounts receivable, past due but not impaired	**2018**	2017
Current	667	709
< 30 days	206	314
30-90 days	129	103
91-180 days	62	69
> 180 days	30	9
Closing balance	***1,095***	***1,204***

Provisions for bad debts corresponded to 4% (3) of total receivables and changed as follows.

Provision for bad debts	**2018**	2017
Opening balance	38	42
Provision for anticipated losses	31	24
Realized losses	-4	-8
Reversals of unutilized amounts	-23	-19
Exchange-rate differences	2	-1
Closing balance	***44***	***38***

The group applies the simplified approach under IFRS 9 to measure expected credit losses. This "expected credit loss model" uses a lifetime expected loss allowance for all trade receivables and contract assets. The model is based on historical default rates over the expected life of the trade receivables adjusted for forward looking estimates. Based on Munters historical statistic from confirmed credit losses the historical default rate has an insignificant effect on the credit loss provision and therefore the provision for bad debt is built on individual forward-looking estimates.

NOTE 18 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2018	2017	**2018**	2017
Prepaid rent and leases	7	7	-	-
Prepaid insurance premiums	22	18	0	0
Accrued income	139	35	-	-
Prepaid expenses for goods and services	14	4	-	-
Other items	42	41	0	0
Closing balance	***224***	***106***	***0***	***0***

NOTE 19 FINANCIAL INSTRUMENTS BY CATEGORY

Book value of financial assets and liabilities by category	**2018**	2017
Financial assets measured at amortized cost		
Other non-current financial assets	11	14
Accounts receivable	1,095	1,204
Other current receivables	109	126
Cash and cash equivalents	404	402
Closing balance	***1,619***	***1,745***
Financial assets at fair value through profit/loss		
Currency derivatives whose cash flows are not subject to hedge accounting	3	2
Closing balance	***3***	***2***
Total financial assets	***1,622***	***1,747***

	2018	2017
Financial liabilities measured at amortized cost		
Non-current interest-bearing liabilities	3,002	2,848
Current interest-bearing liabilities	11	7
Accounts payable	535	581
Accrued expenses	12	9
Other non-current liabilities	137	1
Other current liabilities	181	212
Closing balance	***3,878***	***3,657***
Financial liabilities at fair value through profit/loss		
Currency and interest rate derivatives whose cash flows are not subject to hedge accounting	1	2
Acquisition option MTech, non-current 1)	128	136
Contingent consideration Humi-Tech Services Ltd.	8	-
Closing balance	***137***	***138***
Total financial liabilities	***4,015***	***3,795***

1) Fair value adjustments recorded through equity. Acquisition option is valid through December 31, 2020.

Fair value of assets and liabilities

The carrying amounts of interest-bearing assets and liabilities in the statement of financial position may deviate from their fair value for reasons such as changes in market interest rates. Munters deems that the interest rate on interest-bearing liabilities is in line with market terms at December 31, 2018, and the fair value at the end of the reporting period therefore in all material aspects corresponds to the carrying amount.

The fair value of financial instruments such as accounts receivable, accounts payable, and other non-interest-bearing financial assets and liabilities, which are recognized at amortized cost less any impairment, is deemed equal to the carrying amount because of the short maturities of these instruments.

Derivative instruments

The Group's derivatives, recognized at fair value in the statement of financial position, are measured according to IFRS 9 and categorized in level 2 according to the fair value hierarchy to IFRS 13. This means that fair value is based on data for the asset or liability other than quoted prices on an active market for identical assets or liabilities that are observable either directly (as quoted prices) or indirectly (derived from quoted prices).

At year-end, there were forward currency contracts in the Group as follows.

	2018		**2017**	
	Nominal amount in local currency	Carrying amount	Nominal amount in local currency	Carrying amount
CAD/SEK	0	-0.1	-	-
CNH/SEK	-17	-0.4	-17	-0.9
DKK/SEK	-10	-0.0	-15	0.2
EUR/SEK	1	0.3	-5	0.5
JPY/SEK	44	0.1	100	-0.1
SGD/SEK	0	-0.0	1	0.1
USD/SEK	-17	1.9	2	0.6
USD/ILS	-2	-0.1	-	-
ZAR/SEK	-20	0.2	-20	-0.4
Total		***1.7***		***-0.1***

Negative net amounts refer to sales, and positive net amounts refer to purchases. All forward contracts are short-term and fall due for payment during 2019.

Financial assets and liabilities that are offset, or which are covered by a legally binding master netting arrangement or similar agreement

Financial assets and liabilities that can be offset against each other consist of foreign exchange derivatives covered by a legally binding master netting arrangement. In the year 2018 these items are not offset in the balance sheet. The carrying amounts of such assets and liabilities are listed in the table above.

Contingent earn-outs and put/call acquisition options

The Group's contingent earn-outs and put/call acquisition options, recognized at fair value in the statement of financial position, were measured according to IFRS 9 and categorized in level 3 according to the fair value hierarchy to IFRS 13. The opening balance for the period was related to the acquisition of MTech Systems in 2017. The additional fair value of contingent consideration of SEKm 8 (0) was related to the acquisition of Humi-Tech Services Ltd in July 2018 and the fair value of the exercised part of the put/call option amounted to SEKm 24 (0) and related to the acquisition of an additional 6.4% of the shares in MTech Systems. The contingent consideration in Humi-Tech Services Ltd is based on adjusted EBITA for 2018 and 2019.

Contingent price considerations	**2018**	2017
Opening balance	136	51
Estimated liabilities at acquisition (Note 12), undiscounted	-	162
Contingent consideration (Note 12)	8	-
Excersied put/call option	-24	-
Changes recognized in other operating income	-	-53
Discounting	2	-13
Exchange-rate differences for the year	14	-11
Closing balance	***136***	***136***

NOTE 20 INTEREST BEARING LIABILITIES

Interest bearing liabilities, non-current

Munters primary financing facilities consist of a term loan of USDm 250 and a revolving credit facility of EURm 185. The facilities have no mandatory amortization requirement. The final maturity date is in May 2022. The loan agreement has one financial covenant (consolidated net debt in relation to adjusted EBITDA). Of the Revolving Credit Facility, EURm 20 is allocated to ancillary facilities made available for overdraft and guarantee purposes. As of December 31, the total Interest-bearing liabilities amounted to SEKm 3,013 (2,855). The table below outlines the long term debt on Group level together with local bank debt in group companies in among others, China, India and Brazil.

Munters' financial policy regulates the management of external borrowings. The Group's forecasted performance in relation to the limits stipulated by the covenant is closely monitored. This ensures that the Group fulfills its commitments to external lenders and minimizes the liquidity and financing risk. At December 31, 2018, the covenant was met. The Munters full potential program will temporarily increase the leverage during 2019 and necessary consent from the lending banks have been received.

The total average weighted interest rate including both long- and short term financing at the end of the year was 4.4%(3.3) and 4.6% (3.5) including financing cost.

Interest bearing loans, non-current				**Book value**	
Maturity	Type of loan	Interest rate	Currency	**2018**	2017
2022	Term Loan	Variable	USD	2,222	2,030
2022	Utilized committed credit facilities US	Variable	USD	90	189
2022	Utilized committed credit facilities Sweden	Variable	EUR	308	295
2022	Utilized committed credit facilities Sweden	Variable	SEK	380	330
2019-2025	Other non-current loan	Fixed/ Variable	Various currencies	2	3
Total				***3,002***	***2,848***

Interest bearing liabilities, current

The table outlines current bank debt in Munters subsidiaries in Brazil Canada, China and India.

Term Loan is deducted by financing cost activated in balance sheet. Drawings under the revolving credit facility are listed among non-current loans below.

Interest bearing loans, current				**Book value**	
Maturity	Type of loan	Interest rate	Currency	**2018**	2017
	Other current loan	Fixed/ Variable	Various currencies	11	7
Total				***11***	***7***
Total loans				***3,013***	***2,855***

Changes in interest-bearing liabilities

Munters has during the year amortized on the Revolving credit facility in US dollar. The currency effects shown in the table below are mainly caused by changes USD.

Non current loans	Opening balance	Cash flow	Currency effects	Non cash movements	Closing balance
Term loan	2,058	0	185		2,243
Revolving credit facility	815	-57	20		778
Other third party debt	3	-1			2
Financing fees	-28			7	-20
Total	2,848	-58	205	7	3,002

Current loans	Opening balance	Cash flow	Currency effects	Non cash movements	Closing balance
Revolving credit facility	0				0
Other third party debt	7	5			11
Total	7	5	-	-	11
Total loans	***2,855***				***3,013***

NOTE 21 EARNINGS PER SHARE

	Group	
	2018	2017
Net income, SEK ´000	-94,174	172,641
Attributable to Parent Company shareholders, SEK ´000	-104,995	173,853
Attributable to non-controlling interests, SEK ´000	10,821	-1,212
Average number of outstanding shares before dilution	183,165,852	119,658,011
Average number of outstanding shares after dilution	183,165,852	119,720,995
Where of average number of shares in own custody	431,950	-
Earnings per share before dilution, SEK	-0.57	1.45
Earnings per share after dilution, SEK	-0.57	1.45

Computing earnings per share, basic and diluted, is based on the net income attributable to the Parent Company's ordinary shareholders. The number of shares used in the calculation consists of a weighted average of outstanding ordinary shares during the period.

At December 31, 2018, the share price fell below the redemption price for both the employee stock options program and the warranty program.

NOTE 22 PROPOSED DISTRIBUTION OF EARNINGS

The following earnings (in SEK ´000) are at the disposal of the Annual General Meeting:

Proposed distribution of earnings, parent company	2018
Unrestricted equity in parent company:	
Profit brought forward	4,161,243
Income for the year	-11,371
Total	***4,149,872***

The Board of Directors proposes that earnings be distributed as follows:	
Dividend	-
To be carried forward	4,149,872
Total	***4,149,872***

NOTE 23 EQUITY

Share capital
The share capital of SEK 5,507,934 comprises 183,597,802 shares with a par value of SEK 0.03 per share. The shares in Munters Group AB are listed on Nasdaq Stockholm's list of major companies under the symbol MTRS. The ten largest owners in Munters Group AB hold a total of 86.3% of outstanding shares. Of these, Nordic Capital holds 50.1% indirectly via its Nordic Capital VII fund, and FAM AB 11.4%. No other shareholder holds more than ten percent of the shares, either directly or indirectly, in Munters Group AB.

The table below shows the changes in the number of shares.

Number of shares	
Opening number, January 1, 2017	2,399,764
Equity shares B	536,981
Preference shares A and B	1,862,783
Changes 2017:	
Conversion of preference shares A and B and of Equity shares A to Equity share B 1:1	0
Share B, split by 1/7	14,398,584
Off set issue	164,926,726
Share issue	1,872,728
Closing number, December 31, 2017	***183,597,802***
Equity shares B	183,597,802
Opening number, January 1, 2018	183,597,802
Equity shares B	183,597,802
Changes 2018:	-
Closing number, December 31, 2018	***183,597,802***
Equity shares B	183,597,802
Of which in own custody/treasury shares	1,467,000

Reserve for exchange rate differences	
Opening balance, January 1, 2017	***439***
Exchange rate differences	-89
Closing balance, December 31, 2017	***351***
Exchange rate differences	193
Closing balance, December 31, 2018	***544***

The reserve for exchange rate differences consists of differences that arise when the income statements and balance sheets of foreign subsidiaries are translated into SEK. Compared with last year, the positive exchange-rate effects during 2018 were mainly to a weaker SEK against USD and EUR.

Holdings of treasury shares
The Board of Directors of Munters Group AB ("Munters") resolved, pursuant to the authorization granted by the Annual General Meeting held on May 17, 2018, to repurchase the company's own shares on Nasdaq Stockholm. The purpose of the repurchase was to secure the delivery of shares to the participants of Munters' long-term incentive programme, which was resolved by the Annual General Meeting 2018, and to cover costs related to the programme. The repurchases was made at a price per share within the from time to time registered trading interval. Payment for the shares was made in cash and amounted to SEKm 59. As at December 31, 2018 Munters Group AB holds 1,467,000 shares in own custody which equals 0.7% of the registered shares. The shares hold a par value of SEK 0.03 per share.

Dividend during the period
Dividends of SEKm 55 was made during the year in accordance with the resolution from the Annual General Meeting on May 17, 2018.

NOTE 24 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

Group	***2018***	2017
Non-current defined-benefit obligations to employees	215	193
Other benefits to employees	15	14
Non-current	***230***	207
Current defined-benefit obligations to employees	6	6
Other current employee benefits	2	2
Current	***8***	8
Total provisions for pensions and similar obligations	***238***	215
Non-current defined-benefit obligations to employees	215	193
Current defined-benefit obligations to employees	6	6
Provisions recognized for pension obligations	***221***	199

The Group finances pension plans for its employees in several countries. These plans mainly follow practice in the country in question and may be defined-contribution or defined-benefit plans or a combination of both. The most important defined-benefit pension plans cover employees in Sweden, Italy and France. In France and Italy, provisions are made for mandatory remuneration when employment ceases. For senior executives of the Group, there are guidelines regarding pension rights and pension plans described in Note 31.

Defined-benefit pension plans in Sweden constitute 94 % (93) of total Group provisions for pensions recognized under IAS 19. The calculations are primarily based on final salary and the plans are unfunded. The pension plans in Italy and France, which constitute 4 %respectively 1 % (4 respectively 1) of total pension provisions, are also unfunded.

The Swedish pension plans (known as ITP plans) supplement the country's social insurance system, and result from agreements between employer and employee organizations. ITP plans mainly comprise retirement pensions, disability pensions and survivor's pensions.

The ITP plan has two parts, firstly, ITP1, which is a defined-contribution pension plan applying to employees born in 1979 or later, and secondly, ITP2, which is a defined-benefit pension plan applying to employees born before 1979. White-collar employees within the Group in Sweden were covered by both these parts. The ITP2 plan is managed within Munters in the FPG/ PRI system. Financing occurs through provisions to an account in the balance sheet, safeguarded by credit insurance from the mutual insurance company Försäkringsbolaget PRI Pensionsgaranti. Defined-benefit pension plans subjects the Group to different kinds of risk attributable to increases in life expectancy, inflation and salary. Munters recognizes actuarial gains and losses in other comprehensive income in the period they occur to the extent that they refer to post-employment remuneration. Actuarial losses totaled SEKm -17 (-14) for the period.

In the Group, there are also defined-contribution plans that mainly comprise retirement pensions, disability pensions and survivor's pensions. The premiums are paid continuously during the year by each Group company to separate legal entities, such as insurance companies. The size of the premium is based on salary. The cost of these defined-contribution plans for the period totaled SEK 69 SEKm (69).

Below is the recognized provisions for pensions under IAS 19 in the consolidated balance sheet:

2018 Group	Present value of defined benefit obligation	Fair value of plan assets	Recognized provision, net
Opening balance	***215***	***-16***	***199***
Pension expenses current year, included in Income for the year			
Current service cost	8	-	8
Interest cost/income on benefit obligation	5	0	5
	13	***-***	***13***
Remeasurement, included in Other comprehensive income			
Actuarial changes arising from changes in financial assumptions	12	1	13
Experience adjustments	4	-	4
	16	***1***	***17***
Transactions			
Benefits paid by employer	-6	0	-6
Benefits paid by employer to plan assets	-	-2	-2
Settlement	-1	-	-
	-7	***-2***	***-8***
Exchange rate differences for the year	-2	1	-1
Closing balance	***236***	***-15***	***221***
Of which funded plans:			
Belgium	16	-15	1
Of which unfunded plans:			
Sweden	208		208
Other countries	12		12

2017 Group	Present value of defined benefit obligation	Fair value of plan assets	Recognized provision, net
Opening balance	**195**	**-16**	**179**
Pension expenses current year, included in Income for the year			
Current service cost	6	-	6
Interest cost/income on benefit obligation	5	-	5
	11	**-**	**11**
Remeasurement, included in Other comprehensive income			
Actuarial changes arising from changes in financial assumptions	13	-	13
Experience adjustments	1	-0	1
	14	**-0**	**14**
Transactions			
Benefits paid by employer	-6	-	-6
Benefits paid from plan assets	-5	5	0
Benefits paid by employer to plan assets	-	-2	-2
Exchange rate differences for the year	6	-3	3
Closing balance	**215**	**-16**	**199**
Of which funded plans:			
Belgium	14	-14	0
Of which unfunded plans:			
Sweden	189	-	189
Other countries	11	-	11

Plan assets comprise insurance contracts signed with independent insurance companies. No portion of plan assets in 2018 or 2017 was invested in the Company's equity instruments, debt instruments, real estate, or other assets used by the Company. The Company only has a minor share of funded plans. The most important actuarial assumptions are as follows:

Significant actuarial assumptions

	2018		2017	
Group, weighted values	**Sweden**	**Others**	Sweden	Others
Discount rate, %	2.45	1.70	2.60	1.30
Future inflation, %	2.00	1.50	1.75	1.70
Future wage and salary increases, %	2.50	2.80	2.70	2.80
Pension increases, %	2.00	-	1.75	-
Social security increases, %	2.50	-	2.70	-

At the end of the reporting period, the discount rate is derived from a functioning market based on investment-grade corporate bonds adjusted for the duration of the commitment.

Sensitivity analysis

A reduction of 0.5 percentage points in the discount rate would increase the pension commitments by around SEKm 24 (22), while an increase in the rate of 0.5 percentage points would reduce the commitment by around SEKm 21 (20). Altered assumptions with respect to inflation being 0.5 percentage points lower would reduce the commitment by around SEKm 16 (15), and increase it by around SEKm 18 (17) in an assumption of it being 0.5 percentage points higher. The sensitivity analysis is performed by one actuarial assumption changing, while the other assumptions are kept unchanged. The method shows the sensitivity of the liability to an individual assumption. This is a simplified method, because actuarial assumptions are normally correlated.

Assumptions about life span are based on public statistics and experience from mortality surveys in each country, and are set in consultation with actuarial experts. As of this year, for Swedish pension plans, the most current life span investigation DUS14.

Munters' budgeted fees for defined-benefit obligations equal SEKm 9 (5) for 2019.

Duration analysis regarding expected payments for post-employment pension benefits (not calculated on present value):

Payments in the future years	**2018**	2017
Within the next 12 months	5	5
Between 1 and 2 years	5	5
Between 2 and 5 years	16	16
Between 5 and 10 years	34	36
Total	**61**	**62**

The weighted average duration for the defined-benefit commitments is 20 years (19).

NOTE 25 OTHER PROVISIONS

2018 Group	Provisions for warranties	Provision for restructuring	Other provisions	Total
Opening balance	***115***	***3***	***17***	***136***
Additional provisions	26	0	27	53
Reversals of unutilized provisions	-45	0	-4	-49
Exchange-rate differences	6	0	0	7
Utilized during the year	-14	-3	-5	-23
Closing balance, December 31, 2018	***88***	***0***	***35***	***123***

Other provisions 2018 includes a provision for onerous contracts within Data Centers amounting to SEKm 21.

2017 Group	Provisions for warranties	Provision for restructuring	Other provisions	Total
Opening balance	***113***	***4***	***23***	***140***
Additional provisions	36	1	2	38
Reversals of unutilized provisions	-15	-0	-	-15
Exchange-rate differences	-5	0	-0	-5
Utilized during the year	-14	-1	-7	-22
Closing balance, December 31, 2017	***115***	***3***	***17***	***136***

Provisions consist of:	**2018**	2017
Current portion	107	114
Non-current portion	16	22
Closing balance	***123***	136

NOTE 26 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2018	2017	**2018**	2017
Vacation pay liabilities	86	91	1	1
Social security contributions	36	34	0	0
Other expenses related to personnel	132	78	-	-
Received goods not yet invoiced	146	76	-	-
Commissions to agents/sales representatives	48	31	-	-
Interest expenses	13	9	-	-
Deferred income	55	61	-	-
Other	74	107	0	0
Closing balance	***590***	***486***	***2***	***2***

NOTE 27 PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets for	Group		Parent Company	
liabilities to credit institutions	**2018**	2017	**2018**	2017
Non-current assets	-	-	-	-
Current assets	-	14	-	-
Bank accounts	-	13	-	-
Receivables from subsidiaries	-	-	-	-
Other net assets	-	-	-	-
Shares in subsidiaries	-	-	-	-
Total	***-***	***27***	***-***	***-***

	Group		Parent Company	
Contingent liabilities	**2018**	2017	**2018**	2017
FPG guarantees	2	2	-	-
Guarantees from banks and insurance companies	205	152	53	21*
Total	***207***	***154***	***53***	***0***

*There were two guarantees in the Parent company previous year that were not registered until 2018. Consequently, the figure is not consistent with the previous year's annual report.

FPG guarantees refers to pension liabilities in Sweden. Other guarantees are operational guarantees, such as advances and completion guarantees.

Litigation
Munters is involved in a small number of commercial disputes. None of these disputes are deemed to have any major negative effect on the Company's financial position or earnings.

Hunter New England Health District has sued Munters' Australian subsidiary, Munters Pty Ltd., for breach of contract in relation to services provided to John Hunter Hospital in the spring of 2008. The services were provided as part of Munters Pty Ltd.'s Moisture Control Services, which were later discontinued in 2010. Munters Pty Ltd. disputes the claim. Furthermore, Munters Pty Ltd is of the opinion that the plaintiff's demands are greatly exaggerated, and that the plaintiff through carelessness and negligence contributed to the damage they are claiming compensation for. In the event Munters Pty Ltd. is held liable for the damage, there will be a not insignificant adjustment of the amount of damages. Munters Pty Ltd is protected under local liability insurance and for surplus amounts up to the limit in effect at the time under Munters AB's insurance. In the event Munters Pty Ltd. is held liable for the damage, there is a risk that the company will have to bear that part of the damage that exceeds the part covered by insurance.

Other significant legal proceedings are attributable to Munters' subsidiary in the United States, Munters Corporation. The company is currently named as co-respondent in 3 (8) asbestos-related cases. In the past few years, Munters Corporation has in seven cases won through summary judgments, and these are no longer in progress. Munters Corporation is of the firm opinion that the remaining claims are unfounded and intend to strongly dispute every claim. Munters Corporation has coverage for the asbestos-related claims through several insurance policies. Subject to certain reservations, the insurance companies have confirmed that, until further notice, they will pay a significant portion of the expenses for legal defense.

NOTE 28 TRANSACTIONS WITH RELATED PARTIES

Shares in Munters Group AB are owned indirectly through the companies Cidron Maximus Limited and Cidron Maximus S.a.r.l, 50.1% owned by Nordic Capital through its fund Nordic Capital VII Limited.

Other parties related to Munters include other portfolio companies managed by Nordic Capital, and associated companies as well as Munters Board of Directors and Group Management. There has been no transactions or outstanding dealings during 2018 with other Nordic Capital portfolio companies.

After the end of the reporting period Nordic Capital Fund VII has offered the Chairman of the Board of Directors, Magnus Lindquist, and the Interim CEO, Johan Ek, to acquire in total 6,000,000 call options (3,000,000 call options per person) for shares in Munters.

The Parent Company has a related party relationship with its subsidiaries. Information about participations in subsidiaries is provided in Note 16. Transactions between Munters Group AB and its subsidiaries have been carried out on market terms. Luvata is not considered a related party for 2018.

	2018			
Group	Sales	Purchasing	Receivables	Liabilities
-	-	-	-	-
	2017			
	Sales	Purchasing	Receivables	Liabilities
Luvata	0	42	-	1

Remuneration for senior executives and individual members of the Board is presented in Note 31. Munters has not provided guarantees or securities to or on behalf of Board members or senior executives. Munters has not identified any transactions with other related parties, besides those specified in this Note and those to which reference is made.

NOTE 29 AVERAGE NUMBER OF EMPLOYEES AND GENDER

Average number of employees	2018		2017	
Group	Number	of which men, %	Number	of which men, %
United States	1,007	82	1,025	82
China	390	79	380	81
Sweden	353	73	324	74
Mexico	295	71	241	74
Germany	226	82	225	84
Belgium	222	90	214	92
India	175	90	173	91
Italy	159	83	168	83
Brazil	148	85	166	84
Israel	129	78	130	78
United Kingdom	87	79	74	80
Netherlands	67	88	73	92
Czech Republic	65	88	82	88
Japan	63	86	56	82
Denmark	43	67	40	70
France	34	82	29	83
Australia	33	85	32	84
Singapore	24	79	19	79
South Africa	21	81	21	81
Thailand	21	67	17	59
Korea	19	74	18	72
Spain	14	79	10	80
Finland	12	83	11	82
Turkey	12	67	10	80
Canada	5	60	4	75
Poland	4	100	4	100
Austria	4	75	4	75
United Arab Emirates	4	75	4	75
Colombia	4	50	0	0
Switzerland	3	67	3	67
Vietnam	3	67	3	67
Taiwan	2	50	0	0
Other	5	100	0	0
	3,653	**81**	**3,559**	**82**

Gender distribution – Board of Directors and Group management
At year-end, the Board of Directors consisted of seven men and three women. Group management, including the CEO, consisted of seven men and two women.

NOTE 30 WAGES, SALARIES, OTHER REMUNERATION, AND SOCIAL SECURITY EXPENSES

	Group		Parent Company	
	2018	2017	**2018**	2017
Wages, salaries and other remuneration	1,548	1,520	5	4
Social security expenses	396	381	2	1
Pension expenses - defined contribution	69	69	1	1
Pension expenses - defined benefit	8	6	-	-
Total	***2,020***	***1,976***	***9***	***5***

NOTE 31 REMUNERATION TO BOARD MEMBERS AND SENIOR EXECUTIVES

Guidelines
The remuneration to the management may consist of fixed salary, variable salary, long-term incentive programs, pension and other benefits. The total remuneration package should be based on market terms, be competitive and enable the Company to recruit and retain the managers the Company needs to meet its short-term and long-term targets.

Fixed salary
The fixed salary for the CEO and the other members of the senior management shall mirror the demands and responsibility that the position entails as well as individual performance. The fixed salary for the CEO and the other members of the senior management is to be reviewed on a yearly basis. To the extent a member of the Board of Directors carries out work for the Company or for another group company, in addition to the board work, consulting fees and/or other remuneration for such work may be payable.

Variable salary
Variable compensation in cash is conditional upon the fulfilment of defined and measurable criteria and should be maximised to 140% of the annual fixed salary for the CEO and 70% for the other members of senior management, except for three members of senior management, the President AgHort, the President Data Centers and the President Global Services, whose variable cash compensation instead shall be maximised to 210% of the annual fixed salary. Any variable compensation in cash exceeding 50% of the annual fixed salary for these three members of senior management shall be conditional on 75% of the exceeding amount (after deduction of taxes payable) being invested in shares in Munters

and such shares being retained during a period of at least one year. If the investment in shares in Munters is not carried out, or if the shares are divested prior to the expiration of the one-year period, the part of the variable cash compensation that was conditional on the investment in, and retention of, shares in Munters shall be refunded to Munters.

The criteria for variable compensation in cash are determined for the promotion of the company's and the group's short-term and long-term targets, long-term development, value creation and financial growth and shall be designed not to encourage excessive risk taking. Terms and conditions for variable compensation in cash should be designed so that the Board of Directors, if exceptional economic circumstances prevail, has the option of limiting or refraining from payment if such a measure is considered reasonable. In this context, fixed annual salary means cash salary earned during the year, excluding pension, supplements, benefits and similar.

Long-term incentive programs

The aim of having long-term incentive programs is to create a long-term commitment to the Company, to attract and retain members of the senior management and key employees and to align the interests of the participants with the interests of the shareholders. Long-term incentive programs, if any, should constitute a complement to the fixed salary and the variable salary, with participants to be nominated based on, among other things, competence and performance.

Pension

Pension benefits should be defined contribution. For senior executives outside Sweden, pension benefits may vary due to legislation or practice in the local market.

Other benefits and compensation

Fixed salary during notice periods and severance payment, including payments for any non-compete restrictions, shall in aggregate not exceed an amount equivalent to the fixed salary for three years for the CEO and 18 months for the other members of senior management. Other compensation may consist of other benefits that are customary and in line with market practice, such as healthcare insurance, which shall not constitute a material portion of the total remuneration.

In addition thereto, additional compensation may after decision by the Board of Directors be paid out in extraordinary circumstances, provided that such arrangement is made for management recruitment or retention purposes and is agreed only in individual cases. Such extraordinary arrangements may for example include a one-off cash payment, or a support package including relocation support or similar.

Deviation from the guidelines

The Board of Directors may resolve to deviate from the guidelines if the Board of Directors, in an individual case, is of the opinion that there are special circumstances justifying that.

Remuneration to senior executives during the year

	2018				
Amounts in SEK 000s	Board fee/Base salary	Variable remun-eration	Other benefits	Pension expenses	Total
Members of the Board: (2 women and 6 men)					
Christopher Curtis, chairman until Dec 18, 2018	927	-	-	-	927
Magnus Lindqvist, chairman as of Dec 18, 2018	63	-	-	-	63
Helen Fasth Gillstedt, board member and chairman of audit committe	538	-	-	-	538
Joakim Karlsson, board member until Dec 18, 2018	342	-	-	-	342
Andreas Näsvik, board member	513	-	-	-	513
Lena Olving, board member	475	-	-	-	475
Joachim Zetterlund, board member and chairman of remcom	488	-	-	-	488
Per Hallius, board member	400	-	-	-	400
Kristian Sildeby, board member	392	-	-	-	392
Johan Ek, board member as of Dec 18	-	-	-	-	-
CEO John Peter Leesi, until Dec 18, 2018	6,529	-	18,683	2,574	27,786
CEO Johan Ek, as of Dec 18, 2018	306	-	-	-	306
Other senior executives* (3 women and 10 men)	27,217	2,924	5,148	5,649	40,938
Total	***38,191***	***2,924***	***23,831***	***8,223***	***73,169***

Other senior executives has stock options (see Note 32). Total expenses for the options 2018 amounts to SEKt 245.

	2017				
Amounts in SEK 000s	Board fee/Base salary	Variable remun-eration	Other benefits	Pension expenses	Total
Members of the Board: (2 women and 7 men)					
Christopher Curtis, chairman	1,218	-	-	-	1,218
Helen Fasth Gillstedt, board member and chairman of audit committe	375	-	-	-	375
Joakim Karlsson, board member	363	-	-	-	363
Andreas Näsvik, board member	363	-	-	-	363
Lena Olving, board member	300	-	-	-	300
Joachim Zetterlund, board member	442	-	-	-	442
Per Hallius, board member	404	-	-	-	404
Kristian Sildeby, board member	280	-	-	-	280
Klas Nordin, board member	63	-	-	-	63
CEO John Peter Leesi	6,104	-	297	2,440	8,841
Other senior executives (1 woman and 11 men)	25,357	864	5,132	6,472	37,825
Total	***35,268***	***864***	***5,429***	***8,912***	***50,473***

Senior executives refer to the Chief Executive Officer, Chief Financial Officer, Group Vice President Air Treatment, Group Vice President AgHort, Group Vice President Mist Elimination, Group Vice President Munters China, Group Vice President Operations, Group Vice President Business Development & PMO, Group Vice President Human Resources and Corporate Communication, Group Vice President Data Centers, Group Vice President Global Services, Group Vice President Corporate Social Responsibility and Group Vice President Innovation & Technology.

Variable remuneration refers to the period's proportional share of variable remuneration for the fiscal year 2017, which has been paid in 2018. For the former CEO, the variable remuneration corresponds to at most 140% of fixed annual salary. For the current CEO, there is no variable remuneration. For other senior executives, the variable remuneration corresponds to 40–70% of fixed annual salary.

Other benefits refer to company cars and meal benefits, as well as housing benefits. The amount specified under other benefits also includes housing and school allowances for four senior executives temporarily based outside Sweden during the year. Pension expenses include costs for disability pension insurance, survivor annuity, and the like. The amounts are stated excluding special employer's contribution pension expenses.

Severance pay

Between the Company and the CEO, the period of notice shall not be longer than 12 months if the employment is terminated by the Company. Severance pay will be paid equal to 24 months' base salary.

At December 18, 2018, it was agreed that CEO John Peter Leesi was to leave his position at Munter Group AB. The agreement resulted in a notice period of 12 months and severance pay equal to 24 months' base salary. As the CEO is free from work, compensation for the notice and severance period is expensed in full with an amount of SEK 18.2 m, which will be paid in 2019. The recruitment of a new CEO started immediately, and in the meantime, the Board appointed the newly elected Board member Johan Ek as interim CEO. Johan Ek has a fixed salary of 500 000 SEK per month, the contract gives no right for variable salary and no provision for pension is made. For the interim position, there is a notice period of 3 months from both parties, and no severance pay agreed.

Between the Company and other senior executives, the period of notice shall not be longer than six months, if the employment is terminated by the Company severance pay will be paid equal to 12 months' base salary.

Severance pay is not considered pensionable income. If the CEO or other senior executive takes the initiative in terminating employment, there is no severance pay.

NOTE 32 INCENTIVE PROGRAM

At the General Meeting on May 17, 2018, it was resolved in accordance with the Board's proposal on the implementation of a long-term incentive program. The program should comprise no more than 1,257,000 employee stock options to be granted to members of the group management and certain other key employees, approximately 75 employees in total. Participation in the plan was at the board's discretion and no individual had a contractual right to participate in the plan or to receive any guaranteed benefits. Options were granted under the plan for no consideration and carry no dividend or voting rights.

Each employee stock option that is not cash settled shall entitle the holder to acquire one share in the company at an exercise price equivalent to SEK 55. Each cash-settled employee stock option shall entitle the holder to a cash amount equivalent to the value of one share in the company, calculated as the volume-weighted average price paid for the company's shares at Nasdaq Stockholm during a period of ten business days immediately prior to the exercise of the option, with deduction of an exercise price of SEK 55. The participants shall be able to exercise the employee stock options from the third anniversary of the allotment, up to and including the fourth anniversary of the allotment. Exercise of the employee stock options shall, as a principal rule be conditional upon the program participant still being employed with the group. The costs of the program was estimated to SEKm 7.4 and will be incurred over the three-year period.

A total of 1,239,190 options was accepted and distributed in the program. At December 31, 2018 a total of 12,720 cash settled options were terminated due to employment leave. Outstanding options at December 31, 2018 equaled 1,226,470, whereof 99,280 cash settled and 1,127,190 equity settled.

The assessed fair value at grant date June 27, 2018 was SEK 5.97 per option. The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model which included a Monte Carlo simulation model that took into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies. The expected price volatility was based on the historic volatility (based on the remaining life of the options), adjusted for expected changes to future volatility due to publicly available information.

At the extraordinary General Meeting on May 7, 2017, it was resolved to issue warrants as part of an incentive program for certain members of the Group Management ("the participants"). In total, the incentive program comprises eight individuals and not more than 5,222,000 warrants. The participants could subscribe for warrants at a market value corresponding to in total not more than SEKm 17.99. The maximum number of warrants that could be subscribed for by the Participants corresponded to approximately 2.77% of the Company's share capital following completion of the offering and assuming full exercise of the warrants.

The warrants were issued in two separate series. Each participant subscribes for an equal number of warrants of both series. This number of warrants per participant and series depends on the participant's position within the Group and the number of shares held by the participant at the time of the commencement of the program. Series 2017/2019 comprises up to 2,611,000 warrants that may be exercised during the following subscription period: May 19, to November 19, 2019, with the exception of the thirty-day period preceding (a) the day of publication of the company's interim report for the second quarter of 2019, and (b) the day of publication of the Company's interim report for the third quarter of 2019. The exercise price for series 2017/2019 corresponds to 121% of the price in the IPO (SEK 55).

Series 2017/2020 comprises up to 2,611,000 warrants that may be exercised during the following subscription period: May19 to November 19, 2020, with the exception of the thirty-day period preceding (a) the day of publication of the company's interim report for the second quarter of 2020, and (b) the day of publication of the Company's interim report for the third quarter of 2020. The exercise price for series 2017/2020 corresponds to 131% of the price in the IPO (SEK 55).

The Company has reserved the right to repurchase warrants for example if the employment is terminated. Since the participants have paid market value for the options there are no expenses incurred in the Group related to this incentive program.

NOTE 33 FEES TO AUDITORS

Fees and remuneration recognized as an expense to the Group's auditors during the period are shown below. Audit engagement refers to the statutory audit of the annual report and accounts, as well as the administration of the Board of Directors and the President, other tasks which the Company's auditors are responsible for performing, and advice or other assistance occasioned by observations in such audits or the performance of other similar tasks. Tax advice is consulting on fiscal issues. Other services are advice that cannot be attributed to any of the above-mentioned categories.

	Group		Parent Company	
Amounts in SEK 000s	**2018**	2017	**2018**	2017
Ernst & Young				
Audit engagements	10,724	10,171	514	539
Audit business beyond audit engagements	737	8,925	-	-
Tax advice	873	1,406	-	-
Other services	968	5,308	21	-
Other auditors				
Audit engagements	200	109	-	-
Tax advice	75	13	-	-
Other services	20	-	-	-
Total	***13,598***	***25,932***	***535***	***539***

NOTE 34 SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Management changes

Jonas Ågrup will leave his position as CFO at end of 2019 and the recruitment of a new CFO has been initiated. Further, Peter Lindquist has been appointed interim President of Business Area Air Treatment, replacing Scott Haynes from February 13, 2019. The new Group Management team will consist of 6 members (previously 13 members); CEO, CFO, President Air Treatment, President AgHort, President Global Operations and Vice President HR.

Three phase plan to capture the full potential of Munters

The Board of Directors and the management team are fully committed to strengthen the performance of Munters. During the past two years, net sales growth has been at a fairly good level whereas earnings and margins have been below expectations in all of Munters business areas, and most notably in Data Centers. The root causes have been identified and we have designed a comprehensive and ambitious plan to increase the overall performance of the company. Today we launch a three-phase plan to capture Munters full potential, to increase customer focus and to improve Group earnings.

As part of the first phase of the program, we have the intention to close down our European Data Center factory in Dison, Belgium. This is subject to union negotiations. Our analysis of our Data Centers operations has convinced the Board of Directors and the management team, that the prospects for establishing a profitable Data Center business in Europe are limited in a market with overcapacity and ongoing price pressure. Our focus going forward will mainly be on the US Data Center market where we have a more commercially viable base for achieving profitable growth. This include established customer relations and proven record of accomplishment in the US market, which provides a good platform.

The overhead cost saving from the program are SEKm 160. In addition, the intended closure of our Data Center factory in Europe, subject to union negotiations, will give an estimated profit improvement of SEKm 50, this in spite of Data Center net sales drop of SEKm -600 of which approximately 80% in 2019. In total, we expect a positive Group adjusted EBITA effect of SEKm 105 in 2019 and SEKm 210 in annual effect from 2020.
Nonrecurring charges for the Munters full potential program of SEKm 350 will be incurred, with 60% be taken during the first six months of 2019, and the remaining 40% in the last six months of the year. The Munters full potential program will temporarily increase the leverage during 2019 and necessary consent from the lending banks have been received. We expect Group leverage to be in line with our mid-term financial leverage target in 2020. The Board proposes no dividend to be paid for 2018 with consideration taken to the costs for the restructuring initiatives.

Revised mid-term financial target for net sales growth
Munters has revised its mid-term financial target for organic net sales growth to 5% (previously 7-10%), reflecting the new business mix.

Munters mid-term financial targets are:
Net sales growth – Munters' objective is to achieve an annual organic sales growth of 5%, supplemented by selective acquisitions.
Adjusted EBITA Margin – Munters' objective in the medium-term is to have an adjusted EBITA margin of 14%.
Capital structure – Munters aims to maintain a ratio of net debt to adjusted EBITDA of 1.5x to 2.5x, and may temporarily exceed this level (e.g., as a result of acquisitions).
Dividend policy – Munters aims to pay an annual dividend corresponding to 30–50% of its consolidated income for the period. The pay-out decision will be based on the financial position, investment needs, acquisitions and liquidity position. There can be no assurances, however, that in any given year a dividend will be proposed or declared.

Incentive program for the Chairman of the Board of Directors and the Interim CEO of Munters
Munters' largest shareholder, a Nordic Capital Fund VII entity, has offered the Chairman of the Board of Directors, Magnus Lindquist, and the Interim CEO, Johan Ek, to acquire in total 6,000,000 call options for shares in Munters. The program entails that Magnus Lindquist and Johan Ek are offered to acquire in total 6,000,000 call options (3,000,000 call options per person) at a total value of SEKm 13.8. The Chairman of the Board of Directors, Magnus Lindquist, acquired 3,000,000 call options and Johan Ek acquired 3,000,000 call options at February 20, 2019. Nordic Capital believes that the call option incentive program contributes to creating a clear alignment of interests between these individuals and the other existing shareholders in Munters.

Assurance 2018

The undersigned assures that the Annual Report has been prepared in accordance with generally accepted accounting principles, and that the consolidated accounts have been prepared in accordance with international accounting standards as referred to in Regulation EC 1606/2002 of the European Parliament and of the Council of July 19, 2002, on the application of international accounting standards, provide a true and fair view of the Company's and the Group's financial position and earnings, and that the Board of Directors' report and the Board of Directors' report for the Group provide a fair view of the development of the Company's and the Group's operations, financial position, and earnings and describe material risks and uncertainty factors to which the Company and the companies in the Group are exposed.

Stockholm, April 9, 2019

Magnus Lindquist
Chairman of the Board

Johan Ek
President CEO Board Member

Helen Fasth Gillstedt
Board Member

Per Hallius
Board Member

Andreas Näsvik
Board Member

Lena Olving
Board Member

Kristian Sildeby
Board Member

Joachim Zetterlund
Board Member

Simon Henriksson
Board Member,
employee representative

Pia Nordqvist
Board Member,
employee representative

Our Auditor's report was submitted on April 12 , 2019
Ernst & Young AB

Erik Sandström
Authorized Public Accountant

Auditors' report

To the general meeting of the shareholders of Munters Group AB (publ.), corporate identity number 556819-2321

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Munters Group AB (publ.) for the financial year 2018. The annual accounts and consolidated accounts of the company are included on pages 82–130 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU with the exception for one service of limited extent. The service has been terminated and has been communicated to the company's Audit Committee.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Timing of revenue recognition

Description

As described in note 1, revenues from sale of goods are recognized at a point in time when risks and rewards are transferred to the buyer in accordance with the delivery terms. Revenues from larger project assignments are recognized over time in proportion to progress of completion using an output method at the reporting date.

The company´s customer agreements contain several different performance obligations, as described in note 1 and 4. In order to allocate revenue to different performance obligations, and to determine the progress of completion of performance obligations within project assignments, certain estimates have to be made which effects the timing of revenue recognition.

As a result of the above, we have assessed that the timing of revenue recognition is a key audit matter.

How our audit addressed this key audit matter

In our audit of the fiscal year 2018, we have evaluated the company´s principles of revenue recognition in accordance with applicable GAAP. We have reviewed the company´s processes for revenue recognition and evaluated key controls within these processes.

Also, we have audited revenue transactions close to the yearend by reviewing customer agreements and delivery notes to verify that revenue is recognized in the correct period. Furthermore, we have evaluated the company´s estimates for determining percentage of completion and revenue recognition related to larger project assignments.

We have assessed whether the disclosures in the annual report is appropriate.

Valuation of goodwill and trademarks

Description

Goodwill and trademarks amounts to SEKm 4,218 and SEKm 1,080 respectively in the consolidated statement of financial position. As described in note 15 the company annually, or when indicators of impairment are identified, performs an impairment test to verify that the carrying values do not exceed the recoverable amount. Recoverable amount is determined by calculating the value in use for the respective cash generating unit using a discounted cash flow model. As also described in note 15, forecasts of future cash flows for the next five years are based on financial plans approved by the board of directors. The financial plans include assumptions of future sales growth and operating margin, as well as utilization of operating capital employed. Furthermore, assumptions of discount rates and growth beyond the five-year period are required.

The impairment test of the fiscal year did result in an impairment of goodwill amounting to SEKm 323. As shown in note 15, changes in significant assumptions and estimates could have an effect on the carrying value

Due to the assumptions and estimates made in conjunction with these impairment tests, and due to the total amount of the carrying value, we have considered valuation of goodwill and trademarks as a key audit matter.

How our audit addressed this key audit matter

In our audit of the fiscal year 2018, we have evaluated the company's process for preparing impairment tests. We have audited the cash flow models used for the impairment tests and evaluated how cash generating units are identified. We have also evaluated the assumptions related to future cash flows by comparing to historical outcome and forecasts, as well as performing sensitivity analyzes. Furthermore, we have assessed the discount rate and the assumption of long term growth rate after the forecast period by comparisons to peers.

We have assessed whether the disclosures provided in the annual report is appropriate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-81. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Munters Group AB (publ) for the financial year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Ernst & Young AB, Box 7850, 111 44, Stockholm, was appointed auditor of Munters Group AB (publ.) by the general meeting of the shareholders on the 26th of May 2016 and has been the company's auditor since 2010.

Stockholm 12 April, 2019
Ernst & Young AB

Erik Sandström
Authorized Public Accountant

Definitions of key financial indicators

In this annual report as well as in the quarterly interim reports, there are references to a number of performance measures. Some of the measures are defined in IFRS, others are alternative performance measures and are not disclosed in accordance with applicable financial reporting frameworks or other legislations. The performance measures are used by the Group to assist both investors and management in analyzing Munters' business. Below are the performance measures found in this annual report described, defined and the reason for use disclosed.

Organic growth
Change in order intake and net sales compared to the previous period, excluding currency translation effects and contributions to order intake and net sales from businesses that were acquired and/or divested during the current period and/or any comparison period. The measure is used by Munters to monitor order intake and net sales growth driven by changes in volume and price between different periods.

Order backlog
Received and confirmed sales orders not yet delivered and accounted for as net sales. Order Backlog is a useful measure to indicate the efficiency of the conversion of received and confirmed sales orders into net sales in future periods, and is used by Munters to monitor business performance and customer demand, and adjust operations.

Order intake
Received and confirmed sales orders during the reporting period. The order intake is an indicator of future revenues and, consequently, an important KPI for the management of Munters' business.

Operating profit (EBIT)
Earnings before interest and tax. Munters believes that EBIT shows the profit generated by the operating activities.

Adjusted EBITA
Operating profit, adjusted for amortizations, write-downs of intangible assets and items affecting comparability. Munters believes that using adjusted EBITA is helpful in analyzing our performance as it removes the impact of items considered not to be of recurring character and therefore do not reflect our core operating performance. Compared to last year adjusted EBITA has been re-defined to exclude a yearly tax-driven adjustment of internal cost allocation between the segments

Adjusted EBITA margin
Adjusted EBITA as a percentage of net sales. Munters believes that Adjusted EBITA margin is a useful measure for showing the Company's profit generated by the operating activities.

Items affecting comparability (IAC)
Items affecting comparability relates to income statement items that have an impact on operating profit and are, in our opinion, considered not to be of recurring character.

Capital employed
Capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and deferred tax assets, less total liabilities, excluding interest-bearing liabilities, pension liabilities and deferred tax liabilities.

Return on capital employed (ROCE)
Operating profit (EBIT), divided by the average capital employed. The average capital employed for each year consists of an average of the closing capital employed in the last 13 months.
Return on capital employed (ROCE) is also presented applying EBIT adjusted for IAC and Capital employed adjusted for goodwill for improving comparability against other industrials.

Cash and cash equivalents
Cash and bank balances plus investments in securities and the like with maturity periods not exceeding three months. This is a measure that highlights the short-term liquidity.

LTM
LTM (last twelve months) after any key indicator means that the KPI corresponds to an accumulation of previous twelve month reported numbers. The measure highlight trends in different KPIs, which is valuable in order to gain a deeper understanding of the development of the business.

Net debt
Net debt calculated as interest bearing debt and pension liabilities, deducted by cash and cash equivalents. This is a measure of the ability to repay the debt if it was all due.

Average number of employees
Average number of employee is calculated as the sum of permanent employees at the end of each of the last 13 months divided by 13.

Operating cash flow
Earnings adjusted for depreciation, amortization, and impairments, as well as for investments and operating capital.

Operating working capital
Accounts receivables, inventories, accounts payables and advances from customers.

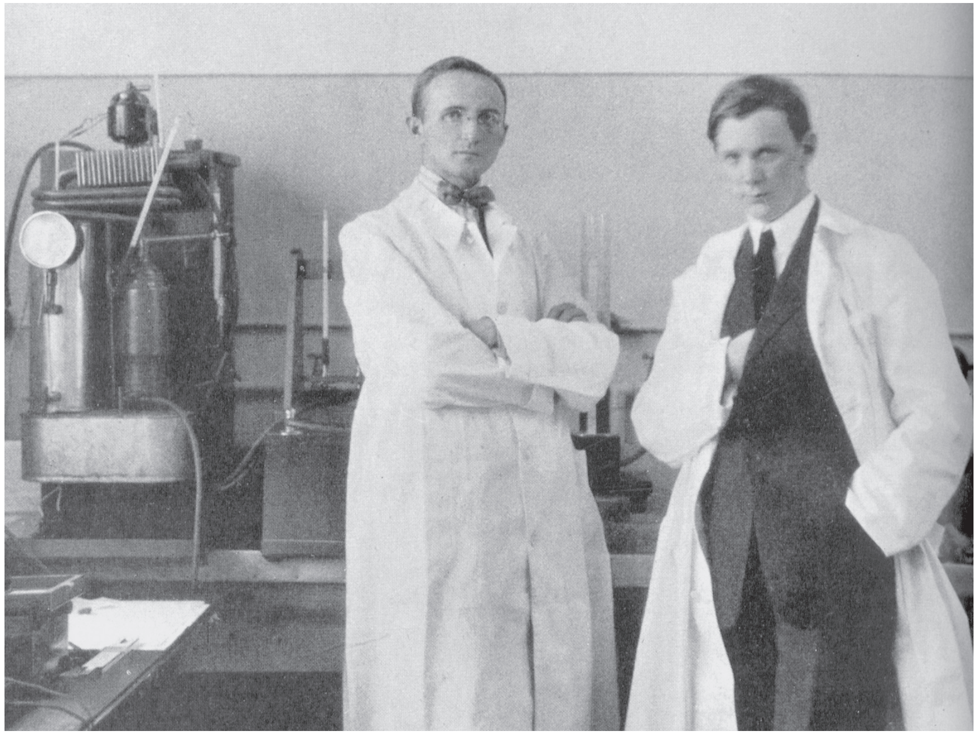
Earnings per share
Net income adjusted for the right of preferential shares to dividend, divided by the weighted average number of ordinary shares.

Equity/assets ratio
Equity (including holdings with non-controlling interests) divided by total assets.

A legacy from Carl Munters to improve

Munters has been an innovator in advanced climate control solutions since its founding in 1955. Carl Munters (1897–1989), a Swedish inventor and entrepreneur, built the company on his insights into the laws of thermodynamics and his ability to transform them into innovative technologies and commercial successes.

As time went on, Carl Munters would receive nearly 1,000 patents, most of them in the areas of dehumidification and evaporative cooling – which are today's core technologies at Munters. 227 of the patents he registered during his time at the company are still active today. Carl Munters was a passionate inventor, and his example is a strong source of inspiration in our daily work. Curiosity, innovation and the art of engineering are his legacy to us.



CARL MUNTERS

(1897–1989)
In 1923, Carl Munters (above, right), and Baltzar von Platen invent the first refrigerator without moving parts, and sell the rights to Electrolux.
In the 1940s, Carl and a number of his employees developed the central inventions behind Munters operations: an air conditioning system based on evaporative cooling and dehumidification. The key components of the system were the sorption rotor and the evaporative cooling pads.

A BREAKTHROUGH IN MODERN DEHUMIDIFIERS

1950s:
A breakthrough in modern dehumidifiers Carl Munters founds Carl Munters & Co together with a number of partners, including Marcus Wallenberg, in 1955. The idea was to develop modern air conditioning systems based on evaporative cooling, dehumidification and heat recuperation. The starting shot for Munters dehumidification business is fired in 1958, when the Swedish Armed Forces orders 200 dehumidifiers.

OUT INTO THE WORLD

1960s:
The company expands its production base, establishing dehumidifier production in the US. Its best-selling model ever, the M100, is launched in 1964.

NEW MARKETS

1970s:
Product ranges, customer segments, and areas of use all expand. An international distribution network is established. The oil crisis of 1973 results in severe demands on energy savings, giving Munters major market potential. The company is acquired by Incentive AB in 1974, and Carl Munters retires.

BROAD INTERNATIONAL EXPANSION

1980s:
A modern Munters takes shape through acquisition of resellers and agents. The company establishes operations in several countries, including Japan in 1987. Munters focuses on environmental improvements; in 1988 it acquires a unique Swedish air purification technology (Zeol) that it further improves with Munters rotor technology.

AN INTERNATIONAL GROUP

1990s:
Munters expands to become an international Group, with sales offices in over 25 countries.
A new manufacturing plant is built in San Antonio to concentrate dehumidification solutions for supermarkets and ice rinks. Environmental issues become increasingly important, laying the basis for new products in evaporative cooling. Munters finalizes its largest acquisition to date, and through Euroemme is now able to offer complete climate solutions for the rapidly expanding poultry industry. In 1997, Munters is listed on the Stockholm Exchange.

STRATEGIC ACQUISITIONS

2000s:
Munters invests in sales and production in Asia. The acquisitions of Aerotech, Agro A/S, Turbovent Environment and Form make Munters a world leader in climate systems for livestock farming and greenhouse cultivation. Munters also acquires Des Champs Technologies – strengthening the company's position as a leading supplier of energy-efficient solutions for commercial buildings – and Toussaint Nyssenne, a leading European manufacturer of large-scale air treatment systems.

FOCUS ON THE CORE

2010s:
Munters is acquired by Nordic Capital Fund VII and is de-listed from the Stockholm Exchange in 2010. Several strategic acquisitions are made in the following areas:

Livestock farming and greenhouses

- Rotem – experts in control and management systems
- Reventa – specialists in climate control
- MTech and Edata – two outstanding companies in software for poultry and swine production

The power and processing industry

- Kevin Enterprises in India.

Air treatment for industrial and commercial applications

- ProFlute – a leading supplier of desiccant rotors to the global OEM market
- HB Group – a significant supplier of high-quality customized hygienic air treatment systems to clients such as the food industry

In 2017, Munters Group [ticker: MTRS] was listed on Nasdaq Stockholm.

In 2018, several new products were launched with a focus on optimizing the climate while reducing energy consumption as DryCool® Focus and Sonar Echo.

In February 2019, an extensive and ambitious three-phase plan, stability, profitability and growth, was launched to utilize Munters' full potential and to improve the Group's earnings.

1950–60 | 1970 | 1980 | 1990 | 2000 | 2010 munters.com

Your Perfect Climate