Munters

ANNUAL AND SUSTAINABILITY REPORT 2019

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Financial reports

The formal annual report for Munters Group AB (publ), corp. reg. no. 556819-2321, refers to pages 76-123.

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.

Financial Calendar

23 April, Interim Report January-March 2020
7 May, Annual General Meeting 2020
28 May, Capital Markets Day
17 July, Interim Report, January-June 2020
22 October, Interim Report January-October 2020

For customer success and a healthier planet

Munters has played a role in shaping the industry for climate solutions since the company was founded in 1955. Curiosity and a drive to create pioneering technologies are part of our DNA. Our climate solutions are mission-critical to our customers' success and contribute to a more sustainable planet.

Learn more about the strategy on pages 14-19.

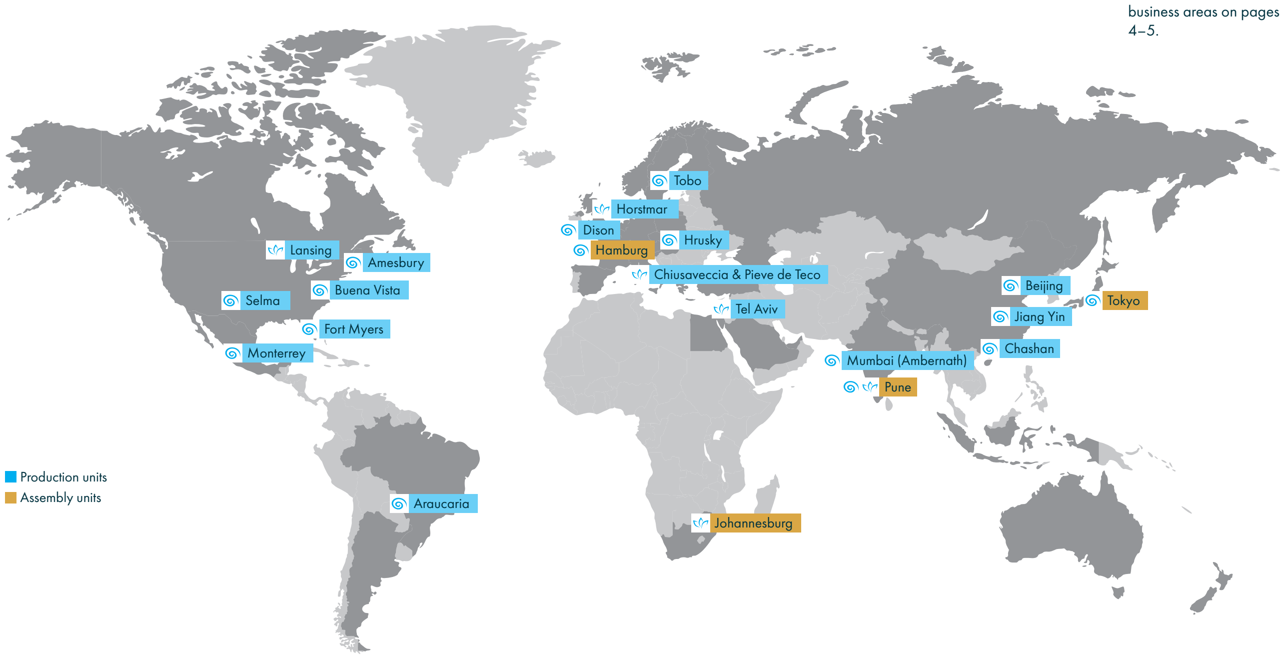
A leader in sustainable climate solutions

Munters is a global leader in energy-efficient and sustainable climate solutions. The solutions guarantee temperature and humidity control, which is mission-critical for customers. Munters is organized in two business areas, AirTech and FoodTech. Through innovative technologies, the Group creates the perfect climate for demanding industrial applications, the largest segments of which are manufacturing, defense, data centers, food, pharmaceutical and agriculture. Founded in 1955, Munters has many patents in our core technologies, dehumidification and cooling. Sustainable value creation is an important part of the Group's offering.

Our production and assembly units globally

AIR TECH FOOD TECH

Read more about our business areas on pages 4–5.



Number of employees as of December 31, 2019

~3 100

Number of plants

18

Sales and manufacturing, countries

>30

Percentage of women in senior positions, %

25

(2018: 20)

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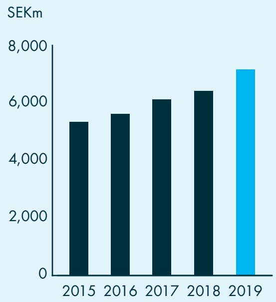
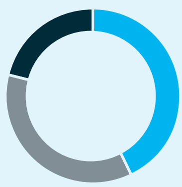
Munters is a global leader in innovative, energy-efficient and sustainable climate solutions for mission-critical processes

Net sales

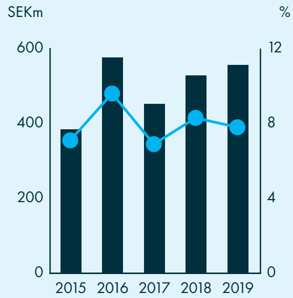


Net sales per region



- Americas 43 %
- EMEA 36 %
- APAC 21 %

Operating profit and margin



- Operating profit
- Margin

Sustainable value creation in many industries

Munters offers innovative, efficient and sustainable solutions for customers in many different industries where controlling temperature and humidity is mission-critical. Our solutions reduce customers' climate and environmental impact through lower resource consumption, and in the process contribute to cleaner air, higher efficiency and reduced carbon emissions. Sustainability is an important part of Munters' business strategy and value creation.

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

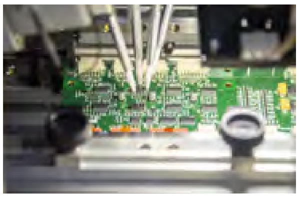
FoodTech
FoodTech is one of the world's leading suppliers of innovative, energy-efficient climate systems for livestock farming and greenhouses, as well as software for controlling and optimizing the entire food production value chain. Our solutions increase productivity while contributing to sustainable food production, where strict requirements are placed on quality, animal health and food safety.

FMCG and Retail

Retail and grocery stores generate higher sales with lower operating costs when they install Munters' efficient, high-performance HVAC systems. Heating and ventilation systems work better, and so do refrigerators and freezers. Customers and employees both enjoy a pleasant, healthy environment.

Data centers

Digitization and global data traffic continue to increase, and an ever-growing number of data centers are being built around the world. A data center has to work round the clock, year in and year out. Advanced climate cooling solutions are critical to reliability and also enable lower energy consumption and carbon emissions.



Electronics

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

Aviation and Defense

In the defense and aviation industries, dehumidification is critical to protect sensitive equipment, electronic systems and components from technical failures. Climate control in hangars and supply depots keeps vehicles and materials intact. At the same time, building maintenance costs are reduced.

Pharmaceuticals

Munters offers customized dehumidification solutions for the pharmaceutical industry that protect raw materials and finished products during production, storage and transport. Careful control and monitoring keep humidity constant, so medicines in the form of tablets, capsules, granules and powders maintain their quality and shelf life.

Shipbuilding and Marine

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

Food & Beverages

Our solutions control climate conditions the whole way "from farm to table," ensuring hygiene and optimal product quality at the same time that they conserve energy and increase productivity. We supply customers in the dairy and meat industries, breweries, bakeries, restaurants and more.

Agriculture

Munters develops and manufactures energy-efficient climate control systems for sustainable farming. We optimize the indoor climate for poultry farming, egg production, pork farming and milk farms, enabling increased productivity with minimal resource waste, while at the same time meeting strict quality and food safety requirements.

Greenhouses

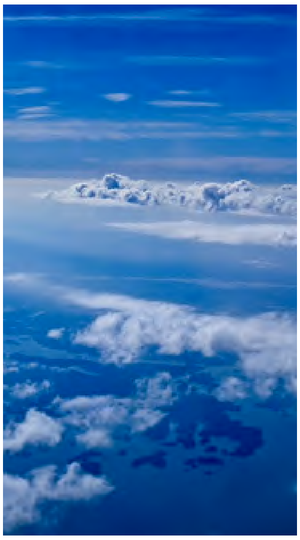
By providing the perfect indoor climate for growing plants, Munters' solutions give growers the opportunity to produce under optimal conditions. The innovative product range includes control equipment ventilation, evaporative cooling and heating.

Climate change is an important megatrend

Munters is benefitting from strong global drivers and trends that support the use of advanced solutions for climate control. Perhaps the most important megatrend for Munters is climate change, with a focus on resource efficiency, where the Group is well positioned and can be part of the solution for a more sustainable world.

TREND: CLIMATE CHANGE

Around the world demand is increasing for sustainable and energy-efficient solutions for indoor climate control, which help Munters' customers reduce emissions. Achieving global climate goals will require major investments and force more companies to take responsibility for and ensure sustainability throughout the value chain. Contributing to more efficient use of the earth's resources is an important success factor.



How Munters is addressing the trend:
Munters' energy-efficient solutions help customers to meet their climate and sustainability commitments.

Examples:
- Munters' products can extend the service life of bridges and other infrastructure and thereby create resource efficiency.
- Our solutions can separate hazardous substances in industrial processes and flue gases.
- Munters enables a large proportion of the world's production of lithium-ion batteries by supplying ultra-dry air.

TREND: INCREASED DIGITIZATION

Increasing data traffic, greater use of cloud services and a growing number of connected devices are driving growth in industries that are exposed to digitization. Digitization also opens up doors to new ways to create value and interact with customers. One example is offering connected service and support.

How Munters is addressing the trend:
Munters' customer solutions connect products and climate systems, providing more data and control in the customer's production environment and the entire value chain.

Examples:
- Digitization facilitates new solutions with long-term potential for Munters to sell indoor climate as a service.
- Munters' IoT solution for connecting farms and food plants, SonarEcho, optimizes the logistics chain and thereby minimizes resource consumption.
- High demand for cooling data centers. Our data center solutions provide significant energy savings compared with traditional cooling.

TREND: POPULATION GROWTH

An increased focus on climate change - and the environment and a scarcity of resources due to global population growth, as well as a growing urban middle-class that consumes more animal and plant based protein, are driving demand for energy- and resource-efficient solutions.

How Munters is addressing the trend:
How Munters is addressing the trend: On the whole, Munters has the most energy-efficient solutions in the market, which help customers increase efficiency and reduce their carbon footprint

Examples:
- Exact climate control in livestock farming optimizes resource consumption in the form of food and water and improves animal health.
- Energy-efficient coolers in supermarkets reduce energy consumption by up to 40 percent.
- Environmentally friendly and energy-efficient air treatment systems, which recycle heat energy and transform it into cooling, are used in office buildings, supermarkets and production facilities.

SUBTREND POPULATION GROWTH:
Strict demands on production environments

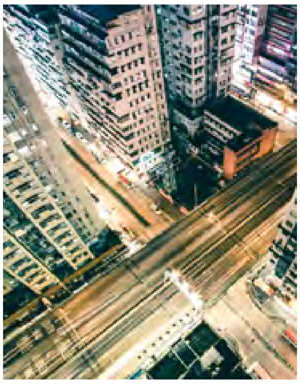
Higher quality standards, tighter competition and an increased understanding of the impact of the climate on productivity and product quality are raising demand for advanced climate solutions. The food industry needs cost-efficient solutions for mist, ice formation, condensation and other moisture-related problems to meet zero-tolerance guidelines and avoid discrepancy reports.

How Munters is addressing the trend:
Munters offers exact control of the climate to meet our customers' requirements for better control of their environment.

Examples:
- Munters' portfolio of Dedicated Outdoor Air Systems (DOAS) is the most efficient in the industry in term of moisture removal.
- A good climate in livestock farming is important for the animals' well-being as well as the employees' work environment and increased productivity.

SUBTREND: POPULATION GROWTH:
Strict regulations

More rigorous laws and environmental standards are driving demand for solutions to reduce pollution from exhaust and flue gases, e.g., in the shipping industry. Requirements are also being tightened on dehumidification efficiency in public buildings, including in the US.



How Munters is addressing the trend:
Munters has many solutions to meet customers' needs and requirements for treating emissions from coal-fired power plants and ships, where the Group's mist eliminators purify emissions to a high level.

Examples:
- Munters energy-efficient HVAC solutions (Heating, Ventilation and Air Conditioning) can meet demand for higher energy-efficiency in the food industry, for example.

Important events during the year

January February March April May June

Launch of three-phase plan to capture Munters' full potential. In February, an extensive plan was launched in three phases – stability, profitability and growth – to improve the Group's earnings.

Stability
Establish a stable, profitable base
- Strengthen the Management Team
- Simplify the Munters organization in two decentralized business areas
- Create an easier, more efficient organisation and improve capital efficiency
- Pursue earnings growth in Data Centers

Profitability
Improve profit
- Steer the business mix toward the most attractive segments
- Pursue continuous improvements within business area organizations and production units
- 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
- Digitize the customer offering
- Carry out selective acquisitions to increase growth

New organization with two business areas
Munters, which previously had four business areas, was reorganized in the first quarter in two business: AirTech and FoodTech. The former business area Air Treatment changed name to AirTech and now also includes the business segments Data Centers and Mist Elimination. In addition, the business area AgHort has changed its name to FoodTech.

Good growth in services
Munters' service offering is a growing and profitable part of the Group, accounting for 13 percent of sales in 2019. The goal is to reduce customers' energy consumption, guarantee quality and environmental performance, and extend the service life of our products. Our offering comprises everything from installation and monitoring to maintenance, spare parts and upgrades, which are combined into optimal solutions for each customer's needs.

Munters' first Capital Markets Day
In early May, Munters held its first Capital Markets Day to give institutional investors, financial analysts and the financial media a detailed description of the company's strategy, the Munters Full Potential Program, and management's view of the business and outlook.

Management changes
In April, Klas Forsström was appointed the new President and CEO of Munters. Klas has a background as President of the Sandvik Machining Solutions business area and over 20 years of experience from various senior positions at Sandvik.

In May, Annette Kumlien was appointed the new Group Vice President and CFO of Munters. Annette was the most recently with Diaverum, where she held the position of SVP and COO, and prior to that CFO.

Both started their new positions on August 12, 2019.

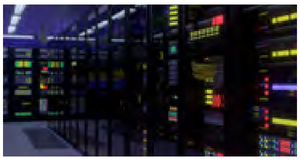
July | August | September | October | November | December

SaaS order for FoodTech in the US

In the second quarter, a new SaaS (Software as a Service) order was signed within FoodTech. While this is just the first order for this service, SaaS is an exciting growth area for Munters. The order was signed with a major customer in the US and will be recognized in net sales over a five-year period.

Closure of European Data Center factory in Dison

After completing union negotiations, the process of closing the European Data Center factory in Dison, Belgium began in September. The closure was part of the Full Potential Program launched in early 2019 to improve the Group's earnings.



Major order for Data Center cooling in the US

In October, Munters received a major order for data center cooling in the US valued at approximately USD 25 million. Munters will deliver Oasis™ Indirect Evaporative Cooling units.

– We are pleased to have received a large order to deliver a configured cooling solution for a Data Center client in the US. We worked closely with the client's project team to develop an innovative in direct evaporative cooling solution, both in terms of energy efficiency and water usage, and we look forward to delivering this project," says Michael Gantert, President Data Centers.

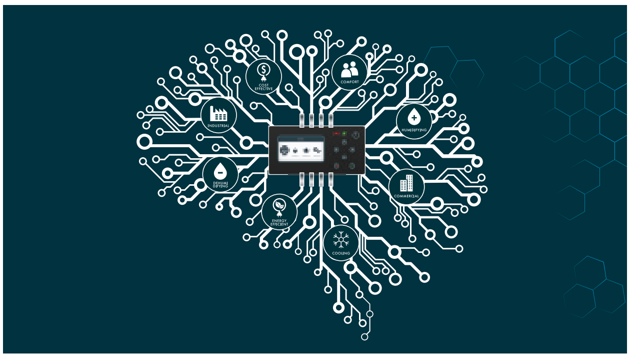
New President of Munters' largest business area, AirTech

In October, Peter Gisel-Ekdahl was appointed as President of business area AirTech as of November 1, 2019. Peter has been President of business area FoodTech for the last 12 years and a member of Group Management since 2011.

The lithium-ion battery segment continues to see good growth

Lithium-ion batteries, which are used in a growing number of applications from smartphones to electric cars, are manufactured in a complex and controlled air environment. Munters can supply the ultra-dry air solutions needed for safety and quality in production.

Thanks to our application know-how, our solutions are used in around half of the world's production of lithium-ion batteries for electric cars.



Launch of the new AirC control platform

In October, Munters launched a new, innovative control platform, AirC, which will make its systems more intuitive, more efficient and better connected. The proprietary AirC control system helps customers to optimize energy consumption and allows service and system updates through remote access.

In 2019 we strengthened Munters' platform for the future

In 2019, major investments were made within Munters to strengthen the platform. First, we completed the Munters Full Potential Program (FPP) to increase profitability, and secondly we analyzed the business and refined our strategic direction. We had stable demand during the year, strong growth in net sales and an increase in the adjusted EBITA margin. In addition, a decision was made to close the Data Center factory in Dison, Belgium. To deliver on our medium-term goals, the focus in 2020 is on strengthening business acumen in the company.

In August 2019, Klas Forsström took over as President and CEO of Munters. Johan Ek returned to his previous position as a member of the Board of Directors. In this interview, we get to know Klas better, read his comments about the past year and learn more about the strategic direction for the future.

What is your first impression as CEO of Munters?
– I have been very impressed by the competence and skills you can find in every part of Munters. It is an organization with a wealth of knowledge both globally and at the local level. Today we live in a world of constant change, which means big challenges and opportunities. We benefit from a number of strong long-term trends, all of which are making the world more sustainable. Our energy-efficient solutions help customers to be more efficient and reduce emissions. In addition, our employees create tremendous value, in several dimensions, every day. I am proud to lead the company and see great opportunities for Munters to strengthen its market position and business opportunities going forward.

What attracted you to Munters?
– Munters has a strong market position based on technological expertise, and we are correctly positioned and benefit from important trends such as climate change and the focus on energy efficiency. Munters has a recognized brand, and with the opportunities I see for future development there is great potential. That is why I was excited to come here and lead the company.

What experience did you bring with you to Munters?
– With my business and leadership experience, I realize that continuous improvements, investments in innovation and a comprehensive view of the value chain are all very important. Technological innovations are only innovations when they are commercially viable. This is why a focus on innovation is closely connected with a focus on going to market and meeting customers.

Can you comment on Munters' development in 2019?
– Net sales increased 6 percent organically in 2019 to SEK 7,153 million. We saw sales rise in Data Centers USA, Mist Elimination and good growth in Services. In our business area FoodTech, currency-adjusted net sales were weaker due to overcapacity in the US swine market and uncertainties related to trade tariffs and the African swine flu. Adjusted EBITA rose strongly and the adjusted EBITA margin improved to 12.2 percent, mainly thanks to cost savings from the FPP program.

2019 was dominated by the FPP program, which was launched in February. A reorganization and other changes were made to create a more streamlined and profitable business. The biggest activity in the program in 2019 was the closure of the European Data Center factory in Dison.

My focus has been on continuing the work that had begun and to identify activities that will drive long-term growth. Last fall, the priority for me and the management team was streamlining the activity plan and working on Munters' strategic direction.

The organization and management team were changed under your leadership. What were your intentions?
– After I took over in August 2019, I took my time to travel around and visit Munters in various parts of the world. It was important for me to understand the business and organizational flow within the company before I made any changes. In the fall of 2019, Peter Gisel-Ekdahl, formerly the President of FoodTech, was named the President of the larger business area AirTech. Peter has done excellent strategic work with FoodTech and I look forward to working with him to develop AirTech, especially our digital IoT offering.

In early 2020, I announced additional changes in the organizational structure to simplify the organization and the way we work. In my experience, the simpler you make an organization, the better employees know how to contribute and produce top results.

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Continuous improvements, investments in innovation and a comprehensive view of the value chain are very important

The FPP program contained three phases: stability, profitability and growth. Now the focus is shifting to the strategy we developed, where we are continuously incorporating these aspects into the normal way we work.

What does Munters' strategy journey look like going forward?
– In February 2020, we launched the framework and direction that now will guide the activities that will lift Munters' earnings and growth for a long time to come. Basically, the strategy consists of three key focus areas: customers, market and innovation. Employees are the hub of our business and we have to be efficient and maintain high quality in everything we do, especially with respect to customers. We are now working actively to roll out and communicate our strategy internally and externally.

What are your expectations for Munters in 2020?
– I look forward to fully implementing the strategy throughout the organization and working with continuous improvements. I see the organization as a team, and with a clearer structure and goals we can go far and win.

Munters is well positioned in a market driven by sustainability, energy efficiency and digitalization. At the same time, we face new challenges. In late 2019, a corona virus was found in China that can spread to humans and cause the disease Covid-19. In early 2020, the global spread of the corona virus escalated. The way in which and to what extent the spread of the virus may affect Munters' business and financial prospects in 2020 is still too early to have a well-founded understanding of.

I want to especially thank all our employees, who have done a fantastic job despite the challenging changes we went through in 2019.

Stockholm, March 2020

Klas Forsström,
President and CEO

Munters' journey

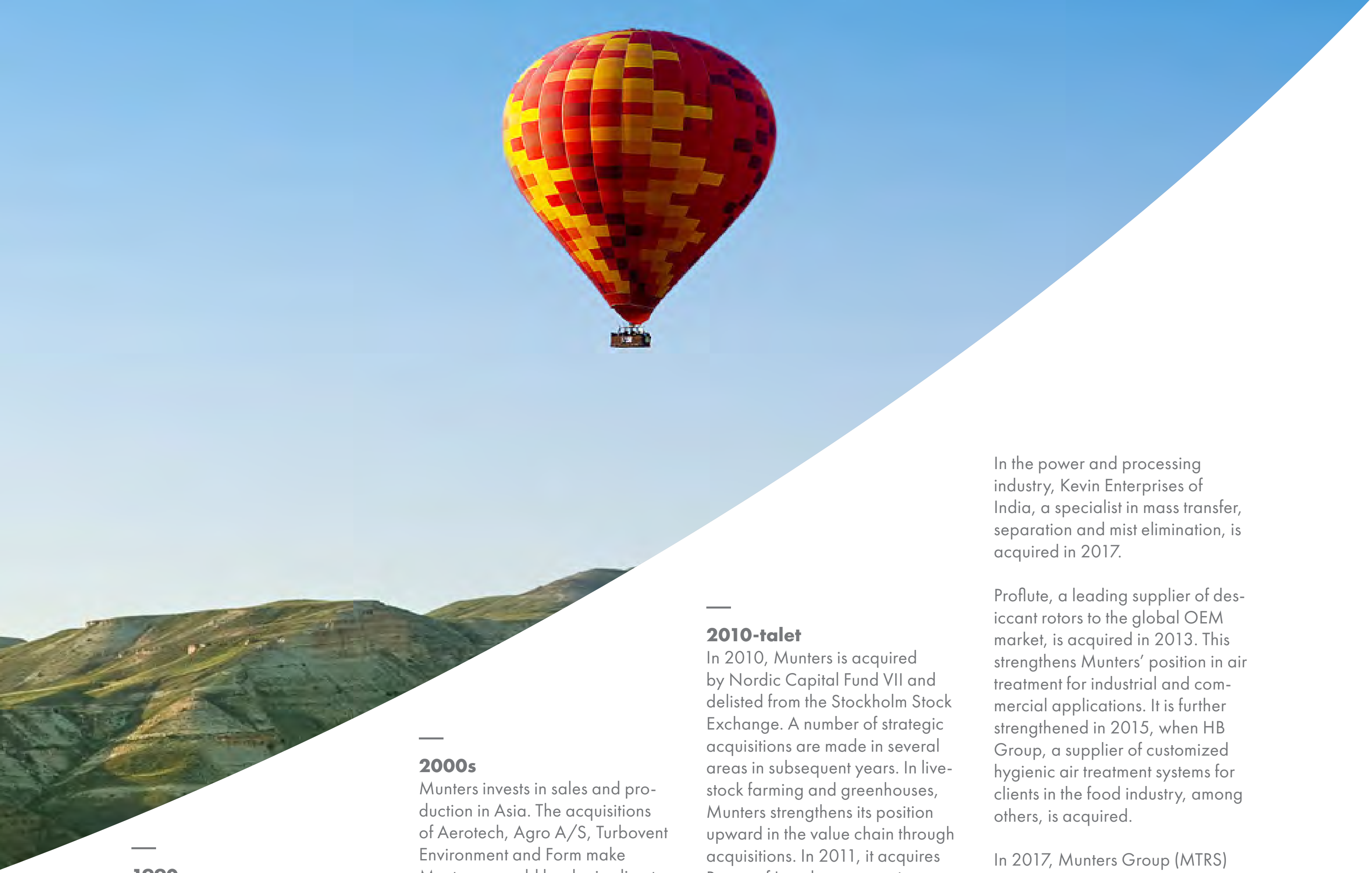
Munters has been a pioneer in climate control solutions since the company was founded in 1955. Munters' culture has always been based on curiosity and innovation. We try to continuously improve in order to stay successful in a changing market.

1955
In 1955, Munters is founded by inventor and entrepreneur Carl Munters together with Marcus Wallenberg. The company develops modern air-conditioning systems based on evaporative cooling, dehumidification and heat recovery. The dehumidification business gets off the ground in 1958, when the Swedish Armed Forces orders 200 dehumidifiers.

1960s
In the 1960s, Munters expands its business and grows not only in Sweden but internationally as well. Dehumidifier production is established in the US. The launch of new, innovative products continues and the best-selling model ever, the M100, is launched in 1964.

1970s
The product range, customer segments and areas of application all expand. An international distribution network is established. The oil crisis of 1973 leads to energy savings requirements and gives Munters major market potential. Munters is acquired in 1974 by Incentive AB.

1980s
Resellers and agents are acquired over a period of several years to broaden and strengthen the business. Munters establishes operations in a number of countries, including Japan in 1987. Munters focuses on environmental improvements and in 1988 acquires a unique Swedish air purification technology, Zeol, which it further improves with Munters' rotor technology.



1990s
Munters continues to expand and becomes an international group with sales offices in over 25 countries. A new manufacturing plant is built in San Antonio, in the US, to concentrate dehumidification solutions for supermarkets and ice rinks. Environmental issues become increasingly important to Munters' customers and society as a whole, creating a foundation for new products in evaporative cooling. Munters acquires Euroemme and offers complete climate solutions for the rapidly expanding poultry industry. In 1997, Munters AB is listed on the Stockholm Stock Exchange.

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, as well as Toussaint Nyssenne, a leading European manufacturer of large-scale air treatment systems.

2010-talet
In 2010, Munters is acquired by Nordic Capital Fund VII and delisted from the Stockholm Stock Exchange. A number of strategic acquisitions are made in several areas in subsequent years. In livestock farming and greenhouses, Munters strengthens its position upward in the value chain through acquisitions. In 2011, it acquires Rotem of Israel, an expert in control and management systems. This is followed by the acquisition of the German company Reventa, specialists in climate control, and the acquisitions of MTech Systems and Edata, software developers for poultry and swine production.

In the power and processing industry, Kevin Enterprises of India, a specialist in mass transfer, separation and mist elimination, is acquired in 2017.

Proflute, a leading supplier of desiccant rotors to the global OEM market, is acquired in 2013. This strengthens Munters' position in air treatment for industrial and commercial applications. It is further strengthened in 2015, when HB Group, a supplier of customized hygienic air treatment systems for clients in the food industry, among others, is acquired.

In 2017, Munters Group (MTRS) is listed on Nasdaq Stockholm. In 2019, a three-phase program is launched for stability, profitability and growth to capture Munters' full potential.

The innovator Carl Munters
The Munters brand, our strategy and our culture are strongly rooted in innovation, and the entrepreneurial spirit from Carl Munters is a strong part of our culture.

Carl Munters discovered pioneering technology in climate control. During his time at Munters, he applied for nearly 1,000 patents, most in the areas of dehumidification and evaporative cooling, which are still two of Munters' core technologies.

Innovation not only means technological innovations, but also the way we work and how Munters delivers products and services to its customers – everything from components to comprehensive solutions and new connected technologies and services for data processing and analysis.

Learn more on pages 26-27.

Carl Munters

In 2019 we laid the foundation for continued profitable growth

In February 2019, an extensive and ambitious plan was launched to capture Munters' full potential and improve the Group's earnings, the Munters Full Potential Program (FPP). The reason why the program was started was that profits had been below expectations in all of Munters' business areas, especially the former business area Data Centers. The plan contains three phases: stability, profitability and growth.

In December 2018, an analysis of the business was launched to identify measures that will deliver higher profits in line with Munters' financial targets. This was followed in February 2019 by the presentation of an extensive and ambitious plan in three phases to improve the Group's earnings.

The aim of the first phase of the program was to establish a stable and more profitable base for Munters. This phase began right after the plan was approved. The main measures were to:

- Strengthen the management team
- Simplify the Munters organization in two decentralized business areas, from four previously
- Create an easier, more efficient organization and improve capital efficiency
- Pursue earnings growth in Data Centers

In 2019, the management team was strengthened. President and CEO Klas Forsström and GVP and CFO Annette Kumlien joined Munters in early August. Since the start of 2019, the organization has consisted of two business areas, AirTech, which also includes the former Mist Elimination and Data Centers business areas, and FoodTech, previously AgHort.

An evaluation conducted at the start of the program showed that the prospects for establishing a profitable Data Center business in Europe are limited due to market overcapacity and continuing price pressure. In the third quarter, it was therefore decided to close the European Data Centers factory in Dison, Belgium. Our focus going focus will primarily be on the US Data Center market, where there is a commercially more stable base to achieve profitable growth.

Various strategic alternatives for Data Centers and Mist Elimination were evaluated in 2019, resulting in a decision to keep these businesses. They made significant progress in 2019. Considering our strategic direction, we see great potential to create further value in the future, and both businesses fit well in Munters, since they serve markets with good growth potential, are driven by digitization and have high demand for sustainable solutions.

February 2019

December 2019

Last fall, the program gradually transitioned to the second phase with a focus on profitability and improving earnings. The main measures were to:

- Steer the business mix toward the most attractive segments
- Pursue continuous improvements within business area organizations and production units
- Improve our go-to-market models and our pricing models
- Create cost savings through more efficient materials sourcing
- Improve how we control and work with working capital

In the second half of 2019, Munters gradually shifted to phase two of FPP. We worked on among other things projects to improve working capital, accelerated the pace of product development in order to create higher value for customers, and launched continuous improvements in production. Munters has also initiated projects together with the Group's suppliers to improve sourcing efficiency.

Different parts of the Munters Group are in different phases of efficiency program. As part of the continuous improvements, focused initiatives will be launched for the Group's various operations.

Going forward, the program will gradually shift to the third phase, the aim of which is to increase growth in attractive segments and geographical areas. The main measures are to:

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

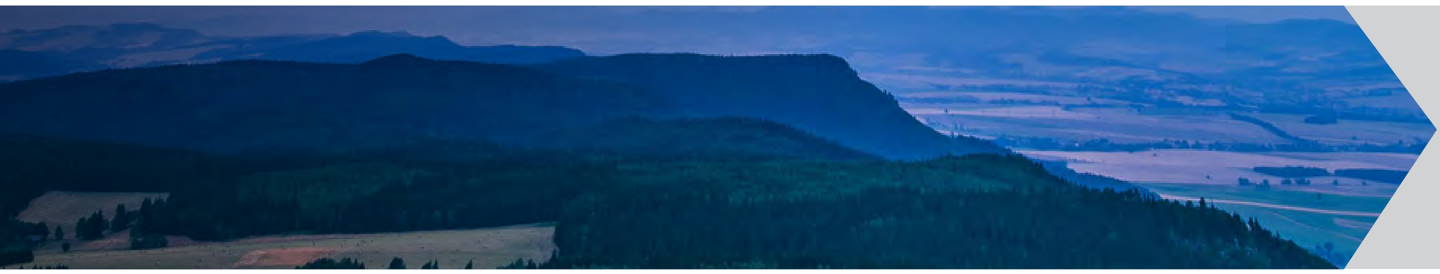
The third phase of the program begins in 2020. It is focused on increasing the growth rate with an emphasis on attractive areas where we see solid long-term demand and where we have or can establish strong market positions.

At the same time that the company is working on the program and these initiatives, the management team was busy in autumn 2019 formulating a future strategic direction for Munters. The various parts of FPP will be included in the new strategic direction that takes effect in 2020.

PHASE 3:

GROWTH

Increase growth in attractive segments and geographical areas



Munters' strategic priorities

Munters has a strong position in most of our markets. We see major opportunities to improve and strengthen our market position and to achieve our financial targets and deliver on our strategy. The key to success is how we respond in working toward our goals. Our overarching strategic priorities show which areas we regard as important to our success. For each strategic priority we have clear action plans and ambitions what we want to achieve. Sustainability is a priority issue reflected in every strategic priority.

People

The employees at Munters are the hub of our business. Through collaboration and a passion for creating sustainable solutions for our customers and partners, we contribute to our customers' success and a better world.

Customers

We closely cooperate our customers. We try not only to understand their needs today, but also in the future. Our expertise is built through unique insight into our customers' businesses and production processes. Munters works every day to deliver value over and above our customers' expectations.

Innovation

We at Munters work in a structured way to optimize innovation in the organization. We continually monitor technological developments in the market and work closely with our customers to understand their needs. We also work with other institutions that strengthen our competence and create value for customers. By continuously questioning and improving how we work, we create sustainable solutions, technologies and business models for the future.

Market

Munters is active around the world in a market driven by strong trends in sustainability and digitization. We focus resources on strengthening our position in areas where we can be a market leader. For Munters, a market leader not only has a leading position but also higher profitable growth than others in the industry.

Excellence in everything we do

We strive for quality and efficiency in everything we do. We work with continuous improvements in every area. We prioritize and focus on selected investments and areas of improvement. We follow up, learn, correct and improve..

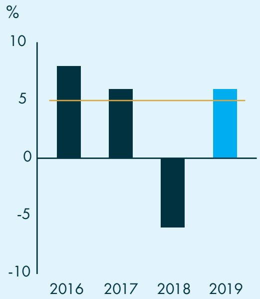
Future objectives

Both financial and sustainability goals benefit our strategy for profitable, cash-flow-generating growth. A responsible business with stable finances and efficient resource use is essential for Munters to carry out its strategy. In 2019, an analysis of the sustainability work was completed, including a review of all priority areas and their goals. The management of Munters firmly believes that more ambitious sustainability goals must be set going forward. In 2020, the focus will be on laying a foundation for them.

FINANCIAL TARGETS

Net sales growth

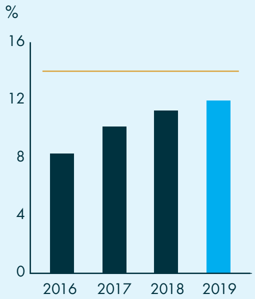
Annual growth in organic net sales of 5 percent starting in 2019, supplemented by selected add-on acquisitions.



— Target as of 2019

Adjusted EBITA margin

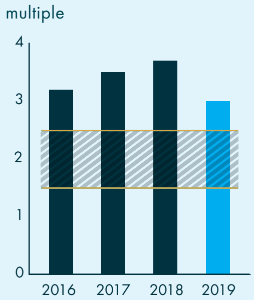
An adjusted EBITA margin of 14 percent in the medium term.



— Target

Capital structure

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



Target

Dividend policy

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

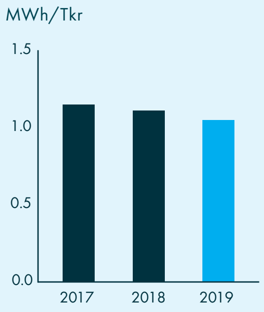
The Board of Directors proposes that no dividend be paid for 2019.

SUSTAINABILITY GOALS

RESOURCE EFFICIENCY

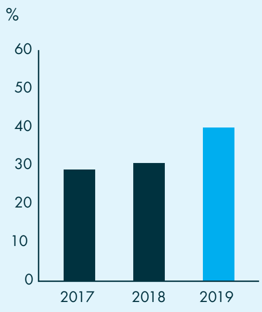
Energy efficiency

A continuous reduction of electricity consumption in our production units.



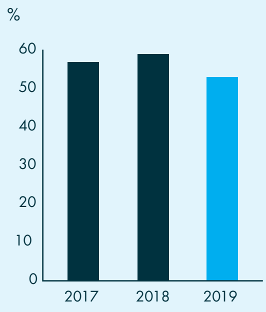
Green electricity

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



Recycling rate

Our goal is to continually raise our recycling rates (i.e., the percentage of waste reused or recycled out of the total amount of waste).

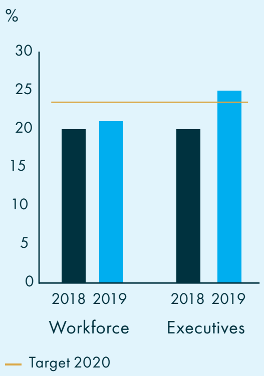


PEOPLE AND SOCIETY

Proportion of women

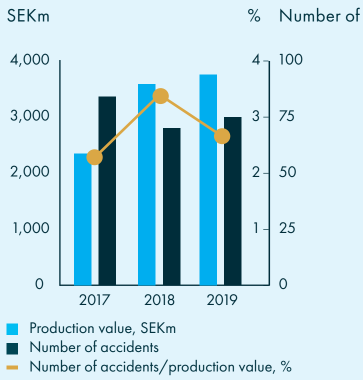
Our goal is to increase the percentage of female employees and executives.

The goal is 23 percent in 2020 and 30 percent in 2025.



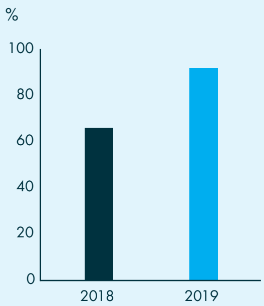
Accidents

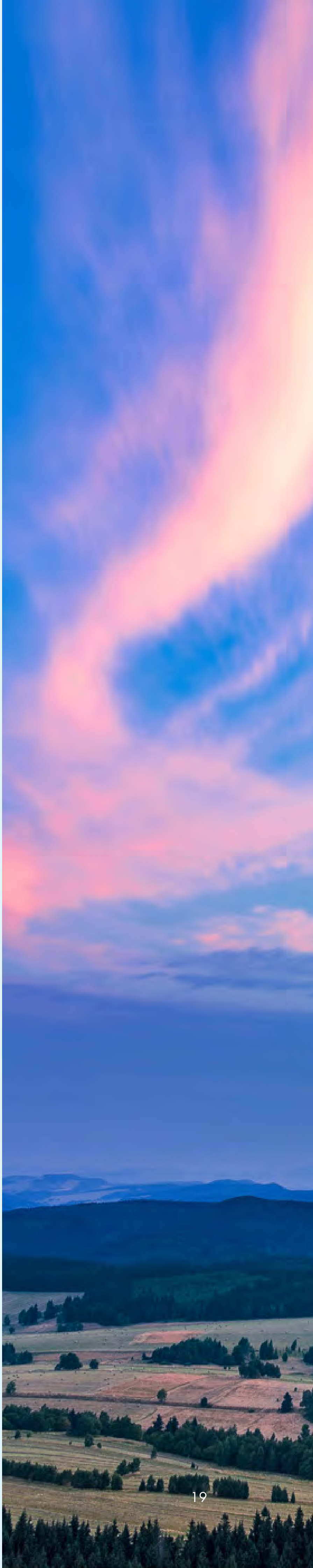
The goal is to continuously reduce the number of accidents in production. We measure Total Recordable Incident Rate (TRIR), which is calculated as the number of accidents where the employee has to seek medical attention multiplied with 200,000/number of hours worked.



RESPONSIBLE BUSINESS GOAL

Supplier code of contact





Employees are the hub of our operations

The employees at Munters are the hub of our operations. Our culture is based on engagement, trust and collaboration across boundaries. Through cooperation, a passion for continuous improvements and by creating sustainable solutions for our customers and partners we contribute to our customers' success and a better world.

The Munters Full Potential Program was implemented in 2019 to capture Munters' full potential and improve the Group's earnings. A new organizational structure was launched, where we went from four to two business areas. This created a simpler, more efficient and performance-oriented company. An internal survey conducted at the end of 2019 showed that a majority of employees are motivated and proud to work at Munters.

DIVERSITY AND INCLUSION

To drive our strategy forward, we have to continuously question the ways we are working to create leading technologies and new ways to get to the market. Munters has a mix of employees with different perspectives and backgrounds. This provides valuable insight and creates a dynamism that leads to innovative solutions and new ways of working.

Our goal is greater gender equality. In 2019, we surpassed the 2020 target of 23 percent female executives when we reached 25 percent (20). The management team consists of half women and half men. By 2025, Munters' goal is to increase the percentage of female employees and executives to 30 percent.

Whistleblower channel

Munters' employees can anonymously raise an alarm about serious improprieties in the workplace through an online whistleblower channel maintained by an independent service provider. In 2019, nine whistleblower cases were reported and addressed through the channel. See also page 52.

DEVELOPMENT AND CAREER PATHS

We support individual career paths for all our employees and encourage them to take on new challenges. Through performance reviews with an immediate supervisor, personal development plans are followed up each year. Our HR development process is updated and continuously improved. In 2019, a process was introduced to set clearer career, mobility and leadership goals.

Leadership abilities are a driver of growth

Leaders who motivate, inspire and build trust are critical to driving the business forward in an effective way. Together with employees, they set clear, individual goals that align with our strategic goals and are regularly monitored.

HEALTH AND WELL-BEING

Munters has various guidelines on the environment and occupational health and safety and promotes a work-life balance. We have zero tolerance for work-related accidents and the aim is to continuously improve safety at our work sites. We closely monitor the Total Recordable Incident Rate (TRIR), which is the ratio of accidents to the number of hours worked. For further information, see pages 30 and 54.

Since 2018, we encourage employees to work flexible schedules in order to maintain a work-life balance. This means, for example, that they work from home or take advantage of flexible hours. ■

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An internal survey conducted at the end of 2019 showed that a majority of employees are motivated and proud to work at Munters

Employees at Munters' head office in Kista.

Our values

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

HR focus and the road ahead

To support the new organizational structure, the HR team focused on the following in 2019:

- Developed the process for employee interviews
- Follow-up of the employee survey 2018
- Employee Referral Program was launched
- Inventory around our local bonus schemes
- Started to implement a global and standardized exit interview process

In 2020, we will continue working with the above points and also focus more on:

- Strengthen the Employer Brand and optimize current talent acquisition process to identify and attract the right people
- Optimize current people and leadership development process to create and maintain a global talent pool/pipeline and drive employee engagement
- Update our career framework and review current Rewards practices
- Define a Digital HR Strategy
- Strengthen the culture with a change, growth and knowledge transfer mindset
- Create a compliance/ workplace standards assessment that supports our people strategy
- Develop, lead and promote the organizations' sustainability initiatives related to Business Ethics, People & Society

Percentage of female employees

2019	2018	2017
21 %	**20%**	**18%**

Percentage of female executives

2019	2018	2017
25%	**20%**	**17%**

Interview with Peter Gisel Ekdahl

Peter has worked at Munters since 2007 and been a member of Group Management since 2011. For 12 years he has been responsible for what today is the business area FoodTech. In recent years, he has lived with his family in Imperia, Italy, near the Munters factory in Chiusavecchia. Since November 2019, he is President of Munters' largest business area AirTech.

What attracted you to the role of President of the AirTech business area?
AirTech is a business area with products and solutions that are strongly positioned in the global market, but which today is mainly a component and system supplier. Considering how the world and especially technology are developing, I see that the core business, dehumidification, can be improved. At the same time, I envision great opportunities for us to develop and broaden our offering to customers in terms of both components and solutions and services.

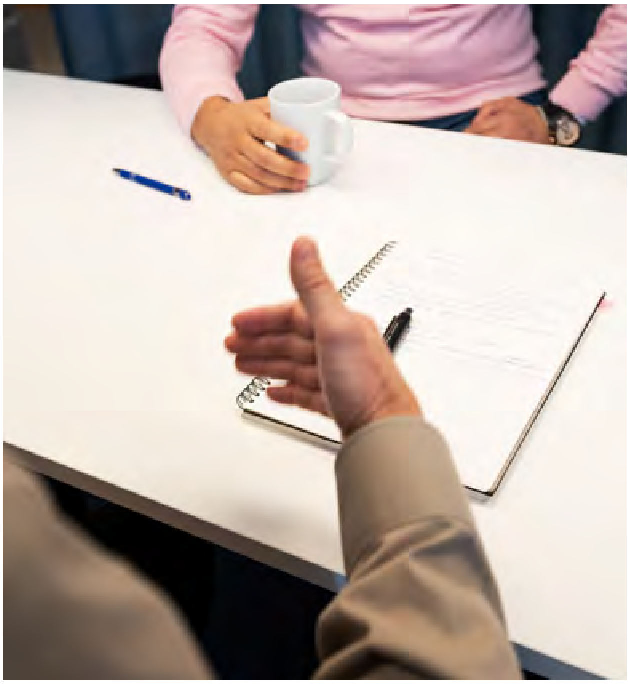
What is the most important thing you learned from your years at FoodTech that you are bringing with you to AirTech?
FoodTech has transitioned in recent years from a component supplier to a complete system supplier. The business area has connected products and also offers Software-as-a-Service (SaaS), which has created strong growth and a more dynamic business. This journey, what I would call a digitization journey, is one of the most important things I bring with me to AirTech.

What makes Munters a good employer?
There is an entrepreneurial spirit at Munters. We are constantly in movement, changing shape and developing as our employees drive the business forward. It is really enjoyable to work at Munters, which has great potential to continue to grow.

What have you focused on since you began at AirTech and what will you prioritize going forward?
Together with my team, I have been working on creating a clear vision, objectives and action plan for AirTech. We will now focus on the core business and closely related areas and strengthen them.

Becoming President of AirTech is a fantastic opportunity for me, and it is important to challenge yourself sometimes. This can mean taking on a new role, working in a new area or another region and creating change. Together with the management team, I will strengthen our business acumen and lift up our employees. There are fantastic opportunities at Munters. ■

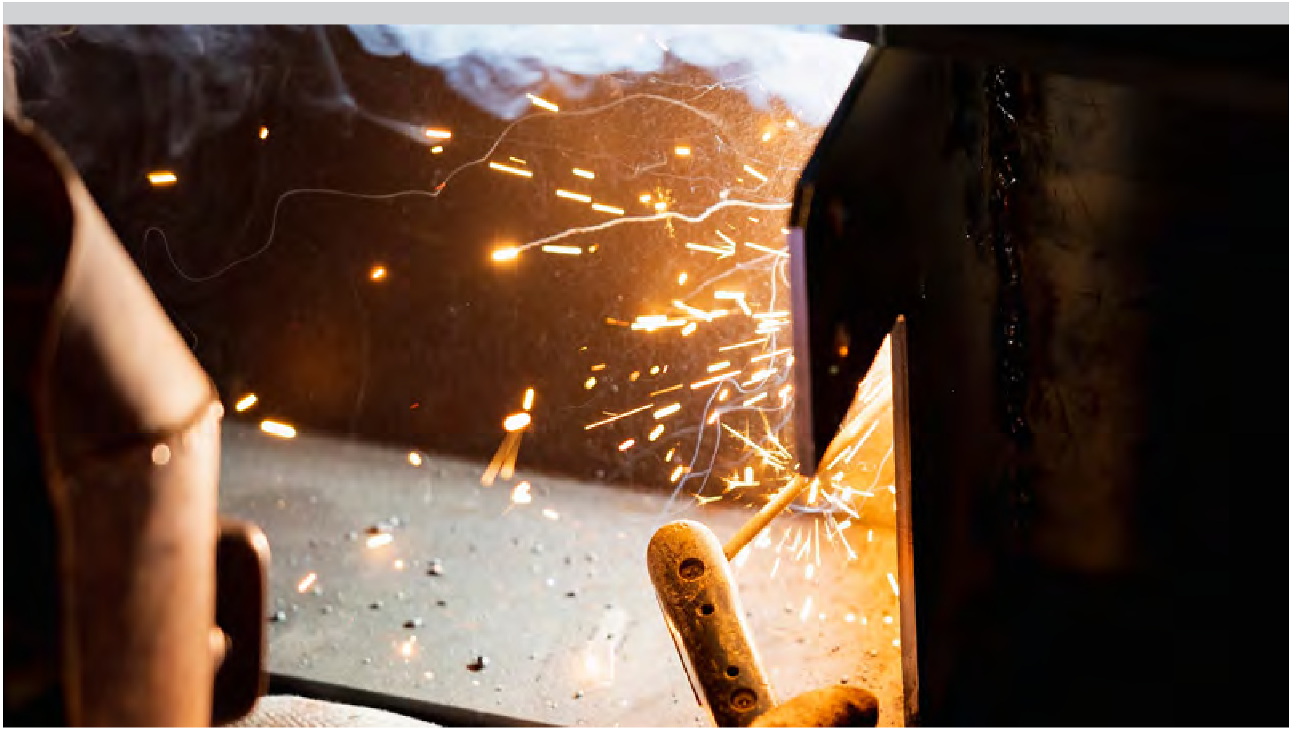
Satisfied employees despite a challenging year



An internal questionnaire that the employees answered to at the end of the year shows that most employees have great confidence in the company and its future, are motivated and proud to work for Munters.

With the Munters Full Potential program and the ongoing closure of the Dison factory, about 500 employees have left the company in 2019. Despite the large number of layoffs, the employees continue to give Munters high marks in most areas.

In response to what they think is unique or different with Munters as an employer, the three main things mentioned were: good employer, team spirit and positive work environment. Employees are particularly committed to Munters core values, which include sustainable value creation, passion for results, there is always a better way and team spirit. ■



1,000 days without workplace accidents

In 2019, Munters' production facility in Israel passed its 1000th day without a work-related accident. This is the longest time that a Munters production facility has been without an accident and shows that safety is a high priority. In fact, it is the most important issue in Munters' workplaces and is integrated in our culture. We work continuously to find better and safer ways for our employees to do their jobs. ■

Unique insight from close collaborations with our customers

Since the start, Munters has worked closely with customers. Over the years, we have built up a unique knowledge of the industries we supply with products and solutions. Today, we have expertise and a deep understanding of processes in many industries, where we can help customers to meet their climate control needs efficiently and sustainably.

Detailed knowledge of customers' applications and processes

The majority of Munters' products and solutions are available today in many countries. We are a global and at the same time local company. Our strategy is focused on developing a deep understanding of customers' needs and utilizing our broad knowledge of applications, technologies and components to deliver customized solutions.

Our sales team works closely with each customer's production engineers and research and development department to ensure that our solution meets their specific criteria and application demands and delivers high energy efficiency. The goal is to understand our customer's needs and processes better than they do themselves.

The insight we gain on customers' needs through these collaborations is utilized cost-effectively across the entire customer base. For example, mist elimination products and solutions are often based on a similar technology, and new insight gained in a product group or a specific customer's application can be introduced in other product groups or applications.

Meeting customers

In the business area AirTech, distribution is mainly through our local sales representatives in mature markets in Europe and in the US. An important success factor for us is our long history in the market and the applications know-how and experience of our marketing organization. Sales are also made to a lesser extent through distributors. OEM components for customers that use Munters' products and technology as part of their solutions account for a portion of sales. Munters serves the OEM industry mainly in growing markets such as direct evaporative cooling.

Sales in business area FoodTech are mainly through distributors in local markets. Software solutions are usually sold directly to food producers, and in some geographical markets and segments climate control products are also sold directly to the end customer.

Mission-critical processes

Munters' systems are used in many mission-critical applications and processes where precise control of humidity, temperature and other environmental parameters are critical to production safety, production quality and energy efficiency. At the same time, they usually represent a small percentage of the overall investment in a customer project, e.g., a production facility or a farm.

Services

Munters also has a growing service organization with service centers around the world. Services are an especially large area for AirTech and in 2019 accounted for 13 percent of net sales. Service, upgrades and product replacements offer growth potential with good profitability. Thanks to the local presence in many countries and our applications know-how, we maintain close relationships with customers and can offer a high standard of service and support for our installed base of products. Together with valuable upgrades, Munters can help to reduce energy consumption, ensure quality and environmental performance, and extend the service life of the products. ■

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Our strategy is focused on developing a deep understanding of customers' needs

Leader in key technological areas

Munters works continuously with new innovations and on improving products, so that we can supply our customers with smarter and more efficient climate solutions. The Group has a long history of pioneering discoveries, many patents and extensive applications know-how. We are proud that our climate solutions are contributing to energy-efficient businesses and a more sustainable world.

Mission-critical solutions

In developing the best climate solution for the customer, our goal is to understand their needs better than they do themselves. We have extensive knowledge of specific applications and access to unique technology that we have often developed ourselves. Coupled with our history of innovations, this enables us to create the most efficient solution for the customer, whether it mean a lithium battery production plant, wind turbine or greenhouse.

Munters' products and solutions are often used in mission-critical processes, where they create a perfect climate by precisely controlling temperature and moisture. If the climate control does not work, it can mean big problems for the customer. Climate control systems often represent a large percentage of the energy consumption for many businesses, and here we help them to more efficiently use energy and water resources through an optimal solution. Munters provides guaranteed climate control in our customers' processes, often with lower energy consumption and fewer emissions.

In 2019, Munters invested 3.8 percent (4.3) of net sales in research and development

Innovation

We have a long tradition of technological advances and innovations. Munters has a leading position in our key technological areas.

In the last year, we focused on the further development of SyCool, technologies for low dew points, extending the service life and performance of our evaporative cooling products, and improvements to overall energy efficiency. We also began establishing global product platforms in order to provide the same high-performance products and consistent execution in every region. We stay updated on and experiment with potentially disruptive technologies as part of our daily work.

Key areas of innovation

Close collaboration between teams from Munters and our customers increases the precision and enhances the efficiency of our innovation work.

Research, sales and production work closely together so that we are better able to develop products that meet specific customer needs. As a result, new technologies and insights can be quickly introduced in more product groups and applications.

Our basic technologies include:

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

In addition to these basic technologies, Munters has been developing software for many years that enables our technicians and partners to quickly configure optimal solutions.

Innovation based on customer needs

Our research and product development is steered by changing customer needs as well as our knowledge and Munters' position in various areas of application. Each business area is responsible for research and development in their respective product areas, with technology centers close to customers.

We all share the Munters Product Development Model (MPDM), a multidisciplinary model with clear control points. With this model, the development process is based on individual creativity, disciplined innovation and direct insight into customers' needs.

Product launches

One of the key product launches during the year was a new, innovative control platform, AirC, which will make systems from Munters more intuitive, more efficient and better connected – and ensure that all products have the latest functionality over time. The proprietary AirC control system helps customers to optimize energy consumption and allows service and system updates through remote access.

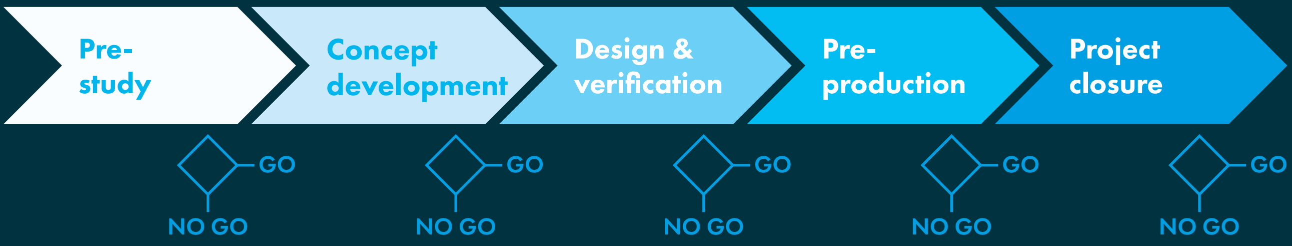
Among other product launches were a new generation of control systems for our DryCool products and new components and updates for dehumidifiers in the MX series, to extend their service life when electricity and control systems are replaced with the latest technologies.

Innovation portfolio

We work with an innovation portfolio where several activities are underway at the same time to maximize results and minimize the time spent in research and development. The activities are:

- Research, where we develop new knowledge that can be used for new innovations
- Technological development, where we develop new systems that can be integrated in the Group's products
- Product development, where we develop new products and climate solutions
- Further development, how we maintain and update installed products

Munters' product development modell



1. Feasibility study
The feasibility study describes and analyzes a new product in terms of market potential, how it fits strategically in Munters' offering, commercial potential, technical requirements, feasibility and risks.

2. Concept development
Concept development is the beginning of the product development project. All the technical and commercial requirements are translated to a product specification. The goal is to develop and document a conceptual solution that fulfills the specification.

3. Design & verification
The goal of the design and verification stage is to optimize the product design in order to meet the specification and to create the complete documentation needed to manufacture the product.

4. Test production
The goal of the test production stage is to finalize installation of sourced components, finalize the production methods and validate the processes. Manuals and launch plans are prepared simultaneously.

5. Conclusion of the project
PThe project officially concludes when the project team has completed the agreed activities and finalized the project report. The commercial follow-up is done outside the product development project.

We are a global company with a strong local presence

Munters is benefitting from a number of global factors that are creating growth opportunities in our markets and segments. One general trend is the growing demand for sustainable products and improved energy efficiency around the world.

Market trends

Munters is a leading supplier of climate control solutions in its most important markets. The need for production efficiency and high quality requirements are strong reasons for the growing demand. Other factors that are spurring the market's growth are population growth, GDP growth, industrialization and rising standards of living, which together are driving growth in Munters' markets.

The market is undergoing consolidation with a few global actors. Growth has historically been stable in most customer segments, and the market is expected to continue to grow. Munters is strongly focused on energy-efficient climate systems that can reduce electricity and water consumption and contribute to sustainable production environments.

With strong technology and solid applications expertise, Munters is well positioned to help industrial and commercial customers with turnkey climate- and energy-related solutions. Continuous development of new applications and competencies provides good opportunities for growth.

Local presence

The most important countries with the largest share of Munters' sales are the US, China and Germany.

The company has 18 production facilities and sales and manufacturing in over 30 countries. In September 2019, a decision was made to close the production facility in Dison, Belgium. During 2019 the number of production units where 18 but will consequently drop in 2020. In addition, Munters four assembly plants in four countries. Staying close to local customers reduces lead times and shortens logistics flows. Munters also has sales offices in a number of countries such as Australia. The head office is based in Kista, just outside Stockholm, where the Nordic sales office is also based.

Offering

Munters works continuously to evaluate and improve its offering. This means that the product portfolio changes depending on research and development and the service offering. Today, Munters has several products and solutions that are adapted to local markets and customers. We see that future products and solutions will be more uniform, driven by a focus on modularization and by the trends toward digitization and globalization.

Acquisitions and partnerships

An important part of the growth strategy is to acquire local companies that strengthen Munters' local presence or offering. In recent years, Munters has acquired several companies; see pages 12-13.

Partnerships with universities, for example, are important to Munters' strategy to strengthen its local presence and drive innovation forward. ■

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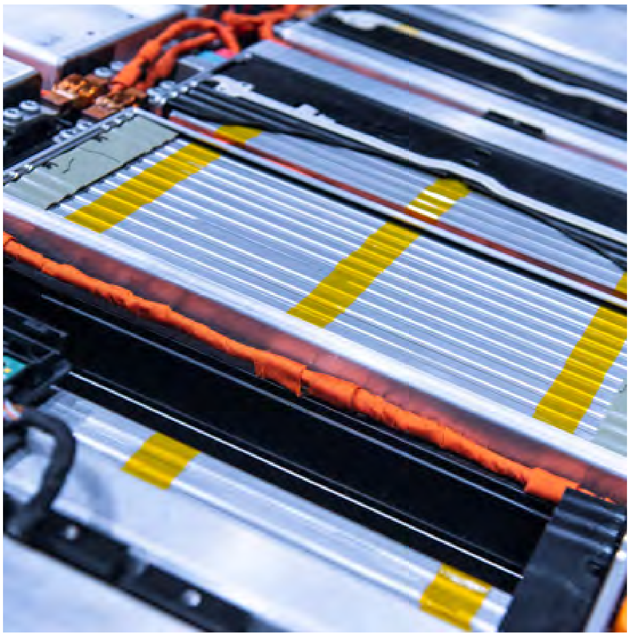
Climate systems are mission-critical to the production of high-quality lithium-ion batteries

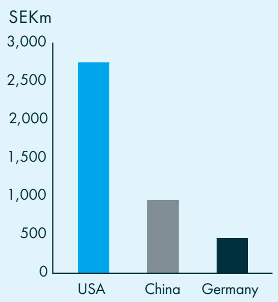


Evaporative cooling pads is an important part of Munters offering.

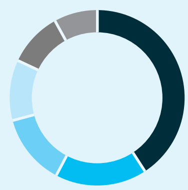
Net sales by region

- Americas 43 %
- EMEA 36 %
- APAC 21 %

Net sales, largest countries

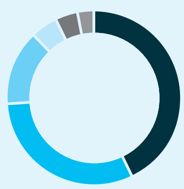


AirTech's most important segments



- Industry 41 %
- Service 17 %
- Data Centers 13 %
- Components 15 %
- Mist Elimination 10 %
- Commercial 10 %

FoodTech's most important segments



- Poultry 43 %
- Swine 31 %
- Eggs 14 %
- Greenhouses 5 %
- Dairy 4 %
- Other 3 %

Continuous improvements in every area

Munters aspires to efficiency and quality in everything we do. Our Group-wide processes and work follow lean principles. This enables us to satisfy customers in terms of safety, quality, delivery performance, cost efficiency and sustainability at every step. Our goal is to build a world-class production and supply chain.

We routinely evaluate our supplier chain to ensure that we are staying close to customers. This facilitates the development, design and sales process, while simplifying adaptations and service and reducing lead times. At the same time, it means lower logistics costs and less impact on the environment and climate.

In 2019, we had production at 18 plants and four facilities for final assembly and customization around the world. In general, our facilities in the US and Europe specialize in products for one of Munters' business areas, while facilities in other parts of the world manufacture and assemble products for more than one business area. In 2019, a decision was made to close the production facility in Dison, Belgium.

The environment, health and safety are priorities. To this end, we use a systematic risk evaluation in our production units to reduce environmental impacts and increase the focus on health and safety. Our production structure is continuously adjusted based on changing market conditions.

The majority of Munters' plants are certified under the ISO 9001 system and five facilities are also certified under the ISO 14001 environmental management system.

Continuous improvements

At Munters, we continuously improve how we work in every area. The Munters Production System (MPS), which is based on lean principles, is being applied in our production processes. The goal is that all units will apply MPS by the end of 2021.

In 2019, Munters invested a total of about SEK 60 million (100) to improve production efficiency.

Sustainability in production

We work with a systematic risk evaluation of our production units to preventively reduce environmental impacts while increasing the focus on health and safety. Other areas covered by the risk evaluation include fire safety, waste and chemical management, and an overhaul of electrical installations. All units are assessed on a rolling three-year schedule. In 2019, risk evaluations were conducted at nine manufacturing plants.

Workplace accidents

Munters has a Vision Zero plan concerning serious workplace accidents, and reducing the number of accidents is one of our top priorities. Systematic health and safety work is part of the Munters MPS system, which includes incident reporting, continuous inspections and risk mitigation. The goal is to continuously reduce the number of workplace accidents by being proactive. In 2019, the Total Recordable Incident Rate (TRIR) (calculated as the number of accidents where the employee sought medical treatment multiplied by 200,000 and divided by the number of hours worked) was 2.9, down from 3.4 in 2018. Safety work remains a high priority and we are working hard to reduce the number of accidents. All accidents are immediately reported to Group Management and each individual case is followed up by the head of Global Operations, who ensures that the causes are analyzed and measures are taken locally.

A STRONG SUPPLY CHAIN

Our supplier network is valuable to us and is built on mutual trust and many years of partnership. Munters sources goods and services from around 2,000 suppliers in 29 countries. A global sourcing organization coordinates procurement in order to increase standardization and consolidate sourcing volumes to fewer suppliers. At the same time, sourcing is becoming more regional, a trend driven by increased protectionism and new trade barriers.

Direct material represents about two thirds of a typical component manufactured by Munters. We place strict requirements on quality, efficiency and sustainability. Together with our suppliers, we find new technical solutions that reduce costs. A large part of the sourcing volume is negotiated annually, but we are trying to increase the proportion of multi-year agreements to secure deliveries, shorten lead times, and ensure quality and stable price levels.

The 25 largest direct material suppliers by volume represented 29 per cent of the total sourcing volume in 2019. The goal set in 2018 for the period 2019–2021 is to cut the number of direct material suppliers in half. In 2019, the number of suppliers decreased by 15 percent (8).

Trade barriers

Trade conflicts, above all between the US and China, continued in 2019, and tariffs on steel, aluminum and other raw materials increased production costs in both the US and China.

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

RESPONSIBLE SOURCING

All suppliers are expected to comply with Munters' ethical guidelines. In 2019, 92 percent (66) of our suppliers, representing about 80 percent (80) 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. The goal in 2020 is that all suppliers will have signed the Group's Code of Conduct.

Compliance with the Code of Conduct is monitored through visits and audits by Munters or a third party. In 2019, audits were conducted in every region. If the supplier does not meet the requirements, an action plan is drawn up. If the schedule is not followed, the relationship will be terminated.

SOURCED RAW MATERIALS

Direct material represents about two thirds of the total cost of a product – and raw materials accounted for 30 percent of that. Copper, the most important raw material, is part of electronic components and fan motors. Munters has tools that the Group uses to minimize the impact of price fluctuations.

Energy consumption in production processes

The climate impact from our manufacturing facilities mainly comes from heating for heating, ventilation, cooling and production processes. We are working actively to improve efficiency in our production processes through increased availability and with new, energy efficient production equipment, as well as by utilizing waste energy and installing LED lighting and sensors. We also looking at ways to increase renewable energy sources. More manufacturing plants switched electricity suppliers in 2019 and three now buy only renewable electricity.

The goal is to continuously reduce energy consumption and make the plants and processes more efficient. We monitor energy efficiency by comparing electricity consumption to production value. In 2019, the ratio was 1.05 percent (1.11). Renewable energy accounted for 40 percent (31) of the electricity used by our production facilities.

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The Munters Production System (MPS) is based on Lean principles. The goal is that all units will apply MPS by the end of 2021

Employees at Munters' head office in Kista.

Waste from our production facilities

We are working to continuously reduce waste from our manufacturing plants and increase recycling rates. A linchpin in this work is continuous quality improvement, which reduces spillage and saves on costs and the environment.

In 2019, the recycling rate was 53 percent (60). The goal is to reduce the percentage of waste that cannot be reused or recycled.

Water consumption

Lower water consumption and water treatment in our production processes are an important contribution to reducing environmental impacts. We separate both chemicals and particles in the wastewater from our plants. Our goal is to gradually reduce water consumption in the plants and processes.

SUSTAINABLE TRANSPORTATION ALL THE WAY

In 2019, we continued our efforts to find cost-efficient and sustainable logistics solutions that shorten lead times, while reducing climate and environmental impacts from transports throughout the entire chain – from suppliers to our facilities, distribution centers and out to the customer. We are just beginning this work, where we see great opportunities for improvement. A stable production flow provides the possibility of coordinating transports, and a better process and control reduce the need for shipments by air.

We actively select suppliers that offer sustainable transport solutions and switch from road and air shipments to ships and trains where possible. ■

Successful improvements in the Monterrey plant

The Munters manufacturing plant in Monterrey, Mexico produces evaporative cooling pads under the Glasdek brand name, which are mainly exported to the US market. The production facility had previously had problems with long lead times, products that did not meet customers' expectations, weak financial results and high employee turnover. A new management team and motivated employees have, through systematic improvements, created efficiency and stability in the plant. The previous production problems have now been alleviated and deliveries of evaporative cooling pads are working well.

The improvement work incorporated the Munters Production System (MPS), which is largely based on lean principles. The aim is to improve safety, quality, delivery performance and efficiency. The key to the successful turnaround was management's communication with employees to build awareness of the problems that the plant had. This created the motivation to change, and a winning culture began to take hold.

The employees embraced the challenge to do things the right way and trust management's new initiatives. One of the changes at the plant was to base decisions on facts, not on old routines and feelings. Management provided the employees operating data, information and guidance. Much of the time was spent understanding the fundamental reasons for the problems, so that lasting production changes could be made and to avoid a regression to old habits.

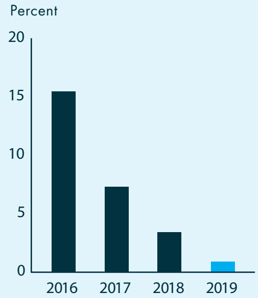
Every morning, there is a dialogue where employees can review their production results and also receive support from management. A so-called Gemba Walk based on lean principles has been implemented to bring management closer to employees and get a better overview of the work.

On Fridays, a meeting is held where the key performance indicators (KPIs) are announced and the person responsible for each KPI can receive support from the whole team if needed. As a result, performance indicators have improved significantly. For example, employee turnover has dropped dramatically, from 15.5 percent in 2016 to 0.9 percent in 2019. The work has also resulted in a major reduction in energy consumption and waste despite a higher production volume.

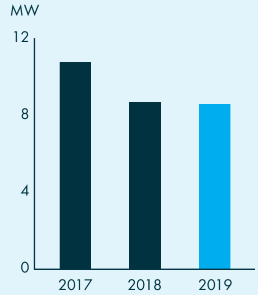
As a sustainability initiative, the plant has also switched from distribution by trucks to greater use of rail transports. In addition to increasing quality and delivery performance in our Monterey plant, the successful improvements have substantially reduced the total carbon footprint.

Morning meeting with employees to review the production results.

Employee turnover



Electricity consumption




Monterrey, Mexiko

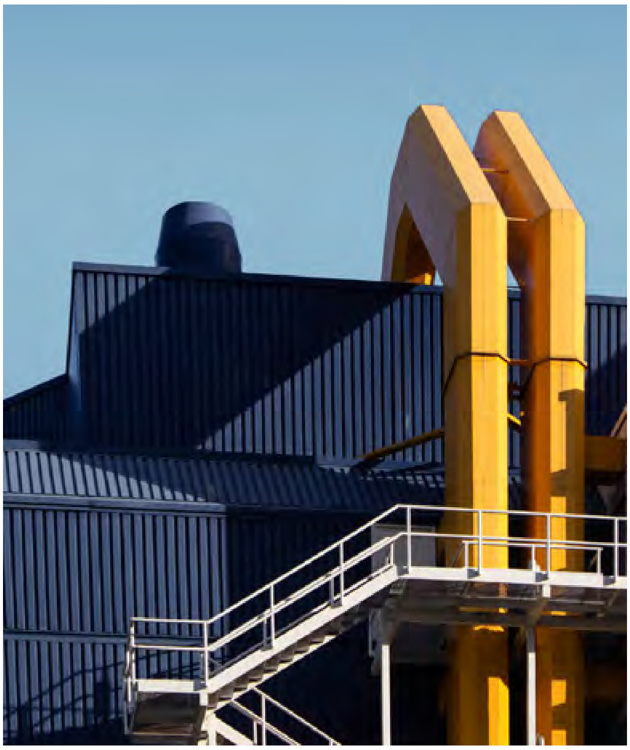
Interconnected processes and information flows increase efficiency

Munters' strategy for increased efficiency in the processes includes working with "Best practices" where we are inspired by the prime examples in each individual area, and work in accordance with leading Lean-principles throughout the value chain. In order to achieve efficiency and quality in everything we do, it is necessary to ensure that our processes - from "order--to-cash", are linked throughout the whole value chain.

In 2019, an analysis was made of the internal processes, both functional and operational. The conclusion is that we need to develop and strengthen our ways of working to build a world-class value-chain and processes. A project has been initiated that is run in accordance with Lean principles and is based on "Best practices" to increase efficiency. Thereby we can ensure scalability in the business and that increased investments will generate profitable cash-generating growth in the future.

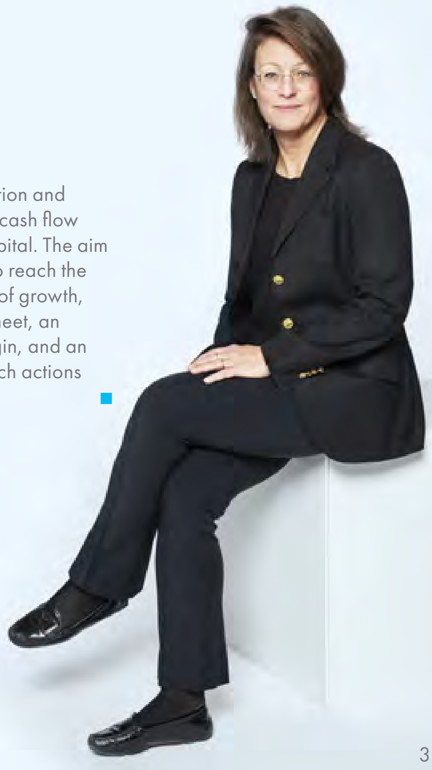
Examples of processes included in the project:

- Research and development
- Product management
- Sales-to-order
- Sourcing
- Order-to-delivery
- Delivery-to-reorder
- Finance
- Human resources



BRIEF INTERVIEW: ANNETTE KUMLIEN, GROUP VICE PRESIDENT AND CFO

Munters is a global company with a strong local presence in many markets and through our performance management we ensure that the entire organization is on the way towards the same objectives. We work continuously and uniformly with government and follow-up of the business. To achieve efficiency and quality in everything we do, we have to work with every step in our value chain from orderto-cash. Our ambition is to continuously improve how we go to market and work with our customers, at the same time that our products and solutions have to be optimized and meet customers' expectations. In 2020, we will focus on among other things to drive projects to strengthen our processes, skills development, innovation and a continued focus on cash flow including working capital. The aim of all our projects is to reach the medium-term targets of growth, a stronger balance sheet, an improved EBITA margin, and an understanding of which actions will get us there.



Our business areas

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

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

Climate solutions for mission-critical processes

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

Important events 2019

- In January 2019, the former business area AirTreatment changed its name to AirTech. The former business areas Data Centers and Mist Elimination were integrated in AirTech
- Peter Gisel-Ekdahl was appointed President of AirTech as of November 1, 2019
- A new, innovative control platform, AirC, was launched.
- The company decided to close the production facility in Dison, Belgium
- Decision to retain Mist Elimination and Data Centers US thanks to good opportunities for value creation

Order intake

Order intake for 2019 increased by 14 percent and by 8 percent organically, mainly driven by a strong increase in the order intake for climate solutions in Data Center US, Mist Elimination and an increase in Services. Order intake was weaker in the Supermarket segment in the US, and we also saw lower demand from the lithium battery industry in China. The EMEA region reported stronger orders, driven by positive development in Mist Elimination and Services.

Net sales

Net sales for the year increased, driven by a strong sales increase in Data Centers US, Mist Elimination and good growth in Services. The industrial and commercial segments posted net sales for the full-year in line with 2018. Component deliveries to OEMs decreased due to lower demand from the lithium battery industry in China.

Operating profit

Operating profit was SEKm 565 (503). The improvement was a result of higher net sales and a higher utilization rate, together with a changed product mix and lower indirect costs from the FPP program.

Trends and drivers

The market is driven by global factors such as population and GDP growth, industrialization, digitization and an increased standard of living. Global data traffic is increasing rapidly and society is becoming more dependent on IT. These factors are leading to greater pressure on our environment and a strong focus on energy efficiency, as well as stricter requirements on sustainability and quality. Demand for advanced air treatment is also supported by regulations and industry standards, which are leading to more stringent environmental requirements.

The global market for energy-efficient air treatment is characterized by a large number of firms, many of them local. A consolidation has been underway for several years. Growth has historically been stable and the market is expected to continue to grow.

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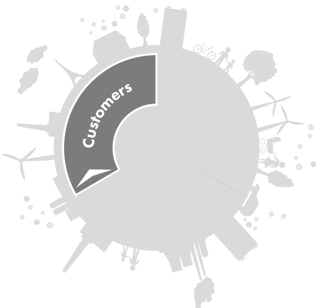
Munters enables about half of the world's battery production for electric cars



Customers

With its strong technology and unique applications know-how, Munters is well positioned to help new and existing customers with complete climate solutions. Continuous dialogue with our customers and development of new applications and skills give us a strong base for further growth.

Munters' priority customer segments within AirTech are data centers, the food industry, lithium-ion battery manufacturers, the marine segment, the power and processing industries, and supermarkets and shopping centers.

Approximately 11 percent of AirTech's sales relate to components sold to distributors or OEM customers that use Munters products and technologies as part of their solutions. Munters targets the OEM industry in markets such as lithium-ion battery manufacturing, pollution control and direct evaporative cooling.

Innovation

At AirTech, it is important that our application experts team up with the customers' process owners to find an optimal solution. In this way, Munters can offer an optimized and innovative solution that fills a number of different climate control functions. We combine various technologies and components that we have developed and customize solutions that are optimized based on the customer's specifications and needs.

We are seeing increased interest in real-time data collection and climate data analysis and are therefore developing connected digital solutions that provide performance analysis and remote monitoring for our product portfolio. In addition, advanced IoT (Internet of Things) solutions are contributing to higher productivity and energy efficiency. In 2019, we further strengthened our product portfolio through the launch of AirC (see also page 40).

Market

Munters offers climate solutions for mission-critical processes that require exact control of moisture and temperature to several different industries. Our focus on efficient solutions that can reduce the customer's electricity consumption and hazardous emissions, and that contribute to sustainable production environments, is in demand from the electronics industry – e.g., companies that produce lithium-ion batteries, displays, etc. – retailers, schools, offices, restaurants, the pharmaceutical industry, data centers, the power industry, the shipbuilding and marine industry, and the defense industry. AirTech has 13 production facilities in 13 countries and assembly plants in eight countries. In 2019, a decision

Net sales, SEK million

5,159

Female executives

26 %

Operating profit, SEK million

565

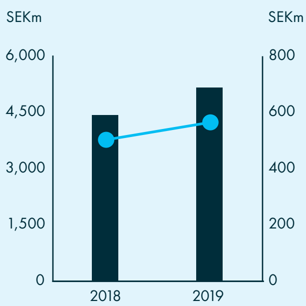
Number of employees, Munters AirTech

2,184

Markets

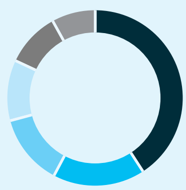
- Americas 47%
- EMEA 33 %
- APAC 20 %

Net sales and Operating profit



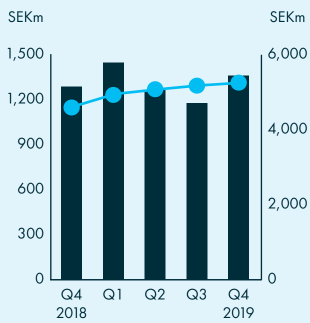
- Net sales
- Operating profit

Sub-segments



- Industri 41 %
- Service 17%
- Data Center 13 %
- Komponenter 11 %
- Mist Elimination 10 %
- Kommersiella 8 %

Order intake, rolling 12 months



- Order intake, per quarter
- Order intake, 12 months rolling

was made to close the production facility in Dison, Belgium. This means that as of 2020 there is no production of customized products and systems for Data Center customers in Europe.

The total number of employees at year-and was 2,184, the majority of whom are based in the US, China and Sweden.

Extending the service life of our products

Munters has an extensive global service network with its own local service centers around the world. Thanks to this local presence, we maintain close relationships with our customers and can quickly offer service for the installed base.

Our service and support offering is a valuable product upgrade. They lead to lower energy consumption and consistent quality and environmental performance, while extending the service life of our products. Our service offering consists of eight categories: installation, commissioning and startup, performance testing and inspections, repairs and reconditioning, upgrades and retrofits, spare parts, training, and Munters Flex Rental.

Services accounted for a total of 13 percent of Munters' total net sales in 2019. We have an ambition to grow Services share of net sales going forward.

Data Centers and Mist Elimination are part of AirTech since 2019

Since January 1, 2019, the former business areas Data Centers and Mist Elimination are part of AirTech.

Data Centers offers climate systems for large and medium-sized data centers where capacity, reliability and availability are mission-critical. The range of products and solutions comprises a number of key technologies, including Munters' EPX Polymer heat exchanger, GlasDek evaporative media and dehumidification through sorption rotors.

Mist Elimination's product range consists of a number of vane-type mist eliminators, which are mainly used in emission scrubbing applications and to protect equipment downstream from the air intake. Munters also offers solutions for mist elimination as well as mechanical separation and mass transfer used in refineries and chemical factories.

An evaluation of various strategic alternatives for Data Centers and Mist Elimination in 2019 resulted in a decision to retain the businesses within Munters. Both businesses made significant improvements during the year. In view of our strategic direction, we see great potential to create further value going forward, and both businesses fit well in Munters, since they serve markets with good growth potential, driven by digitization and high demand for sustainable solutions. ■

Sustainability through renovation and upgrade

The Belgian company Niko NV is an expert in beautiful and well-designed, intuitive and user-friendly controls for buildings. It supplies more than 5,000 different products and solutions for switches and sockets, door communication systems, lighting control and home automation systems. The company has offices in Europe and an extensive network of agents and distributors. Niko is committed to controlling and minimizing the environmental impact of its manufacturing facilities, and measures are taken to reduce energy consumption and the climate impact.

In the production facility in Belgium, Munters' MDS1500 dehumidifiers provide dry air to optimize the drying process for galvanized tiles after they are removed from a zinc bath. The MDS unit, which has been in operation since the 1990s, has an airflow of 15,000 m^3 per hour and operates continuously, 12 hours a day, five days a week.

During an annual service visit by Munters Global Services in Belgium, it was concluded that a renovation and upgrade of the MDS unit would lead to improved dehumidification capacity and significant energy savings. Since the capacity of the rotor had declined significantly after many years of daily use, the drying time for the galvanized tiles was no longer optimal. By replacing the rotor and restoring the original unit's performance, the drying time could be shortened substantially.

Niko NV agreed with the proposal and the renovation and upgrades led to significantly shorter drying times, more precise control and energy savings that produced a return on investment (ROI) in just 20 months.

The MDS dehumidifier was also equipped with a coil to preheat the airflow used for regeneration of the rotor. Since Niko NV has access to 50°C hot water from cooling compressors, which had previously been treated as wastewater, it was possible to begin using this hot water in the regeneration cycle.

The renovation also included a complete update of key components. Lastly, Munters updated the dehumidifier's control system to a new Climatix control, which is integrated with Niko's building management system. The upgrade provides a better working control system that can handle the extra energy-saving components, such as flushing and the pre-heater.

The renovated MDS unit is expected to deliver a perfect climate in the production facility for many years to come. ■

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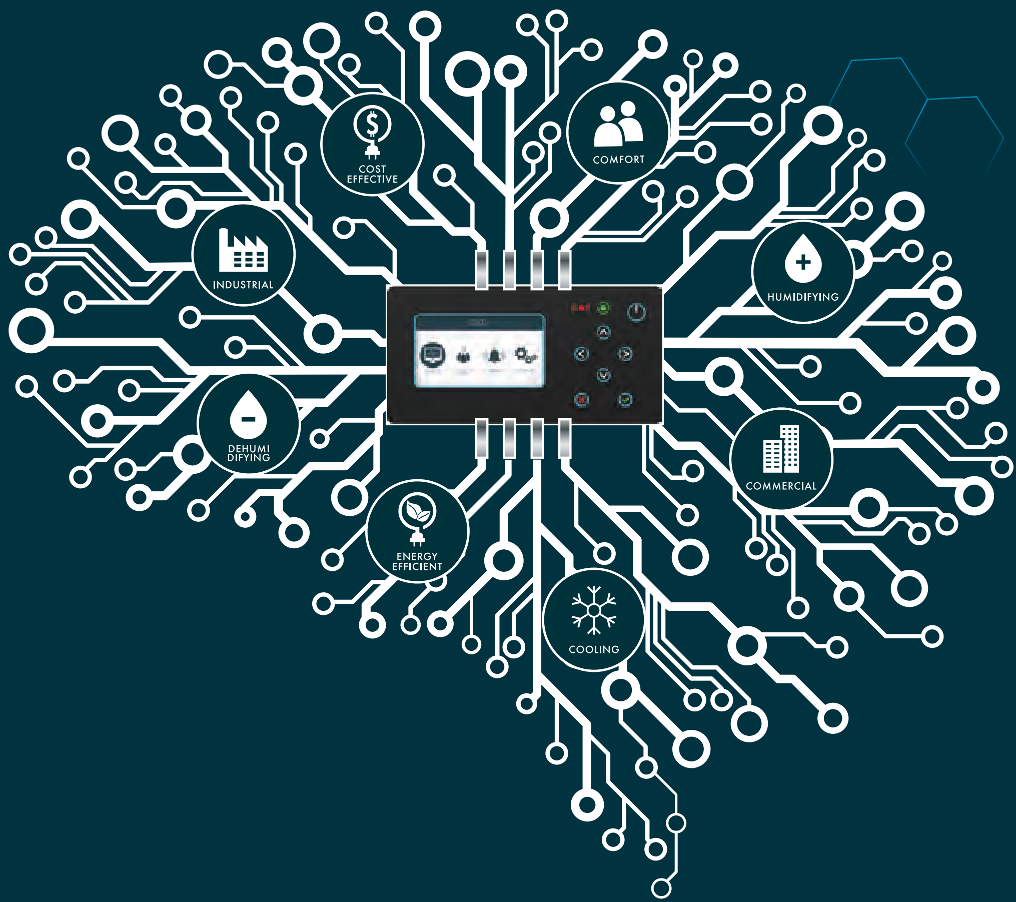
Niko is committed to controlling and minimizing the environmental impact of its manufacturing facilities



AirC improves the customer experience and increases functionality

In 2019, Munters launched a new, innovative control platform named AirC. The platform will make systems from Munters more intuitive and efficient and better connected – and ensure that all products will have the latest functionality over time.

The new AirC control system will improve how our equipment works. Munters' long experience and technological know-how have been built into this customized, proprietary control system, which helps customers to optimize energy consumption and allows service and system updates through remote access.

The smart to digital display is user-friendly, which gives operators access to everything from system status to moisture controls. The full-color display can be adapted to show the data that are most important to the user and improve the customer experience.

Behind the display, the hardware has become much more advanced. Thanks to the sophisticated design, more internal sensors can be connected to AirC, further increasing the level of available information and giving customers access to new functionality – even though the physical product is unchanged. The software in AirC can also be used to fully automate systems and ensure that they operate at optimal efficiency round the clock. This means that companies can spend less time on maintenance and save energy as well.

»

The AirC control system makes systems from Munters more intuitive and efficient and better connected

Energy-efficient battery production

Highly efficient lithium-ion battery manufacturer
Burstcap Technology Co. Ltd is a high-tech company founded in 2018 and located in Ningbo, China, which specializes in the research and development, production and sales of highly efficient lithium-ion batteries, battery cells and energy storage systems. The company has its own battery platform and an annual production capacity of 35 million highly efficient batteries.

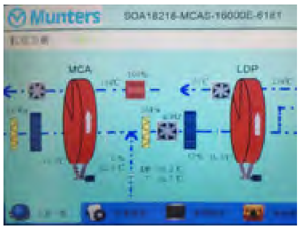
Stable and controlled humidity is necessary to produce lithium-ion batteries and affects the batteries' quality and performance. Burstcap's production takes place in a specially designed facility with a dew point below -40°C and intake air below -60°C. Energy consumption and production costs can be high, since electricity is the only energy source permitted in the factory.

Burstcap selected Munters' dehumidification system with rotors, which is based on 60 years of technological innovation and extensive global application experience, and is specially designed for manufacturing conditions that require low temperature and very humidity. Munters' dehumidifiers can handle very low dew points, at the same time that they consume up to 40 percent less energy compared with other technology.

With Munters' climate solution, Burstcap can precisely control the humidity level in the dry production area as needed, and according to operating data the company has cut its energy costs by more than 30 percent per year.

"We listened carefully to Munters' presentation of its products' energy-saving technology and ability to maintain a low dew point, which are very important to us, since we have high demands when it comes to humidity control and low energy consumption. From planning in the factory, project scheduling, simulation experiments and eventually customer training, Munters has shown great professionalism, and we are very pleased with the operating inspection," says production manager Dr. Yang Bin.

The two sets of Munters dehumidifiers have maintained a dewpoint in the dry production facility below -40°C with stable operations for more than six months without a stoppage, as the customer required. Munters' product quality, reliability and performance are critical to Burstcap's battery cell research and production processes. ■



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With Munters' climate solution, Burstcap can cut its energy costs by more than 30 percent per year

Innovative climate systems for livestock farming and greenhouses

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

Important events 2019

- In January 2019, the former business area AgHort changed its name to FoodTech
- Market conditions were uncertain during the year due to African swine fever and the effects of trade tariffs
- Positive development for our software solutions and digital offering within Software as a Service (SaaS), which represents an exciting growth area

Order intake

Order intake decreased by -1 percent in 2019 and by -6 percent organically. This was mainly driven by weaker demand from the swine segment in China and the US as a consequence of overcapacity in the US swine market as well as uncertainties related to new trade tariffs and ASF. Order intake increased in Europe and the Middle East, partly due to increased sales of controllers and strong demand in the CIS countries.

Net sales

Net sales for the full-year increased by 1 percent and decreased by -5 percent organically with a decrease in net sales in China and the US after a weak order intake in the first nine months of 2019. Net sales were slightly more positive than the order intake for the year, since part of the order intake growth in 2018 included Software as a Service (SaaS) contracts recognized over several years.

Operating profit

Operating profit was SEKm 226 (244). A decrease in indirect costs led to an improved gross margin and operational improvements. Investments in the digital offering (SaaS) and weaker sales in the high-margin US market had a negative effect on operating profit.

Trends and drivers

Demand within FoodTech's various customer segments is partly driven by population and GDP growth and partly by increased consumption of animal and plant based protein. Growth in the customer segments is contributing to higher demand for advanced climate control systems that ensure increased energy efficiency and lower emissions. It is also being driven by demand for less use of antibiotics in livestock farming from both regulators and consumers.

Increased traceability of food is a rapidly growing need that is leading to increased demand for data collection and analysis throughout the 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 optimize the entire production chain from feed to finished product.

»

The food consumed in one of every seven meals around the world is produced in facilities with Munters' climate control

Customers

FoodTech offers complete systems for controlling the environment in stalls, including equipment for ventilation, cooling and heating, as well as various types of control systems and software. Our offering is built on long experience and innovative products that are reliable and sustainable.

Efficient climate control is one of the most important factors for profitable, sustainable production. Both international companies and independent growers are among our customers. Thanks to technology from the subsidiary MTech Systems, FoodTech 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 in local markets. Software solutions are most often sold directly to food producers. In some geographical markets and segments, climate control products are also sold directly to the end customer.

Innovation

FoodTech offers equipment for ventilation, cooling and heating, as well as the various types of control systems. The product portfolio also includes software. To stay on the forefront of product development, we collaborate with and customers and resellers. Through these collaborations, we can optimize our product development process and customize units with regard to moisture content, temperatures, emissions and energy consumption.

We are seeing great interest in real-time data collection and analysis from our customers. Looking ahead, we see more opportunities to improve energy efficiency by optimizing these systems. Digitized processes are, and will remain, an important factor to optimize production, increase integration between various actors, and strengthen the food production value chain.

Munters is currently a world leader in the software used by food producers to plan, control and optimize their entire production chain from feed to finished product. There is great interest and potential for these internet-based solutions, but competition is stiff and requires continued investments and improvements.

Net sales, SEK million

2,032

Female executives

21 %

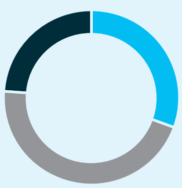
Operating profit, SEK million

226

Number of employees, Munters FoodTech

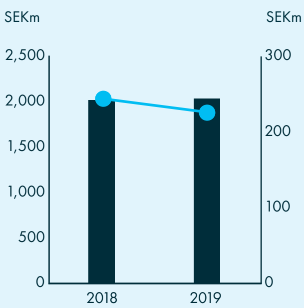
833

Markets



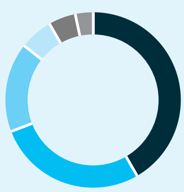
- Americas 31 %
- EMEA 46 %
- APAC 24 %

Net sales and Operating profit



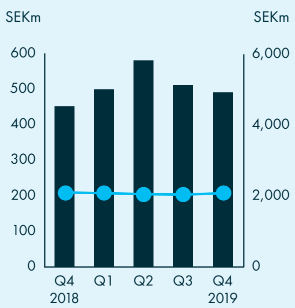
- Net sales
- Operating profit

Sub-segments



- Poultry 41 %
- Swine 27%
- Eggs 16 %
- MTech 6 %
- Greenhouses 5 %
- Dairy 3 %

Order intake, rolling 12 months



- Order intake, per quarter
- Order intake, rolling 12 months

Market
FoodTech is one of the world's leading suppliers of advanced climate control for various agricultural segments, with a strong position in the layer and broiler markets in the US and Europe. FoodTech is also one of the leaders in the swine farming market, with a strong position in the US and growing sales in China. In 2019, China and other parts of the world suffered from the air-borne African swine fever, which led to a dramatic drop in swine production. The Chinese market is shifting from smaller farms without climate control equipment to larger farms with advanced technology. FoodTech is also active in the dairy and greenhouse segments.

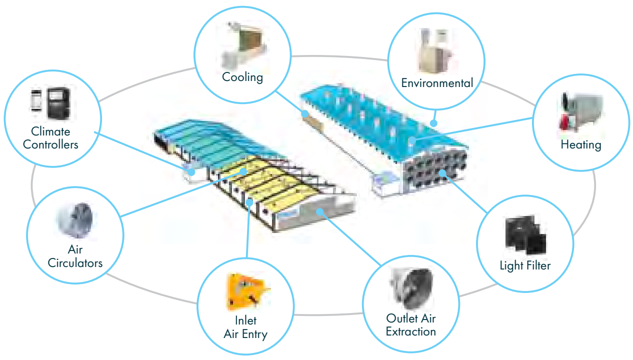
FoodTech has two production facilities in two countries and assembly plants in two countries. The total number of employees at year-and was 833, the majority of whom are based in Italy, the US and China.

From farm to table

In early 2017, Munters acquired a majority of the shares in the company MTech Systems, based in Atlanta, in the US. Through the acquisition, Munters strengthened its position in climate control for livestock farming by integrating data analysis expertise with its high-tech control systems. For over 30 years, MTech has developed expertise in innovative software through the use of data and analysis. By combining high-tech control systems with advanced tools for data collection and analysis, Munters has in recent years helped customers to optimize the entire value chain in poultry and swine production.

Munters is strongly engaged in ensuring that people get food on the table by controlling the climate in facilities around the world. Munters' combined climate systems and software used at farms and in plants for planning and optimizing make it easier for poultry and swine producers to connect every part of the value chain.

» Munters is strongly engaged in ensuring that people get food on the table by controlling the climate in facilities around the world



Gruppo Padana, a leading producer of plants and cuttings

Gruppo Padana was founded in 1988 through the acquisition of a company with greenhouses and since then has never stopped growing its organization and sales. Today, Gruppo Padana is one of the ten largest companies in Europe in seedlings and cuttings, with an assortment of over 2,500 items.

Headquartered in Paese (Treviso), in northeastern Italy, the company had around 250,000 m² greenhouses and around 30,000 m² accessory agricultural facilities as of 2016.

A major renovation was recently completed to upgrade the headquarters and facilities. This included the construction of a new complex for logistics, services and offices, on an overall area of about 16,000 m².

The climate where Gruppo Padana is located is subcontinental, with warm summers and cold winters. Precipitation ranges from medium to high. The biggest challenge the company faces is that each greenhouse has "individual" rooms with specific needs in terms of temperature, humidity, lighting and ventilation regardless of the outdoor climate.

Gruppo Padana selected Munters for its expertise, reliability and competence to understand and deliver the various climates it needs. Munters has delivered climate solutions and lighting systems for the large greenhouses, as well as for logistics and office space.

The climate solution has consisted of among other things fans and evaporation cooling pads with various types of cooling systems. Munters has also combined light covers with cooling systems to achieve an optimal climate for plants that need shade regardless of the lighting conditions outdoors.

In the office and administrative areas, the goal has been to make sure that climate conditions are compatible with the plants' growing needs, but also to create a good environment for the employees. The solution was a WDP water distribution system with CELdek 7090 evaporative cooling pads and a ventilation wall to generate a cold storage of airflow at higher heights in the facilities. This creates a climate where employees are not bothered by the high, cold air and at the same time creates the right environment for the plants to thrive. An overarching goal of the project has been to create a climate solution that is both cost and energy efficient.

» Every greenhouse has specific needs in terms of temperature, humidity, lighting and ventilation

Sustainability report 2019

Sustainability is a broad concept that comprises many different elements. For Munters, it means that everything we do has to be sustainable for all our stakeholders and the environment. Our medium-term financial targets are important to create room for investments in the future. As we work toward these targets, we take various decisions and act in the best way to achieve our ambitions. These ambitions contain priorities on resource efficiency, responsible business practices and people & society. These three parts today constitute the framework for Munters' sustainability agenda. The following pages describe the three areas 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 the Annual Report, see pages 46-55; Risks and risk management, pages 56-59; and diversity, page 67. These pages also constitute our Communication on Progress under the UN Global Compact.

With this Sustainability Report, we want to create transparency around our priorities, activities, challenges and goals in the field of sustainability. The report covers the operations of the entire Group.

RESOURCE EFFICIENCY

PAGE 50

RESPONSIBLE BUSINESS PRACTICES

PAGE 52

PEOPLE & SOCIETY

PAGE 54

Sustainability affects every strategic priority as Munters goes forward

Sustainability is one of the most important drivers for Munters' strategy today and in the future. In 2019, the company conducted a strategic analysis of its sustainability work. This included a review of all priority areas and their goals. The management of Munters is firmly convinced that more ambitious goals must be set for the sustainability work going forward. In 2020, intensive work will be done to lay the foundation for this.

To ensure that Munters sets the right strategic priorities in terms of sustainability, an ongoing dialogue is maintained with various stakeholders. In addition, we monitor global trends in light of our strategic direction. Sustainability is fully integrated in Munters' operations. For us, sustainability means conducting our business sustainably in every way, i.e., we have to create profitable growth, generate value for all our stakeholders and contribute to a better world. In the fall of 2019, management conducted a strategic analysis of where Munters stands at present and which strategic and financial targets we want to reach in the short and long term. This resulted in a decision to prioritize sustainability issues to a greater extent than before and to set more, and more ambitious, goals. In 2020, the analysis work will continue to ensure a solid base from which Munters can set ambitious goals for its continued sustainability efforts.

Organization and governance

Munters' sustainability agenda is part of the company's strategy. The President and CEO bears ultimate responsibility for integrating the sustainability agenda in the strategy and for meeting the company's various goals. The management team is responsible for proposing sustainability priorities, coordinating and planning Group-wide sustainability efforts, monitoring established goals and regularly communicating results and outcomes to the Board of Directors and affected parts of the organization. For each of the prioritized sustainability areas, an individual is assigned responsibility for the work in their area and for reporting the goals and results.

The Group's basic approach to sustainability issues is described in a number of policies and governing documents. The two most important documents are the Code of Conduct and the special Code of Conduct for suppliers. In addition, the work is governed by several different documents, e.g., HR policy, environmental policy, occupational health & safety policy and the rules on business travel.

The Board of Directors adopts Munters' Code of Conduct and sustainability report

Sustainability risks are surveyed and evaluated as part of the yearly risk assessment process. For more information on the material risks in the area of sustainability and how we manage them, see pages 56–59.

Global Compact and Agenda 2030

Munters has committed since 2018 to report in accordance with the ten principles of the UN Global Compact's on human rights, labor, the environment and anti-corruption. The Code of Conduct and the special Code of Conduct for suppliers are based on these ten principles and describe Munters' view on issues such as the environment, social responsibility, business ethics and human rights. Compliance with these policies is monitored each year and reported to the Board of Directors. In addition to the Global Compact, Munters has chosen to embrace the Carbon Disclosure Project (CDP) and reported to it in 2019.

In 2019, we did not conduct the same employee survey that had been done in previous years, although at the end of the year an employee and brand survey was conducted. It showed that most employees are proud to work at Munters and felt that it is a good company to work for and has a culture they see as positive. In 2020, Munters will again conduct an employee survey similar to the ones in 2017 and 2018.

Based on the priority sustainability areas and the opportunities to make a difference, Munters has chosen to focus on nine of the UN Sustainable Development Goals, see next page. They are also linked to Munters' strategic goals.

THE SUSTAINABLE DEVELOPMENT GOALS

Goal 2. Zero hunger

Munters' products contribute to greater resource efficiency in food production. By increasing efficiency, we can help to reduce the load on the Earth's resources and promote sustainable agriculture.

Goal 4. Quality education

Munters regularly holds activities in its local workplaces to promote education, including mentorships.

Goal 5. Gender equality

We are convinced that diversity leads to greater innovation and higher profitability. Munters currently has a relatively low proportion of female employees. We have therefore decided to focus on gender equality mainly in our diversity work.

Goal 6. Clean water and sanitation

Munters' products contribute to increased resource efficiency, which also includes less use of water in the processes where Munters' products are installed.

Goal 7. Affordable and clean energy

Through our energy-efficient products, we can ensure that our customers will consume less energy and that their environmental impact will be lower.

Goal 8. Decent work and economic growth

In every country and area where Munters works, it is essential that we have an inclusive workplace with decent conditions for all.

Goal 9. Industry, innovation and infrastructure

We are working to reduce our own environmental impact through energy- and resource-efficient production facilities. We also contribute with innovative solutions for our customers, so they can reduce their impact.

Goal 12. Responsible consumption and production

We work continuously to limit the environmental impact of the transportation methods we use.

Goal 16. Peace, justice and strong institutions

Munters has zero tolerance for all forms of corruption and bribery.

THE GLOBAL GOALS
For Sustainable Development

WE SUPPORT
UN GLOBAL COMPACT

Stakeholder dialogue

BUSINESS PARTNERS	CHANNELS FOR DIALOGUE	IMPORTANT ISSUES
Business partners		
Customers Resellers Suppliers	Continuous dialogue with customers and resellers. Munters also conducts regular customer surveys and supplier summits to ensure a positive dialogue.	Delivery reliability, quality and continuous suggestions for improvements Compliance in environment, business ethics and social issues such as labor laws and human rights.
Employees		
Current employees Potential employees	Employee surveys Conferences and employee meetings Employment interviews Participation in job fairs at various universities Partner in various projects that promote collaborations between businesses and the academic sector.	Inclusion and diversity Health and safety Discrimination and harassment
Capital market		
Shareholders Analysts Lenders	Individual meetings and continuous dialogue with various investors Participation in investor conferences Continuous dialogue with the analysts who cover Munters Individual meetings and continuous dialogue with Munters' lenders.	Sustainability agenda and focus areas Innovation with a focus on energy efficiency Compliance

Resource efficiency

FOCUS AREAS

1. Sustainable products and offerings
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 watchwords for Munters' product development since the company was founded. Energy-efficient products and solutions are not only necessary for the environment and the climate, but also result in lower operating costs for the customer. Our success in providing the most energy-efficient solutions gives us a big competitive advantage. More of our customers are also producing their own sustainability agendas with a focus on energy efficiency and lower emissions, which gives us with new business opportunitie.

The challenges revolve around prioritizing which projects to pursue to make our products even more energy-efficient but also more sustainable from a broader perspective. Choice of materials and eco-design, for example, are something customers will likely demand more going forward. In addition, it is becoming more important to always follow products through their entire lifecycle and offer services to optimize service life and utilization. The products also have to be taken care of after they are no longer being used. Offering complete product lifecycle service is an aim of Munters' in the future.

GOALS AND OUTCOMES

Energy efficiency
Electricity consumption in our production facilities will continually decrease. (MWh/production value, SEK 000).

Outcome 2019
1.05 %

Outcome 2018: 1.11 %
Outcome 2017: 1.15 %

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

Outcome 2019
40 %

Outcome 2018: 31 %
Outcome 2017: 29 %

Recycling rate
The proportion of waste reused or recycled out of the total amount of waste will continually increase.

Outcome 2019
53 %

Outcome 2018: 59 %
Outcome 2017: 57 %

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In 2019, more production facilities in Europe signed green electricity contracts. A total of six of 18 facilities today have green electricity contracts

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

Climate change is something we all must confront, and at Munters we want to minimize the environmental and climate impact of our operations. The Group has 18 production facilities in 11 countries. If we succeed in making production more energy efficient, it also means lower costs. We receive many 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 be involved in 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 is limited in most areas where we have production.

3. Sustainable transportation
We limit the environmental impact of the transportation we use by choosing 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 — has a significant environmental impact. For business travel, new improved technology for virtual meetings allows us to meet without traveling. We continued working in this area in 2019, and our goal is to reduce carbon emissions from business travel going forward. For shipping, we have identified opportunities to improve our internal processes and oversight and ensure, for example, that we minimize the amount of goods transported by air.

One challenge we see is that electric and hybrid vehicle technology has to improve before switching completely to these vehicles makes sense. Since the battery range is still fairly short, it is difficult to find models that suit our service technicians and vendors. Material and product shipping is procured from various companies, and we have to place clear requirements on these suppliers concerning the environmental impact. This is an area we can work on more.

Governance
- Policy for the environment, health and safety: Munters' commitments for environmentally friendly and safe production.
- ISO 14001: Twelve of eighteen facilities are certified under ISO 14001.
- Review process: Governance to achieve Munters' sustainability goals, see page 48.
- 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.

Activities completed in 2019
- The work on CO_2 measurements and the possibility of setting relevant goals continued during the year.
- Several facilities continued to focus on renewable energy during the year and switched to green electricity.
- A review of the policy on the environment, health and safety (EHS) was conducted.

Planned activities 2020
- Continue working on CO_2 measurements and prepare to set relevant goals.
- Increased focus on recycling the materials used in production processes.
- Increase the share of facilities with green electricity contracts.
- Continue the analysis of the priority areas started in late 2019. As part of this, the formulations of the various priorities will be reviewed.

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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.

2 ZERO HUNGER
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

—

Renewable electricity in Italy

As of January 1, 2019, Munters in Italy (Munters Italy S.P.A.) has only consumed electricity from renewable sources. Shown below is the certification issued by Egea S.r.l.

NOI SCEGLIAMO
EGEA
ENERGIE DEL TERRITORIO
www.egea.it
L'ENERGIA VERDE

—

Environmental fines

Fines received owing to non-compliance with environmental laws and regulations. The goal is not to receive any fines. An environmental audit in Mexico found one area of non-compliance regarding waste management administration. The issue was addressed immediately, but unfortunately resulted in a fine of SEK 50,000. A follow-up audit found no non-compliance.

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Outcome 2019, SEK

50,000

Outcome 2018: 0 SEK
Outcome 2017: 0 SEK

Responsible business practices

FOCUS AREAS

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

The exhaustive debate on climate change and ethical issues is here to stay and presents Munters with major opportunities, but challenges as well.

In the fall of 2019, management worked intensely on a review of Munters' strategic priorities. This resulted in an updated strategy with clearer ambitions for our sustainability work. Munters' vision and strategy both reflect the job that has been done to ensure that Munters becomes an even more sustainable business and can offer customers solutions with a stronger sustainability focus than before.

Operating sustainably usually requires a longer perspective on many issues, which can be challenging both internally and externally. This places high demands on uniform, clear communication concerning the value of a sustainable business.

5. Business ethics
We conduct our operations ethically, honestly and in abidance with the law. Through sound decisions and ethical choices in our daily work, we gain trust in each other, as well as among our customers and collaborating partners.

Complying with laws and regulations is the foundation of an ethical and sustainable business. Acting ethically builds 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 differ in 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 higher requirements on having an effective process for ensuring compliance with laws and regulations and that human rights are not put at risk.

6. Collaborations and partnerships
We require our collaborating partners, such as suppliers and distributors, to observe the same ethical guidelines that we have pledged ourselves to.

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

Munters uses a large number of suppliers spread among many countries in which the cultures and attitudes toward issues concerning human rights and the environment differ widely. This requires effective tools, a clear procedure and training by the organization to verify that suppliers are meeting our very strict requirements. We have come a long way, but the work on refining the process and the tools is still in progress.

GOALS AND OUTCOMES

Code of Conduct for suppliers

Our largest suppliers account for 80 percent of purchases. The target for 2020 is that all of them will have signed the Code of Conduct.

Outcome 2019

92 %

Outcome 2018: 66 %

Whistleblower cases

Number of whistleblower cases via the external reporting channel. In 2019, the cases mainly related to suspected cases of discrimination and harassment.

Outcome 2019

9

Outcome 2018: 7

Sustainable Development Goals (SDG)

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

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Munters started reporting to the Carbon Disclosure Project (CDP) in 2019

Governance

- Code of Conduct: Defines Munters' basic view on issues in the areas of the environment, ethics and human rights.
- Code of Conduct for suppliers: See description in the section 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 48.
- Data protection policy: Provides guidance on how personal data is handled correctly, in compliance with the law.
- Compliance with competition rules: Explains the fundamentals of competition law to prevent violations.
- Whistleblower policy: See description in the section People & society.
- Compliance with sanction regulations: Defines the checks that employees have 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, with the aim of reducing the risk of insider trading.

Activities 2019

- Further development of the procedure for supplier self-assessments as well as on-site evaluations at suppliers of the areas covered by the Code of Conduct. The goal has been to implement a process that facilitates and automates this work and to produce a checklist that can be used when our purchasers are out on visits to suppliers.
- Initiated an evaluation of annual sustainability checks. The areas concerned included business principles, discrimination, harassment, competition laws and bribes.
- The sourcing function continued the work to get all our most important suppliers to affirm their compliance with the Code of Conduct for suppliers.

Planned activities 2020

- All our most important suppliers will affirm that they are in compliance with the Code of Conduct for suppliers.
- Continue the sustainability evaluations through various checks.
- Continue the analysis of the priority areas started in late 2019. As part of this, the formulations of the various priorities will be reviewed.

People & Society

FOCUS AREAS

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

Ensuring we deliver on our values requires that all employees are engaged, enjoy their work and can develop professionally. We are convinced that diversity provides us with different perspectives and valuable insights that improve our company and our offering. A few years ago, Munters set a goal that 30 percent of both employees and managers will 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 percent when measurements began in 2016), management chose to focus on gender equality first.

Safety work at our production facilities has been a more important focus in recent years. All accidents have been routinely reported to Group Management since the end of 2018 with a clear analysis of the accident itself, what caused it and what needs to change to ensure that the same type of accident is not repeated.

Diversity and safety are both never-ending jobs, and the challenge lies in staying focused on the issue by routinely conducting various kinds of activities to ensure that the subject remains top of mind.


Munters employees at the head office in Kista.

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

Our collaboration with other actors in the locations where we operate is important for us to 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 include participation in various type of job fairs arranged by schools, collaboration with schools where we offer benefits such as mentoring and project work, open houses for members' families and various forms of support for sports clubs and relief organizations

Currently there is no central governance for the activities in this area. It is up to each facility to decide what is right there. It can be a challenge to find projects that are not simply charities but also contribute positively to Munters from a business perspective.

GOALS AND OUTCOMES

Proportion of women
Our aim is to increase the proportion of women in our workforce. The target is 23 percent by 2020 and 30 percent by 2025.

Outcome 2019

21%

Outcome 2018: 20%
Outcome 2017: 18%

Proportion of women in management
Our aim is to increase the proportion of women in management. The target is 30 percent by 2025.

Outcome 2019

25%

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 2019

2.7%

Outcome 2018: 3.4%
Outcome 2017: 3.5%

Sustainable Development Goals (SDG)
The activities that Munters carries out in the area of People & society support the following areas in the UN's 2030 Agenda for Sustainable Development.

* Number of accidents where the employee sought medical treatment multiplied by 200,000 and divided by the number of hours worked.

In 2019, we further strengthened safety efforts in the workplace

Governance

- Policy for the environment, health and safety: Munters' commitment to environmentally friendly and safe production.
- Policy for diversity and inclusion: Munters' commitment to an equitable, inclusive and collaborative workplace marked by diversity.
- Review process: Governance for achieving Munters sustainability goals, see page 48.
- Anti-discrimination and harassment policy: Munters' commitment to protect its employees against discrimination, harassment and bullying in the workplace.
- Flex work policy: Encouragement to managers at Munters, where possible, to offer employees the opportunity to work flexibly.
- Whistleblower policy: Defines Munters' view on mismanagement and improprieties and the procedure employees can use to make Group Management and the Board of Directors aware of similar situations.

Activities completed in 2019

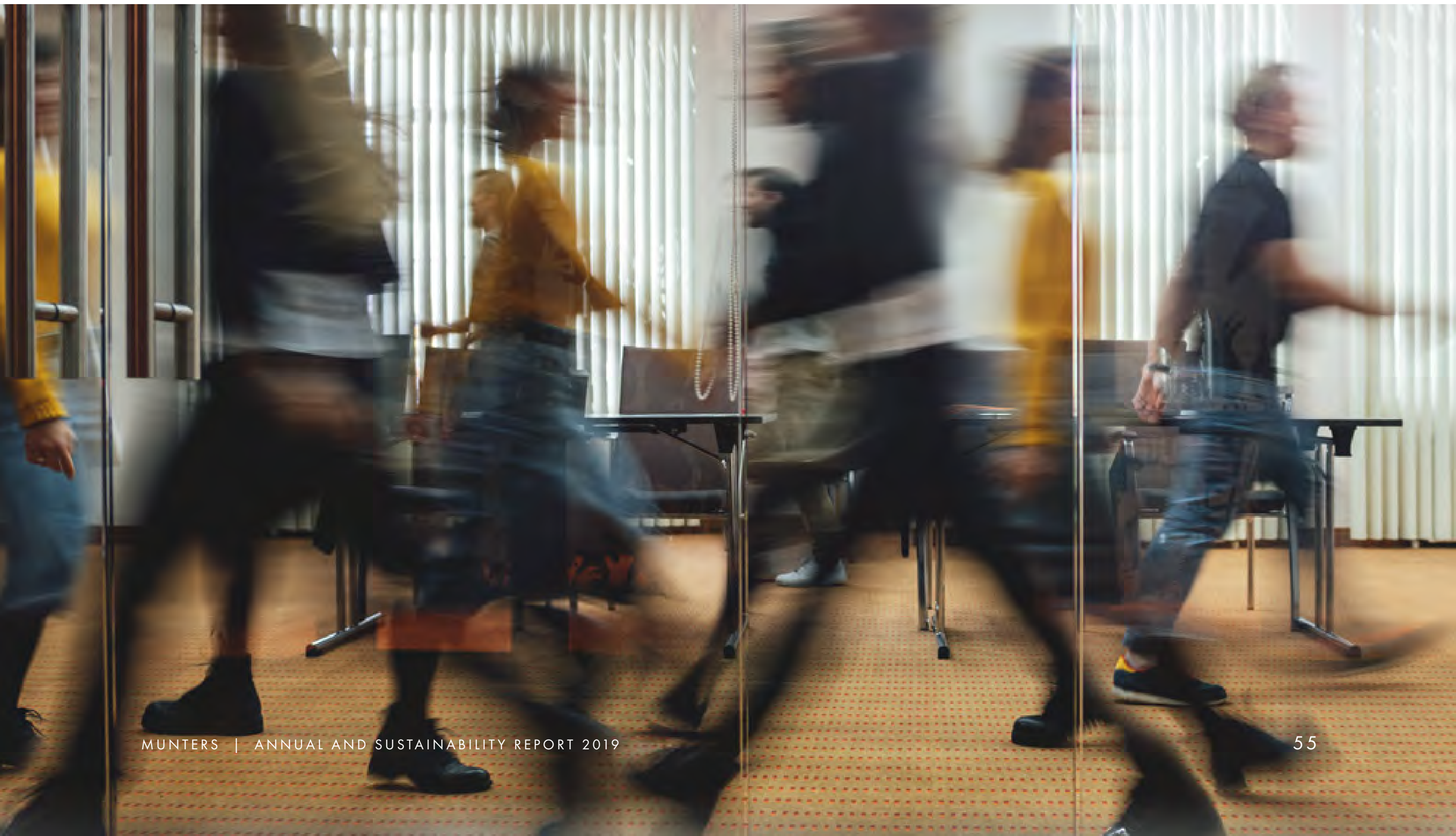
- Follow-up of local equality plans. This has been a standard item on the agenda at local companies' board meetings.
- Revision of the global management training guidelines on discrimination and harassment. Ensured a uniform Group message and continued to spread the message about the whistleblower channel in pursuit of the goal of a 100% discrimination- and harassment-free workplace.
- Further strengthened safety efforts in the workplace and increased the focus on the number of healthy employees, e.g., introduced regular measurements.

Planned activities 2020

- Actively work to increase the proportion of female employees and managers.
- Continue the analysis of the priority areas started in late 2019. As part of this, the formulations of the various priorities will be reviewed.

TOP to TOP Global Climate Expedition

In 2019, Munters sponsored the global climate expedition TOP to TOP, a Swiss NGO whose aim is to inspire young people to help save our planet. On the journey aboard the sailboat Pachamama, they have visited more than 100 countries. Along the way, they have made presentations on climate change to over 100,000 students. Munters has supplied a model MG90 dehumidifier that has helped them to maintain the right moisture level and temperature on the ship.



Risks and risk management

Risks are a natural element of all businesses. Effective risk management is crucial therefore for Munters to achieve its business goals. Munters' strategic framework together with external factors create risks that must be managed. At the same time, these risks create business opportunities if 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
- Sustainable profitability and performance

Munters serves customers in various industries and market segments. Munters has production and assembly plants, combined with sales, in nearly 20 countries and sales-only offices in a number of additional countries. Altogether, this provides Munters with underlying risk diversification, at the same time that a global presence creates challenges linked to differences in cultures, laws and political climates.

Risk management

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.

Risk evaluation process

Every business area and Group function within Munters is responsible for identifying and managing risks within their organization in accordance with the Group's risk process and current policies and guidelines. In combination with Enterprise Risk Management (ERM), which focuses on the overall risks and uncertainties that the company is exposed to, this provides both top-down and bottom-up support for Munters' medium-term goals. The purpose of ERM is to give a Group-wide overview of the risks and uncertainties that the company is exposed to and to support value creation, ensure risk awareness and balance risks versus return.

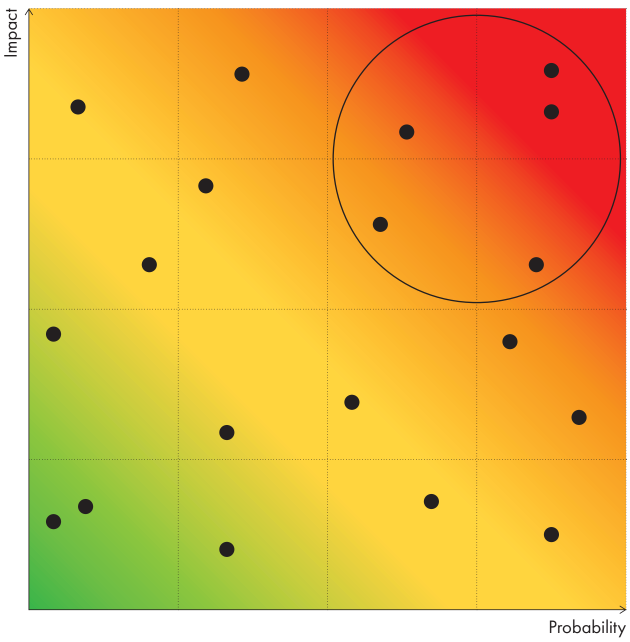
The ERM function, which reports to the CFO, is responsible each year for overseeing a Group-wide risk evaluation as part of the strategy process. In 2019, this process was carried out late in the year. The risk evaluations are compiled by the business areas and Group functions, which identify and evaluate risks based on their probability and potential impact on the business. The most important risks and uncertainties, and how they are managed, are regularly reported to Group Management, the Audit Committee and the Board of Directors.

Risk categories

Risks are divided into four categories: Strategic, Operational, Regulatory and Financial. This encompasses 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 associated with decisions taken by management at various levels of the company concerning strategic direction, organizational structure, resource allocation, and major investments and acquisitions. Risks associated with internal and external communication also fall into this category.



Identified risks are mapped in a risk matrix. They are evaluated based on their potential impact on Munters, the probability that they will occur and how well the risk is managed.

Operational risks
Operational risks are linked to the company's internal resources: systems, procedures and employees. Examples include a work stoppage due to a fire, a machinery breakdown or extreme weather. Staff-related operational risks are associated with succession planning, the ability to retain core competences and relationships with trade unions. In the area of IT, it could be associated with information security.

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

Financial risks
Financial risks mainly consist of currency, interest and financing risks. A description of the financial risks and how they are managed can be found in Note 3.

Sustainability risks
Risks related to sustainability, e.g., environmental issues, climate change, health and safety, respect for human rights, bribery, and corruption, are part of — and evaluated among — strategic, operational and regulatory risks. For more information on how we are work in our priority sustainability areas, see pages 46-55.

Insurable risks
Munters works actively with insurance solutions, and Group-wide policies are governed by central guidelines. This includes all the usual types of business insurance, such as general liability, product liability and injury prevention, the main purpose of which is to prevent property damage and business interruptions. Also included are property and casualty insurance, directors and officers liability insurance, and employment practices liabilities.

Insurance is obtained from both the Swedish and international insurance market. In addition, Munters' internal audit function is responsible for independently evaluating the effectiveness of a sample of the internal control processes each year.

Munters Loss Prevention Standard
We also work 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 guidelines and rules, but also local laws and other regulations as well as insurance requirements. LPS is used in risk evaluations by our production and assembly facilities. The objective is for all production plants to be evaluated over a three-year cycle; in 2019, evaluations of nine facilities were conducted. LPS is also used for evaluations in conjunction with business acquisitions, investments and construction.

High priority risks 2019

In the first half of 2019, the focus was on the high priority risks identified in 2018. In the risk assessment conducted in the latter part of 2019, a total of seventeen risks were deemed as potentially having a significant impact on Munters. A brief description of these risks and how they are being monitored and managed follows below. The risks are grouped by risk category, in alphabetical order.

RISK	RISK DESCRIPTION	MANAGEMENT
Strategic risks		
Allocation of production capacity	The risk that Munters will not have sufficient production capacity to realize its business plans or will experience over-capacity that negatively affects the company's ability to generate competitive profit margins.	The development of the Sales and Opera-tions Planning (S&OP) procedure continued in 2018, and in 2019 more improvements were made. Regular S&OP meetings are planned with the entire Group Management team in 2020.
Insufficient investment in innovation	The risk that Munters is incapable of developing and maintaining a culture where sufficient investments are made in inno-vation, which could adversely affect the company's technological expertise.	After re-evaluating Munters' strategy in late 2019, Group Management decided that more focused investments will be made to drive innovation within Munters in coming years. This includes investments in priority areas and to strengthen the company's product development process.
Trade barriers	Political instability and increased customs duties in important markets could affect the possibility of marketing and selling our products and services.	The business areas worked together with Global Operations in 2019 to routinely monitor trends in the area and to ensure that sourcing and production are planned in such a way that the effect of any trade barriers is minimized, e.g., by manufacturing the most important products at several sites around the world. The creation of a regional supply chain has continued as well.
M&A implementation, planning and integration	The risk of not being able to seize opportunities for acquisitions and divestments or not achieving goals for completed investments and acquisitions, e.g., synergies.	No acquisitions were made in 2019. The internal project organization (PMO) worked during the year on monitoring the acquisitions made in recent years.
Technology changes, IoT	Risks associated with the rapid transition to digital and connected products and services.	This issue is regularly discussed and monitored by Group Management and the business areas. The IT staff also monitors it and coordinates ongoing development projects. Every business area is responsible for IT security for connected products.

RISK	BESKRIVNING AV RISK	HANTERING
Operational risks		
Dependence on small number of customers	Risks associated with being dependent on a small number of major key customers.	This issue is regularly discussed and monitored by Group Management and the business areas. Within AirTech, Data Centers US was especially successful in 2019 in actively broadening its customer base and increasing its share 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, e.g., to long lead times.	Global Operations management has worked continuously to ensure that critical products and components are manufactured at strategically selected sites with a suitable geographical spread. This is coordinated with the work being done to manage the risk associated with trade barriers (see above under "Strategic risks").
Quality control	Risk of insufficiently thorough quality control, which could result in the company's products having to be recalled or not functioning as promised, thereby negatively impacting earnings and customer relationships.	Global Operations appointed a Global Quality Manager in 2018. The aim was to create an efficient, uniform quality system, which Munters has since been introducing at all its plants globally. In addition, Global Operations has been especially focused on compliance and the development of 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.	New managers, managers in production and experienced managers who want to take their leadership to the next level are offered leadership development courses. HR is working continuously on salary surveys to ensure that Munters offers competitive salaries.
IT risks	Cyberthreats are a risk that has also increasingly targeted Munters and its products. Some products contain a large amount of software, and it is becoming more common for products to be connected to various networks. There is a risk that Munters' existing IT systems are not structured in a way that optimally supports the company's business processes or strategic ambitions. There is also an information management risk consisting, e.g., of IT attacks.	Munters has clear policies, rules, procedures, and routines in place to manage IT and communication security. The IT department regularly tests Munters' various IT systems to ensure a high security level. All employees receive training in information management and security. A comprehensive survey and analysis of the existing IT infrastructure was conducted in 2019 in order to create a long-term development plan for a more uniform IT infrastructure.
Forecasts related to resource allocation	Risk of forecast errors that negatively impact resource allocation, production processes and logistics flows.	Munters does monthly forecast updates, and careful reviews enable quick action when needed. The forecasts are continuously analyzed on several levels in the organization.
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.	Munters has a structured internal contract vetting process that applies to both business areas. In addition, Munters has an internal risk committee that includes members of Group Management, who review major contracts. A checklist for contracts that are not based on standard terms and conditions is strictly applied throughout the organization.
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 conse-quences as well as damage to the Group's reputation.	Munters has policies in the area in the form of the Code of Conduct and a specific anti-corruption policy. Online training is mandatory for all salaried employees of Munters. All contracts with suppliers and distributors stipulate that distributors must comply with anti-corruption laws and regulations. In addition, Munters has a whistleblower channel that facilitates anonymous reporting.
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 damage to the Group's reputation.	Munters has a sanctions policy and guidance for these issues. The company routinely collaborates with outside advisers to monitor trends in the area.

The share

The Munters share trended higher during the year. In 2019, the share price increased 44.3 percent, while the Stockholm Stock Exchange OMXS30 rose 25.8 percent during the same period.

The closing price on the last trading day of the year was SEK 49.06 (34.00), equivalent to a market capitalization of SEK 9.0 billion (6.2). The highest price paid in 2019 was SEK 50.50 (58.50), and the lowest price was SEK 33.70 (31.90).

Trading in Munters shares

In 2019, a total of 117.9 million shares (65.8) were sold. Average sales over the year totaled 471,720 shares per day (263,155).

Dividend

Under the dividend policy adopted by the Board of Directors, Munters aims to pay an annual dividend corresponding to 30–50 percent of its net income for the year. 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 has proposed that no dividend be issued for 2019.

Share capital

At December 31, 2019, the number of shares and votes in Munters totaled 183,597,802. Each share has a quota value of SEK 0.03, and the 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 investors. Munters Group AB has its own holding of 1,852,000 shares related to employee incentive programs.

Owners

The number of shareholders at December 31, 2019 was 5,988, and the proportion of shareholders outside Sweden at year-end was 27.9 per cent. The ten largest individual shareholders had 69.6 per cent of the share capital at that time.

FAM AB was the largest shareholder, with 21.1 percent of the share capital.

Ownership changes after the end of the year

In February 2020, Nordic Capital divested its total holding in Munters Group AB, i.e., 14.7 percent of the capital. Subsequently, Nordic Capital's holding in the company is 0 percent. FAM AB announced at the same time that it had increased its holding by 5.0 percent and thereby held 26.1 percent of the capital in Munters Group AB. At the same time, Odin Fund Management announced that it had acquired 7.1 percent of the capital in Munters Group AB.

Key figures

Number of shares at year-end, millions	184 (184)
Market capitalization at year-end, SEKm	9.0 (6.2)
Number of shareholders	5,988 (6,673)
Share price at year-end, SEK	49.06 (34.00)
Earnings per share, SEK	X.XX (-0.57)
Change in share price during the year, %	44.3 (-38.4)
Regular dividend, SEK/share	0.00* (0.00)
Dividend as a % of earnings per share	00 (00)
Proportion of shares in Sweden, %	72.1 (39.97)
Proportion of shares owned by 10 largest shareholders	69.6 (86)

* Proposed dividend

The ten largest shareholders as of February 29, 2020

Name	Holding	Holding, %
FAM AB	38,817,907	21.1
Nordic Capital	26,999,607	14.7
Swedbank Robur Funds	16,563,586	9.0
First AP-fund	15,874,746	8.6
Handelsbanken Funds	6,925,000	3.8
Fourth AP-fund	6,432,760	3.5
JP Morgan Asset Management	4,645,133	2.5
Kuwait Investment Authority	4,375,301	2.4
AMF Insurance and Funds	3,976,068	2.2
La Financière de l'Echiquier	3,159,999	1.7

Analysts

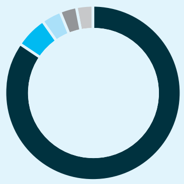
Analysts who actively cover the Munters share.

Bank	Name	Telephone
Carnegie	Kenneth Toll Johansson	+46 (0) 8 58 86 89 11
Danske Securities	Björn Enarson	+46 (0) 8 568 80605
Goldman Sachs	William Turner	+44 (0) 207 552 2998
Kepler Cheuvreux	Mats Liss	+46 (0) 8 723 51 18
Nordea	Carl Ragnerstam	+46 (0) 101 562 817
Pareto	Anders Roslund	+46 (0) 8 402 52 88

Shareholding by size

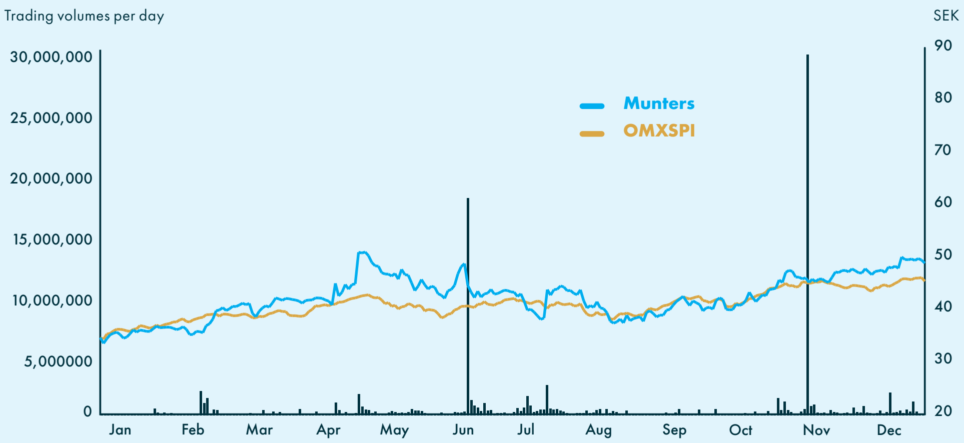
Holding	Number of shareholders	Holding, %	Votes, %
1–1,000	5,341	0.5	0.5
1,001–10,000	486	0.9	0.9
10,001–50,000	79	1.0	1.0
5,001–500,000	57	6.0	6.0
500,001–1,000,000	6	2.2	2.2
1,000,001–5,000,000	13	18.5	18.5
5,000,001–10,000,000	2	7.3	7.3
10,000,001–20,000,000	2	17.7	17.7
20,000,001–	2	35.8	35.8
Unknown owners		10.2	10.2

Ownership distribution by country



- Sweden 72,1 %
- USA 5,0 %
- United Kingdom 3,2 %
- Finland 2,6 %
- Kuwait 2,4 %

The Munters share



Information to the shareholders

Annual General Meeting 2020
The Annual General Meeting of Munters Group AB (reg.no. 556819-2321) will be held at 3 p.m. CET on May 7, 2020 at Kista Science Tower, Auditorium, Färögatan 33 in Kista, Stockholm.

Registration for the meeting will commence at 2 p.m. CET.

Right to participate in the Annual General Meeting
Shareholders who wish to participate in the Annual General Meeting must:

- be registered in the share register maintained by Euroclear Sweden AB on Thursday April 30, 2020, and
- notify the company of their intention to attend by mail to the address Munters Group AB, "Årsstämma 2020," c/o Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, Sweden, by calling +46-8-402 92 73 weekdays between 9 a.m. and 4 p.m., or at the website www.munters.com, no later than Thursday, April 30, 2020.

In the notification, shareholders must state their name, address, telephone number (daytime), personal or corporate identity number, and information on their shareholding.

Shareholders or proxies for shareholders may be accompanied by a maximum of two representatives at the Annual General Meeting. Representatives may only attend the meeting if the shareholder gives notice of their attendance as described above for notification.

For shareholders who will be represented by proxy, a power of attorney in the original must be enclosed with the notification. A power of attorney template is available on the company's website, www.munters.com, and will be sent by mail on request to shareholders who contact the company and provide their address. A power of attorney is valid one year from its issue or the longer period set out in the power of attorney, but not more than five years. For those representing a legal entity, a verified copy of the registration certificate or corresponding documents showing the company's signatories must also be submitted.

To be entitled to participate at the Annual General Meeting, shareholders whose shares are registered in the name of a trustee must re-register their shares in their own name at Euroclear Sweden AB. Shareholders who require such re-registration should notify their trustee well in advance so that the shareholder is entered in the share register maintained by Euroclear Sweden AB on Thursday, April 30, 2020. Such registration may be temporary.

Reports can be ordered from Munters Group AB:
Web: www.munters.com
Email: info@munters.se
Address: Munters Group AB
Box 1188, SE-164 26 KISTA, Sweden

For more information:
Ann-Sofi Jönsson, Head of Investor Relations
Phone: +46 (0)730 251 005
Email: ann-sofi.jonsson@munters.se

Comments from Chairman of the Board Magnus Lindquist

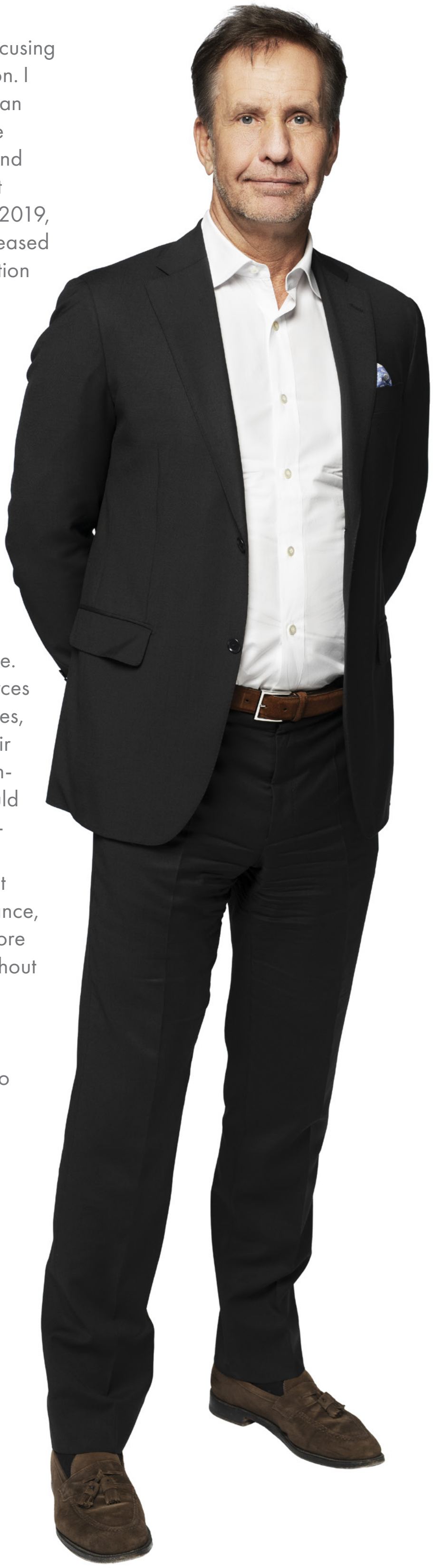
In 2019, Munters completed a restart that meant again focusing on our core business and a more results-oriented organization. I am proud to see how the company delivered on the action plan that the Board of Directors decided on at the beginning of the year to strengthen Munters' foundation. We have an active and dynamic collaboration between the Board and management team, which changed during the year. Now, after the end of 2019, we are pleased to see that Munters reported growth, an increased adjusted EBITA margin and a stronger balance sheet. The action plan has been a major challenge for the organization and employees at Munters. They have worked hard, which we on the Board of Directors very much appreciate and are proud of. Munters' culture is distinguished by an innovative and persistent spirit with strong cohesiveness that has been the basis of the action plan's success. This same cohesiveness and strong spirit continue to drive improvements at Munters. In 2020, it is important to increase efficiency by streamlining the product range, strengthening quality work and intensifying a review of the business structure.

Last fall, we began the job of clarifying Munters' strategic direction. In light of the work begun in 2019 and which continues in 2020, I as Chairman know that we on the Board will be doing our share to bring Munters into an exciting future. Munters is unique in how we help our customers to use resources more efficiently and reduce their climate impact. In many cases, we can help companies to reduce energy consumption in their production by 20-40 percent compared with competing technologies. Several important innovations in society today would not be commercially viable without dehumidification technology from Munters. I have in mind among other things lithium batteries, which needs stable and controlled humidity without stoppages in production to ensure high quality and performance, which our solutions can guarantee. Another example is offshore wind farms, which would have a much shorter service life without our innovations and product solutions. Munters has much to contribute to a more sustainable planet.

It is with pride that I, along with the other members of the Board of Directors and Group Management, look forward to continuing to build Munters into a world-class company.

Stockholm, in March, 2020

Magnus Lindquist



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 organizational 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. 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 since May 19, 2017, when the company's shares were admitted for trading on Nasdaq Stockholm, and hereby submits its Corporate Governance Report for the financial year 2019.

COMPLIANCE

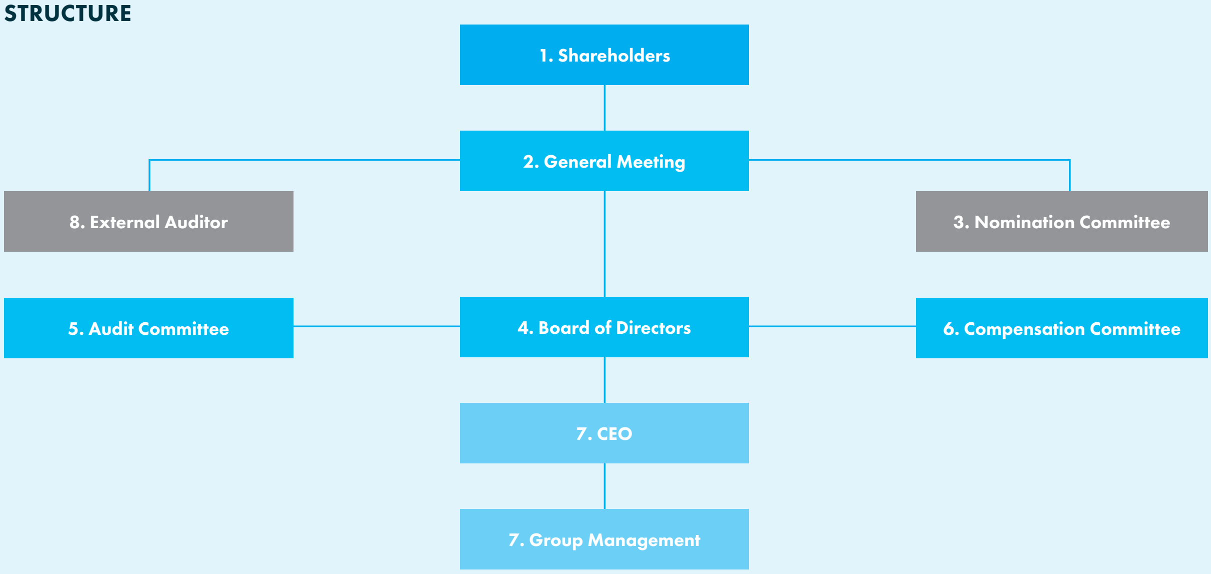
External governance systems

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.

CORPORATE GOVERNANCE STRUCTURE



In addition, the Group has a number of policies and instructions with rules and principles for the Group's operations and employees. In 2019, 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 Compensation Committee
- Rules of Procedure and instructions for the Audit Committee
- Code of Conduct
- Steering documents
- Finance policy
- Sustainability policy
- Communication policy
- Insider policy
- Internal control policy
- Information security 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 program 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, through November 19, 2019, 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 that can be exercised after two and three years is considered to be in line with Munters' long-term business plan, strategy and financial targets. In the future, Munters intends to implement only three-year programs.

Munters has 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-compete clause, 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.

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 since May 19, 2017. At year-end, share capital totaled SEK 5,507,934.06, distributed among 183,597,802 shares. All shares are of the same class and have equal rights in every respect. On December 31, 2019, Munters had 5,988 shareholders (compared with 6,673 on December 31, 2018). The largest shareholders were FAM (21.1 percent of the votes) and Nordic Capital (14.7 percent of the votes). Additional information on the share and shareholders can be found in the section on the Munters share and on the Munters website.

Share buy-back

For the purpose of guaranteeing delivery of shares to participants in the long-term incentive program resolved at the 2019 AGM, the Board of Directors was authorized by the AGM to decide on the acquisition of at most 385,000 own shares for the period up to the next AGM. The Board of Directors decided to utilize of the buy-back authorization on July 17, 2019, and shares were repurchased between August 5 and August 13, 2019. In total, 385,000 shares were repurchased at an average share price of SEK 40.98. The total number of own shares Munters holds is 1,852,000, corresponding to approximately 1 percent 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 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 specific cases a certain portion of shareholders must be present for a quorum.

The AGM must be held within six months of 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 by announcement in Post- och Inrikes Tidningar (the Swedish Official Gazette) as well as on the Munters website. Announcement 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 necessary, or if Munters' auditor or owners of at least 10 percent of total shares in the company request 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 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.

2019 Annual General Meeting
The AGM on May 8, 2019 at Kista Entré Konferens in Stockholm was attended by 64 shareholders representing 80.2 percent of the share capital. The meeting was held in Swedish. All Board members and the Group's current auditor in charge were present.

The issues resolved by the AGM including the following:
- That no dividend be distributed for the financial year 2018
- Re-election of Board members Magnus Lindquist, Johan Ek, Helen Fasth Gillstedt, Per Hallius, Andreas Näsvik, Lena Olving and Kristian Sildeby and election of Juan Vargues as a new Board member
- Re-election of Magnus Lindquist as Chairman of the Board
- Fees to the Board of Directors
- Compensation guidelines for senior executives
- Long-term incentive program for Group Management and certain other key employees, including the issuance of employee stock options and hedging arrangements in respect of the program
- Authorization of the Board of Directors, until the next AGM, to resolve to issue, on one on more occasions, new shares and/or convertible bonds and/or warrants up to a total of 18,359,780 shares that can be issued, the convertible bonds that can be converted to, and that can be subscribed for by exercising warrants.

2020 Annual General Meeting
The 2020 Annual General Meeting will be held on May 7, 2020 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 election of the Chairman of the AGM and election of 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 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 General Meeting 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 review the evaluation of the activities of the Board and its members and familiarize itself in general with the Board's activities through interviews with the company's CEO and selected committee 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 votes listed in the share register maintained by Euroclear Sweden AB as of August 31 of each year. According to this instruction, the Chairman of the Nomination Committee shall appoint the member representing the largest shareholder by votes. The Nomination Committee also includes the Chairman of the Board, who also convenes the first Nomination Committee meeting.

The composition of the Nomination Committee 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 2020 AGM
The composition of the Nomination Committee was published through a press release and on the Munters website on September 24, 2019. Due to Nordic Capital's sale of shares in Munters on November 6, 2019, Lars Wedenborn was appointed Chairman of the Nomination Committee to replace Robert Furuhjelm.
The Nomination Committee for the 2020 AGM consists of Lars Wedenborn (FAM AB), Robert Furuhjelm (Nordic Capital), Jan Dworsky (Swedbank Robur Fonder), Johan Grip (First Swedish National Pension Fund) and Magnus Lindquist (Chairman of the Board of Munters). From the time it was constituted up until the submission of the Annual Report, the Nomination Committee has held seven meetings.

4. The 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, 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 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, managing risks, and setting policies and guidelines. The Board is also required to follow economic developments, 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 responsible for appointing the CEO as well. Finally, the Board of Directors decides on major investments and organizational and operational changes.

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 2019 AGM, all seven Board members were re-elected and one new member was elected. Under Swedish law, the trade unions have the right to representation on the Board; in 2019 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

The CEO and CFO of Munters participate as presenters at Board meetings. Attorney Johan Lekholm serves as the Board's secretary. Other officers participate in Board meetings to present specific issues.

NOMINATION COMMITTEE PRIOR TO THE 2019 AGM

Name	Appointed by	Holdings/ votes at December 31, 2019
Lars Wedenborn	FAM AB	21.1 %
Robert Furuhjelm	Nordic Capital	14.7 %
Jan Dworsky	Swedbank Robur Fonder	9.0 %
Johan Grip	Första AP-fonden	8.6 %
Magnus Lindquist	Chairman, Munters	–

The reasoned statement of the Nomination Committee for the 2019 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, given the company's operations, stage 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 to promote gender parity. The 2019 AGM resolved to elect Board members in accordance with the proposal of the Nomination Committee. The Nomination Committee's aim is to achieve greater diversity on the Board of Directors, primarily through the goal of improving gender equality. In the process of finding a new Board member, the Nomination Committee therefore sought a female candidate who met the requirements and criteria that the Nomination Committee had set with respect to the new member's qualifications. After weighing the desired competences, however, it was decided that Juan Vargues was the best choice. Eight members were elected at the 2019 AGM: two women and six men.

COMPOSITION OF THE BOARD OF DIRECTORS

					Attendance		
Name	Elected in	Fee, SEK [1]	Committee fees	Indepen-dent	Board meetings	Audit Committee	Compensation Committee
Magnus Lindquist, ordförande	2018	1,050,000	100,000[2]	Yes	21/21	-	8/8
Helen Fasth Gillstedt	2017	400,000	150,000[3]	Yes	21/21	7/7	-
Per Hallius	2013	400,000	-	Yes[4]	21/21	-	-
Andreas Näsvik	2011	400,000	150,000[2, 3]	No[5]	19/21	5/7	8/8
Lena Olving	2017	400,000	100,000[3]	Yes	18/21	7/7	-
Kristian Sildeby	2017	400,000	50,000[2]	No[5]	21/21	-	5/5
Juan Vargues[6]	2019	400,000	-	Yes	6/10	-	-
Johan Ek, interim President and CEO[7]	2018	400,000	-	No[5]	21/21	-	-
Pia Nordqvist[8]	2004	-	-	-	19/21	-	-
Simon Henriksson[8]	2017	-	-	-	21/21	-	-
Tor Jansson[9]	2019	-	-		8/13	-	-
Robert Wahlgren[9]	2019	-	-		17/21	-	-

[1] Compensation determined for work from the 2019 AGM to the 2020 AGM.
[2] Compensation Committee fee.
[3] Audit Committee fee.
[4] Per Hallius has a consulting agreement with Nordic Capital Limited and Nordic Capital Funds.
[5] Independent in relation to the company and Group Management, but not to the company's major shareholders.
[6] Juan Vargues was elected to the Board of Directors at the AGM on May 8, 2019.
[7] Interim President and CEO through August 12, 2019. During the time he served as interim President and CEO, Johan Ek did not receive any Board fees. Johan Ek returned to his role as a member of Munters' Board and received Board fees on a pro rata basis as of August 12, 2019.
[8] Employee representative.
[9] Employee representative, deputy.

Changes to the composition of the Board in 2019

In connection with the 2019 AGM, Joakim Zetterlund stepped down as a member of the Board of Directors, while Juan Vargues was elected as a new Board member. On February 26, the trade union IF Metall elected Tor Jansson as an employee representative.

Independence of the Board

The company meets the requirements in the Code as a majority of the members elected by the AGM are 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 of this report is shown in the table, "Composition of the Board of Directors."

2019 Board meetings

In 2019, the Board of Directors held 21 meetings. Following is an overview of the most important issues addressed at these meetings.

January
- Recruiting process for the new President and CEO.

February
- Decision on Munters Full Potential Program.
- Decision on dividend proposal for the financial year 2018.
- Approval and release of the year-end report (Q4).

March
- Priority issues and organizational structure.

April
- Approval of the annual report for 2018.
- Appointment of Klas Forsström as the new President and CEO.
- Approval and release of the Q1 report.

May
- Approval of revised policies proposed by management.
- Reelection of Compensation and Audit Committee members and election of new members.
- Decision to adopt the rules of procedure for the Board of Directors and the rules of procedure for the Compensation and Audit Committees.

July
- Approval and release of the Q2 report.
- Decision to repurchase shares by virtue of the authorization from the 2019 AGM to safeguard commitments under the incentive program.

September
- Decision to close Munters' European data center in Dison, Belgium.

October
- Approval and release of the Q3 report.
- Review of ongoing strategy work and management changes.

November

Strategy and organizational plans.

December

Financial plan for 2020.

Responsibilities of the Chairman of the Board

The Chairman of the Board of Directors leads and oversees the work on the Board, ensuring that its activities are con-ducted efficiently. The Chairman also ensures that the Swedish Companies Act and other applicable laws and regulations are observed, that the Board receives 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

The 2019 AGM resolved that fees of SEK 1,050,000 would be paid to the Chairman and 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 100,000 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

An evaluation is conducted each year to ensure the quality of the Board's work and to identify any need for additional competence or experience. The Chairman of the Board is responsible for conducting this evaluation and providing it to the Nomination Committee. Upon request of the Nomination Committee, the Board members must participate in interviews with the Nomination Committee to facilitate the evaluation.

In 2019, the Chairman of the Board conducted an evaluation of the Board's work by holding individual discussions and follow-ups with every member of the Board. The Chairman has reported the results of the Board evaluation to the Nomination Committee.

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 guidelines 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 main tasks of the Audit Committee are to ensure that the Board of Directors fulfills its supervisory duty in relation to internal control, auditing, 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 also reviews procedures and routines for the aforementioned areas. The Audit Committee submits recommendations and proposals to ensure the reliability of the financial reporting and its compliance with generally accepted accounting principles, continually discusses the company's accounting principles and financial control with the auditors and Group Management, and considers recommended improvements to internal control. In addition, the Audit Committee monitors the impartiality and independence of the auditor, evaluates the audit work, and discusses the collaboration between the auditor and the company's internal control function. The Audit Committee also assists the Nomination Committee in preparing nominations for auditor and proposals in respect of audit fees by submitting recommendations to the Nomination Committee.

During the period between two consecutive AGMs, the Audit Committee is required to hold at least five meetings, normally in conjunction with the ordinary meetings of the Board of Directors.

In 2019, 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 seven meetings in 2019. Board member attendance is shown in the table, "Composition of the Board of Directors."

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 distribution 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 senior executives. Furthermore, the Compensation Committee monitors and evaluates the outcome of variable compensation schemes and the company's compliance with compensation guidelines adopted by the Annual General Meeting.

In 2019, the Compensation Committee consisted of Magnus Lindquist (Chair), Andreas Näsvik, Joachim Zetterlund (through May 8, 2019) and Kristian Sildeby (as of May 8, 2019). The Compensation Committee held eight meetings in 2019. Board member attendance is shown in the table, "Composition of the Board of Directors."

7. Group Management and CEO

Apart from the President and CEO, Group Management in 2019 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. Group Management changed in 2019, after which it consists, apart from the President and CEO, of two business area Vice Presidents and the CFO, and two Group Vice Presidents responsible for the central functions Global Operations and HR & Communications & Sustainability.

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 comply with current rules and regulations. The CEO also prepares all necessary infor-mation and supporting documentation for Board meetings and, if requested by the Chairman of the Board, summons the meeting. The CEO reports at the Board meetings and submits motivated proposals for decision to the Board of Directors.

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

Changes to Group Management in 2019

In conjunction with the publication of the Q4 2018 report, Munters announced that CFO Jonas Ågrup 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. Klas Forsström took over as the new President and CEO on August 12, 2019. Johan Ek, interim President and CEO since December 2018, returned to his role as a Board member. Annette Kumlien took over as CFO and Group Vice President on August 12, 2019. She succeeded Jonas Ågrup, who left the company at the end of December 2019. Peter Gisel-Ekdahl took over as President of the business area AirTech on November 1, 2019. He succeeded Peter Lindquist, who will remain in his interim roles as President of Mist Elimination and Senior Strategic Advisor. Johan Ekeström was named interim President of the business area FoodTech as of November 1, 2019. He succeeded Peter Gisel-Ekdahl.

Remuneration guidelines for senior executives

Guidelines for remuneration to senior executives are evaluated and put forward for approval at the AGM by the Board of Directors. Compensation for the CEO 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 endeavors 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 member and enables Munters to recruit and retain the senior executives needed for the company to reach its short- and long-term targets.

Compensation can consist of:

- Fixed salary
- Variable salary
- Other benefits such as pension and insurance

The Board of Directors will annually evaluate whether or not to propose a long-term incentive program to the AGM. The 2019 AGM resolved to introduce a long-term incentive program in the form of an employee stock option program for Group Management and certain other key employees.

For additional information on compensation to senior executives, long-term incentive programs and pension benefits, refer to Notes 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. During 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.

The auditor's fee for their audit work is paid 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 33.

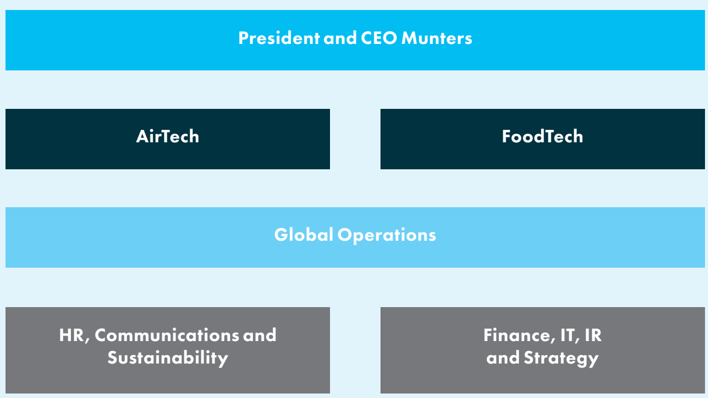
EY has been Munters auditor since 2010, and Rickard Andersson, authorized public accountant and member of FAR (the professional institute for authorized public accountants in Sweden), has been auditor-in-charge since 2019. At Munters' AGM in 2016, EY was re-elected as auditor for a term of four years, through the 2020 AGM.

INTERNAL CONTROL OF FINANCIAL REPORTING

Internal control concerns clarity, order and ensuring that what has to be done is done as 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 main areas: control environment, risk assessment, control activities, information and communication, and monitoring.

GROUP STRUCTURE



Control environment
Internal control is shaped by the overall control environment. The Board of Directors is responsible for establishing an effective system of internal control and supervising the work through the CEO. Group Management sets the tone for the business and improved employees' awareness of control. One condition for a strong control environment is that there are clearly defined values in terms of ethics and integrity, and that they are communicated through policy documents such as policies, guidelines, manuals and codes. For financial reporting, Group Management issues policies and guidelines to all subsidiaries, which are followed up with newsletters, telephone conferences and direct control activities. Courses are also conducted for many accounting areas and internal reporting requirements/systems.

Risk assessment
A 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 probability of events occurring that would prevent Munters from achieving its objectives. The risk assessment 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 work, refer to pages 56–59.

Control activities
Controls have been designed based on identified risks 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, authorizations and responsibilities in credit granting. Examples of general IT controls are change management, back-up routines and authorizations. 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 monthly reports to the CFO, who in turn presents them to Group Management.

During the year, Munters invested in an Internal Control system, where the subsidiaries report that key controls are performed on a quarterly basis, in accordance with Munters Risk and Control framework.

Information and communication
Munters has information and communications channels that aim at ensuring that information is identified, collected and communicated in a way and within a timeframe 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 teleconferences. 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, and updated as needed. Information for external parties is communicated on the 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 the Munters website, and in print upon request.

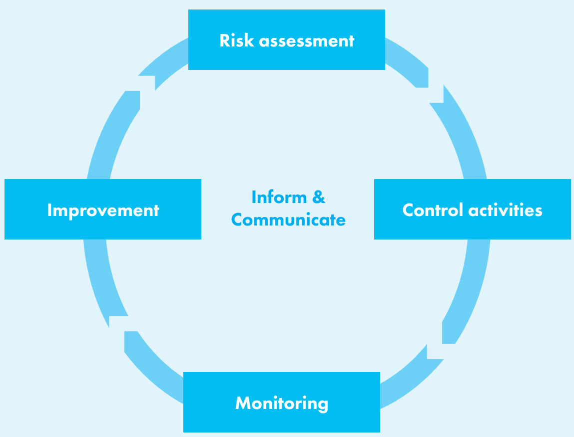
Monitoring
Monitoring and testing of control activities are routinely conducted throughout the year to ensure that risk has been taken into account and satisfactorily managed. Testing is carried out by employees who are independent of the controls and possess the competence to evaluate the performance 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, reviews and approvals are more frequent.

Every head of a division is ultimately responsible for the financial information for their division. The information is followed up at the business area level by Group Management and, lastly, by the Board of Directors. Munters' financial position, strategies and investments are discussed at every Board meeting. The Board is also responsible for monitoring internal control. This includes ensuring that measures are taken to address any deficiencies and following up on proposed 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, outside expertise can also be sought.

MUNTERS CONTROL ENVIRONMENT



Board of Directors

Magnus Lindquist

Chairman of the Board since December 2018.

Education and professional experience: MBA, Stockholm School of Economics. More than 20 years of experience from senior positions in global industrial companies, mainly as Group Vice President at Autoliv and Perstorp Group. Many years of experience as a Senior Partner of Triton.

Current assignments/positions: Chairman of the Board of Ryds Bilglas. Partner of CORDET Capital Partners.

Selected previous assignments: Chairman of Norma, Ambea, Alimak and Polygon, and a board member of Bravida, Mycronic and Ovako.

Holding in Munters Group AB: 3,000,000 call options. Independent in relation to the Company and Group management as well as the company's major shareholders.

Kristian Sildeby

Board member since 2017.

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

Other current assignments/positions: Chairman of 82an Invest AB, Board member of Höganäs AB, Kivra AB, Nefab Holding AB, Spendrups Bryggeri AB and QuNano AB.

Selected previous assignments: Chairman of Blasieholmen 54 Restaurang AB. Board member of Lindström & Göthberg Executive Development AB and Power Wind Partners AB.

Holding in Munters Group AB: 6,000 shares. Independent in relation to the Company and Group management, but not the company's major shareholders.

Helen Fasth Gillstedt

Board member since 2017. Chairman of the Audit Committee.

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

Other current assignments/positions: Board member of Handelsbanken Fonder AB and its representative on nomination committees, Storytel AB, PowerCell AB, Samhall AB, and CEO of Blong AB.

Selected previous assignments: Board member of Humana AB, AcadeMedia AB, Lindorff Group AS, Swedesurvey AB, Svefa Holding AB (publ), Intrum AB

Holding in Munters Group AB: 4,000 shares. Independent in relation to the Company and Group management as well as the company's major shareholders.

Johan Ek

Board member since 2018.

Education and professional experience: M.Sc. in Economics, Hanken School of Economics in Helsinki, Finland. Extensive experience from management positions and board work. Interim President and CEO of Relacom and President of Powerwave Technologies Inc and LGP Allgon. Interim President and CEO of Munters from January to mid-August 2019.

Current assignments/positions: Chairman of the Board of Sunrise Medical and GHD GmbH, board member of Handicare.

Selected previous assignments: Chairman of Handicare, Saferoad and CPS Color, board member of Acino and Ramirent.

Holding in Munters Group AB: 3,000,000 call options. Independent in relation to the Company and Group management, but not the company's major shareholders.

Pia Nordqvist

Board member since 2010. Employee representative appointed by Unionen.

Position at Munters Senior Business Application Specialist, Munters AB.

Holding in Munters Group AB: -

Simon Henriksson

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

Position at Munters: Material supplier, Tobo plant.

Holding in Munters Group AB: 350 shares.

Juan Vargues

Board member since 2019.

Education and professional experience: Management education IMD Lausanne (CH); Executive MBA, Lund University (EFL); and high school degree in Mechanical Engineering, Tekniska Vuxengymnasiet, Gothenburg. Many years of experience from senior positions with global manufacturers, including ASSA ABLOY and Besam.

Current assignments/positions: President and CEO of Dometic Group AB.

Selected previous assignments: Head of Entrance Systems at ASSA ABLOY, President and CEO of the Besam Group, various positions within the SKF Group.

Holding in Munters Group AB: Independent in relation to the Company and Group management as well as the company's major shareholders.

Andreas Näsvik

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

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 in Deutsche Bank, Goldman Sachs Investment Banking and Goldman Sachs Capital Partners.

Other current assignments/positions: Board member of Ryds Bilglas. Partner of NC Advisory AB, advisor to the Nordic Capital Funds, and board member of Intrum AB.

Selected previous assignments: Board member of Lindorff AB.

Holding in Munters Group AB: - Independent in relation to the Company and Group management, but not in relation to the Company's major shareholders

Per Hallius

Board member since 2013.

Education and professional experience: MBA, Harvard Business School. M.Sc. in Economics and Business Administration, Stockholm School of Economics. Independent advisor, board representative and investor. Almost 25 years in management consulting, most recently as Senior Partner at the Boston Consulting Group.

Other current assignments/positions: Chairman of Nefab Group AB. Deputy Chairman of Ruukki Construction Oy. Board member of PMH Affärsutveckling AB, Beowulf AB and Quant AB. Industrial advisor to Nordic Capital Funds. Advisor to senior executives in 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.
Independent in relation to the Company and Group management as well as the company's major shareholders. Per Hallius has a consultancy arrangement with Nordic Capital Limited and the Nordic Capital Funds.

Lena Olving

Board member since 2017. Member of the Audit Committee.

Education and professional experience: M.Sc. in Mechanical Engineering, Chalmers University of Technology. Various senior positions at Volvo Cars, including 5 years in Asia and 7 years in Group Management. Former President and CEO of Mycronic AB (publ.), Samhall Highland AB, and COO and deputy CEO of Saab AB (publ.).

Other current assignments/positions: Partner and founder of Olving & Ohberg AB, Chairman of Academic Work Holding AB, Chairman of the Swedish Royal Opera. Board member of Assa Abloy AB (publ.), Investment AB Latour (publ), NXP (publ) and IVA's Business Executives Council (Näringslivsrådet).

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

Holding in Munters Group AB: 500 shares
Independent in relation to the Company and Group management as well as the company's major shareholders.

Robert Wahlgren

Deputy member since 2010. Employee representative appointed by Unionen.

Position at Munters: Customized Project Engineering Coordinator, Munters Europe AB.

Holding in Munters Group AB: -

Tor Jansson
Deputy Board member and employee representative appointed by IF Metall is not shown in the photo.

Group Management

In February 2020, Munters announced that an organizational change has been done. The previous role "Global Operations", part of the Group Management Team, has been changed into "Strategic Operations" with focus to drive continuous improvements, including production processes, tools and processes in the operations to be used by both business areas and an optimization of the different factories. Two new roles has been added to the Group Management Team:

Innovation, with focus on driving the research and development process, which includes coordination of shared technology between the business areas and the product development process. The role of Commercial Excellence has also been added, with a focus on coordinating the development and training of the sales process, driving the development of pricing strategies and Munters different go-to market methods. Recruitment is ongoing for these roles.

Katarina Lindström, Group Vice President, Global Operations, has decided to leave Munters during 2020 due to the change of the role Global Operations, after securing a good transition. Stefan Måhl, has been appointed as interim Vice President of Strategic Operations.

In February 2020 it was announced that Pia Brantgärde Linder, currently Business Unit Manager of High Voltage Products in Northern Europe at ABB, has been appointed President of Business Area FoodTech as of August 16, 2020. Johan Ekeström will continue in his dual roles as interim President of FoodTech and Vice President Finance at FoodTech until Pia takes on her new position.

Annette Kumlien

Group Vice President and CFO since August 12, 2019

Education: Bachelor of Science in Business Administration from Stockholm School of Economics.

Previous assignments and professional experience: SVP and COO of Diaverum and prior to that CFO. Former CFO of a several listed companies such as Höganäs and Pergo as well as business controller at Perstorp and Sandvik.

Holding in Munters Group AB: 4,000 shares

Klas Forsstrom

President and CEO since August 12, 2019

Education: M.Sc. in Materials Physics and an MBA from Uppsala University as well as advanced management studies at INSEAD.

Previous assignments and professional experience: Former President of Sandvik Machining Solutions. Over 20 years of senior management positions at Sandvik, including as President of Sandvik Hard Materials and Sandvik Coromant.

Holding in Munters Group AB: 14,200 shares

Katarina Lindström

Group Vice President Global Operations since 2018

Education: M.Sc. Material Science, KTH Royal Institute of Technology, Stockholm.

Professional experience: Various management positions at Volvo since 1988, such as Senior Vice President International Manufacturing, Volvo Group Trucks Operation and Senior Vice President, Operations and Supply Chain Management at Volvo Group Trucks Operation. Board member of Gränges and elected member of the Swedish Royal Engineering Academy.

Holding in Munters Group AB: 10,000 shares.

Johan Ekeström

Interim President of FoodTech since November 1, 2019

Education: M.Sc. in Economics and Business from the Stockholm School of Economics, MBA courses at Carlson School of Management, University of Minnesota.

Previous assignments and professional experience: Johan has been with Munters since 2011 in several management positions within Finance, Product Marketing and Business Development. Prior to this, he held positions at McKinsey & Company and Procter & Gamble.

Holding: –

Sofia Gellar

Group Vice President HR, Communications and Sustainability since 2018

Education: Bachelor of Science in Human Resources Development and Labor Relations, Stockholm University.

Professional experience: More than 20 years of experience within Human Resources, including as Head of Corporate HR and Head of HR Support at Scania, Head of Talent Management at SSAB EMEA and VP Human Resources Ruukki Construction.

Holding in Munters Group AB: –

Peter Gisel-Ekdahl

Group Vice President of AirTech since November 1, 2019

Education: M.Sc. in Chemical Engineering, KTH Royal Institute of Technology. M.Sc. in Business Administration, Copenhagen Business School.

Previous assignments and professional experience: Group Vice President of FoodTech from 2011 through October 2019, various positions at Wedholms and Hackman. Deputy board member of Drivec AB.

Other current assignments: Board member of ABECE AB and Wedcooling AB.

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

Auditor’s report

AUDITOR’S REPORT ON THE STATUTORY SUSTAINABILITY STATEMENT

To the general meeting of the shareholders of Munters Group AB (publ.), corporate identity number 556819-2321

Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability statement for the year 2019-01-01 – 2019-12-31, for which the extent is presented on page 46, 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 20 March 2020
Ernst & Young AB

Rickard Andersson
Authorized Public Accountant

AUDITOR’S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders of Munters Group AB (publ.) corporate identity number 556819-2321

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2019-01-01 – 2019-12-31 on pages 64-71 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 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 20 March 2020
Ernst & Young AB

Rickard Andersson
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 January 1 to December 31 2019. "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 March 17, 2020. The consolidated and Parent Company income statements and balance sheets will be submitted for approval at the Annual General Meeting on May 7, 2020.

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 a variety of business segments. Munters has been a pioneer in the field of air treatment since the company was founded in 1955. As of now production and sales occur in over 30 countries by our 3,100 coworkers. Munters AB has since 2017 been listed on Nasdaq Stockholm. Since the beginning of 2019 the operation is organized into two business segments: AirTech and FoodTech, read more under significant event during the year.

The summary below for 2019 refers to continuing operations and, with respect to the income statement for 2018, is restated for discontinued operations; see also the next section. The profit/loss items order intake, net sales, EBIT and operating margin for the period 2015-2017 are also restated for discontinued operations and reflect the continuing operations.

Five-year summary	2019	2018	2017	2016	2015
Order intake, SEKm	7,302	6,698	6,316	5,840	5,262
Net sales, SEKm	7,153	6,412	6,122	5,610	5,337
Earnings before interest and tax, SEKm	556	529	491	537	383
EBIT margin, %	7.8	8.3	8.0	9.6	7.2
Profit/Loss after financial items, SEKm	367	404	152	153	13
Income for the year, SEKm	283	327	173	85	-18
Net debt, SEKm 1)	3,062	2,843	2,661	2,724	2,617
Equity/assets ratio, % 1)	36	40	41	38	37
Total assets, SEKm	10,093	9,268	9,198	8,991	8,008
Investments (excl. leased assets), SEKm	191	232	170	183	112
Average number of employees	3,406	3,653	3,559	2,953	2,874

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

Discontinued operations
The income statement has been restated for the years 2019 and 2018 to reflect discontinued operations in line with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

Discontinued operations is defined as the business connected to the Data Centers operations in Dison, Belgium, where the production has ceased but minor installation services remains at customer sites. All income statement items in this report refers to Munters continuing operations, if not otherwise stated. See more information in note 9.

Order intake and net sales
Group
Order intake increased with 9% to SEKm 7,302 (6,698), corresponding to an organic increase of 3%.

Net sales increased with 12% to SEKm 7,153 (6,412), corresponding to an organic increase of 6%.

AirTech
Business area AirTech order intake increased by 14% and by 8% organically, driven by strong order intake in Data Centers US that during 2019 expanded the solution portfolio and Mist Elimination. Services had increased order intake during the year, whereas demand from the Supermarket segment was low. The Industrial segment saw weak order intake, with lower volumes in the lithium battery sector in China and lower demand from Aerospace applications in the Americas.

Net sales in AirTech increased by 17% and by 10% organically, mainly driven by an increase in Data Centers US and Mist Elimination. Services increased sales by 8% organically. The Industrial segment increased sales for the year driven by a strong demand from the lithium battery segment, which was partially offset by weaker demand from the Aerospace segment.

FoodTech
Business area FoodTech order intake declined by -1% and organically by -6%. This was primarily driven by a weaker demand from the swine segment in China and the US. In the US demand was weaker as a consequence of an overcapacity in the swine market, together with uncertainties related to consequences from new trade tariffs and the African Swine Flue (ASF) that also affected the demand in China negative.

Business area FoodTech net sales increased by 1% and decreased for the full year of -5% organically, with a decline in net sales in China and the US following the weaker order intake during the first nine months of the year. Net sales this year have had a slightly more positive development than order intake, as some of the order intake growth in 2018 included Software as a Service contracts recognized over several years.

Gross profit
Gross profit amounted to SEKm 2,331 (2,252) and gross margin was 32.6% (35.1).

Indirect costs
Selling and administrative costs for Munters amounted to SEKm 1,580 (1,539) corresponding to 22% (24) of net sales. Currency translation effects increased the cost by SEKm 80 compared to 2018.

Operating profit (EBIT) and Adjusted EBITA

Group

Operating profit 2019 was SEKm 556 (529), corresponding to an operating margin of 7.8% (8.3%). Depreciation amounted to SEKm 213 (95) and amortizations and write-downs of SEKm 134 (157), where SEKm 88 (133) was related to amortization of intangible assets from acquisitions. Depreciation of leased assets for the full year was SEKm 106 (-) (see specification of IFRS 16 impacts on page 21). EBIT was also impacted by SEKm 181 (39) due to IAC´s related to the continuing operations.

Amounts in SEKm	*AirTech*	*Food-Tech*	*Other*	*Total*
EBIT, including discontinued operation	*115*	*226*	*-236*	*105*
EBIT, discontinued operation	*-450*	*0*	*0*	*-450*
EBIT, continuing operation	*565*	*226*	*-236*	*556*
Amortizations intangeble assets, continuing operation	*-31*	*-15*	*-88*	*-134*
EBITA, continuing operation	*595*	*242*	*-147*	*690*
Items affecting comparability in continuing operation	*-67*	*-36*	*-78*	*-181*
Adjusted EBITA, continuing operation	**662**	**278**	**-69**	**871**

AirTech

Adjusted EBITA in business area AirTech increased 27% to SEKm 662 (522), corresponding to an adjusted EBITA margin of 12.8% (11.8). The improved margin is a result of higher volumes and a high utilization rate, together with a changed product mix and lower indirect costs resulting from the Full Potential Program (FPP).

FoodTech

Adjusted EBITA in business area FoodTech increased 12% to SEKm 278 (249) corresponding to an adjusted EBITA margin of 13.7% (12.4). The improvement compared to last year was driven by savings achieved from initiatives run within the FPP, as well as improved gross margin driven by a higher share of sales from controllers, together with overall operational improvements.

Net financial items

The comments below on financial income and expenses relates to Munters total business, i.e. including the discontinued operation.

Financial income and expenses for the year amounted to SEKm -194 (-127). The increase was mainly due to increased interest rates and higher interest expenses related to IFRS16.

Taxes

Income taxes for the full year was SEKm -83 (-77) and the effective tax rate was 23% (19).

Items affecting comparability

During 2019 Munters has incurred IACs relating to the FPP program launched in February 2019 as well as IACs related to other operating excellence initiatives. The IACs have been incurred in both the continuing operation as well as the discontinuing operation. IACs amounted to SEKm 554 (39).

Items affecting comparability for continuing business amounted to SEKm 181 (39), whereof SEKm 153 related to the FPP-program and consisted mainly of severance costs.

The closure of the Data Centers factory in Dison, Belgium, has been a part of the FPP program. During the third quarter 2019, the closure of Dison was decided and as of then the European Data Centers business, and the related IAC´s, has been defined as a discontinued operation in accordance with IFRS 5. IACs amounted to SEKm 257, of which SEKm 239 (0) was related to the FPP program and SEKm 139 was severance pay and SEKm118 was warranty and other accruals as well as fixed asset and inventory write-downs.

In relation to the closure process of Dison, specified components, for a previously sold customized Munters solution, had to be replaced at a specific customer's sites. Because of this, Munters incurred non-recurring cost of SEKm 116 in the third quarter 2019, which was paid in the fourth quarter. This cost is not included in the total cost for the FPP program described above. Munters has insurance solutions in place for this type of events, but since Munters has not concluded the discussions with the relevant customer and its insurance providers the final financial and cash flow net effect on Munters cannot yet be determined.

Investments

Comments about financial items refers to Munters total business, i.e. including discontinued business.

Investments in tangible assets amounted to SEKm 118 (148). A large portion relates to machinery and equipment prom the production units in Mexico, Italy, US, China and Germany. Depreciations totaled to SEKm 280 (99).

Investments in intangible assets excluding goodwill other assets related to acquisitions totaled to SEKm 74 (84). Amortizations amounted to SEKm 132 (504). In 2018 a write-down of SEKm 324 of goodwill in Data Centers was made.

Goodwill

Goodwill as of December 31, 2019 amounted to SEKm 4,348 (4,218). The increase is result of currency effects from a weaker SEK in relation to USD in comparison to last year.

Financial position and liquidity

On April 1, 2019, Munters was granted an additional revolving credit facility of MEUR 19 in order to ensure sufficient level of payment capacity through the FPP program, which included cost and payments of one time character. The facility matured as of December 21, 2019.

Munters primary financing facilities consists 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 May 2022. The loan agreement has one financial covenant (consolidated net debt in relation to adjusted EBITDA).

The new accounting standard for leases, IFRS 16, does not affect the covenant calculation according to the loan agreement definition. For further information on the IFRS 16 effect, see section Accounting Policies. Interest-bearing liabilities amounted to SEKm 3,497 (3,013). Cash and cash equivalents amounted to SEKm 722 (404) as of December 31, 2019.

At quarter end the term loan was fully drawn with USDm 250 and EURm 91 of the total revolving credit facility were utilized in EUR, USD and SEK. Available unutilized credit facilities as of December 31 amounted to SEKm 985 (918). Along with the main loan facility, an amount of EURm 25 (13) in local debt is outstanding in i.a. China and Brazil.

SIGNIFICANT EVENTS DURING THE YEAR

During the first quarter Munters was reorganized from four Business segments to two. Business segments went through a name change as well, Air Treatment was renamed to AirTech and Ag-Hort became FoodTech. Former business segments, Data Centers and Mist Elimination, are as of 2019 a part of AirTech.

In February 2019, Munters announced the launch of a three-phase plan for progression to capture Munters full potential to improve Group earnings. As part of the first phase of the program, Munters announced the intention to close down the European Data Centers factory in Dison, Belgium. The process to close the factory was decided and initiated in the third quarter. During 2019, Munters gradually shifted focus to the second phase of the program, which included activities such as driving business mix towards most attractive applications, a more focused product development, etc. The third and final phase in the program is to accelerate growth with focus on attractive segments where the company see solid long-term demand and where strong market positions can be established. The total yearly run-rate overhead cost saving from the program was well in line with the SEKm 210 at the end of the year 2019. The program has been implemented successfully and the financial targets have been realized. The majority of the actions took effect already during the first half of 2019. Specifically for the Dison closure, the reporting of the European Data Center business as a discontinued business means that the full impact was realized already in 2019.

Non-recurring charges for the FPP program totaled SEKm 392 and they were all charged in 2019. The FPP program has temporarily increased the leverage during 2019 and necessary consent from the lending banks has been received.

In April 2019, the Board of Directors appointed Klas Forsström as President and CEO of Munters Group AB. He entered his position on August 12, 2019. Prior he was the President of Sandvik Machining Solutions Business area. Johan Ek, the interim President and CEO of Munters from December 2018 until August 12, 2019, remain in his current role as a member of the Board of Directors of Munters. In May, Munters Group AB appointed Annette Kumlien as the new Group Vice President and CFO. Annette Kumlien took over on August 12, succeeding Jonas Ågrup, CFO at Munters since 2011. Annette previously held positions at Diaverum as COO and CFO.

The Annual General Meeting in May 2019 resolved in accordance with the Board's proposal to implement a long-term performance based employee stock option program for members of the Group management and certain other key employees ("LTIP 2019"), approximately 72 employees in total. The program was to comprise no more than 1,595,000 employee stock options divided in three series. No more than 100,000 of these employee stock options would be cash settled, with the remainder entitling the acquisition of shares in the company. A total of 68 employees accepted the offer, comprising 1,498,000 employee stock options, whereof 80,000 cash settled. The employee stock options have been granted free of charge. For more information on the program, see Note 32.

In August, Munters repurchased a total number of 385,000 shares pursuant to the authorization granted by the Annual General Meeting 2019. The purpose of the repurchases was to secure the delivery of shares to the participants of Munters' long-term incentive programme.

In October, Munters announced that Peter Gisel-Ekdal had been appointed the role as President of business area AirTech as of November 1, 2019. Peter Gisel-Ekdahl has been President of Munters business area FoodTech since 2007 and a member of Group Management team since 2011. Johan Ekeström was appointed Interim President for FoodTech as of 1 November 2019.

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

Costs for research and development amounted to SEKm 197 (191), corresponding to 2.8 % (3.0) of net sales. Capitalization of internally generated intangible assets amounted to SEKm 62 (60). Activities in the area comprise research initiatives, technological and product development, and product ownership. To ensure sustainable value creation, innovation, development and product launches are balanced. A clear trend has been to focus on digitization and smarter products, which will create great opportunities in both business areas. Sustainability and energy efficiency are something Munters considers very important, and a large part of our research resources are used for the development of new technologies in these areas.

EMPLOYEES

The number of permanent employees at year-end was 3,088 (3,518). The decrease was mainly due to the three-phase plan as part FPP to capture Munters' full potential to improve the Group's earnings. The single biggest contributor to the personnel decrease was the closing of the European Data Centers factory in Dison, Belgium.

Employee turnover was 26% (19). The high turnover mainly relates to Belgium, where the European Data Centers factory was closed during the year, as well as the US and Mexico, where Munters has large production operations. The average age was 43 (42). Women accounted for 21% (19) of employees.

For remuneration to senior management as well as adopted remuneration guidelines see Note 31.

FINANCIAL RISKS

Financial risks mainly consist of currency, interest and financing risks. Global economic development, including changes in interest and currency rates, is an uncertainty for future profitability. A more detailed description of financial risks and how they are controlled and managed is provided in Note 3. For a description of risks other than financial risks, see page 56.

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 28 (77). The Parent Company had four permanent employees, two men and two women.

SHARE CAPITAL AND OWNERSHIP

The share capital of SEK 5,507,934 comprises 183,597,802 shares, whereof 1,852,000 shares in custody, with a par value of SEK 0.03 per share, accounting for 1.0%. The shares in Munters Group AB are listed on Nasdaq Stockholm under the symbol MTRS. Munters Group AB's ten largest shareholders as of December 31, 2019 hold a total of 69.6% (86.3) of the number of shares outstanding. Of these, FAM AB holds 21.1 % (11.4), followed by Nordic Capital indirectly, through its fund Nordic Capital VII, with 14.7% (50.1). No other shareholder holds more than ten percent of the shares in Munters Group AB either directly or indirectly.

PROPOSAL ON DISTRIBUTION OF DIVIDEND

Earnings of SEK 4,133,272,124 are at the disposal of the Annual General Meeting. The Board of Directors of Munters Group AB propose that the Annual General Meeting 2020 resolve that no dividend be paid, and that the standing profits at the disposal of the AGM be carried forward.

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

The guidelines for remuneration to senior executives that has applied in 2019 are shown in Note 31. The company's auditors have reviewed that the guidelines decided by the Annual General Meeting have been followed

The Board of Directors proposes that the 2020 annual general meeting resolve on guidelines for the remuneration of senior executives to be in force until further notice, pursuant to the following.

The group of executives encompassed by the guidelines comprises the CEO and other members of the group management. The guidelines also encompass any remuneration to Board members, other than Board fees. The guidelines shall apply to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the 2020 annual general meeting. The guidelines do not apply to any remuneration resolved by the general meeting.

The guidelines' promotion of the company's business strategy, long-term interests and sustainability

Munters business strategy is to be a global leader in energy-efficient and sustainable climate solutions. Our solutions enable energy efficient production processes with reduced carbon dioxide emissions for our customers. Through innovative technologies, the Group creates the perfect climate for demanding industrial applications, the largest segments of which are manufacturing, defense, data centers, food, pharmaceutical and agriculture.

Munters conducts operations in two business areas:

- AirTech is a global leader in energy-efficient air treatment for industrial and commercial fields of application.
- FoodTech is one of the world's leading suppliers of innovative and energy-efficient climate systems for livestock farming and greenhouses, as well as software for controlling and optimizing the entire food production value chain.

For further information regarding Munters business strategy, see Munters website (https://www.munters.com/en/about-us/munters-in-short/).

A prerequisite for the successful implementation of Munters business strategy and safeguarding of the company's long-term interests, including its sustainability, as well as delivery on the ambitions the company has, is that the company is able to recruit and retain qualified personnel. In order to do so, Munters must be able to offer a competitive total remuneration based on market terms, which these guidelines enable.

Munters has implemented long-term share-related incentive programs in 2017, 2018 and 2019, in which some senior executives have had the opportunity to participate. These programs have been resolved by each general meeting and are therefore excluded from these guidelines. The long-term share-related incentive program proposed by the Board of Directors to the 2020 annual general meeting to resolve on, or any other future share-related incentive program resolved by the general meeting, are excluded for the same reason. For information regarding performance criteria, terms and conditions, and costs for these programs, see the Board of Directors' complete proposal for each general meeting on Munters website and in Munters annual report.

Variable cash remuneration covered by these guidelines shall aim to promote the company's business strategy and long-term interests, including its sustainability.

Types of remuneration, etc.

The remuneration shall be on market terms and may consist of the following components: fixed annual cash salary, variable annual cash salary, pension and other benefits. Additionally, the general meeting may – irrespective of these guidelines – resolve on, for example, share and share price-related remuneration.

Fixed cash salary

The fixed cash salary shall reflect the demands and responsibility that the position entails as well as individual performance. The fixed cash salary shall be revised annually.

Variable cash salary

Variable cash salary shall be maximized to 140 per cent of the fixed annual cash salary for the CEO and 70 per cent of the fixed annual cash salary for other members of the group management. The satisfaction of criteria for awarding variable cash salary shall be measured over a period of one year.

The variable cash salary shall be linked to predetermined and measurable financial criteria, such as operating result and working capital. By linking the remuneration of the senior executives to the company's earnings and financing of its operating activities, the criteria promote the implementation of the company's business strategy and long-term interests, including its sustainability. Furthermore, the criteria for variable cash salary shall be designed so that they do not encourage excessive risk taking.

To which extent the criteria for awarding variable cash salary has been satisfied shall be evaluated when the measurement period has ended. The Board of Directors is responsible for the evaluation so far as it concerns variable cash salary to the CEO. For variable cash salary to other members of the group management, the Compensation Committee is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

Terms and conditions for variable cash salary shall 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.

Additional variable cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and only made on an individual basis, either for the purpose of recruiting or retaining executives, or as remuneration for extraordinary performance beyond the individual's ordinary tasks. Such remuneration may not exceed an amount corresponding to 50 per cent of the fixed annual cash salary and shall not be paid more than once per year and per individual. Resolution on such remuneration shall be made by the Board of Directors based on a proposal from the Compensation Committee.

Pension

For the CEO, pension benefits, including health insurance, shall be defined contribution. Variable cash salary shall not qualify for pension benefits. Pension contributions for defined contribution pension shall amount to not more than 35 per cent of the fixed annual cash salary.

For other members of the group management, pension benefits, including health insurance, shall be defined contribution unless the executive concerned is subject to defined benefit pension under mandatory collective agreement provisions. Variable cash salary shall qualify for pension benefits to the extent required by mandatory collective agreement provisions applicable to the executive. Pension contributions for defined contribution pension shall amount to not more than 35 per cent of the fixed annual cash salary.

Other benefits and compensation

Other compensation may consist of other benefits that are customary and in line with market terms, such as medical insurance, life insurance and company cars, which shall not constitute a significant part of the total remuneration. Such benefits may amount to not more than 10 per cent of the fixed annual cash salary.

For employments governed by rules other than Swedish, pension benefits and other benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Consultancy fee to Board members

In specific cases, and for a limited time, Munters Board members elected by the general meeting may be able to be remunerated for services within their respective areas of expertise, which does not constitute board work. For these services (including services performed by a Board member wholly-owned company), a fee on market terms can be paid, provided that such services contribute to the implementation of Munters business strategy and safeguarding of Munters long-term interests, including its sustainability. Such consultancy fee may, for each Board member, in no case exceed one year's Board fee.

Termination of employment

Fixed cash salary during the notice period and severance pay, as well as remuneration for any non-compete restrictions, shall in total not exceed an amount corresponding to the fixed cash salary for two years for the CEO and 18 months for other members of the group management. Severance pay shall not be paid if notice of termination of employment is made by the CEO and other members of the group management. The notice period between the company and the CEO, and other members of the group management, shall not exceed 6 months.

Remuneration for any non-compete restrictions shall compensate for any loss of income and shall only be paid for such period as the former executive does not have the right to severance pay. The remuneration shall amount to not more than 60 per cent of the fixed annual cash salary at the time of termination of employment, unless otherwise provided by mandatory collective agreement provisions, and shall be payable during the period subject to the non-compete restriction, which shall not exceed 12 months after termination of employment.

Salary and employment conditions for employees

In the preparation of the Board of Directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company and the group's Swedish operation have been taken into account by including information on the employees' total remuneration, the components of the remuneration and increase and growth rate over time, in the Compensation Committee's and the Board of Directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable. In the company, i.e. in Munters Group AB, there are only four employees (all are senior executives).

Preparation and decision-making process

The Board of Directors has established a Compensation Committee. The committee's tasks include, among other things, preparing the Board of Directors' decision to propose guidelines for remuneration to senior executives. The Board of Directors shall prepare a proposal for new guidelines at least every fourth year and submit the proposal to the annual general meeting. The guidelines shall be in force until new guidelines are adopted by the general meeting.

The Compensation Committee shall also monitor and evaluate programs for variable remuneration for the group management, the application of the guidelines for remuneration to senior executives as well as the current remuneration structures and compensation levels in the company. The CEO and other members of the group management do not participate in the Board of Directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters. Remuneration to the CEO is prepared by the Compensation Committee and decided by the Board of Directors. Remuneration to other members of the group management is prepared by the CEO and decided by the Compensation Committee.

Derogation from the guidelines

The Board of Directors may temporarily resolve to derogate from the guidelines resolved by the general meeting, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As stated above, the Compensation Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters, which includes preparing any resolutions to derogate from the guidelines.

SIGNIFICANT EVENTS AFTER PERIOD END AND FUTURE OUTLOOK

During 2019 a strategic evaluation of the Data Centers and Mist Elimination operations has been conducted. In February 2020, this resulted in a decision to keep these businesses in Munters. Both businesses made significant progress during 2019. Considering our refined strategic direction we see a good strategic fit. Both businesses operate in markets with good growth potential, driven by digitalization and high demands for sustainable solutions.

In February an organizational change was announced. The change aims at creating a clearer business ownership and capture local synergies and value drivers across the Group, by aligning the value chain within the business areas. The change means that the business areas have full profit and loss responsibility for their respective area. The role Global operations in the Group management team will be changed into a Strategic operations role with focus on driving lean practices, manufacturing excellence, shared tools and processes and overall footprint optimization. Two roles have been added: Innovation, with focus on driving R&D processes, including shared technologies coordination and product introduction development and Commercial excellence, with focus on coordinating sales training, drive practice of value selling, pricing strategies and go-to-market methods.

In February 2020, it was also announced that Pia Brantgärde Linder, currently Business Unit Manager of High Voltage Products in Northern Europe at ABB, has been appointed President of business area FoodTech as of August 16, 2020. Pia has had a long career at ABB. She is currently Senior Vice President and the Business Unit Manager for High Voltage Products in Northern Europe. Pia has a Master of Science in Mechanical Engineering from Chalmers University of Technology and an Executive Master in Business Administration (EMBA) from Stockholm School of Economics.

In late 2019, a coronavirus was found in China that can spread to humans and cause the disease Covid-19. In early 2020, the global spread of the corona virus escalated. The way in which and to what extent the spread of the virus may affect Munter's business and financial prospects in 2020 is still too early to have a well-founded understanding of."

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 64–71and the Sustainability Report on Pages 46-55. 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	2019	2018
Net sales	4, 6	7,153	6,412
Cost of goods sold		-4,822	-4,160
Gross profit/loss		**2,331**	**2,252**
Other operating income	7	9	14
Selling expenses		-970	-987
Administrative costs		-610	-553
Research and development costs		-197	-191
Other operating expenses	7	-7	-6
Earnings before interest and tax (EBIT)	5, 7, 8, 9	**556**	**529**
Financial income	10	7	5
Financial expenses	10	-196	-130
Profit/Loss after financial items		**367**	**404**
Tax	11	-83	-77
Net income for the year from continuing operation		**283**	**327**
Net income from discontinued operation	9	-448	-421
Net income for the year		**-164**	**-94**
Attributable to Parent Company shareholders		-166	-105
Attributable to non-controlling interests		2	11
Average number of outstanding shares before dilution		181,983,219	183,165,852
Average number of outstanding shares after dilution		181,983,219	183,165,852
Earnings per share for net income for the year from continuing operation attributable to the ordinary equity holders of the company:			
Earnings per share before dilution, SEK	21	1.55	1.73
Earnings per share after dilution, SEK	21	1.55	1.73
Earnings per share for net income for the year attributable to the ordinary equity holders of the company:			
Earnings per share before dilution, SEK	21	-0.91	-0.57
Earnings per share after dilution, SEK	21	-0.91	-0.57
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		122	193
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	-44	-17
Income tax effect on other comprehensive income not to be reclassified to profit or loss in subsequent periods	11	9	4
Other comprehensive income, net after tax		**87**	**179**
Comprehensive income for the year		**-77**	**85**
Attributable to Parent Company shareholders		-79	75
Attributable to non-controlling interests		2	10

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*	**2019**	*2018*
OPERATING ACTIVITIES			
Earnings before interest and tax (EBIT), including discontinued operation		105	134
Reversal of non-cash items;			
Depreciation, amortization, and impairments	8	408	602
Other profit/loss items not affecting liquidity		63	19
Change in provisions			
Provisions		158	-19
Cash flow before interest and tax		**735**	**736**
Paid financial items		-177	-109
Taxes paid		-111	-123
Cash flow from operating activites before changes in working capital		**448**	**503**
Cash flow from changes in working capital		221	-63
Cash flow from operating activities	9	**669**	**441**
INVESTING ACTIVITIES			
Business acquisitions	12	–	-37
Sales of tangible assets		18	2
Sales of intangible assets		2	1
Business divestment	12	–	-0
Investment in tangible assets	13	-118	-148
Investment in intangible assets	14	-76	-84
Cash flow from investing activities		**-174**	**-266**
FINANCING ACTIVITIES			
Loans raised	20	284	407
Amortization of loans	20	-332	-473
Repayment of lease liabilities	20	-123	–
Repurchase of shares	23	-16	-59
Dividends paid	23	–	-55
Cash flow from financing activities		**-185**	**-180**
Cash flow for the year		**310**	**-5**
Cash and cash equivalents at January 1		404	402
Exchange-rate differences in cash and cash equivalents		7	8
Cash and cash equivalents at December 31	19	**722**	**404**

Interest received totaled 7 (5). Interest paid on bank debt totaled -176 (-132).

STATEMENTS OF FINANCIAL POSITION

GROUP

Amounts in SEKm	Note	**2019**	2018
ASSETS			
NON-CURRENT ASSETS			
Goodwill	8, 15	4,348	4,218
Patents, licenses, brands, and similar rights	8, 14,15	1,469	1,480
Buildings and land	8, 13	248	168
Plant and machinery	8, 13	554	270
Equipment, tools, fixtures, and fittings	8, 13	162	137
Construction in progress	13	55	62
Other financial assets	19	19	11
Deferred tax assets	11	249	227
Total non-current assets		**7,103**	**6,575**
CURRENT ASSETS			
Raw materials and consumables		350	391
Products in process		107	106
Finished products and goods for resale		296	282
Projects in progress		7	7
Advances to suppliers		12	20
Accounts receivable	3, 17, 19	1,050	1,095
Prepaid expenses and accrued income	18	288	224
Derivative instruments	19	5	3
Current tax assets		56	53
Other receivables	19	96	109
Cash and cash equivalents	19	722	404
Total current assets		**2,989**	**2,693**
TOTAL ASSETS		**10,093**	**9,268**

STATEMENTS OF FINANCIAL POSITION

GROUP

Amounts in SEKm	*Note*	**2019**	*2018*
EQUITY AND LIABILITIES			
EQUITY			
Attributable to Parent Company shareholders	*23*		
Share capital		6	6
Other capital contributions		5,083	5,083
Reserves		664	543
Profit brought forward		-2,125	-1,913
		3,628	3,719
Non-controlling interests		-0	-4
Total equity		**3,627**	**3,716**
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	*19, 20*	3,371	3,002
Provisions for pensions and similar commitments	*24*	282	230
Other provisions	*25*	24	16
Other liabilities	*19*	134	137
Deferred tax liabilities	*11*	409	421
Total non-current liabilities		**4,221**	**3,805**
CURRENT LIABILITIES			
Interest-bearing liabilities	*19, 20*	126	11
Advances from customers		374	285
Accounts payable	*19*	556	535
Accrued expenses and deferred income	*26*	716	590
Derivative instruments	*19*	–	1
Current tax liabilities		32	28
Other liabilities	*19*	153	181
Provisions for pensions and similar commitments	*24*	9	8
Other provisions	*25*	278	107
Total current liabilities		**2,244**	**1,746**
TOTAL EQUITY AND LIABILITIES		**10,093**	**9,268**

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, 2019	**6**	**5,083**	**543**	**-1,912**	**3,719**	**-4**	**3,716**
Changes in equity, 2019							
Put/call option related to non controlling interests				0	0	-	0
Acquisition of non-controlling interests				0	0	1	1
Repurchase of shares				-16	-16	-	-16
Share option plan				4	4	-	4
Other				-1	-1	-0	-1
Income for the year				-166	-166	2	-164
Other comprehensive income, net after tax			121	-35	86	1	87
Comprehensive income for the year			121	-200	-80	3	-77
Closing balance, December 31, 2019	**6**	**5,083**	**664**	**-2,125**	**3,628**	**-0**	**3,627**
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**

* Dividends paid amounts to SEK 0.30 per share.

STATEMENTS OF COMPREHENSIVE INCOME

PARENT COMPANY

Amounts in SEKm	*Note*	**2019**	*2018*
Net sales		–	–
Gross profit/loss		**–**	**–**
Administrative costs		-44	-11
Earnings before interest and tax (EBIT)		**-44**	**-11**
Financial expenses	10	-0	-0
Profit/Loss after financial items		**-44**	**-11**
Group contributions		43	–
Profit/Loss before tax		**-1**	**-11**
Tax	11	0	0
Income for the year		**-1**	**-11**

OTHER COMPREHENSIVE INCOME

Amounts in SEKm	*Note*	**2019**	*2018*
Profit/Loss for the year		-1	-11
Other comprehensive income, net after tax		–	–
Comprehensive income for the year		**-1**	**-11**

STATEMENTS OF FINANCIAL POSITION

PARENT COMPANY

Amounts in SEKm	Note	**2019**	2018
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	0
Receivables from subsidiaries		45	–
Cash and cash equivalents		28	77
Total current assets		**74**	**77**
TOTAL ASSETS		**4,160**	**4,163**
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		41	68
Income for the year		-1	-11
Total equity		**4,139**	**4,155**
CURRENT LIABILITIES			
Accounts payable		3	0
Accrued expenses and deferred income	26	11	2
Liabilities to subsidiaries		0	3
Other liabilities		2	2
Other provisions		5	–
Total current liabilities		**21**	**8**
TOTAL EQUITY AND LIABILITIES		**4,160**	**4,163**

STATEMENTS OF CASH FLOWS

PARENT COMPANY

Amounts in SEKm	Note	**2019**	2018
OPERATING ACTIVITIES			
Profit/Loss after financial items		-44	-11
Profit/loss items not affecting liquidity		5	0
Taxes paid		0	-0
Cash flow from operating activities before changes in working capital		**-39**	**-12**
Cash flow from changes in working capital		**0**	**-1**
Cash flow from operating activities		**-39**	**-12**
FINANCING ACTIVITIES			
Group contributions		6	89
Loan amortization		0	-20
Repurchase of shares	23	-16	-59
Dividends paid	23	0	-55
Cash flow from financing activities		**-10**	**-45**
Cash flow for the year		**-49**	**-57**
Cash and cash equivalents at January 1		77	134
Cash and cash equivalents at December 31		**28**	**77**

STATEMENTS OF CHANGES IN EQUITY

PARENT COMPANY

Amounts in SEKm	Restricted equity	Unrestricted equity				
	Share capital	Share premium reserve	Other capital contributions	Profit brought forward	Income for the year	Total
Opening balance January 1, 2019	**6**	**4,074**	**18**	**68**	**-11**	**4,155**
Changes in equity, 2019						
To be carried forward				*-11*	*11*	*0*
Repurchase of shares				*-16*		*-16*
Income for the year					*-1*	*-1*
Closing balance, December 31, 2019	**6**	**4,074**	**18**	**41**	**-1**	**4,139**
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**

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 40 Kista, Sweden. This Annual Report and Consolidated Accounts were signed by the Board of Directors for Munters Group AB on March 17, 2020, 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 7, 2020. 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, 2019

As described in note 13 in this report, the Group applies IFRS 16 *Leases* as of January 1, 2019.

For transition purposes the simplified transition approach has been used and therefore there are no restatements of comparative amounts for the prior year to the first adoption. Right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). Munters has used the transition exemption under IFRS 16 and has not reassessed whether a contract is or contains parts that constitute a lease, and has therefore applied the standard for all contracts that have previously been identified as leases. Munters has also applied the exemption rule to exclude initial direct costs when calculating the right-of-use asset. In the calculation the lessee's marginal loan rate as of January 1, 2019 has been used. The lessee's weighted average marginal loan rate applied as of January 1, 2019 was 4.18%. The Group did not have any finance leases before the transition.

As of January 1, 2019, Munters has, in accordance with the new principles, recognized right-of-use assets valued at approximately SEKm 475, lease liabilities of SEKm 458 (after adjustments for prepaid and accrued lease payments recognized as at December 31, 2018) and provision for dismantling expenses of SEKm 18.

See below for reconciliation between commitments for operational leases as of December 31, 2018 and the reported lease liability as of January 1, 2019;

Reconciliation lease obligations	**SEKm**
Operating lease commitments disclosed at December 31, 2018	*451*
Low value and short term leases	*-101*
Adjustments regarding extension and termination options	*186*
Operating leasing obligation per December 31, 2018, Not discounted	**536**
Discount effect from the groups incremental borrowing rate	*-78*
Lease liability recognised at January 1, 2019	**458**

The net profit after tax was expected to decrease, provided no new agreements were added, by approximately SEKm 13 for 2019 as a result of adopting to the new rules. EBITDA was 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 was 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. For the actual impact of the transition to the new policy, see Note 13. The actual increase in EBITDA for the full year was SEKm 115 and the deviation from the expected impact is explained by the fact that new contracts have been signed during the year. Actual adjusted EBITA for the full year from the remaining operations was SEKm 4 m and SEKm 3 from the discontinued operations.

Total cash flow is not affected, but the new policy results in a shift in cash flow from operating activities to cash flow from the financial operations because the lease payments amortizes the reported lease liability.

The other changes linked to new and changed standards have not had any impact on any amounts reported in the previous financial year and is also not expected to have a material impact on current or future periods.

New and amended IFRS that have not started being applied

A number of new standards and interpretations enter into force for the financial year beginning after 1 January 2019 and have not been applied to the preparation of this financial report. None of these new IFRS or IFRIC changes are expected to have a significant impact 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 2019, 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.

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**	**2019**	*2018*	**2019**	*2018*
AUD	Australia	6.57	6.49	6.51	6.32
CAD	Canada	7.13	6.71	7.13	6.59
CNY	China	1.37	1.31	1.33	1.31
DKK	Denmark	1.42	1.38	1.40	1.38
EUR	Euro zone	10.59	10.26	10.43	10.28
GBP	United Kingdom	12.07	11.59	12.21	11.35
JPY	Japan	0.09	0.08	0.09	0.08
NOK	Norway	1.07	1.07	1.06	1.02
SGD	Singapore	6.93	6.44	6.90	6.56
THB	Thailand	0.30	0.27	0.31	0.28
USD	United States	9.46	8.69	9.32	8.97
ZAR	South Africa	0.65	0.66	0.67	0.62

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: AirTech and FoodTech, which are also the Groups reportable segments.

The accounting policies applied by the segments are the same policies applied by the Group.

DISCONTINUED OPERATION

Since September 30, 2019 Munters is reporting a discontinued operation, see further information in note 9. The discontinued operation relates to the disposal group that has been abandoned constituting the European Data Centers-factory in Dison, Belgium. According to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* a single amount shall be disclosed in the statement of comprehensive income comprising the total of the post-tax profit or loss of the discontinued operation. A disclosure of the single amount is required and is presented in the separate note together with a disclosure of cash flows from operating, investing and financing activities related to the discontinued operation.

REVENUE RECOGNITION

Munters provides goods such as equipment, components and spare parts to customers within two 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.

Sale of goods

The majority of customer contracts within Munters 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).

Customer contracts within the segment Data Centers within AirTech 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.

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 bundled 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.

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.

Non-current assets with indeterminate useful life are recognized in the statement of financial position at cost and tested for impairment when there is an indication of impaired value or at least once a year.

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

As of January 1, 2019, leases are recognized as right-of-use assets and a corresponding liability on the day that the leased asset is available for use by the Group. Assets and liabilities arising from leases are initially recognized at present value. The lease liabilities include the present value of the following lease payments:

- fixed payments (including in-substance fixed payments) after deducting any incentives in connection with the signing of the lease as well as variable lease payments that depend on an index or a rate, initially measured with the help of an index or rate on the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of an option to purchase the underlying asset if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects that the Group will exercise an option to terminate the lease.

Lease payments that will be made for reasonably certain options to extend the lease are also included in the measurement of the liability. The lease payments are discounted by the lease's implicit interest rate. If this interest rate cannot be determined easily, which is normally the case for the Group's leases, the marginal loan rate is used, i.e. the rate that the individual lessee would paid to borrow the necessary funds to buy an asset of similar value as the right-of-use asset in a similar economic environment with similar terms and collateral.

The Group is exposed to future increases in variable lease payments based on an index or a rate, which are not included in the lease liability until they take effect. When adjustments of lease payments based on an index or a rate take effect, the lease liability is remeasured and adjusted against the right-of-use asset. Lease payments are divided between amortization of the liability and interest. The interest is recognized in profit and loss over the lease term in a way that produces a fixed rate for the lease liability recognized in each period. On the other hand, Munters has no variable payments such as turnover-based rents or the like.

Options to extend and terminate contracts are included in a number of the Group's leases primarily of factories. The terms are used to maximize flexibility. The overwhelming share of the options to extend and terminate leases can only be exercised by the Group and not by the lessors.

Munters has no appreciable residual value in the leases.

Right-of-use asset are measured at cost and include the following:

- the amount that the lease liability was originally measured at;
- lease payments paid on or before the commencement date, after deducting any incentives received upon signing the lease;
- initial direct costs;
- costs to restore the asset to the condition under the terms of the lease.

Right-of-use assets are normally subject to straight-line depreciation over the shorter of the useful life and the lease term. If Munters is reasonably confident of exercising a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset.

Payments for short-term leases and all leases of low-value assets are expensed on a straight-line basis in the income statement. Short-term leases have a term of 12 months or less. Leases of low-value assets include IT equipment, telephones and smaller office furniture.

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
Costs 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 test
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. The Group's cash-generating units consist of the Group's previous four business areas: AirTech (formerly Air Treatment), FoodTech (formerly AgHort), Data Centers, and Mist Elimination. The two later business areas have been reorganized in 2019 and are now an integral part of the AirTech business area. Impairment of goodwill is never 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
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:

Amortized 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 amortized 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 recognized 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.

Fair value through other comprehensive income (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 recognized in

profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized 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.

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

As at December 31, 2019 Munters only had financial instruments in the categories amortized 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
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, 2019.

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 AND CONTINGENT ASSETS

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.

A contingent asset is a possible inflow of resources and is not recognized as an asset in the statement of financial position before it is as good as certain that an inflow of resources will arise as an asset.

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-based payment
The Group has a number of share-based payment plans where the company obtains services from employees as consideration for the Group's equity instruments. Information on these plans is disclosed in Note 32.

Employee stock option program
The fair value of the service that entitles employees to an allotment of options through the Munters employee stock option program is recognized as a staff cost with a corresponding increase in equity. The total amount to expense is based on the fair value of the options that are allotted:

- including all market related terms (e.g., target share price)
- excluding any impact from service terms and non-market related terms for vesting (e.g., profitability, sales goals and that the employee remains employed by the company for a given period of time),
- including the impact of terms that do not constitute vesting terms (e.g., requirement that employees retain the shares for a given period of time).

The total cost is recognized over the vesting period, i.e., the period over which all the specified vesting terms will be met. At the end of each reporting period, the Group reevaluates its assessments of how many shares are expected to be vested based on the non-market related vesting terms and the service terms. Any difference compared with the original estimates that the revaluation gave rise to is recognized in profit or loss with corresponding adjustments in equity.

The social security contributions that arise on the allotment of stock options are regarded as an integral part of the allotment, and the cost is treated as cash settled share-based payment.

When the options are exercised, the correct number of shares are transferred to the employee. Payments received, after deducting any directly related transaction costs, are credited to equity.

Synthetic options
Share-based payment settled in cash is recognized as staff costs over the time the service is performed. The fair value of the liability is remeasured at the end of each reporting period and recognized as a commitment for employee benefits in the balance sheet.

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 FAM AB and 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*. 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.

Leasing

In the event that the Parent Company has any leases, these are not recognized in the balance sheet but are expensed linearly over the contract period of the lease.

NOTE 2. SIGNIFICANT ESTIMATES AND ASSESSMENTS

In preparing the financial statements, Group 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 2019, the Group recognized goodwill to a value of SEKm 4,348 (4,218).

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 2019, the Group recognized Technology, Customer relationships and Brands to a value of SEKm 1,278 (1,326).

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 2019, the Group recognized intangible assets regarding product development to a value of SEKm 140 (105).

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 2019, the Group's total tax loss carry-forward was SEKm 1,307 (951). In the consolidated balance sheet, a value for tax purposes of capitalized loss carry-forwards was recognized in the amount of SEKm 90 (101), 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 relate to contracted obligations attributable to contracts with customers and suppliers, though other types of disputes also arise in normal business operations. Group Management considers it improbable that any of the known disputes in which Munters is currently involved, and where no provisions have been recorded, will have a significant negative impact on the Group's accounts.

Revenue recognition

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.

Leasing

When defining the lease period, management takes into account all available information that provides a financial incentive to exercise an extension option, or not to exercise an option to terminate a contract. Opportunities to extend a contract are included only in the lease period if it is reasonable certain to extend the contract (or not terminate the contract). The majority of the extension options in lease agreements of office premises and vehicles have not been included in the reported lease liability as the Group can compensate the assets without significant costs or interruptions in the business. On the other hand, for lease agreements of factories, it is more common that extension options are included in the valuation, especially where the Group has spent improvement expenditure in the factories in order to adapt them to Munter's operations or otherwise estimates that it would involve costs and interruptions in the business if the contact is terminated. The lease period is reconsidered if an option is exercised (or not exercised) or whether the Group is required to exercise the option (or not take advantage of it). The assessment of whether it is reasonably certain is reconsidered only if there is any material event or change in circumstances affecting this assessment and the change is within the lessee's control.

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 CFO and the Group Treasury function, monitored and controlled by 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 financial covenants in banking agreements. 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	**2019**	*2018*	**2019**	*2018*
USD	*41.8%*	*38.4%*	*37.7%*	*34.2%*
EUR	*25.2%*	*28.2%*	*28.7%*	*33.6%*
CNY	*12.2%*	*12.0%*	*9.4%*	*9.3%*
JPY	*1.8%*	*2.2%*	*1.2%*	*2.0%*
Other	*2.7%*	*3.0%*	*8.6%*	*4.5%*
SEK	*3.8%*	*2.7%*	*3.5%*	*7.3%*
GBP	*2.7%*	*1.9%*	*2.4%*	*2.8%*
BRL	*1.5%*	*1.6%*	*1.4%*	*1.5%*
AUD	*1.3%*	*1.8%*	*0.6%*	*1.3%*
DKK	*1.4%*	*4.7%*	*1.2%*	*1.5%*
KRW	*1.1%*	*1.3%*	*0.6%*	*0.6%*
SGD	*1.1%*	*0.9%*	*0.6%*	*0.7%*
THB	*3.5%*	*1.3%*	*4.0%*	*0.7%*
Total	**100%**	**100%**	**100%**	**100%**

Currency risk

Due to Munters global presence, the Group is exposed to transaction exposure by transactions in foreign currency and through translation exposure when 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 forward selling of currency. The value of forward contracts at year-end was SEKm 4.9 (1.7), 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 2019. All other factors influencing earnings are assumed unchanged in the calculation.

SEK +10% compared with	*Estimated effect on EBIT SEKm*
USD	*-52.0*
CNY	*-28.2*
Other currencies	*-16.2*
KRW	*-6.5*
DKK	*-6.2*
SGD	*-5.2*
THB	*-4.0*
TRY	*-3.7*
AUD	*-2.5*
CAD	*-1.0*
CZK	*2.0*
MXN	*5.1*
ILS	*7.7*
EUR	*19.8*
Total	**-90.9**

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 122 (193). 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 2019 no outstanding interest rate derivatives.

Interest exposure

The average fixed interest term for the Group's external loans was 2 months (2) at year-end 2019. 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 26 (25). 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 8% (15) of total revenues, calculated on a full-year basis. At December 31, 2019, the five largest customers accounted for 13% (13) 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 2019, the Group had unutilized credit facilities of SEKm 985 (918). The Group's total liquidity reserve less trapped cash per end of 2019 amounted to SEKm 1,496 (1,275).

Group Treasury works actively to ensure an effective cash management structure within the Group 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 two different operating segments: AirTech and FoodTech.

Customer contracts range from pure component deliveries, mainly within FoodTech and in segment Mist Elimination within AirTech, to contracts comprising equipment, installation, startup and commissioning services, mainly within AirTech.

The performance obligation to deliver goods within AirTech (excluding segment Data Centers) and FoodTech 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 AirTech that are satisfied over time as Munters produces the goods. The performance obligation to deliver goods in segment Data Centers within AirTech 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 FoodTech and in segment Mist Elimination within AirTech, payment terms are in general at point of delivery, which also correlates to time of revenue recognition Within AirTech and especially within segment 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 AirTech (excluding segment Data Centers) and FoodTech fulfill the requirements to recognize net sales at a point in time, even though 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 segment Data Centers within AirTech s 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.

2019	AirTech	FoodTech	Total
Goods transfered at a point in time	3,509	1,793	5,302
Goods transfered over time	1,361	57	1,418
Services transfered over time	457	151	608
Total	**5,327**	**2,002**	**7,329**
Related to the discontinued operation	176	–	176
Related to the continuing operation	**5,151**	**2,002**	**7,153**

2018	AirTech	FoodTech	Total
Goods transfered at a point in time	3,697	1,851	5,548
Goods transfered over time	1,100	1	1,101
Services transfered over time	334	139	473
Total	**5,131**	**1,991**	**7,122**
Related to the discontinued operation	710	–	710
Related to the continuing operation	**4,421**	**1,991**	**6,412**

Contract balances
Accounts receivables are non-interest bearing receivables with a general payment term of 30-90 days. Within FoodTech and segment Mist Elimination within AirTech revenue recognition and billing in general aligns. However, within FoodTech there are contracts with billing annually in advance. These contracts qualifies for revenue recognition over time and therefore deferred revenue balances arises. Within FoodTech 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 AirTech it is common with advanced billings, which creates advances from customers. Within AirTech 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 segment Data Centers within AirTech 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	**2019**	2018
Accounts receivables (Note 17)	1,050	1,095
Accrued income (Note 18)	193	139
whereoff Contract asset	181	125
Contract liabilities		
Advances from customers	374	285
Deferred revenue (Note 26)	63	55

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 COST BY NATURE

2019 Group	Cost of goods sold	Sales costs	Administrative costs	R&D costs	Other costs	Total
Material costs	-2,993	-	-	-	-	-2,993
Other production costs	-907	-	-	-	-	-907
Personnel and other administration	-701	-837	-564	-162	-	-2,264
Cost of depreciation	-130	-36	-41	-6	-	-213
Amortization and write downs on surplus values	-3	-97	-4	-30	-	-134
Other costs	-87	-	-	-	-5	-92
Total	**-4,822**	**-970**	**-610**	**-197**	**-5**	**-6,604**

2018 Group	Cost of goods sold	Sales costs	Administrative costs	R&D costs	Other costs	Total
Material costs	*-2,719*	*-*	*-*	*-*	*-*	*-2,719*
Other production costs	*-805*	*-*	*-*	*-*	*-*	*-805*
Personnel and other administration	*-601*	*-842*	*-532*	*-176*	*-*	*-2,152*
Cost of depreciation	*-70*	*-6*	*-18*	*-2*	*-*	*-95*
Amortization and write downs on surplus values	*-3*	*-138*	*-2*	*-13*	*-*	*-157*
Other costs	*38*	*-*	*-*	*-*	*2*	*40*
Total	**-4,160**	**-987**	**-553**	**-191**	**2**	**-5,889**

NOTE 6. OPERATING SEGMENTS

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 two business segments, AirTech och FoodTech.

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.

In 2019, the previous operating segments Data Centers and Mist Elimination were integrated into AirTech. The Data Centers business is active in indoor climate systems for medium-sized to large data centers. Mist Elimination manufactures and markets environmentally friendly solutions and products for drip capture, including the purification of flue gas. The comparative figures have been restated in accordance to the new business segments. FoodTech manufactures and markets energy-efficient products and systems to create the right indoor climate for the animal husbandry and horticultural industries.

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.

	AirTech		*FoodTech*		*Other & Eliminations 1)*		*Total*	
	2019	**2018**	**2019**	*2018*	**2019**	*2018*	**2019**	*2018*
Order backlog	*1,780*	*1,652*	*526*	*518*	*0*	*0*	*2,307*	*2,170*
Whereof recognized to net sales within one year	*1,626*	*1,717*	*425*	*371*	*0*	*0*	*2,051*	*2,088*
Order intake	*5,253*	*4,621*	*2,087*	*2,107*	*-38*	*-30*	*7,302*	*6,698*
Sales from external customers	*5,151*	*4,421*	*2,002*	*1,991*	*0*	*0*	*7,153*	*6,412*
Transactions between business segments	*8*	*5*	*31*	*27*	*-38*	*-32*	*0*	*0*
Net sales	*5,159*	*4,426*	*2,032*	*2,018*	*-38*	*-32*	*7,153*	*6,412*
Earnings before interest and tax (EBIT)	*565*	*503*	*226*	*244*	*-236*	*-217*	*556*	*529*
Change in accounts receivable	*-45*	*182*	*87*	*-11*	*40*	*-7*	*82*	*164*
Change in inventories	*36*	*44*	*31*	*-14*	*0*	*0*	*66*	*30*
Change in accounts payable	*19*	*-32*	*-7*	*-36*	*-7*	*-7*	*5*	*-74*
Change in advances from customers	*74*	*-100*	*7*	*-18*	*0*	*0*	*80*	*-117*
Change in operating working capital	*83*	*94*	*118*	*-78*	*33*	*-14*	*234*	*2*
Internal reallocations	*-1*	*-13*	*0*	*-7*	*1*	*20*	*0*	*-0*
Investment	*-92*	*-155*	*-78*	*-66*	*-10*	*-10*	*-180*	*-231*
impairments	*156*	*70*	*91*	*45*	*100*	*137*	*347*	*253*
Operating cashflow	**712**	**500**	**357**	**138**	**-112**	**-85**	**957**	**553**
Other disclosures								
Number of permanent employees at year end	*2,184*	*2,559*	*833*	*875*	*71*	*84*	*3,088*	*3,518*

1) Pertains group internal eliminations and group items not allocated to any operating segment.

GEOGRAPHIC INFORMATION

The information below is based on where customers have their registered head office.

External net sales	2019	2018
Sweden	180	160
United States	2,744	2,338
Germany	459	521
China	920	904
Other countries	2,850	2,489
Total	**7,153**	**6,412**

Non-current assets	2019	2018
Sweden	497	499
United States	4,141	3,922
Euro countries	1,707	1,621
Other countries	491	294
Total	**6,835**	**6,336**

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 EXPENSES

	Group	
	2019	2018
Other operating income		
Other	7	6
Realized exchange rate differences	2	8
Total	**9**	**14**
Other operating expenses		
Other	-5	-6
Unrealized exchange rate differences	-1	-1
Total	**-7**	**-6**

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.

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
Leased buildings	2-10 years
Leased plants	2-15 years
Leased machines	2-7 years
Leased cars	2-5 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. Depreciation, amortization, and impairment losses on non-current assets were charged to income for the year as shown above.

	Group	
	2019	2018
Cost of goods sold	-133	-76
Selling expenses	-133	-468
Administrative costs	-45	-21
Research and development costs	-36	-37
Total	**-347**	**-602**

A write-down by SEKm 324 was made during 2018, which was related to goodwill in the prior operating segment Data Centers. In addition, a write down of SEKm 18.6 was made on internally generated intangible assets. These write-downs are recognized in selling expenses.

	Group	
Write down of inventory	**2019**	2018
Opening balance	-77	-77
Write down current year	-18	-5
Reversal of previous years write down	10	6
Organizational change	0	-
Exchange rate differences	-2	-1
Closing balance	**-88**	**-77**

Most of the write-downs and reversal of write-downs are related to the obsolescence that is made at each period end.

NOTE 9. DISCONTINUED OPERATIONS

On September 9, 2019 Munters decided and closed its European Data Centers-factory in Dison, Belgium, following the finalization of negotiations with the unions. The production has ceased but minor installation services remains at customer sites. Therefore, this business is classified as a discontinued operation and the earnings from this business is presented on a separate line in the income statement with restated comparatives disclosed.

The closure is according to the plan of the FPP-program launched at the start of 2019 to increase the overall performance of the company.

In relation to the closure process of Dison, specified components, for a previously sold customized Munters solution, had to be replaced at a specific customer's sites. As a result of this, Munters incurred non-recurring cost of SEKm 116, which were in addition to the previously communicated total cost for the FPP program. The reimbursement to the customer was paid during the fourth quarter 2019. Munters has insurance solutions in place for this type of events, but since Munters has not concluded the discussions with its insurance providers the final financial and cash flow net effect on Munters cannot yet be determined. No asset has been accounted for.

The income statement for the discontinued operation is presented below. The discontinued operation has mainly had cash flows from operating activities.

	Group	
	2019	2018
Net sales	176	710
Cost of goods sold	-427	-690
Gross profit	**-251**	**20**
Selling expenses	-39	-375
Administrative costs	-39	-15
Research and development costs	-9	-26
Other operating expenses	-113	-0
Operating profit	**-450**	**-396**
Financial income and expenses	-5	-2
Profit/Loss after financial items	**-455**	**-397**
Tax	8	-24
Net income for the year	**-448**	**-421**
Cash flow from operating activities	-431	42

NOTE 10. FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2019	2018	**2019**	2018
Financial income				
Interest income, other	7	5	-	-
Other financial income	0	0	-	-
	7	**5**	**-**	**-**
Financial expenses				
Interest expenses, loans	-155	-132	-0	-0
Interest expenses, lease agreements	-19	0	-	-
Financing Fees	-14	-8	-	-
Exchange-rate differences	1	15	-0	-0
Other financial expenses	-10	-5	-	-0
	-196	**-130**	**-0**	**-0**
Total	**-189**	**-125**	**-0**	**-0**

NOTE 11. INCOME TAXES

	Group		Parent Company	
	2019	2018	**2019**	2018
Current tax	-119	-86	0	-
Deferred tax related to temporary differences and loss carry-forwards	37	8	0	0
Tax recognized in income statement for the year	**-83**	**-77**	**0**	**0**
Reconciliation of effective tax				
Profit/Loss before tax	367	404	-1	-11
Tax according to prevailing tax rate for the Parent Company	-78	-87	0	3
Tax effect of;				
Difference attributable to foreign tax rates	-7	-9	-	
Non-deductible expenses	-4	-18	-	0
Non-taxable income	4	13	-	-
Utilization of losses not recognized as an asset in the balance sheet	-1	2	-	-
Change in valuation of deferred tax on temporary differences and losses	2	22	-	-2
Revaluation of deferred tax assets/liabilities due to change in tax rate	5	2	-	-
Non-income-related taxes	-2	-2	-	-
Tax attributable to prior years/withholding tax	-2	-1	-	-
Tax recognized in income statement for the year	**-83**	**-77**	**0**	**0**

	Group	
Tax attributable to components of other comprehensive income	**2019**	2018
Deferred tax attributable to:		
Actuarial gains and losses on defined-benefit pension obligations	9	4
Total	**9**	**4**

	Group	
Deferred tax assets	**2019**	2018
Buildings	3	0
Plant, machinery, equipment	4	3
Intangible assets	0	-0
Inventory	29	31
Accounts receivable	7	6
Provisions (excl deferred tax liability)	14	9
Pension provision	34	25
Accrued expenses and prepaid income	46	36
Goodwill	3	4
Other items	18	10
Loss carry-forward	90	101
Closing balance	**249**	**227**

	Group	
Deferred tax liabilities	**2019**	*2018*
Buildings	*3*	*3*
Plant, machinery, equipment	*29*	*28*
Brands	*299*	*301*
Other intangible assets	*53*	*60*
Inventory	*1*	*0*
Accrued expenses and prepaid income	*1*	*13*
Goodwill	*22*	*16*
Other items	*1*	*1*
Closing balance	**409**	**421**

Reconciliation of net change in deferred tax assets from the beginning of the year to the end of year:

	Group	
Change in deferred taxes	**2019**	*2018*
Opening balance	*194*	*152*
Acquisition of subsidiaries (Note 12)	*-*	*4*
Charges recorded in this year's profit	*-37*	*22*
Tax on amounts recorded in Other comprehensive incor	*-9*	*-4*
Exchange-rate differences for the year	*13*	*20*
Closing balance	**161**	**194**

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 1,307 (951), of which SEKm 1,249 (904) may be carried forward for an unlimited period of time. Loss carry-forwards for which deferred tax assets are not recognized totaled SEKm 919 (533), of which SEKm 917 (533) may be carried forward for an unlimited period of time. Consequently, deferred tax assets on loss carry-forwards totaling SEKm 389 (418) were recognized. These losses relate to the subsidiaries in Australia SEKm 15 (17), Germany SEKm 42 (62), Brazil SEKm 2 (0), Mexico SEKm 21 (40), Netherlands SEKm 36 (33) and Sweden SEKm 260 (266). 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 57 (73) of the total SEKm 389 (418) which has been the basis for calculating deferred tax assets relates to Mexico and the Netherlands. During the year, the Netherlands and Brazil have generated tax deficits that are deemed to be used and thus a deferred tax asset is reported on them.

Deferred tax liabilities are mainly attributable to the surplus values identified in connection with the acquisition of Munters AB in 2010.

NOTE 12. BUSINESS ACQUISITIONS AND DIVESTMENTS

ACQUISITIONS 2019

There have been no business acquisitions or divestments in 2019. However, Munters UK's wholly owned subsidiary Humi-Tech Services Ltd has been merged with its parent company. Since this related to a merger of a wholly owned subsidiary, no merger result has impacted the Group.

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. Munters estimated the full earn out to be paid out and provided for it fully. The surplus values arising from the acquisition related to customer relationships. Acquisition costs incurred amounted to SEKm 0.5. Acquired cash amounted to app. SEKm 1.

MTECH SYSTEMS

A part of the remaining put option of 40% in MTech was partly 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. The purchase price for the exercise of the option is based on the financial result for the 12 months preceding the date of exercise of the option.

NOTE 13. FIXED AND RIGHT-OF-USE ASSETS

DISTRIBUTION OWNED AND LEASED ASSETS

Presented below is the Groups owned and leased assets for 2019. No leased tangible assets are recognized for 2018.

2019 Group	*Buildings and land*	*Plant and machinery*	*Equipment, tools, fixtures, and fittings*	*Construction in progress*	*Total*
Owned assets	*166*	*277*	*121*	*55*	*618*
Leased assets	*82*	*277*	*41*	*–*	*400*
Total	**248**	**554**	**162**	**55**	**1,019**

OWNED ASSETS

Presented below is the Groups owned fixed assets split per asset category.

2019 Group	*Buildings and land*	*Plant and machinery*	*Equipment, tools, fixtures, and fittings*	*Construction in progress*	*Total*
Acquisition cost					
Opening balance	*414*	*854*	*514*	*62*	*1,844*
Capital expenditures	*5*	*26*	*58*	*28*	*118*
Acquisitions (note 12)	*–*	*–*	*–*	*–*	*–*
Acquisitions, internal	*–*	*–*	*–*	*0*	*0*
Disposals of subsidiaries	*–*	*–*	*–*	*–*	*–*
Disposals, internal	*–*	*–*	*–*	*-0*	*-0*
Sold/Scrapped	*-0*	*-13*	*-55*	*-0*	*-69*
Reclassification/Internal transfers	*11*	*11*	*7*	*-38*	*-8*
Exchange difference	*10*	*20*	*15*	*3*	*48*
Closing accumulated acquisition value	**441**	**898**	**539**	**55**	**1,933**
Accumulated depreciation					
Opening accumulated depreciation	*-244*	*-577*	*-377*	*–*	*-1,197*
Depreciation for the year	*-14*	*-48*	*-51*	*–*	*-113*
Sold/Scrapped	*0*	*13*	*38*	*–*	*51*
Reclassification/Internal transfers	*–*	*8*	*-8*	*–*	*0*
Exchange difference	*-6*	*-13*	*-10*	*–*	*-29*
Closing accumulated depreciation	**-264**	**-617**	**-407**	**–**	**-1,288**
Write downs					
Opening accumulated write-downs	*-1*	*-8*	*-0*	*–*	*-9*
Write-downs for the year	*-10*	*-5*	*-11*	*–*	*-26*
Reclassification	*-0*	*8*	*0*	*–*	*8*
Exchange difference	*0*	*-0*	*0*	*–*	*0*
Closing accumulated write-downs	**-11**	**-5**	**-11**	**–**	**-27**
Closing carrying amount	**166**	**277**	**121**	**55**	**618**

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 39 (36).

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
Capital expenditures	2	53	46	48	148
Acquisitions (note 12)	–	0	0	–	1
Disposals of subsidiaries	–	–	-0	–	-0
Sold/Scrapped	–	-8	-13	-0	-21
Reclassification/Internal transfers	22	12	-1	-36	-3
Exchange difference	19	42	21	4	86
Closing accumulated acquisition value	**414**	**854**	**514**	**62**	**1,844**
Accumulated depreciation					
Opening accumulated depreciation	-214	-530	-318	–	-1,062
Depreciation for the year	-11	-40	-47	–	-99
Acquisitions (note 12)	–	-0	-0	–	-0
Disposals of subsidiaries	–	–	0	–	0
Sold/Scrapped	–	7	12	–	19
Reclassification/Internal transfers	-7	14	-6	–	0
Exchange difference	-12	-28	-16	–	-56
Closing accumulated depreciation	**-244**	**-577**	**-377**	**–**	**-1,197**
Write downs					
Opening accumulated write-downs	-1	-7	-0	–	-9
Exchange difference	-0	-1	-0	–	-1
Closing accumulated write-downs	**-1**	**-8**	**-0**	**–**	**-9**
Closing carrying amount	**168**	**270**	**137**	**62**	**637**

LEASED ASSETS

As of January 1, 2019, leases are recognized in accordance with the requirements in IFRS 16 *Leases* as a right-of-use asset and a corresponding liability on the day the leased asset is available for use by the Group. For further description of the new accounting policies and the transition effect of the new standard, see Note 1. Munters had no financial leases in accordance with IAS 17 *Leases* as of January 1, 2019.

General description of Munters' leases

Munters leases various offices, warehouses, equipment and vehicles. In addition, Munters leases half of its manufacturing facilities around the world, which amounts to around ten factories. The leases are normally signed for fixed periods, but with the option to extend some contracts. The terms are negotiated separately for each lease and contain a number of covenants.

The leases only include variable payments that are based on an index, which is taken into account in the valuation of the lease liability and the right-of-use asset on the day the index is remeasured. The leases contain both lease and non-lease components and it is only the lease component that has been included in the calculation of the lease liability and the right-of-use asset.

Options to extend or terminate a lease are included in a number of the Group's leases. The terms are used to maximize flexibility in the management of the assets used in operations. The overwhelming share of the options to extend or terminate leases can only be exercised by the Group and not by the lessor.

Comparison if previous principles have been used in 2019

If the previous principles for leases (IAS 17) had been applied, recognized EBIT would have been SEKm 19 (-) higher, total interest expenses SEKm 19 lower and net profit after tax SEKm 31 (-) higher. The reason why EBIT and net profit after tax are higher without IFRS 16 is because of write downs of certain right-of-use assets during the year. But under the previous principles the lease would most likely have been defined as an onerous contract and thereby had a negative impact on both operating profit and net profit after tax of approximately the same amount.

IFRS 16 has no impact on total cash flow, but the introduction means a shift of cash flow from operating activities to cash flow from financing activities, since the lease payments repay the recognized lease liability.

Following is a specification of leased assets as of December 31, 2019. Note 20 discloses the lease liabilities associated with the leased assets.

Total interest expenses, which are included in financial expenses, amounted to SEKm19 (-) during the year, whereof SEKm 17 (-) related to the continuing operation and SEKm 2 (-) related to the discontinued operation. Depreciation and write downs for the year amounted to SEKm 141 (-), whereof SEKm 106 (-) related to the continuing operation and SEKm 35 (-) related to the discontinued operation.

Short-term leases and leases of low-value assets were expensed for SEKm 23 (-) during the year. These leases will mean payments of SEKm 59 between the years 2021-2024 and SEKm 6 in 2025 and beyond.

The total cash flow from leases recognized in the balance sheet in 2019 was SEKm 123 (-) and is presented under financing activities as repayment of lease liabilities.

2019 Group	Buildings, leased	Plant and machinery, leased	Equipment and tools, leased	Total
Acquisition cost				
Opening balance	–	–	–	–
New contract	141	328	76	545
Exchange difference	-2	-3	-1	-6
Closing accumulated acquisition value	**139**	**325**	**75**	**539**
Accumulated depreciation				
Opening accumulated depreciation	–	–	–	–
Depreciation for the year	-36	-48	-29	-114
Exchange difference	0	1	0	1
Closing accumulated depreciation	**-36**	**-48**	**-29**	**-112**
Write downs				
Opening accumulated write-downs	–	–	–	–
Write-downs for the year	-21	-0	-5	-27
Exchange difference	0	0	–	0
Closing accumulated write-downs	**-21**	**-0**	**-5**	**-26**
Closing carrying amount	**82**	**277**	**41**	**400**

NOTE 14. PATENTS, LICENSES, CUSTOMER RELATIONS AND OTHER INTANGIBLE ASSES WITH DEFINITE USEFUL LIFE

2019 Group	Technology	Customer relationships	Internally generated intangible assets	Other intangible assets	Total
Acquisition cost					
Opening balance	632	933	185	170	1,920
Capital expenditures	–	–	62	11	74
Sold/Scrapped	-2	–	-0	-15	-17
Reclassification/Internal transfers	–	–	-4	4	0
Exchange difference	19	29	6	1	56
Closing accumulated acquisitions	**650**	**961**	**250**	**172**	**2,033**
Accumulated amortization					
Opening accumulated amortization	-508	-799	-52	-107	-1,466
Amortizations for the year	-18	-69	-29	-15	-131
Sold/Scrapped	0	–	–	15	16
Reclassification/Internal transfers	–	–	-1	0	-1
Exchange difference	-15	-24	-1	-1	-41
Closing accumulated amortizations	**-541**	**-892**	**-84**	**-108**	**-1,624**
					–
Write downs					
Opening accumulated write-downs	-2	-10	-28	-13	-53
Disposals, internal	–	–	–	-0	-0
Write-downs for the year	–	–	-1	–	-1
Reversed write-downs	–	–	3	–	3
Reclassification	–	–	1	–	1
Exchange difference	-0	-0	-1	-0	-1
Closing accumulated write-downs	**-2**	**-10**	**-26**	**-14**	**-51**
Closing carrying amount	**107**	**60**	**140**	**51**	**358**

Technology
This item includes technology, SEKm107 (122), 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 60 (124), where the majority of which was identified in conjunction with the acquisition of Munters AB in 2010.

Internally generated intangible assets
Internally generated intangible assets mainly relates to recognized development costs within FoodTech, AirTech and segment Data Centers within AirTech.

Other intangible assets
Other intangible assets mainly include patents, tradenames, licenses, and similar rights in Sweden, Germany, the United States, the Netherlands and China.

2018 Group	*Technology*	*Customer relationships*	*Internally generated intangible assets*	*Other intangible assets*	*Total*
Acquisition cost					
Opening balance	*592*	*852*	*116*	*147*	*1,707*
Capital expenditures	–	–	*60*	*24*	*84*
Acquisitions (note 12)	–	*26*	–	–	*26*
Disposals of subsidiaries	–	*-0*	–	–	*-0*
Sold/Scrapped	–	–	–	*-1*	*-1*
Reclassification/Internal transfers	–	–	*2*	*-1*	*0*
Exchange difference	*41*	*56*	*8*	*3*	*106*
Closing accumulated acquisitions	**632**	**933**	**185**	**170**	**1,921**
Accumulated amortization					
Opening accumulated amortization	*-421*	*-679*	*-33*	*-91*	*-1,225*
Amortizations for the year	*-57*	*-73*	*-17*	*-14*	*-161*
Sold/Scrapped	–	–	–	*0*	*0*
Reclassification/Internal transfers	–	–	*0*	*-0*	*-0*
Exchange difference	*-30*	*-46*	*-2*	*-2*	*-80*
Closing accumulated amortizations	**-508**	**-799**	**-52**	**-107**	**-1,466**
Write downs					
Opening accumulated write-downs	*-2*	*-9*	*-11*	*-13*	*-35*
Write-downs for the year	–	–	*-19*	–	*-19*
Reversed write-downs	–	–	*1*	–	*1*
Exchange difference	*-0*	*-1*	*-1*	*-0*	*-2*
Closing accumulated write-downs	**-2**	**-10**	**-28**	**-13**	**-53**
Closing carrying amount	**122**	**124**	**105**	**50**	**401**

NOTE 15. GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

Intangible assets with indefinite useful life consist of brands and goodwill.

2019 Group	*Brands*	*Goodwill*
Acquisition cost		
Opening balance	*1,086*	*4,569*
Exchange-rate differences for the year	*32*	*137*
Closing balance	**1,118**	**4,706**
Accumulated impairment		
Opening balance	*6*	*351*
Impairment of the year	*0*	*2*
Exchange-rate differences for the year	*0*	*6*
Closing balance	**6**	**358**
Closing carrying amount	**1,111**	**4,348**

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**

Recognized brands per cash-generating unit	**2019**	*2018*
AirTech	*908*	*881*
Data Centers	*0*	*0*
FoodTech	*136*	*133*
Mist Elimination	*67*	*66*
Closing carrying amount	**1,111**	**1,080**

Recognized amount of goodwill per cash-generating unit	**2019**	*2018*
AirTech	*3,106*	*2,955*
Data Centers	*0*	*0*
FoodTech	*1,095*	*1,121*
Mist Elimination	*146*	*143*
Closing carrying amount	**4,348**	**4,219**

Goodwill as of December 31, 2019 amounted to SEKm 4,348 (4,218). The increase was a result of exchange rate effects, mainly owing to a weaker SEK against USD compared to the previous year.

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 December 31, 2019.

Goodwill and brands with an 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 consist of the Group's four former business areas: AirTech, FoodTech, Data Centers, and Mist Elimination. The latter two business areas were reorganized in 2019 and are now an integral part of AirTech.

Impairment testing of recognized goodwill and brands has been based on recoverable amounts for cash-generating units established through calculating future value in use. Future cash flows for the first five years are mainly based on the forecasts approved by the Board and Group management, and projections thereof. The growth rate in the terminal period after the first five years has been determined as 2% (2).

Significant assumptions used to calculate values in use are sales growth and the EBITA margin, utilization of operating capital employed, and the discount rate. Management has established the growth rate forecast based on previous results and expectations about future market trends by operating segment. These assessments take into account various economic indicators and internal and external analyses thereof. Also taken into account are important aspects of financial performance described in the Group's strategic plan.

The year's impairment testing did not result in any impairment, while the testing in 2018 resulted in impairment of goodwill and other intangible assets totaling SEKm 342 attributable to the business segment Data Centers, where the economic outlook has deteriorated. Goodwill that was allocated to Data Centers was then written down in its entirety, because of which no comments on Data Centers are provided in the sensitivity analysis below.

The calculations for 2019 used a nominal discount rate (average weighted cost of capital before tax) of 12.3% (11.7).

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 (3.0) increase in the discount rate would be required for goodwill and brand impairment to be necessary in the cash-generating unit AirTech and a 5.9 percentage point (65) increase in FoodTech. For Mist Elimination, no reasonable increase in the discount rate is judged to lead to a need for impairment.

Net sales growth

For AirTech, FoodTech and Mist Elimination, no reasonable decrease in net sales growth is judged to lead to a need for impairment

EBIT margin

A decrease of 4.0 percentage points (5.8) in the EBITA margin for the period from 2021 to 2024, perpetuity value included, would be required for impairment of goodwill and brands to be necessary in the cash-generating unit AirTech. For FoodTech and Mist Elimination, no reasonable decrease in the EBITA margin is judged to lead to a need for impairment.

NOTE 16. PARTICIPATION IN SUBSIDIARIES

Direct shareholdings, 100%	Country	Carrying amount
Munters Holding AB (corp. reg. no. 556818-974	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
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	UK	100
Munters Management Service Ltd	UK	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
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	66

No restrictions exist regarding Group's access to the subsidiaries assets, as a result of regulations or minorities.

NOTE 17. ACCOUNTS RECEIVABLES

Time analysis of accounts receivable, net provision for bad debt	**2019**	2018
Current	708	667
< 30 days	207	206
30-90 days	96	129
91-180 days	24	62
> 180 days	15	30
Closing balance	**1,050**	**1,095**

Provisions for bad debts corresponded to 5% (4) of total receivables and changed as follows.

Provision for bad debts	**2019**	2018
Opening balance	44	38
Provision for anticipated losses	43	31
Realized losses	-6	-4
Reversals of unutilized amounts	-33	-23
Exchange-rate differences	1	2
Closing balance	**48**	**44**

The group applies the simplified approach under IFRS 9 *Financial Instruments* 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	
	2019	2018	**2019**	2018
Prepaid rent and leases	7	7	-	-
Prepaid insurance premiums	26	22	0	0
Accrued income	193	139	0	-
Prepaid expenses for goods and services	26	14	-	-
Other items	37	42	0	0
Closing balance	**288**	**224**	**0**	**0**

NOTE 19. FINANCIAL INSTRUMENTS BY CATEGORY

Book value of financial assets and liabilities by category	**2019**	2018
Financial assets measured at amortized cost		
Other non-current financial assets	19	11
Accounts receivable	1,050	1,095
Other current receivables	96	109
Cash and cash equivalents	722	404
Closing balance	**1,887**	**1,619**
Financial assets measured at fair value through profit/loss		
Currency derivatives whose cash flows are not subject to hedge accounting	5	3
Closing balance	**5**	**3**
Total	**1,892**	**1,622**

	2019	2018
Financial liabilities measured at amortized cost		
Non-current interest-bearing liabilities	3,057	3,002
Non-current interest-bearing lease liabilities	314	0
Current interest-bearing liabilities	16	11
Current interest-bearing lease liabilities	102	0
Accounts payable	556	535
Accrued expenses	12	12
Other non-current liabilities	-0	-0
Other current liabilities	153	181
Closing balance	**4,209**	**3,741**
Financial liabilities at fair value through profit/loss		
Currency and interest rate derivatives whose cash flows are not subject to hedge accounting	-	2
Acquisition option MTech, non-current 1)	134	128
Contingent consideration Humi-Tech Services Ltd.	8	8
Closing balance	**142**	**138**
Total	**4,351**	**3,879**

1) Fair value adjustments recorded through equity. Acquisition option is valid through December 31, 2022.

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, 2019, 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 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 below.

	2019		2018	
	Nominal amount in local currency	*Carrying amount*	*Nominal amount in local currency*	*Carrying amount*
AUD/SEK	1	0.0	-	-
CAD/SEK	2	-0.3	0	-0.1
CNH/SEK	-9	0.0	-17	-0.4
DKK/SEK	-5	0.0	-10	-0.0
EUR/SEK	-14	2.7	1	0.3
GBP/SEK	2	-0.1	-	-
JPY/SEK	20	-0.0	44	0.1
SGD/SEK	2	-0.0	0	-0.0
USD/SEK	-16	3.0	-17	1.9
USD/ILS	-	-	-2	-0.1
ZAR/SEK	-20	-0.4	-20	0.2
Total		**4.9**		**1.7**

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 2020.

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 2019 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.

The opening balance for the period was related to the put/call option from the acquisition of MTech Systems in 2017 and a contingent consideration related to the acquisition of Humi-Tech Services Ltd in July 2018. The put/call option related to MTech Systems matures at December, 2022 and is based on EBITDA for the 12 months prior to execution. The earn-out in Humi-Tech Services Ltd is based on EBITDA for the fiscal years of 2018 and 2019 and will be settled in early 2020. The change in the period relates to a discounting effect on the put/call option and currency translations.

Contingent price considerations	2019	2018
Opening balance	136	136
Contingent consideration (Note 12)	-	8
Excersied put/call option	-	-24
Discounting	1	2
Exchange-rate differences for the year	5	14
Closing balance	**142**	**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 3,081 (3,013). The table below outlines the long term debt on Group level together with local bank debt in group companies in among others, China 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, 2019, the covenant was met.

The total average weighted interest rate including both long- and short term financing at the end of the year was 4.0% (4.4) and 4.2% (4.6) including financing cost.

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, non-current

				Book value	
Maturity	*Type of loan*	*Interest rate*	*Currency*	**2019**	*2018*
2022	*Term Loan*	*Variable*	*USD*	*2,317*	*2,222*
2022	*Utilized committed credit facilities US*	*Variable*	*USD*	*0*	*90*
2022	*Utilized committed credit facilities Sweden*	*Variable*	*EUR*	*459*	*308*
2022	*Utilized committed credit facilities Sweden*	*Variable*	*SEK*	*280*	*380*
2020-2021	*Other non-current loan*	*Fixed/ Variable*	*Various currencies*	*1*	*2*
Total				**3,057**	**3,002**

Interest bearing liabilities, current

The table outlines current bank debt in Munters subsidiaries in among others Brazil and China.

Interest bearing loans, current

				Book value	
Maturity	*Type of loan*	*Interest rate*	*Currency*	**2019**	*2018*
	Other current loan	*Fixed/ Variable*	*Various currencies*	*24*	*11*
Total				**24**	**11**
Total non-current and current loans				**3,081**	**3,013**

Changes in interest-bearing liabilities

Munters has during the year amortized on loans in SEK, increased borrowing in EUR and repaid USD loan under the revolving credit facility. The change during the year is mainly caused by currency effects originating from a stronger USD exchange rate.

Non-current loans	*Opening balance*	*Cash flow*	*Currency effects*	*Non cash movements*	*Closing balance*
Term loan	*2,243*	*-*	*87*	*-*	*2,329*
Revolving credit facility	*778*	*-44*	*5*	*-*	*739*
Other third party debt	*2*	*-1*	*-*	*-*	*1*
Financing fees	*-20*	*-*	*-*	*8*	*-12*
Total	**3,002**	**-45**	**91**	**8**	**3,057**

Current loans	*Opening balance*	*Cash flow*	*Currency effects*	*Non cash movements*	*Closing balance*
Revolving credit facility	*-*	*-*	*-*	*-*	*-*
Other third party debt	*11*	*13*	*-*	*-*	*24*
Total	**11**	**13**	**-**	**-**	**24**
Total non-current and current loans	**3,013**				**3,081**

Changes in lease liabilities
Munters has during the year changed liabilities relating to lease agreements with the below amounts, involving signing of new lease agreements, amortization of current agreements and interest and currency effects.

Lease liabilities	Opening balance	Impact of new accounting policy	New contracts during the year	Amortizations of loans	Interest on loans	Currency effects	Closing balance
Non-current interest-bearing lease liabilities	-	354	43	-95	14	-2	314
Current interest-bearing lease liabilities	-	104	8	-28	4	13	102
Total		**458**	**51**	**-123**	**19**	**11**	**416**

Maturity analysis of lease liabilities
The remaining undiscounted lease payments have the following due date:

Undiscounted leasing liabilities as of December 31, 2019	
Remaining term 1 year or less	102
Remaining term 1 to 5 years	248
Remaining term over 5 years	127
Total	**476**

NOTE 21. EARNINGS PER SHARE

	2019	2018
Net income, SEK ´000	-164,015	-94,174
Attributable to Parent Company shareholders, SEK ´000	-165,672	-104,995
Attributable to non-controlling interests, SEK ´000	1,658	10,821
Average number of outstanding shares before dilution	181,983,219	183,165,852
Average number of outstanding shares after dilution	181,983,219	183,165,852
Where of average number of shares in own custody	1,614,583	431,950
Earnings per share before dilution, SEK	-0.91	-0.57
Earnings per share after dilution, SEK	-0.91	-0.57

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, 2019, the share price were 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	**2019**
Unrestricted equity in parent company:	
Opening balance of unrestricted equity	4,149,872
Repurchase of shares	-15,792
Income for the year	-807
Total	**4,133,272**
The Board of Directors proposes that earnings be distributed as follows:	
Dividend	-
To be carried forward	4,133,272
Total	**4,133,272**

Munters aim to pay an annual dividend corresponding to 30-50 per cent of its consolidated income after tax for the period. During 2019 Munters has made major changes to the overall overhead cost structure, reducing its employees by approximately 500 and is reporting a loss for the year. Major efforts has gone into stabilizing the business, ensuring value creation in all units. The work with stabilizing operations and make continuous improvement will continue in 2020. In order to ensure long-term profitable growth, 2020 will entail investments in research and development and initiatives to drive synergies across the Group. On the basis of the current situation combined with the strategic intentions for the future, the Board of Directors proposes to pay no dividend for 2019.

NOTE 23. EQUITY

Share capital
The share capital of SEK 5,507,934 comprises 183,597,802 (183,597,802) shares with a par value of SEK 0.03 (0.03) per share. The shares in Munters Group AB are listed on Nasdaq Stockholm under the symbol MTRS. The ten largest owners in Munters Group AB hold a total of 69.6% (86.3) of outstanding shares. Of these, FAM AB 21.1% (11.4) and Nordic Capital, indirectly via its Nordic Capital VII fund, 14.7% (50.1). 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, 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
Changes 2019:	
Closing number, December 31, 2019	**183,597,802**
Equity shares B	183,597,802
Of which in own custody/treasury shares	1,852,000

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. The positive exchange-rate effects during 2019 were mainly due to a weaker SEK against USD and EUR compared to previous year.

Reserve for exchange rate differences	
Opening balance, January 1, 2018	**351**
Exchange rate differences	*193*
Closing balance, December 31, 2018	**544**
Exchange rate differences	*122*
Closing balance, December 31, 2019	**666**

Holdings of treasury shares 2019
The Board of Directors of Munters Group AB ("Munters") resolved, pursuant to the authorization granted by the Annual General Meeting held on May 8, 2019 to repurchase the company's own shares on Nasdaq Stockholm. The purpose of the repurchase program was to secure the delivery of shares to the participants of Munters' long-term incentive program, which was resolved by the Annual General Meeting 2019, and to cover costs related to the program. In total, Munters repurchased 385,000 shares during the year at an average price of SEK 40.98. Payment for the shares was made in cash and amounted to SEKm 16. As of December 31, 2019, Munters Group AB held 1,852,000 shares in custody, equal to 1.0% of the registered share capital. The shares had a par value of SEK 0.03 per share.

Holdings of treasury shares 2018
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 costs related to the program. The repurchases were 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 of December 31, 2018, Munters Group AB holds 1,467,000 shares in own custody, equal to 0.7% of the registered share capital. The shares had a par value of SEK 0.03 per share.

Dividend during the period
There has been no dividend paid during the year. Last year a dividend of SEKm 55 was made in accordance with the resolution from the Annual General Meeting on May 17, 2018.

NOTE 24. PROVISIONS FOR PENSIONS AND SIMILAR COMMITTMENTS

Group	2019	2018
Non-current defined-benefit obligations to employees	*269*	*215*
Other benefits to employees	*14*	*15*
Non-current	**283**	*230*
Current defined-benefit obligations to employees	*6*	*6*
Other current employee benefits	*3*	*2*
Current	**9**	*8*
Total provisions for pensions and similar obligations	**292**	*238*
Where-of provisions recognized for pension obligations	**276**	*221*

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 96% (94) 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 3% 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.

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 SEKm 63 (69).

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 44 (17) for the period.
Below is the recognized provisions for pensions under IAS 19 in the consolidated balance sheet:

2019 Group	Present value of defined benefit obligation	Fair value of plan assets	Recognized provision, net
Opening balance	**236**	**-15**	**221**
Pension expenses, included in Comprehensive income for the year			
Current service cost	10	-	10
Interest cost/income on benefit obligation	6	0	6
	16	**0**	**16**
Remeasurement, included in Other comprehensive income			
Actuarial changes arising from changes in financial assumptions	4	-3	0
Experience adjustments	44	-	44
	47	**-3**	**44**
Transactions			
Benefits paid by employer	-7	0	-6
Benefits paid by employer to plan assets	-	1	1
Settlement	-	-	-
	-7	**1**	**-6**
Exchange rate differences for the year	0	0	0
Closing balance	**293**	**-17**	**276**
Of which funded plans:			
Belgium	21	-20	1
Of which unfunded plans:			
Sweden	262		262
Other countries	12		12

2018 Group	Present value of defined benefit obligation	Fair value of plan assets	Recognized provision, net
Opening balance	**215**	**-16**	**199**
Pension expenses, included in Comprehensive 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
Settlements	-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

Plan assets comprise insurance contracts signed with independent insurance companies. No portion of plan assets in 2019 or 2018 was invested in the Company's equity instruments, debt instruments, real estate, or other assets used by the Company. The Group only has a minor share of funded plans. The most important actuarial assumptions are as follows:

	2019	
Weighted values	**Sweden**	**Others**
Discount rate, %	1.45	0.70
Future inflation, %	1.75	1.75
Future wage and salary increases, %	2.25	-
Pension increases, %	1.75	-
Social security increases, %	2.25	-

	2018	
	Sweden	**Others**
Discount rate, %	2.45	1.70
Future inflation, %	2.00	1.50
Future wage and salary increases, %	2.50	-
Pension increases, %	2.00	-
Social security increases, %	2.50	-

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 33 (24), while an increase in the rate of 0.5 percentage points would reduce the commitment by around SEKm 28 (21). Altered assumptions with respect to inflation being 0.5 percentage points lower would reduce the commitment by around SEKm 21(16) and increase it by around SEKm 24 (18) 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 10 (9) for 2020.

Duration analysis regarding expected payments for post-employment pension benefits (not calculated on present value):

Payments in the future years	2019	2018
Within the next 12 months	5	5
Between 1 and 2 years	5	5
Between 2 and 5 years	17	16
Between 5 and 10 years	30	34
Total	**57**	**61**

The weighted average duration for the defined-benefit commitments is 21 years (20).

NOTE 25. OTHER PROVISIONS

2019 Group	Provisions for warranties	Restructuring	Other provisions	Total
Opening balance	**88**	**0**	**35**	**123**
Additional provisions	66	192	34	292
Reversals of unutilized provisions	-22	0	-22	-45
Utilized during the year	-12	-54	-4	-69
Exchange-rate differences	2	-2	2	2
December 31, 2019	**122**	**137**	**44**	**302**

2018 Group	Provisions for warranties	Restructuring	Other provisions	Total
Opening balance	**115**	**3**	**17**	**136**
Additional provisions	26	0	27	53
Reversals of unutilized provisions	-45	0	-4	-49
Utilized during the year	-14	-3	-5	-23
Exchange rate differences	6	0	0	7
December 31, 2018	**88**	**0**	**35**	**123**

Provisions consist of:	2019	2018
Current portion	278	107
Non-current portion	24	16
Closing balance	**302**	123

Provisions for guarantees amounted to SEKm 66 (26) during the year, a significant increase driven mainly by a number of specific project deliveries, where replacement of critical components and repair work on site will be required. In total, higher quality costs, mainly in the US, also contributed to higher guarantee provisions compared with the previous year.

Provisions for restructurings amounted to SEKm 192 (0) during the year and related to restructurings tied to the three-phase plan launched at the beginning of the year to capture Munters' full potential to improve the Group's earnings. This has meant layoffs in various parts of the Group as well as the closing of the European Data Centers factory in Dison, Belgium. Some severance pay was settled during the year, but the remaining reserve will not be settled until 2020.

Other provisions increased by SEKm 34 (27), where SEKm 19 was provisions for decommissioning costs related to leased production facilities.

NOTE 26. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2019	2018	**2019**	2018
Vacation pay liabilities	97	86	2	1
Social security contributions	49	36	2	0
Other expenses related to personnel	122	132	4	-
invoiced	128	146	0	-
Commissions to agents/sales representatives	68	48	0	-
Interest expenses	12	13	0	-
Deferred income	63	55	-	-
Audit and lawyers fees	15	14	-	-
Other	162	60	3	0
Closing balance	**716**	590	**11**	2

Deferred revenue mainly refers to subscription agreements within Munter's software business.

NOTE 27. PLEDGED ASSETS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Within Munters there are no pledged assets.

	Group		Parent Company	
Contingent liabilities	**2019**	2018	**2019**	2018
PRI guarantees	-	-	2	2
Guarantees from banks and insurance companies	324	205	204	53
Total	**324**	**205**	**206**	**55**

PRI 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 considered liable for the damage, a not significant adjustment will be made 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 2 (3) asbestos-related cases. In the past few years, Munters Corporation has in a number of 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.

The company is currently party to a dispute in New Jersey, in the US, regarding environmental damage to a property that had previously been leased by a company acquired by Munters and later merged with one of Munters' subsidiaries in the US. Although potential environmental liability is difficult to estimate, Munters is of the opinion that the Group's position in the case is good. The company also believes that it has insurance protection for any environmental liability. Moreover, Munters has contractual protection for any costs from the previous owner.

In connection with the closure of Dison, specific components of a previously sold system solution needed to be exchanged at a customer site, which entailed a one-time cost of SEKm 116. Munters has insurance for these types of events but has not completed discussions with the current insurer and thus no asset has been reported.

NOTE 28. TRANSACTIONS WITH RELATED PARTIES

The shares in Munters Group AB are by FAM AB by 21.1% and indirectly by Nordic Capital through the companies Cidron Maximus Limited and Cidron Maximus S.a.r.l, by 14.7%.

Other related parties to Munters include other portfolio companies managed by FAM AB and Nordic Capital, associated companies as well as Munters Board of Directors and Group Management.

There has been no transactions or outstanding dealings during 2019 with other FAM AB or Nordic Capital portfolio companies.

The Chairman of the Board of Directors, Magnus Lindquist, and the Interim CEO, Johan Ek, acquired in total 6,000,000 call options (3,000,000 call options per person) for shares in Munters for a value of SEKm 13.8, from a company controlled by Nordic Capital Fond VII.

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.

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 EMPLYOEES AND GENDER

Average number of employees	**2019**		*2018*	
Group	*Number*	*of which men, %*	*Number*	*of which men, %*
United States	*898*	*82*	*1,007*	*82*
China	*361*	*79*	*390*	*79*
Sweden	*351*	*71*	*353*	*73*
Mexico	*262*	*69*	*295*	*71*
Germany	*233*	*82*	*226*	*82*
Belgium	*201*	*92*	*222*	*90*
India	*174*	*90*	*175*	*90*
Italy	*160*	*83*	*159*	*83*
Israel	*157*	*78*	*129*	*78*
Brazil	*100*	*88*	*148*	*85*
Czech Republic	*97*	*85*	*65*	*88*
United Kingdom	*79*	*80*	*87*	*79*
Japan	*60*	*85*	*63*	*86*
Netherlands	*55*	*28*	*67*	*88*
Australia	*34*	*86*	*33*	*85*
France	*33*	*82*	*34*	*82*
Singapore	*25*	*80*	*24*	*79*
South Africa	*20*	*80*	*21*	*81*
Denmark	*19*	*71*	*43*	*68*
Korea	*19*	*74*	*19*	*74*
Spain	*13*	*77*	*14*	*79*
Turkey	*12*	*67*	*12*	*67*
Finland	*11*	*82*	*12*	*83*
Other	*10*	*200*	*6*	*50*
Canada	*5*	*60*	*5*	*60*
Austria	*5*	*80*	*4*	*75*
Poland	*4*	*100*	*4*	*100*
Vietnam	*3*	*67*	*3*	*67*
United Arab Emirates	*3*	*80*	*4*	*86*
Switzerland	*1*	*0*	*3*	*67*
Thailand	*0*	*0*	*21*	*67*
Colombia	*0*	*0*	*4*	*50*
Taiwan	*0*	*0*	*2*	*50*
Total	**3,406**	**79**	**3,653**	**81**

Gender distribution – Board of Directors and Group management

At year-end, the Board of Directors consisted of six men and two women. Group management, including the CEO, consisted of three men and three women.

NOTE 30. WAGES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

	Group		*Parent Company*	
	2019	*2018*	**2019**	*2018*
Wages, salaries and other rei	*1,719*	*1,550*	*22*	*5*
Social security expenses	*431*	*396*	*7*	*2*
Pension expenses - defined contribution	*63*	*69*	*5*	*1*
Pension expenses - defined benefit	*10*	*8*	*-*	*-*
Total	**2,223**	**2,023**	**34**	**9**

NOTE 31. REMUNERATION TO THE BOARD AND SENIOR EXECUTIVES

Guidelines
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 salary
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 programs
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. Below is a summary of remuneration to the Board of Directors and senior executives during the current and previous years.

Termination of employment
Between the company and the CEO the notice period shall not exceed 12 months. Upon termination by the company, severance is paid and amounts to 12 monthly salaries of basic salary. The notice period between the company and other senior executives shall not exceed a maximum of 6 months. If the termination is made by the company, severance pay of 12 months is paid on the basic salary. Severance pay is not entitled for pension. In the event of termination by the CEO and other senior executives, no severance pay is payable.

	2019					
Amounts in SEK 000s	*Board fee/Base salary*	*Variable remuneration*	*Other benefits**	*Pension expenses*	*Share based payments*	*Total*
Members of the Board: (2 women and 6 men)						
Magnus Lindqvist, chairman	1,298	-	-	-	-	1,298
Helen Fasth Gillstedt, board member and chairman of audit committe	550	-	-	-	-	550
Andreas Näsvik, board member	550	-	-	-	-	550
Lena Olving, board member	500	-	-	-	-	500
Joachim Zetterlund, board member and chairman of remcom until May 7, 2019	125	-	-	-	-	125
Per Hallius, board member	400	-	-	-	-	400
Kristian Sildeby, board member	438	-	-	-	-	438
Johan Ek, board member	183	-	-	-	-	183
Juan Vargues, board member	300	-	-	-	-	300
CEO Johan Ek, until Aug 11, 2019	4,210	-	-	-	-	4,210
CEO Klas Forsström, as of Aug 12, 2019	2,708	5,399	75	948	127	9,257
Other senior executives, until Feb 13, 2019 (3 women and 10 men), from Feb 14, 2019 (3 women and 3 men)	15,696	2,582	12,685	4,566	461	35,990
Total	**26,958**	**7,981**	**12,760**	**5,514**	**588**	**53,801**

** Out of total other benefits for senior executives severance amounts to SEK 11,500k.*

Amounts in SEK 000s	2018 Board fee/Base salary	Variable remun-eration	Other benefits*	Pension expenses	Share based payments	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	293	41,231
Total	**38,191**	**2,924**	**23,831**	**8,223**	**293**	**73,462**

** Other benefits for CEO John Peter Leesi consisted of costs associated with notice period (when John Peter Leesi was laid off) and severance pay.*

Up until February 13, 2019, 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 Data Centers, Group Vice President Global Services, Group Vice President Munters China, Group Vice President Operations, Group Vice President Human Resources and Corporate Communication, Group Vice President CSR, and Group Vice President Innovation & Technology.

As of February 13, 2019, senior executives refer to the Chief Executive Officer, Chief Financial Officer, Group Vice President AirTech, Group Vice President FoodTech, Group Vice President Operations, Group Vice President Human Resources, Communication and Sustainability.

Variable remuneration refers to the period's proportional share of variable remuneration for the fiscal year 2019, which was expensed in 2019. For former CEO Johan Ek, no variable remuneration was paid for the period. For Klas Forsström, the new CEO as of August 12, 2019, the variable remuneration, as per his contract, was capped at 140% of fixed annual salary. For other senior executives, the variable remuneration corresponds to 40–70% of fixed annual salary.

Munter's annual incentive program for senior executives is based on two predetermined and measurable financial criteria, operating income and working capital. The criteria are linked to the medium-term goals that Munters has (adjusted EBITA and Operating Capital Turnover), and the needs the company sees as essential to pursue during the year. During 2019, the variable remuneration was linked to two predetermined and measurable financial criteria, which are based on Munter's medium-term goals. One of the targets is related to Munter's working capital, which was met during the year. During the year, Munters has been actively focusing on cash flow and strengthening the balance sheet, with a clear improvement in 2019.

During 2018, variable remuneration was linked to several predetermined and measurable financial criteria. The criteria were linked to Munter's medium-term goals. None of the targets in the incentive program for senior executives were met during the year, which resulted in no variable salary being paid to senior executives.

In addition to Munter's annual incentive program, it includes the reported variable salary for the President and CEO, Klas Forsström, special bonus goals that were agreed upon employment. The bonus goals were linked to qualitative goals that were met during the year (SEKk 2,500). In addition to bonuses, compensation was also made for lost income. The compensation for lost income is related to long-term incentive programs with the former employer and amounted to a total of SEKk 2,500 for the year 2019.

Johan Ek (former CEO) has had a fixed salary of SEK 500,000 per month, the agreement gives no right to variable remuneration and no provision for pension is made. Under the agreement, there was a notice period of 3 months for both parties, and no severance pay is payable.

Other benefits refer to company cars and meal benefits, as well as housing benefits. The amount specified under other benefits also includes housing for three senior executives based outside Sweden. Pension expenses include costs for disability pension insurance, survivor annuity policies and the like. The amounts are stated excluding special employer's contribution pension expenses.

NOTE 32. INCENTIVE PROGRAM

2019

The Annual General Meeting in May 2019 resolved in accordance with the Board's proposal to introduce a performance based long-term employee stock option program to members of Group management and certain other key employees ("LTIP 2019"), totaling approximately 72 employees. The program shall comprise no more than 1,595,000 employee stock options divided in three series. No more than 100,000 of these employee stock options may be cash settled (also called synthetic options) and the remainder shall entitle the right to acquire one share in the company. A total of 68 employees accepted the offer, totaling 1,498,000 employee stock options, whereof 80,000 cash settled. The employee stock options have been allotted for no consideration.

Exercise of the employee stock options of Series A and Series B is dependent on the extent to which certain performance targets are satisfied during the fiscal years 2019-2021 (the "performance period"). The performance conditions determine the extent to which (if any) the employee stock options in each series may be exercised to acquire shares or receive a cash amount at the conclusion of the three-year period from the grant date of the employee stock options (the "vesting period"). Each employee stock option that is not cash settled shall entitle the holder to acquire one share in the company at an exercise price of SEK 50.27. 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 on Nasdaq Stockholm during a period of ten business days immediately prior to the exercise of the option, with a deduction of the exercise price of SEK 50.27.

The participants shall be able to exercise the employee stock options during a one-year period as of the last date of the vesting period. The costs of the program are estimated at SEKm 13 and will be recognized over a three-year period.

The assessed fair value on the grant date, July 19, 2019, was SEK 8.62 per option. The fair value on the grant date was estimated is independently determined using an adjusted form of the Black-Scholes model, which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price on the 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 peer group companies. During the year, the program entailed costs, including social security contributions, of SEKm 2 (-).

2018

The Annual General Meeting on May 17, 2018 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 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 of 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 on Nasdaq Stockholm during a period of ten business days immediately prior to the exercise of the option, with a deduction of the 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 rule, be conditional upon the program participant still being employed by the Group. The costs of the program are estimated at SEKm 7.4 and will be incurred over the three-year period.

A total of 1,239,190 options were accepted and distributed in the program. At December 31, 2018, a total of 5,090 equity settled and 12,720 cash settled options were forfeited due to terminated employment. 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 on the grant date, June 27, 2018, was SEK 5.97 per option. The fair value on the grant date is independently determined using an adjusted form of the Black-Scholes model, which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price on the 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 peer group companies. During the year, the program entailed costs, including social security contributions, of SEKm 2.6 (1.3).

Following is a summary of allotted options (including synthetic) in both plans:

	2019		*2018*	
Amounts in SEK 000s	*Average exercise price per share option*	*Number of options*	*Average exercise price per share option*	*Number of options*
As at 1 January	*55.00*	*1,221,380*		*-*
Granted during the year	*50.27*	*1,513,000*	*55*	*1,239,190*
Forfeited during the year	*54.56*	*-160,020*	*55*	*-17,810*
As at 31 December	**52**	**2,574,360**	*55*	*1,221,380*

Outstanding stock options (including synthetic) at year-end have the following maturity dates and exercise prices:

Grant date	*Maturity*	*Exercise price*	**Share options December 31, 2019**	*Share options December 31, 2018*
June 27th, 2018	*June 27th, 2021*	*55.00*	*1,076,360*	*1,221,380*
July 19th, 2019	*July 19th, 2022*	*50.27*	*1,498,000*	*-*
Total			**2,574,360**	*1,221,380*

Fair value of allotted options

The estimated fair value on the grant date was SEK 8.62 per option (5.97). The fair value on the grant date is estimated using an adjusted form of the Black-Scholes model, which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price on the 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 peer group companies. The inputs in the model for options allocated allotted during the year were:

- the options are allotted for no consideration and vested over a three-year period. Vested options can be redeemed within one year after vesting
- exercise price: SEK 50.27 (55.00)
- allotment date: July 19, 2019 (June 27, 2018)
- maturity date: July 19, 2022 (June 27, 2021)
- share price on the grant date: SEK 42 (47)
- expected price volatility of the company's share: 36% (26)
- expected dividend yield: 0 (0)
- risk-free interest rate: -0.36% (0.24)

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	**2019**	*2018*	**2019**	*2018*
Ernst & Young				
Audit engagements	*11,086*	*10,724*	*1,118*	*514*
Audit business beyond audit engagements	*537*	*737*	-	-
Tax advice	*840*	*873*	-	-
Other services	*1,156*	*968*	-	*21*
Other auditors				
Audit engagements	*126*	*200*	-	-
Tax advice	*480*	*75*	-	-
Other services	*67*	*20*	-	-
Total	**14,292**	*13,598*	**1,118**	*535*

NOTE 34. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Strategic evaluation of Data Center US and Mist Elimination
In 2019, a strategic evaluation was conducted of Data Centers, which is reported as continuing operations, and Mist Elimination. In February 2020, this resulted in a decision to keep these businesses in Munters. Both businesses serve markets with good growth potential, driven by digitization and high demand for sustainable solutions. In addition, both units made significant progress in 2019, and we see a good strategic fit considering our strategic direction.

Organizational change
In February 2020, Munters also announced an organizational change. The change aims to create clearer business ownership and capture local synergies and value drivers across the Group by aligning the value chain within the business areas. The change means that the business areas have full responsibility for their respective area. The previous role of Global Operations in the Group management team will be changed to Strategic Operations with a focus on driving lean practices, manufacturing excellence, shared tools and processes, and overall footprint optimization. Two roles have been added in the management team: Innovation, with a focus on driving R&D processes, including shared technologies coordination between the business areas and product introduction development; and Commercial Excellence, with a focus on coordinating sales training, driving the practice of value selling, pricing strategies and go-to-market methods.

In February 2020, it was also announced that Pia Brantgärde Linder, currently Business Unit Manager of High Voltage Products in Northern Europe at ABB, has been appointed President of business area FoodTech as of August 16, 2020. Pia has had a long career at ABB. She is currently Senior Vice President and the Business Unit Manager for High Voltage Products in Northern Europe. Pia has a Master of Science in Mechanical Engineering from Chalmers University of Technology and an Executive Master in Business Administration (EMBA) from Stockholm School of Economics.

ASSURANCE 2019

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 uncertainties to which the Company and the companies in the Group are exposed.

Stockholm, March 17, 2020

Magnus Lindquist *Chairman of the Board*	Klas Forsström *President CEO*	Johan Ek *Board Member*
Helen Fasth Gillstedt *Board Member*	Per Hallius *Board Member*	Andreas Näsvik *Board Member*
Lena Olving *Board Member*	Kristian Sildeby *Board Member*	Juan Vargues *Board Member*
Simon Henriksson *Board Member, employee representative*	Pia Nordqvist *Board Member, employee representative*	

Our Auditor's report was submitted on
March 20, 2020
Ernst & Young AB

Rickard Andersson
Authorized Public Accountant

AUDITOR'S 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 2019. The annual accounts and consolidated accounts of the company are included on pages 76–123 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 2019 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 2019 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 statements of comprehensive income and the statement of financial position 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 2019, 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 year-end 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 4,348 and SEKm 1,111 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 any impairment. 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 2019, 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 1–75. 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 2019 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 20 March 2020
Ernst & Young AB

Rikard Andersson
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.

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. The calculation of average number of employees is based on full time equivalents in respective county.

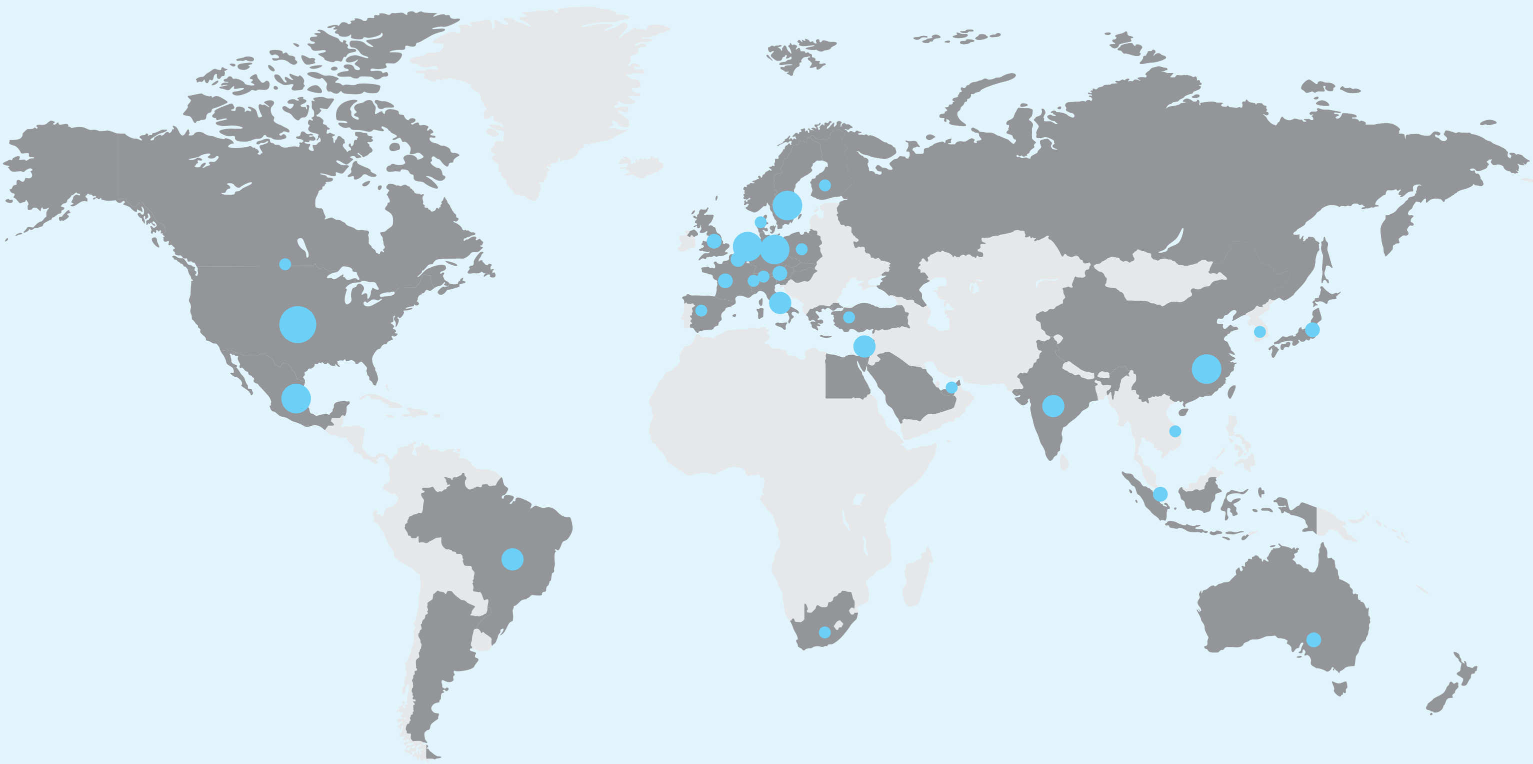
Operating cash flow
Earnings adjusted for depreciation, amortization, and impairments, as well as for investments and operating capital.

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.

Munters' employees in the world



The average number of employees* in 2019 distributed per country

USA	898	Czech Republic	97	Spain	13
China	361	Great Britian	79	Turkey	12
Sweden	351	Japan	60	Finland	11
Mexico	262	Netherlands	55	Canada	5
Germany	233	Australia	34	Austria	5
Belgium	201	France	33	Poland	4
India	174	Singapore	25	United Arab Emirates	3
Italy	160	South Africa	20	Vietnam	3
Israel	157	Denmark	19	Switzerland	1
Brazil	100	South Korea	19	Other countris	10

Average number of employees in the world, 2019

3,406

* The average number of employees is calculated by the sum of permanent employees over the past 13 months divided by 13.

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Munters
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