

**Proposal regarding the implementation of a long-term incentive programme including resolutions on issuance of employee stock options in accordance with (a) and hedging arrangements in respect of the programme in accordance with (b) or (c) (Item 16)**

*Background and reasons for the proposal*

The Board of Directors proposes that the annual general meeting resolve to implement a long-term incentive programme in the form of a performance based employee stock option program for members of the group management and certain other key employees (“**LTIP 2019**” or the “**Programme**”).

The Board of Directors is of the opinion that share-related long-term incentive programmes for members of the group management and certain other key employees are of essential importance for the company’s development. The overall purpose of the Programme is to attract and retain talent over time, to drive increased engagement and performance among the participants of the Programme, and to align the interests of the participants of the Programme with those of the shareholders in the company. The Board of Directors is of the opinion that the proposed Programme is well-balanced and that it will benefit the company and its shareholders.

The Programme is a complement to Munters’ ongoing incentive programmes, i.e. the programme that was implemented in connection with the company’s IPO, and the programme that was approved by the annual general meeting 2018. These programmes are described in the annual report for the financial year 2018 in note 32. The Programme now proposed will include members of the group management as well as certain other key employees of the company.

*(a) Issuance of employee stock options*

The Board of Directors proposes that the annual general meeting resolve on the issuance of employee stock options on the following principal terms.

1. The Programme shall comprise no more than 1,595,000 employee stock options divided in three series, of which no more than 797,500 employee stock options of Series A, no more than 319,000 employee stock options of Series B, and no more than 478,500 employee stock options of Series C. No more than 100,000 of these employee stock options may be cash-settled and remaining employee stock options shall entitle to the acquisition of shares in the company. The employee stock options shall be granted free of charge. The employee stock options shall not be deemed securities and shall be non-transferable.

2. The employee stock options shall be granted to members of the group management and certain other key employees (approximately 72 employees in total) according to the following:

- Category 1. The CEO with an allotment of no more than 150,000 employee stock options.

- Category 2. No more than 5 employees in the group management, in total no more than 260,000 employee stock options for the category, with allotment of no more than 52,000 employee stock options per employee.
- Category 3. No more than 39 employees with own regional or local responsibility for income statements, or with responsibility for programmes or activities having a substantial impact on global or regional income statements, in total no more than 780,000 employee stock options for the category, with allotment of no more than 20,000 employee stock options per employee.
- Category 4. No more than 27 employees with deep and critical skills for the group in a technical or functional area, or employees with potential significant impact on financial results of the group, in total no more than 405,000 employee stock options for the category, with allotment of no more than 15,000 employee stock options per employee.

The number of employee stock options that each employee is entitled to in accordance with the above, shall be divided pro rata between the three series in accordance with the following; 50% of Series A, 20% of Series B and 30% of Series C.

3. 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 financial years 2019-2021 (the “**Performance Period**”). The performance conditions determine the extent to which (if any) the employee stock options of the respective series may be exercised to acquire shares in the company or receive a cash amount at the expiry of a period of three years from and including the date of the grant of the employee stock options (the “**Vesting Period**”).

The eligibility to exercise the employee stock options of Series A is subject to the compound annual growth rate in adjusted EBITA for Munters during the Performance Period, and the eligibility to exercise the employee stock options of Series B is subject to the compound annual growth rate in Munters’ net sales during the Performance Period. If the outcome of a performance condition equals or is less than the minimum level of the performance condition, no employee stock options of the relevant series may be exercised. If the outcome of a performance condition equals or exceeds the maximum level, all employee stock options of the relevant series may be exercised. If the outcome of a performance condition falls between the minimum level and the maximum level, the number of employee stock options of the relevant series that may be exercised will be proportionally reduced between 0-100%.

The minimum and maximum levels of the performance conditions are set out in the table below.

<b>Series and performance condition</b>	<b>Minimum level</b>	<b>Maximum level</b>
Series A – compound annual growth rate (CAGR) in adjusted EBITA during the Performance Period	7%	14%
Series B – compound annual growth rate (CAGR) in net sales during the Performance Period	2.5%	5%

The Board of Directors shall be entitled to adjust the minimum and maximum levels of the performance conditions if extraordinary events occur, whereby the adjustments shall aim to maintain appropriate target levels and not make it harder or easier to satisfy the performance conditions. The exercise of employee stock options of Series C is not subject to any performance condition.

4. The employee stock options shall be allotted as soon as possible after the 2019 annual general meeting. For new employees allotment may take place at a later point in time but prior to the 2020 annual general meeting.
5. Cash-settled employee stock options may only be allotted to Programme participants in such countries where the granting of employee stock options that entitle to the acquisition of shares is not possible or suitable for legal or tax reasons, and the Board of Directors may consequently not decide upon cash-settlement on a discretionary basis.
6. Each employee stock option that is not cash settled shall entitle the holder to acquire one share in the company at an exercise price equivalent to 110% of the volume-weighted average price paid for the company's shares at Nasdaq Stockholm during a period of ten business days immediately following the 2019 annual general meeting. The exercise price calculated according to the above shall be rounded to the nearest SEK 0.01, whereby SEK 0.005 shall be rounded upwards. The exercise price and the number of shares that may be acquired for each employee stock option held shall be re-calculated in the event of intervening bonus issues, splits, rights issues or other similar corporate events.
7. Each cash-settled employee stock option shall entitle the holder to a cash amount equivalent to the value of one share in the company, calculated as the volume-weighted average price paid for the company's shares at Nasdaq Stockholm during a period of ten business days immediately prior to the exercise of the option, with deduction of an exercise price determined according to paragraph 6 above. Re-calculation in the event of intervening bonus issues, splits, rights issues or other similar corporate events shall also be made for cash-settled employee stock options.
8. The Programme participants shall be able to exercise employee stock options during a one year period as from and including the date of the expiry of the Vesting Period. In accordance with customary terms and conditions, it shall be possible to exercise the employee stock options prematurely in the event of, *inter alia*, compulsory redemption of shares, liquidation or merger. Exercise of the employee stock options shall as a

principal rule be conditional upon the Programme participant still being employed with the group at the time of exercise and has been employed with the group during the whole Vesting Period.

9. Participation in the Programme requires that such participation is legally possible, and that the administrative costs and financial efforts for the company are reasonable in the opinion of the company.

10. If the Board of Directors, considering the group's result and financial position, the conditions on the stock market and other circumstances, would consider the number of employee stock options subject to exercise to be clearly unreasonable, the Board of Directors shall be able to reduce the number of employee stock options subject to exercise. Such reduction may result in the number of employee stock options subject to exercise being reduced to zero.

#### *Hedging and dilution*

The Board of Directors has considered different methods to secure the delivery of shares upon exercise of employee stock options that are not cash-settled, as well as to cover the cash-flow effects associated with the Programme (primarily social security charges and cash-settled employee stock options), in order to implement the Programme in a cost-effective and flexible manner. The Board of Directors has found the most cost-effective alternative to be, and thus proposes that the annual general meeting as a main alternative resolve on, repurchase and transfer of own shares (see item (b) below). With regard to the number of own shares that the company has previously repurchased, in order to secure delivery obligations of shares and to cover cash-flow effects associated with the LTIP 2018, shares which wholly or partly may become available for delivery under the Programme depending on the outcome of the LTIP 2018, the Board of Directors proposes that the authorisation to repurchase shares shall not cover the full number of shares that may be needed for the company's obligations under the Programme, but instead shall cover a lower number of shares. If the assessment is subsequently made that additional shares may need to be repurchased, the Board of Directors may propose future annual general meetings to give authorisations to repurchase shares to further secure the company's obligations under the Programme.

Prior to expiry of the Programme, the Board of Directors intends to propose to the annual general meeting 2022 that transfers be made of own shares on a regulated market in order to cover the cash-flow effects associated with the Programme.

Should the majority required under item (b) below not be reached, the Board of Directors proposes that Munters shall be able to enter into an equity swap agreement with a third party, in accordance with item (c) below.

Neither of the hedging alternatives referred to above give rise to an increase of the number of shares in the company and, accordingly, no dilutive effect in terms of shares issued will occur for existing shareholders.

#### *Costs etc.*

The employee stock options are expected to incur costs for the group in the form of social security charges upon exercise, as well as accounting costs during the period the employee stock options remain outstanding. These costs are estimated to amount to approximately SEK 13 million. The calculation of the costs has been carried out based on, *inter alia*, the following: (i) the price of the company's shares at Nasdaq

Stockholm amounting to SEK 42 per share at the time of the allotment and to SEK 62 per share at the third anniversary of the allotment, (ii) the exercise price determined in accordance with paragraph 6 above amounting to SEK 46.20, (iii) 85% of employee stock options allotted in the Programme are exercised, (iv) the risk-free interest rate is 0.0% and volatility amounts to 26% during the period from the time of the allotment to the third anniversary of the allotment, and (v) a satisfaction of the performance conditions of 88%.

Based on the above basis for the cost calculation and the assumption of an average share price during the last 12 months before the employee stock options may be exercised amounting to SEK 58, the dilutive effect on earnings per share would amount to 0.07% throughout the duration of the Programme, provided that the number of outstanding shares in the company is unchanged throughout the duration of the Programme.

*(b) Repurchase and transfer of own shares*

(i) The Board of Directors proposes that the annual general meeting resolve to authorise the Board of Directors to resolve on repurchase of shares in the company in relation to LTIP 2019 according to the following:

- Acquisitions may be made of no more than 385,000 shares in order to secure the delivery obligations of shares to participants in the Programme and for subsequent transfers on a regulated market to cover cash-flow effects associated with the Programme, primarily social security charges and cash-settled employee stock options.
- The shares may only be acquired on Nasdaq Stockholm.
- The authorisation may be exercised on one or more occasions, until the 2020 annual general meeting.
- The shares may only be acquired at a price per share within the from time to time registered trading interval.

(ii) The Board of Directors proposes that the annual general meeting resolve to transfer shares in the company in relation to LTIP 2019 according to the following:

- No more than 1,495,000 shares may be transferred. Right to acquire shares shall, with deviation from the shareholders' preferential rights, be granted the persons participating in LTIP 2019, with a right for each participant to acquire the maximum number of shares as set out in the terms and conditions of the Programme. In addition, subsidiaries of the company shall, with deviation from the shareholders' preferential rights, be entitled to acquire shares free of charge, whereupon such subsidiary shall be obliged to, in accordance with the terms and conditions of LTIP 2019, immediately transfer the shares to the participants in the Programme.
- Transfer to the participants of LTIP 2019 shall be made at the time, to the price and on the other terms and conditions of LTIP 2019 at which participants of the Programme are entitled to acquire shares.

- The number of shares that may be transferred shall be re-calculated in the event of intervening bonus issues, splits, rights issues or other similar corporate events.

The transfer of own shares is a part of the proposed LTIP 2019 and the Board of Directors considers it to be of benefit for the company and its shareholders that the participants of the Programme are offered the opportunity to become shareholders in the company on the terms and conditions of LTIP 2019.

*(c) Equity swap agreement with a third party*

Should the majority required under item (b) above not be reached, the Board of Directors proposes that the annual general meeting resolve that the expected financial exposure of the Programme shall be hedged by Munters being able to enter into an equity swap agreement with a third party on terms in accordance with market practice, whereby the third party in its own name shall be entitled to acquire and transfer shares in Munters to the Programme participants.

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*Conditions*

The annual general meeting's resolution according to item (a) above is conditional upon the meeting either resolving in accordance with the Board of Directors' proposal under item (b) above or in accordance with the Board of Directors' proposal under item (c) above.

*Majority requirements*

The annual general meeting's resolution according to item (a) above requires a simple majority among the votes cast. A valid resolution under item (b) above requires that shareholders representing not less than nine-tenths of the votes cast as well as of the shares represented at the meeting approve the resolution. A valid resolution under item (c) above requires a simple majority among the votes cast.

*Preparation of the proposal*

The company's Compensation Committee has prepared the general guidelines for the proposed Programme. These guidelines have been presented to and adopted by the Board of Directors. The Board of Directors has subsequently decided that the Programme shall be proposed to the annual general meeting.

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Stockholm, April 2019

**Munters Group AB**

*The Board of Directors*