



Annual and Sustainability Report 2017





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## Financial calendar

Munters will release its financial reporting for the financial year 2018 according to the following schedule:

26 April, Interim Report Q1

17 May, Annual General Meeting is held at 3 PM, Clarion Hotel Sign, Östra Järnväggsgatan 35 in Stockholm, Sweden

18 July, Interim Report Q2

25 October, Interim Report Q3

*Note:*

*Because all amounts in this report are rounded, rounding differences can occur. This English version of the Annual Report of Munters Topholding AB is a translation of the Swedish original. The Swedish text is the binding version and shall prevail in the event of any discrepancies.*

## THIS IS MUNTERS

# Your Perfect Climate

Munters is a global leader in energy efficient and sustainable air treatment and climate solutions. Using innovative technologies, Munters creates the perfect climate for customers in a wide range of industries, the largest being the food, pharmaceutical and data center sectors.

Munters has been defining the future of air treatment since 1955. Today manufacturing, sales and service are carried out in more than 30 countries. We have about 3,900 employees, including temporary workers and an annual net sales of about SEK 7 billion. Munters is listed on Nasdaq Stockholm.

NUMBER OF EMPLOYEES

~3,900

NET SALES

~7 SEKb

NUMBER OF OFFICES

55

YEARS OF INNOVATION

62

NUMBER OF FACTORIES

18

THIS IS MUNTERS

Munters is a truly global company with 18 manufacturing plants, six assembly hubs, and 55 sales and service centers around the world.

**Business Areas**

Munters operates in four business areas:

**AIR TREATMENT**

Air Treatment is a global leader in energy-efficient air treatment for industrial and commercial applications, such as dehumidification and cooling in pharmaceutical and food production, as well as, in stores and central distribution centers.

**DATA CENTERS**

Munters Data Centers business is a world leader in energy-efficient climate systems for large and medium-sized data centers where capacity, reliability and availability are mission critical.

**AGHORT**

AgHort is one of the world's leading suppliers of innovative, energy-efficient climate control solutions for livestock, farming and greenhouses, as well as, of software for controlling and optimizing the entire food production value chain.

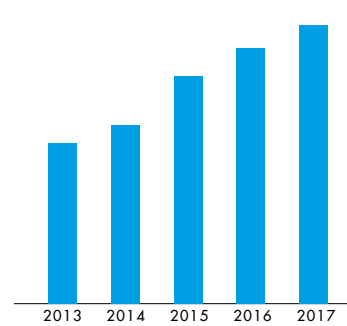
**MIST ELIMINATION**

Mist Elimination is a globally leading provider of solutions for mechanical gas and liquid separation, as well as, mass transfer. Munters cleans flue gases mainly from coal power plants and ships around the world, as well as, protect equipment in process industries, wind turbines, gas turbines and on ships.

**NET SALES**

SEKm

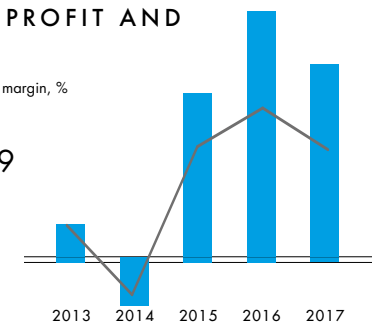
2017 – 6,604  
 2016 – 6,040  
 2015 – 5,399  
 2014 – 4,216  
 2013 – 3,791



**OPERATING PROFIT AND MARGIN**

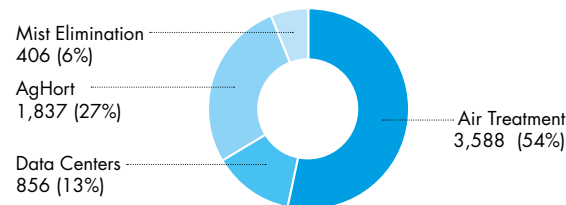
EBIT, SEKm — EBIT margin, %

2017 – 453/6.9  
 2016 – 577/9.6  
 2015 – 384/7.1  
 2014 – -104/-2.5  
 2013 – 77/2.0



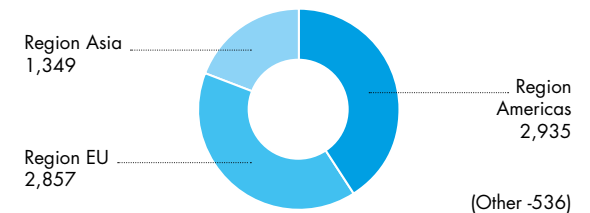
**NET SALES PER BUSINESS AREA**

SEKm

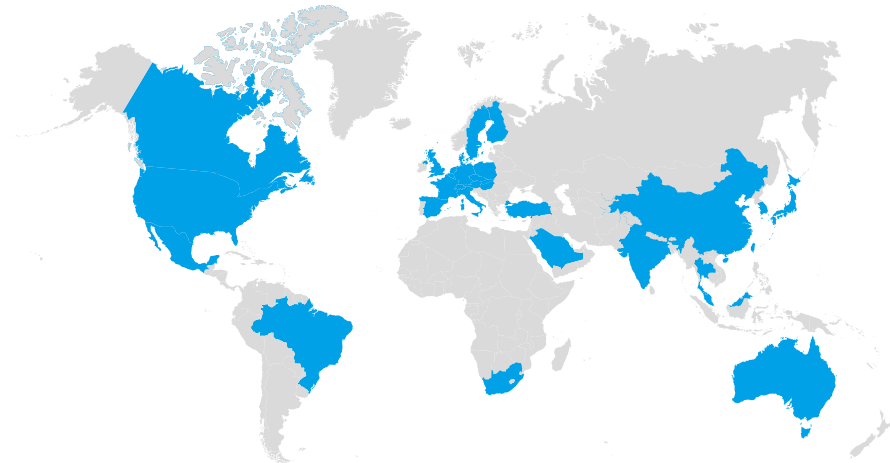


**NET SALES PER REGION**

SEKm



GLOBAL PRESENCE WITH SALES AND MANUFACTURING IN MORE THAN 30 COUNTRIES



## EVENTS DURING THE YEAR

## Events 2017



## IPO

The Munters Group AB shares were listed on Nasdaq Stockholm May 19, 2017, under the ticker MTRS. Price per share in the Offering was SEK 55, which corresponded to a total value of the number of outstanding shares in Munters of SEK 10,098 million. Munters CEO John Peter Leesi commented, the listing: "We are very happy and proud of the significant interest shown in Munters during the listing process. It is with great pleasure that we welcome new and old shareholders to take part in this next step in our journey – to develop Munters in a public environment." At the end of the year Munters had 6,514 shareholders.

## STRATEGIC ACQUISITIONS

During 2017, Munters acquired MTech Systems in the US and Edata in Brazil, two companies offering software solutions for the food production industry. Munters will now be able to provide full control of the supply chain for poultry and swine production including services such as advanced data analytics.

Munters also acquired Kevin Enterprises in India, a company engaged in design, manufacturing, supply & installation of mist elimination, mass transfer and separation equipment. The acquisition secures a world-leading offer for customers in the process industry.



## HISTORIC ORDER

During the year, Munters received its largest order in history to provide climate solutions for two Facebook data centers in Europe. Munters is at the forefront of a technology shift in the data center market, with indirect evaporative cooling enjoying exponential growth, as it gradually replaces old, less energy-efficient, compressor-based cooling technologies.



## EVENTS DURING THE YEAR



## NEW MANUFACTURING PLANT IN CHINA

A larger manufacturing plant was completed in 2017 in Jiang Yin, China, to serve the Asian market. The expansion was made to meet the continued strong growth in Asia. The production of rotors, cooling pads and fans started in October. During 2018, products for the data center market will also be produced.

AWARD:  
ENERGY INNOVATIONS

Munters received the "Industry Energy Innovation" award at 2017 Europe Datacloud Awards, showcasing innovation, inspiration and excellence in data center and cloud. The award referenced primarily the Indirect Evaporative Cooler Oasis™.



## PRODUCT RELEASE

Munters made several product launches during the year. One example is the Platinum Touch Controller which provides an entirely new user experience. The Touches' screen brings together mission critical data in one large screen, designed to be easy to read and use. The sophisticated interface is intuitive, enabling a simplified set up.

At the same time, the unit is built to work in the rigorous conditions found in barns. The Platinum Touches' software package enables management and control over all poultry and swine house functions.



## GLOBAL SERVICES

Munters provides a range of services for its products, including installation supervision, commissioning, spare parts sales, repairs and performance optimization. Munters Service business became an entity of its own in 2017. The business grew with 11 percent during the year driven by further penetration of our installed base with our existing service solutions including service contracts, as well as, introducing new upgrade and rental solutions.

CEO - JOHN PETER LEESI

# We are building an even stronger Munters

**W**e are 3,858 people in Munters and we are on a mission. Climate is what we are, what we think about and what keeps us going. We have a long tradition of offering solutions to make our customers more efficient. One in seven meals served on this planet is facilitated by Munters equipment. One fifth of all electricity produced every day is cleaned with Munters equipment. We reduce the energy needed for cooling a data center by 65 percent on average, compared to traditional cooling solutions. We take a lot of pride in doing this.

Our brand promise is to deliver "Your Perfect Climate." In the early days of our history, we delivered units for dehumidification. Today, we help our customers to create the perfect climate for their processes in which climate control is mission critical. We do this by investing in technology and industry knowledge, as well as, having a deep understanding of our customers' specific demands.

We do this because in a world that has surpassed seven billion people, resources are getting more scarce. We work along with thousands of other companies to make sure our planet is better tomorrow than it is today.

Our core values run deep. Our passion for results, our belief that there is always a better way, our team spirit and focus on sustainable value creation define our culture – and we know culture defeats strategy not once, not twice, but every time. In the perspective of time, we exist between two eternities; the past and the future. In this



sliver of time, we have a responsibility to make Munters a better company tomorrow than it is today.

## What we do and the development during 2017

Group net sales grew by nine percent to 6,604 SEKm, of which six percent organic. Operating profit decreased to SEKm 453, mainly due to lower profitability in Data Centers, corresponding to an adjusted EBIT margin of seven percent.

In Air Treatment, we provide solutions for a number of industries ranging from electronics and pharmaceuticals to commercial applications. At the center of our solutions is dehumidification and related technologies, often based on our own inventions. Our early involvement in many lithium-ion battery production projects has resulted in significant orders in all regions. The market for Air Treatment is expected to show healthy growth and, during 2017 we grew this business with nine percent.



In Data Centers, we provide cooling solutions to a market with great potential. Our business grew by 25 percent in 2017, however, large orders caused some delivery problems late in the year. We have for many years developed cooling technologies based on evaporative cooling, offering massive energy savings. We win contracts with big digital data center operators, as well as, co-location data center customers.

In our Agricultural & Horticultural (AgHort) business, we offer solutions for food producers in poultry, swine, dairy and green houses. A controlled climate is critical for food safety, production efficiency and last, but not least, animal welfare. We grew sales in this business by eight percent in spite of a cyclically weaker market. We received an order for process control in the broiler segment based on Echo/Sonar, our new connectivity solution.

Our Mist Elimination (ME) business faced headwinds during the year and Sales dropped with seven percent. This was driven by a structural change in the market for flue gas desulphurization. We are therefore accelerating our shift toward the mass transfer and marine exhaust gas cleaning markets where we see more sustainable and healthier growth levels.

Historically, we have seen the service business as a support for our equipment business, but here we have a great potential to drive growth and long-term relationships. During the year, we established Global Services as a business in its own right providing service and support to our customers. Our efforts in growing services have involved providing existing service products, as well as, developing new service solutions. Global Services grew by 11 percent during the year.

### Our acquisitions strengthen our offering

During the year, we announced three strategic acquisitions that add valuable capabilities and will broaden

our offering. In AgHort, we acquired MTech Systems in Atlanta, USA and Edata in Sao Paulo, Brazil. This helps us transition from a climate equipment provider to a connected software solutions provider in the food industry. This is quite transformational and very exciting.

Within Mist Elimination we acquired Kevin Enterprises in Mumbai, India, to strengthen our foot-print and help us transition into the mass transfer and process markets.

### Our challenges

During the year we struggled with our manufacturing efficiency in two areas. Our evaporative pad production in Monterrey, Mexico, faced challenges in yield and efficiency. We have taken a number of actions resulting in clear improvements. We are developing a new production process for our glass fiber based products and investing in a new production development lab in the US.

The Data Center business is characterized by significant lumpiness in timing of orders and we were also hit by delays in orders. In addition, the orders are bigger than we have ever experienced before, with complex engineering and development work. Production start-up costs have consequently been higher than expected. We are on a steep learning curve, and getting better.

In an era of high focus on renewable energy sources, there are less investments in the coal fired power industry. This has negatively impacted our Mist Elimination business with our solutions for exhaust gas cleaning and reducing SO<sub>x</sub> emissions.

### Our road to continued growth

Looking into 2018, we expect continued favorable market conditions in most of our market segments and the programs we are running will improve the company's performance during the year. We remain confident in that the steps we are taking will result in us achieving our mid-term financial targets.

In our strategy, called Munters Ahead, we increasingly focus on an outcome based business model and bringing sustainability even more into what we do and who we are. Our customers want a sustainable climate for their mission critical activities. We will offer a whole new range of solutions where we connect our equipment through our Internet of Things (IoT) capabilities. This is truly exciting.

We build a network of competent suppliers and other partners to deliver energy savings and help our customers to be more sustainable. Even if we are contributors in terms of sustainability, we will also work on our internal activities to assure these are done in a more sustainable way. Sustainability will be a natural part of everything we do.

With 2017 behind us, we look forward with unabated optimism. Munters is present in more than 30 countries. We are 3,858 employees with different capabilities and experiences. This diversity is our greatest strength and I thank all of you for your great work. I thank our customers for your trust in us. I thank our suppliers and partners for your support. And finally, thanks to all old and new shareholders for believing in us.

CEO

John Peter Leesii

# Megatrends

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



## Energy and resource efficiency

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

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

- Data Centers: 65 percent energy savings compared with traditional cooling.
- AgHort: Exact climate control in livestock farming optimizes resource consumption in the form of food and water.



## Sustainability – an integrated part of our business

There is an increasing demand globally for sustainable solutions. Achieving the UN's sustainability objectives adopted in September, 2015, requires major efforts; an increasing number of companies are taking responsibility for sustainability throughout the value chain with a focus on the environment, ethics, and social issues. Many are promoting sustainability as an integrated part of their operations.

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

- Mist Elimination: Major players prioritize separation of ecologically hazardous substances.
- Air Treatment and Data Centers: Major customers often have sustainability programs that Munters can deliver against.
- Air Treatment: Increased focus on sustainability issues has created great demand for electric cars. Munters contributes to this transformation through sales of climate equipment to companies that manufacture lithium-ion batteries.



### Increased digitalization

Increasing data traffic, greater use of cloud services and a larger number of connected devices are driving growth in industries that are exposed to digitalization.

Digitalization also opens doors to new ways of creating value, interacting with customers, and offering connected service and support.

*Munters services support digitalization through, among other things, efficient data center cooling and IoT solutions.*

- Data Centers: Increasing demand for cooling of data centers.
- All business areas: Connecting devices enables new services and long-term potential for selling climate control as a service.



### Strict requirements for production environments

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

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

- Air Treatment: Increased demand, for example, from the food industry, where hygiene requirements are being tightened up.
- AgHort: A good climate in livestock farming is important both for the animals' well-being and for the employees' work environment.



### Strict regulations

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

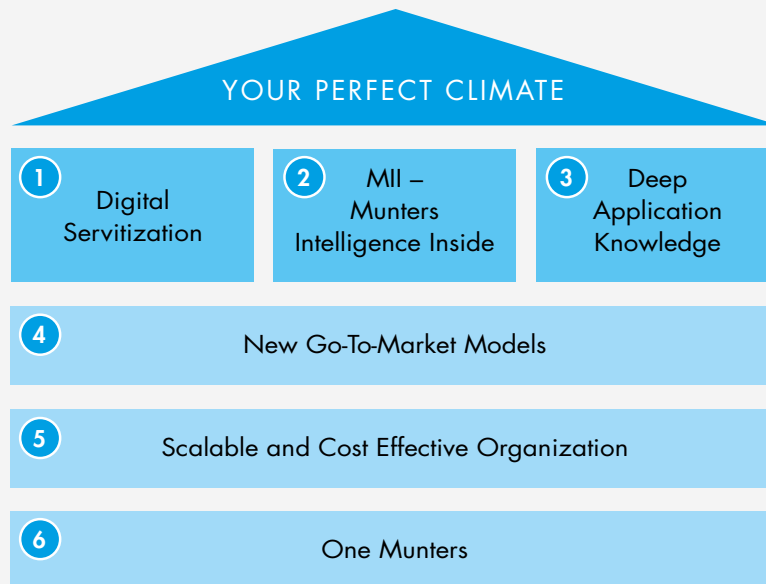
*Munters has many solutions to meet customers' needs for complying with new regulations:*

- Mist Elimination: Requirements for purifying emissions from coal-fired power plants and vessels with Munters mist eliminators.
- Air Treatment: Munters portfolio of Dedicated Outdoor Air Systems (DOAS) solutions are the most efficient in the industry with regard to moisture removal efficiency.

# Strategy, outcomes and value creation

## MUNTERS STRATEGY

Your Perfect Climate: We deliver precise, reliable and sustainable climate for our customers' mission critical processes.



- 1 We provide new offerings and improved solutions based on connected equipment and data analytics.
- 2 We drive development of leading technologies to generate sustainable offerings with better performance and lower resource consumption.
- 3 We deepen our application knowledge in selected segments, aiming to understand the customer applications better than the customers do themselves.
- 4 We complement our existing sales model with new, digitally enabled marketing and sales channels.
- 5 We drive operational excellence in all functions and develop processes and tools to build a scalable and globally aligned organization.
- 6 We promote a "One Munters" culture based on our core values and a sustainability focus throughout our operations.

## MUNTERS OUTCOMES

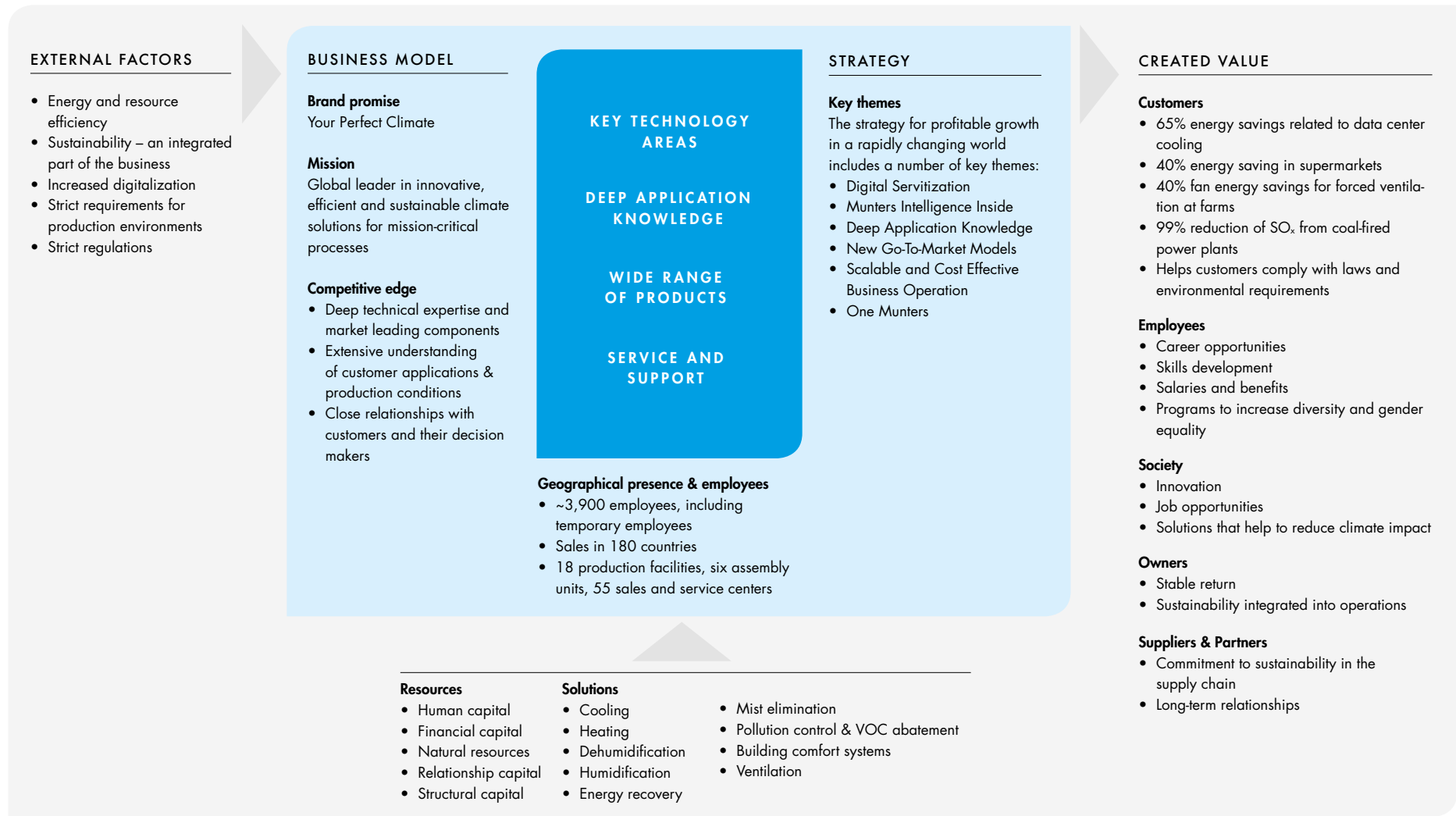
FINANCIAL TARGETS		Outcome 2017	Outcome 2016	Outcome 2015
<b>Net sales growth</b>	Achieve an annual organic sales growth of between 7–10 percent, supplemented by selective acquisitions.	6%	8%	12%
<b>Adjusted EBITA Margin</b>	An adjusted EBITA Margin of 14 percent in the medium-term.	10.2 %	12.9%	10.1%
<b>Capital structure</b>	A ratio of Net Debt to Adjusted EBITDA of 1.5x to 2.5x, and may temporarily exceed this level (e.g. as a result of acquisitions).	3.5	3.2	4.3
<b>Dividend policy</b>	According to the dividend policy decided by Munters Board of directors, Munters should aim to pay an annual dividend corresponding to 30–50 percent of its consolidated income after tax for the period. The pay-out decision will be based on the Company's financial position, investment needs, acquisitions and liquidity position. There can be no assurances, however, that in any given year a dividend will be proposed or declared.	0.30 SEK*	_**	_**
OPERATIONAL OBJECTIVES		Outcome 2017	Outcome 2016	Outcome 2015
<b>Energy efficiency in our production</b>	A continuous reduction of the electricity consumption in our production (electricity consumption in Mwh / production value in TSEK).	1.15%	1.31%	_***
<b>Electricity from renewable sources</b>	Continuously increase the share of electricity coming from renewable sources. We measure the electricity consumed in our production facilities.	29%	_***	_***
<b>Accidents in our production</b>	Continuously reduce the number of accidents in our production and we measure Total Recordable Incident Rate (TRIR), which we calculate as the number of accidents where the employee has had to seek medical attention multiplied with 200,000 / number of hours worked.	3.5	3.1	_***

\* Proposed dividend by the Board of Directors.

\*\*Munters was listed in May 2017. No dividend was paid 2015 and 2016.

\*\*\*New metrics - historical information missing.

## MUNTERS VALUE CREATION



# Sustainability at Munters

At Munters, we see sustainability as an important part of strategy, and one of our most fundamental values is Sustainable Value Creation. In all our business areas, we furnish products that promote the reduction of customers' environmental impact, with a primary focus on our products' energy efficiency. There are many examples of this in the descriptions of the business areas and the customer presentations in this Annual Report. Beyond helping customers become more sustainable, we are also working on our own operations having as little environmental impact as possible, on being able to offer our employees a safe, inclusive work environment, and on ensuring that we act responsibly and ethically.

According to the Annual Accounts Act, Munters is required to prepare a sustainability report. Such a statutory sustainability report has been prepared according to those requirements and is presented as an integrated part in this Annual Report, see pages 15–22. Reference is also made to pages 61–63 Risks, and 70 Diversity.

With this Sustainability Report, we wish to create transparency around our priorities, our activities, our challenges and our aims in the field of sustainability. This Report covers the operations of the entire Group.



SARA PUNKKI, GROUP VP  
CORPORATE SOCIAL  
RESPONSIBILITY  
SARA.PUNKKI@MUNTERS.SE

## SUSTAINABILITY

## MUNTERS SUSTAINABILITY AGENDA

Sustainability is a fundamental part of Munters long-term strategy and value creation. To verify that our strategic priorities in the field of sustainability are correct, we get information and draw inspiration via various channels. For example, we monitor which macro-trends – both long and short-term – are the most important. Another source of valuable information is monitoring the work of the UN and other countries around Agenda 2030. We communicate continually with our most important stakeholders – business partners, employees, and the capital market – in

order to understand which issues they are prioritizing in the field of sustainability.

Based on the materiality analysis, we have defined Munters Sustainability Agenda, and in 2017, we began the work on setting goals, activities, and metrics for our eight areas of focus. This work will continue throughout 2018.

Initially, we chose to prioritize the work on the focus areas connected to the parts of the value chain where we feel we have the greatest possibility of exerting our own

influence, such as product development, sourcing, sales through own employees and own manufacturing. There are other areas in the value chain where we have less possibility of direct influence, for example, how the customer uses and recycles the product, and transportation – especially when customers or suppliers are responsible for it. These areas are also important in order for us to be able to reduce the environmental impact of our operations and we will, therefore, work further on also setting goals, activities, and metrics in these areas.

## Our Eight Areas of Focus

**1. Sustainable products and offerings**

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

**2. Sustainable production**

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

**3. Sustainable transportation**

We limit the environmental impact of all the transportation we utilize.

**4. Sustainable, profitable operations**

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

**5. Business ethics**

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

**6. Like-minded Collaboration**

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

**7. An equal and inclusive work environment**

We offer a fair, safe, and inclusive workplace to a workforce with robust diversity.



**8. Community involvement**

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



## SUSTAINABILITY

## MUNTERS SUSTAINABILITY EFFORTS – GOALS AND FULFILLMENT


Area	Goal	Outcome 2016	Outcome 2017	Activities 2017	Planned Activities 2018
	Our objective is to continually reduce electricity consumption in our production sites. (MWh/production value, TSEK).	1.31%	1.15%	Increased monitoring of the manufacturing companies' compliance with our internal EHS Policy, in which energy efficiency is a focus area.	Create a forum for exchange of experiences. Set up a workgroup that reviews our existing goals, metrics and activities in the field of the environmental area for the purpose of both further clarifying the goals and putting more focus on the issues.
	Our objective is to continually increase the share of electricity from renewable sources. We measure the electricity consumed in our production facilities.	–*	29%	Implementation of the new metric and dialogue with the production units to understand the current situation.	Dialogue with the production units concerning the possibility of switching to electricity providers who offer electricity from renewable sources. Ensure that we include the renewable energy as a requirement in conjunction with procurement of new leasing contracts.
	We strive to continually increase our rate of recycling (i.e. the proportion of waste reused or recycled out of the total amount of waste).	48%	57%	Increased focus on monitoring our production units' compliance with our internal EHS Policy, in which waste management is an important issue.	Begin the work on developing internal instructions concerning waste management for the purpose of ensuring uniform management and increased knowledge of these issues.
	Proportion in percent of our most important suppliers who have signed Munters new Code of Conduct for suppliers. The goal is 100 percent.	–**	–**	A Code of Conduct for suppliers has been developed and communicated via our website. Previously, different versions were used in different regions and many suppliers have signed one of them.	The Code of Conduct will be sent out to our most important suppliers, and they will be encouraged to confirm in writing that they are following these guidelines. An effort has also been initiated to produce a list for self-assessment concerning observance of the Code of Conduct, as well as, a checklist that our purchasers can use for evaluation in conjunction with visits to suppliers.
	Proportion in percent, of Munters salaried employees who have undergone online training concerning our Code of Conduct, and other important internal governing documents. The goal is 100 percent.	–**	–**	All employees with an e-mail account have been instructed to confirm that they are following Munters Code of Conduct. An online training course has been produced that covers the subjects touched on in the Code of Conduct and also other important internal governing documents. An external whistleblower service has been launched.	The online training course was sent out to all salaried employees in Munters on January 22. At the end of February, 74 percent of the employees had passed the course.

\*A new metric that was introduced during 2017, hence, there is no information available for 2016.

\*\* A new metric that will be reported for the first time in the Sustainability Report for 2018.

## SUSTAINABILITY

## MUNTERS SUSTAINABILITY EFFORTS - GOALS AND FULFILLMENT

Area	Goal	Outcome 2016	Outcome 2017	Activities 2017	Planned Activities 2018
	We strive to increase the proportion of women as a percentage of the workforce. The goal is 23 percent by 2020 and 30 percent by 2025.	18%	18%	The recruitment process has been revised for the purpose of attracting more women to Munters. Directors and HR staff have been trained in increased awareness, with a particular focus on gender issues.	Work on ensuring that the tools and processes developed in 2017, are implemented and used throughout the organization.
	We strive to increase the proportion of women leaders. The goal is 23 percent by 2020 and 30 percent by 2025.	17%	17%	In 2017, two women were added to Munters Board of Directors, and one woman to Munters Group Management. One additional woman has been hired to Group Management, and she will begin her employment during the spring of 2018.	Increase monitoring and communication concerning issues of equality and our goals in this area, so that the issue is given focus in our daily business operations.
	We continually strive to reduce the number of workplace accidents and we measure the Total Recordable Incident Rate (TRIR), which is calculated as the number of accidents where the employee needed to seek medical treatment multiplied with 200,000/number of hours worked.	3.1	3.5	A global safety manual (the Munters Occupational Health and Safety Program), was launched. A set of Munters-specific visual standards for safety instructions was launched. A questionnaire for carrying out audits of our production plants, in which safety is an important area, was developed.	Working further on ensuring that our production plants implement the tools and routines developed in 2017, and placing additional focus on the issue of safety through, for example, introducing safety as a standing item in the quarterly Group Management meetings.

## SUSTAINABILITY

## OVERVIEW OF MUNTERS STAKEHOLDERS

During the year, we carried out a number of activities as part of the dialogue with stakeholders in order to identify their most important issues: business partners,

employees, and the capital market. The table below shows the results which formed the foundation of our sustainability agenda.

Stakeholders	Channels for dialogue	Important Issues
<b>Business partners</b> <ul style="list-style-type: none"> <li>• Customers</li> <li>• Distributors</li> <li>• Suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Question lists and surveys from customers regarding environment, health and safety</li> <li>• Annual customer survey</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance in environment, business ethics, and social issues such as labor legislation and human rights</li> <li>• Continual improvement in our products' energy and resource efficiency</li> </ul>
<b>Employees</b> <ul style="list-style-type: none"> <li>• Current employees</li> <li>• Potential employees</li> </ul>	<ul style="list-style-type: none"> <li>• Annual employee survey</li> <li>• Surveys conducted in conjunction with employee meetings and conferences</li> <li>• Employment interviews</li> <li>• Results from various types of studies</li> </ul>	<ul style="list-style-type: none"> <li>• Diversity and inclusion</li> <li>• Health and safety</li> <li>• Discrimination and harassment</li> <li>• Further improvement of our products and customer offering from an environmental perspective</li> </ul>
<b>The capital market</b> <ul style="list-style-type: none"> <li>• Shareholders</li> <li>• Investors</li> <li>• Analysts</li> <li>• Lenders</li> </ul>	<ul style="list-style-type: none"> <li>• Individual meetings with owners</li> <li>• Information regarding responsible investments on our owners' and investors' websites</li> <li>• Nasdaq's guide to ESG reporting</li> <li>• Road shows and investor meetings</li> <li>• Annual General Meeting</li> <li>• Queries and questionnaires from investors</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance in environment, business ethics, and social issues such as labor legislation and human rights</li> <li>• Sustainability strategy and focus areas</li> <li>• Net Sales, profit and market development</li> </ul>



## SUSTAINABILITY

## MUNTERS CONTRIBUTION TO AGENDA 2030

In 2015, heads of state and government from the UN's 193 member countries signed the 17 global goals for sustainable development known as Agenda 2030. For these global goals to become reality by 2030, all parts of society – governments, organizations, the business community, the public sector and private individuals – must get involved and contribute.

Munters supports the goals of Agenda 2030, and has analyzed what they mean for our operations and which goals are the most relevant to us – the ones where we can contribute and make the greatest difference. Three of the goals can be clearly linked to the products Munters sells, and it is, therefore, in these areas that Munters contributes the most.

Apart from these goals, we are working actively on different projects – both in our own operations and together with our suppliers and distributors – to produce six additional goals.

These are the goals where Munters has great possibilities for major impact through direct links to our product range



## 2: Zero Hunger

Munters delivers products and services – including climate equipment for animal farming, greenhouses and grocery stores – to many companies that are involved in the manufacture and distribution of food. In these industries, a perfect climate results, for example, in an increase in productivity, better animal welfare and less food waste in stores.

The AgHort business area recently launched a service called Echo/Sonar, in which IoT technology is used to link poultry farms to food producers' data systems, thereby ensuring full control throughout the entire delivery chain. The benefits are increased efficiency in production and more food for the world's growing population.



## 7: Affordable and Clean Energy

Indicator 7.2 aims at increasing the share of renewable energy in the global energy mix, and indicator 7.3 deals with improving energy efficiency. Munters strives to be a world leader in supplying energy-efficient solutions for air treatment, and energy efficiency is something we put a great deal of focus on, both in product development and in our own operations.

Cooling data centers is an energy-intensive process, and cooling represents 40 percent of the total energy consumption in a data center. Munters evaporative cooling technology used in its Oasis™ product line is an extremely energy-efficient cooling method. In addition, Munters offers solutions for using waste heat from data centers in district heating networks.

We have begun measuring electricity from renewable sources in our production plants and have the goal of working actively to increase its share over the next few years.



## 12: Responsible Consumption and Production

Indicator 12.3 concerns reducing food waste along the entire food production and supply chain. Munters offers a number of products and services to companies along the entire food and supply chain, and a proper climate is extremely important for improving productivity and reducing food waste. An additional indicator relevant for Munters is 12.5, which concerns effective waste management aimed at reducing, reusing, and recycling waste. As part of our environmental policy, we are working actively on reducing and handling waste in all production plants.

## SUSTAINABILITY

## MUNTERS CONTRIBUTION TO AGENDA 2030

## Additional goals where Munters actively contributes

**4: Quality education**

One of the indicators is building and upgrading education facilities so that they are suitable for learning. Munters Air Treatment business area offers climate equipment specifically for school environments.

**6: Clean water and sanitation**

One area of focus in our environmental policy is reducing water use in our production; this is an ongoing effort in our production plants. Since some of our customers are located in areas where water is in short supply, the demand is for technology that requires little or no water for cooling. We are carrying out various development projects to meet these customers' needs.

**9: Sustainable industry, innovation and infrastructure**

Indicator 9.5 deals with upgrading the technological capabilities of industrial sectors by encouraging innovation and increasing the number of people working in research and development. The number of employees at Munters has increased 35 percent since 2014. Over the same period, the number of employees in research and development increased 50 percent.

**5: Gender equality**

Indicator 5.5 aims at ensuring women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life. Munters works actively on issues concerning equality, and has set up tangible goals for more women in the company – both in general, and the number of women in leadership roles.

**8: Decent work and economic growth**

Indicator 8.5 relates to full employment with decent work and equal pay for work of equal value. Munters is located in many places around the world and our operations have grown rapidly over the last few years. This has enabled us to employ more people. At the end of 2017, we had 3,900 permanent employees, which can be compared with 2,600 permanent employees at the end of 2014. We are also working actively on conducting wage and salary surveys for the purpose of ensuring that we offer equal pay for work of equal value.

**16: Peace, justice, and strong institutions**

Indicator 16.5 aims at reducing all forms of corruption and bribery. At Munters, we have a clear policy against all types of bribes and corruption, and we place the same stringent demands on our suppliers and distributors.

## SUSTAINABILITY

## ORGANIZATION AND GOVERNANCE

Munters Board of Directors adopts the sustainability strategy and evaluates our success in this area. Responsibility is then delegated to the CEO, who ensures that the sustainability strategy is linked to the overall Group goals and integrates the responsibility into the working tasks of the commercial directors. The Group VP for Corporate Social Responsibility is responsible for developing proposals concerning priorities and strategy in the field of sustainability, coordinating and planning Group-wide sustainability efforts, and monitoring established goals, as well as, regularly communicating the results of these efforts to the Board of Directors, Group Management and the parts of the organization concerned.

The Group's basic position on various issues in the field of sustainability is described in a number of policies and governing documents. The two most fundamental documents are our Code of Conduct, and the special Code of Conduct for Suppliers. These documents are built on the ten principles in the UN Global Compact and the UN's Declaration of Human Rights, and describe Munters basic view of issues concerning the environment, social responsibility, and business ethics. We strive to conduct

our operations ethically, honestly, and in abidance of the law, because we know that sound decisions and ethical choices in our daily work build confidence both internally and externally in our customers and collaborating partners.

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

We inform and follow up on our policies and guidelines in different ways. In 2017, we developed an online training course on the Code of Conduct and a number of other important policies. This online course was sent out to all salaried employees and Board members in Munters – approximately 2,350 people – in January 2018. The goal is for all of them to have finished it during the spring 2018. We also monitor the implementation and observance of our policies every year at the Board Meetings of the Group's companies.

The sustainability risks are surveyed and evaluated as part of the yearly risk assessment process. For more information on the principal risks in the area of sustainability and how we handle them, refer to page 63.

### THERE ARE A NUMBER OF POLICIES IN THE FIELDS OF ENVIRONMENT, SOCIAL RESPONSIBILITY, AND BUSINESS ETHICS

#### The most important are:

- Code of Conduct
- Code of Conduct for Suppliers
- Fraud
- Anti-corruption
- Gifts and promotional gifts
- Whistleblower policy
- Observance of competition rules
- Observance of sanction rules
- Data protection policy
- Environment, health and safety
- Insider policy
- Social responsibility



for the technical specifications of a customer solution. We have now gathered these into a powerful program that creates schematics, blueprints, and notes on included components. This enables better, faster interaction with our customers and a higher level of process quality.

Work with the IoT (Internet of Things) intensified during 2017. By acquiring MTech Systems, for example, Munters competence in controllers for agriculture has been efficiently combined with insights into data analysis. This enables new service offerings and improved food production.

### Innovation based on customer needs

The orientation of our research and product development is governed by changed customer needs, as well as, our knowledge and position in various areas of application.

Each business area is responsible for research and development within their respective product areas, with technology centers close to our customers. We use a shared development model: the Munters Product Development Model (MPDM), which is a multi-disciplinary model with clear control points. This model leads to the development process being based on individual creativity, disciplined innovation, and direct insight into customer needs.

### Innovation for increased sustainability

We are continually developing our products for higher levels of sustainability. Characteristic of our products is that they enable our customers to both attain the perfect climate for their production and reduce climate impact.

Munters has increased its focus on proactive maintenance and improvement of installed products. We are providing our customers more and more with information and a basis for decisions, rather than simply a product. This increase of servitization is extremely important. It entails new business models where our innovative products enable both ourselves and our customers to collaborate closely on achieving "Your Perfect Climate".

We do this by gathering performance data and providing preventive service. The data is used to propose upgrades of installations so as to achieve a greater degree of energy efficiency and better sustainability. We strive to come to agreements with our customers regarding guaranteed climate quality. All this is enabled through intensified innovation in connected controllers and advanced software.

### Innovation structure and results in Munters business areas

#### AIR TREATMENT

- R&D centers located in Kista (Sweden), Beijing (China), and Amesbury and Selma, (US).
- Important innovations during the year:
  - An increased number of products have been equipped for remote monitoring. Dehumidification systems have been delivered with wireless monitoring of climate from remote facilities in Europe and real-time monitoring of systems for Moisture Removal Efficiency (MRE) in department stores in the US.
  - Reduced energy consumption in solutions for lithium-ion battery dry rooms.
  - Solutions for Dedicated Outdoor Air Systems (DOAS) have been further developed for new markets such as schools and hospitals.

#### DATA CENTERS

- R&D centers located in Dison (Belgium) and Buena Vista (US). At the production plant in Dison, there is a sophisticated testing facility for simulation and acceptance testing.
- Innovation efforts are focused on developing global platforms for products with low energy consumption for data center cooling.
- Important innovations during the year:
  - Products approved for use in earthquake-prone areas, in Asia and beyond.

- New technology for high-performance heat exchangers for non-water based, low-energy cooling.
- New evaporative cooling media (DATAdek™).

#### AGHORT

- R&D centers located in Chiusavecchia (Italy), Horstmar (Germany), Petach Tikva (Israel), Queretaro (Mexico) and Lansing and Atlanta (US).
- Innovation efforts are focused on design and development of mechanical and electrical efficiency. Certain centers work primarily with software development.
- Important innovations during the year:
  - Munters Drive, a development of Munters energy-efficient, direct-driven fans with new sizes and adaptations for various countries.
  - Solutions for integrating software across the entire supply chain in chicken farming. Various IoT units enable sophisticated analysis and improvement of environment and production results.

#### MIST ELIMINATION

- R&D centers located in Aachen (Germany) and Ambernath (India). Product testing is also conducted in both locations.
- Innovation efforts are focused on:
  - Further development of technology for flue gas desulfurization (FGD) scrubbers for the market in India
  - Mass transfer of technology to other regions
  - Development of new products for mist elimination in the processing industry. This is part of TERESA, a program with partial funding from German government authorities.
- Important innovations during the year:
  - Improved design with lower cost for vanes in gas turbines and air intakes.
  - New cyclonic separator for smokestacks and tubing.



# Munters global production platform

Munters has 18 production sites and six assembly units, strategically located near its most important markets. The entire production platform is built on the Munters Production System, which is based on Lean principles\*, and the company is investing in increased resource efficiency and safety in the production process.

## Global network

Munters is striving to optimize the global network of production sites and assembly hubs. Since 2013, 11 production plants have been consolidated, sold as divestments, or relocated. During this same period, Munters has expanded with eight new plants, five of them through acquisitions.

The current structure is designed to balance the requirements for proximity to customers – which facilitates adaptation and service, and reduces lead times – with global cost advantages and reduced logistics costs.

In general, Munters facilities in the US and Europe specialize in products within one of its business areas, whereas facilities in other parts of the world manufacture and assemble products for more than one business area. This reduces Munters exposure to changes in local, regional or global trade policies.

The vast majority of Munters products are manufactured and assembled at the company's own plants.

\*Lean is an ideology aimed at maximizing customer benefits while minimizing waste of resources through different types of efficiency and rationalization.

## MUNTERS PRODUCTION SITES



## Investments

The production platform is continually evaluated in the effort to increase efficiency and flexibility in the production process and to improve delivery times.

A larger manufacturing plant was completed in 2017, in Jiang Yin, China, to serve the Asian market. A smaller

manufacturing plant has been closed down and production has been moved to the new plant. Munters has also prepared for production of Data Center products in 2018.

The acquisition of Kevin Enterprises, with production in Mumbai, strengthens Munters offering in India and complements its products for the processing industry.

During the year, Munters also invested in a new production line for CELdek® cooling pads in its manufacturing plant in Italy in order to reduce delivery times and shipping costs to customers in EMEA.

One of our production lines for evaporative pads in Monterrey, Mexico has encountered challenges in production return and efficiency in 2017. It has caused delays and been costly. Our improvement measures have been successful and production returns have gradually improved. In order to cope with the high market demand and further improve efficiency, we have decided to develop a new production process for our fiberglass-based products and invest in additional manufacturing capacity in the United States to meet the high demand in the market.

### Continual improvements

Munters production process is customer-oriented and focused on quick and efficient delivery of quality products in accordance with the customer specifications. The Munters Production System (MPS) is used to monitor, organize, manage and document production. Since its start in 2012, MPS has been fully integrated into 12 facilities. A number of facilities are preparing and training for the introduction of MPS, and the goal is to implement it in all manufacturing plants by 2019.

Munters strives to identify and spread best practices the entire network of production sites and assembly hubs. The Company continually monitors and analyzes processes for production, distribution and aftermarket, and uses the information collected by MPS to identify areas of improvement.

In 2017, parts of the fan manufacturing in Italy were automated in order to perform monotonous work and to improve safety. Parts of the CELdek® pad manufacturing in China have been upgraded for better efficiency and reduced energy use. In the US, the Company has invested

in processing equipment for rotor production and in enhancing the efficiency of production for Data Centers.

### Sustainability in production

Munters works actively to improve resource efficiency in production. The Environmental, Health and Safety Policy (EHS) applies to all units in the Group.

In 2017, a new work method to promote safety and health at Munters workplaces was launched: the Occupational Health and Safety Program (OHS), which covers:

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

Munters is also working on systematic risk evaluation of its production units for the purpose of preventively reducing environmental impact while increasing focus on health and safety. Other areas covered by the risk evaluation include fire safety, waste and chemical management, as well as, overhaul of electrical installations. All units are assessed on a rolling three-year schedule. In 2017, risk evaluations were conducted on eight manufacturing plants which resulted in an action program for further improvements.

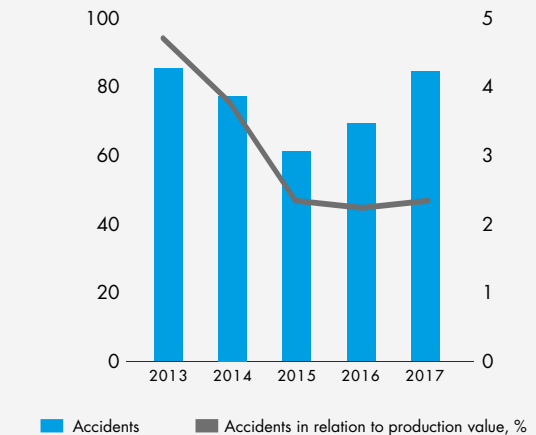
### Workplace accidents

Reducing the number of workplace accidents is one of Munters highest priorities. Systematic health and safety work is part of MPS. This includes incident reporting, continual visual inspections, and mitigating areas of risk.

The objective is to continually reduce the number of workplace accidents.

All accidents are reported and the facility where the

### FREQUENCY OF ACCIDENTS IN PRODUCTION



accident occurred is responsible for presenting and taking measures aimed at preventing a repeat occurrence.

84 accidents were reported in 2017, which is an increase compared with 2016 when 69 accidents were reported. The increase is largely due to the inclusion in the statistics of two newly-acquired production sites. Production volume also increased by approximately 18 percent in 2017, so if the number of accidents is put in relation to production volume, the accident rate is at the same level as the last two years.

### Energy

Climate impact from our manufacturing units comes mainly from energy for heating, ventilation, cooling and

production processes. Munters is working actively to enhance the efficiency of its production equipment with new technology, installation of LED lighting, and the use of residual energy that arises in connection with various processes.

The objective is to reduce energy use and to make the manufacturing plants and processes more efficient. Munters monitors its energy efficiency by putting the electricity consumption in relation to production value. The results of these measurements are reported in the section on sustainability.

#### Waste

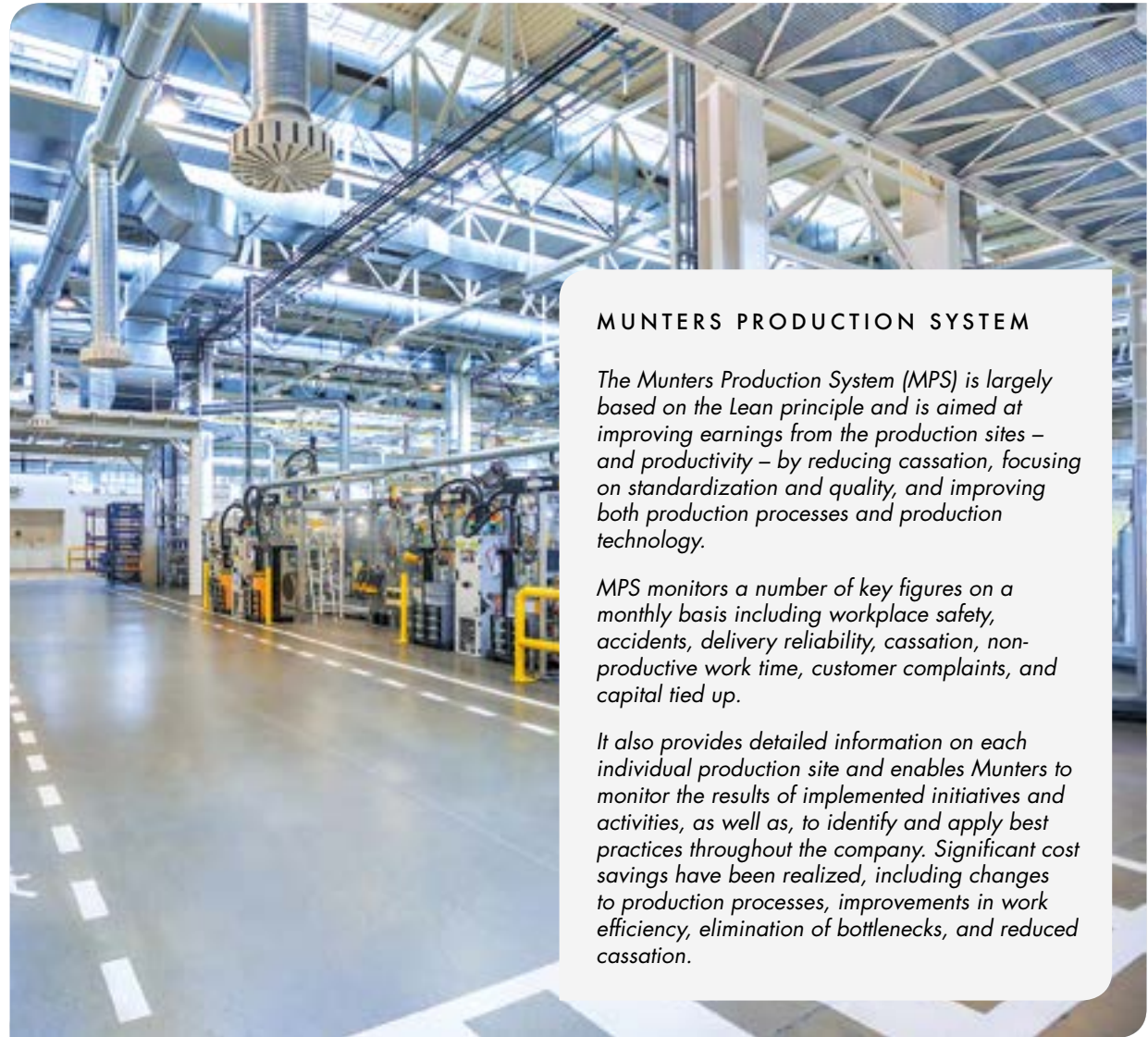
Munters is working continually to reduce waste from its manufacturing plants and to improve the recycling rate. In 2017, the rate was 57 percent, which is an improvement compared with 2016, when it was 48 percent.

The objective is to continually reduce the portion of waste that cannot be re-used or recycled.

#### Water

Reduced water consumption and water purification in Munters production processes are an important part of the Company's contribution to reduced environmental impact. Munters separates both chemicals and particles in the waste water from its facilities.

The objective is to gradually reduce water consumption in the Company's manufacturing plants and processes.



#### MUNTERS PRODUCTION SYSTEM

*The Munters Production System (MPS) is largely based on the Lean principle and is aimed at improving earnings from the production sites – and productivity – by reducing cassation, focusing on standardization and quality, and improving both production processes and production technology.*

*MPS monitors a number of key figures on a monthly basis including workplace safety, accidents, delivery reliability, cassation, non-productive work time, customer complaints, and capital tied up.*

*It also provides detailed information on each individual production site and enables Munters to monitor the results of implemented initiatives and activities, as well as, to identify and apply best practices throughout the company. Significant cost savings have been realized, including changes to production processes, improvements in work efficiency, elimination of bottlenecks, and reduced cassation.*

# Global sourcing coordinated and streamlined

Munters sources raw materials, components and finished products from around the world for delivery to its manufacturing plants and assembly units. The Company's supplier network is valuable and strict requirements are placed on quality, efficiency and sustainability in the supply chain.

Munters has a global sourcing organization that sources goods and services from approximately 2,000 suppliers in 28 countries. A new organization with a regional category structure was introduced in 2017, in order to coordinate sourcing and enhance its efficiency. The purpose is to achieve increased standardization and consolidation of the sourcing volume to fewer suppliers. The Company also sees major opportunities to deliver added value through specialized engineers and has added a new function; Project Sourcing Managers, which is aimed at sourcing needs in complex customer projects.

## Partnership for innovation

Munters sourcing organization is focused on creating innovative power together with the Company's strategic partners. During 2016 and 2017, six Supplier Innovation Workshops were conducted in which suppliers from around the world gathered to focus on "rethinking" and finding valuable improvements that enable increased efficiency and sustainability throughout the supply chain. A cross-functional approach with other functions such as R&D, Product Management, Production Technology and Sales generates product improvements



*Munters Supplier Innovation Workshops gather the Company's suppliers from around the world. Together, they find valuable improvements that enable increased efficiency and sustainability throughout the entire supply chain. The starting point is sharing efficiency gains between both parties on every generated idea that is implemented. The picture is from a workshop in Horstmar, Germany, on September 6, 2017.*

that benefit Munters, its suppliers, and its end customers.

## Munters supplier base

The supplier base is fragmented and the 10 largest direct material suppliers by volume represent 17 percent of the total sourcing volume. The objective is to reduce the number

of suppliers by 10 percent per year over a business cycle. In 2017, the number of suppliers was reduced by eight percent, including new suppliers that had been added in connection with business acquisitions. At the same time, Munters is intensifying its work on identifying capable partners and suppliers in low-cost

countries. The objective is to increase sourcing in eastern Europe, the Baltics, China, and Mexico from the current 25 percent to 50 percent by 2020. This objective may be revised, however, depending on amended trade tariffs and other obstacles to trade.

### Efficient sourcing

Margin improvements and shorter lead times are priority areas for Munters, and large parts of its sourcing volume are negotiated on an annual basis.

The work on risk assessment and risk reduction was highlighted in 2017. The Munters Critical Component List has been revised and a detailed plan has been developed for each individual manufacturing plant. One of the greatest challenges is ensuring quick, secure deliveries through several main suppliers in each product group. The global sourcing organization will be a driving force in this work, together with the local plant managers.

### Responsible sourcing

Munters works to ensure sustainability throughout the entire supply chain and all suppliers are expected to comply with the Company's ethical guidelines. A revised version of the Munters Code of Conduct will come into force starting in 2018. It will now be communicated and signed by all Class 1 suppliers, as well as, a number of selected Class 2 suppliers. The Code will also be signed by all suppliers in what are termed "high risk" countries\*.

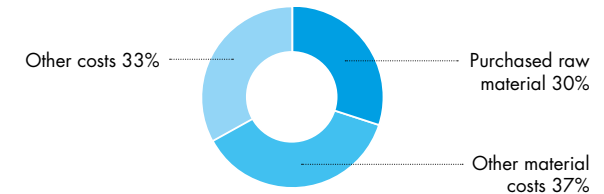
Observance of the Code of Conduct will be monitored through visits and audits carried out by Munters or a third party. In the event the supplier does not meet the requirements, an action plan will be drawn up. If the schedule is not followed, the relationship will be terminated.

Munters has also increased its focus on sustainability and the environment with its supplier base. During 2018, the Company will continue working to reduce its environmental impact by working with suppliers in shipping that are upgrading to more fuel-efficient vehicles and are focused on measuring and reducing CO<sub>2</sub> emissions.

### Sourced raw material

Direct material represents approximately two thirds of the total cost of a product – and raw materials represent 30 percent of that. Copper, the most important raw material, is part of electronic components and fan motors.

## TOTAL PRODUCT COST



## NON PRODUCT-RELATED SOURCING

*Munters spends approximately SEK 800 million per year on Non Product-Related Materials and Services. For the past several years, Munters has worked with other Nordic Capital portfolio companies and collaborated on joint sourcing initiatives to leverage our volume and create a more economically beneficial agreement for all parties. The last joint sourcing event with Nordic Capital portfolio companies on Freight delivered significant savings for Munters.*

\* China, Mexico, and European countries not affiliated with Schengen.

# Confidence and team spirit create success

**The culture in Munters is based on our confidence in each other's abilities and collaboration across boundaries in multicultural teams. A colorful mix of engaged, competent employees make Munters an innovative company focused on quality. Munters has manufacturing and sales operations in more than 30 countries. We are 3,900 employees, including temporary workers, and we are growing every day.**

The Munters culture is built on shared values to ensure we deliver the promise of our brand – “Your Perfect Climate” – to every customer, and that all our employees are engaged, doing well, and developing. We work on the basis of four values:

- Sustainable Value Creation
- Passion for Results
- There is Always A Better Way
- Team Spirit

We try to follow these values every day, in 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.

We have an important task: all Munters products and solutions result in major environmental and economic advantages for our customers, thereby contributing to a long-term sustainable society.

## Multifaceted, multicultural teams

Munters operations are built on confidence and collaboration in global teams, to reach shared goals.

Munters has a rich and wide mix of employees with individual strengths and drives. We welcome and encourage this diversity and individuality. We know that different perspectives provide us with valuable insights which help us improve our company and our offering. Our internal ambassadors are responsible for continually improving this confidence and the communication among teams and divisions around the world.

## Equal and inclusive

We know that the best way to fulfill our brand promise and to build long-term customer relationships is by offering a stimulating, inclusive working environment. That is why we work in different ways to increase diversity in the company and strive to recruit people of different genders, nationalities, ages, backgrounds, skills and experience.

Since 2016, we have revised our recruitment process, training managers and HR personnel in increased diversity awareness with a focus on gender. In 2020, the number of women employees must total 23 percent and the number of women executives must also total 23 percent. In 2017, the number of women employees was 18 percent and the number of women executives was 17 percent.

Our sustainability efforts are built on the UN's Global Compact and prescribe matters such as how all employees must be treated equally, having equal rights and opportunities. Since 2017, our leadership program has included training around unconscious biases, so that we all become more aware of them and know how to identify and handle them.

### Name:

Lisa Sato

### Where do you work today?

I work for the AgHort Business Area in Italy.



### How can we at Munters make a difference?

Munters can continue making a difference by being proactive. Currently, I am working with a newly acquired company, MTech Systems. Connecting our products on farms to the MTech software allows us to see live data and use it to pick up on issues, trends, anomalies, or patterns. This is crucial, not only to improve our business, but also to provide a service of information to our customers. This allows us to help our customers learn more about their farms and the interaction between the environment and their livestock. Even more, this helps our customers improve their current situation to achieve a healthier, safer and more sustainable way of working.

### What about the future?

My next challenge is how I can best support the team in adding value to our customer and/or to the market by connecting our farms with the Internet of Things.

Salaries and compensation must be objective and fair. The global salary survey conducted in 2016\* showed only a few cases of gender-based differences.

A few cases of discrimination or harassment were formally reported in 2017. The results from the employee survey, however, show that we have not yet reached the goal of being a workplace that is 100 percent free of discrimination and harassment. Five and six percent of our employees still feel they have been subjected to discrimination or harassment, respectively. Preventing this is, therefore, an area of focus in the activity planning from the employee survey.

Our employees can also anonymously raise an alarm regarding serious improprieties in the Group through a special 'whistleblower' function. During 2017, we introduced the opportunity for anonymous whistleblowing via a web-based channel furnished by an external contractor.

#### Development and career paths

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

We are always looking internally for talent and all

positions are announced internally. We focus on developing and supporting all employees in having an individual career path.

The annual performance review with an immediate supervisor is the foundation of every employee's individual development. Personal objectives are monitored here and a development plan is produced. 100 percent of our employees had a performance review in 2017, with their immediate supervisor.

"Munters Quest", a program that enables being stationed abroad for brief periods up to a maximum of 90 days, was launched in 2017. The program aims at

#### Name:

*Britney Minto*

#### Where do you work today?

*I work for Group HR as Performance and Rewards Specialist based in the USA.*



#### How can we at Munters make a difference?

*Recently, I had the chance to launch Munters Quest, which added another channel for employee development both professionally and personally. Programs and initiatives like this one will continuously strengthen the One Munters culture and will make a difference in our daily lives.*

#### What about the future?

*I see the future Munters as even more diverse than it is today. Driving and rewarding the performance of that diverse workforce is a challenge I have accepted. Let the hard work – and fun – begin!*

#### Name:

*Diogo Felipe Santos*

#### Where do you work today?

*I work for the AgHort Business Area based in Brazil.*



#### How can we at Munters make a difference?

*We can make a difference by delivering the best safe energy-efficient climate solutions for our clients. What makes me most proud is to know that we are closely linked with most parts of the food production chain.*

*I've been involved in a dairy cattle farm climate project, and right from the very beginning the client noted that milk production rates had started to increase.*

#### What about the future?

*My next challenge will be developing and implementing at least two new products by year-end in Munters Brazil, that will help increase sales and make us unique in this market.*

#### Name: Yusuke Kasai

**Where do you work today?** *I work for the Air Treatment Business Area, based in Japan.*



#### How can we at Munters make a difference?

*I am proud that Munters takes Corporate Social Responsibility (CSR) seriously. I participated in a CSR project where the teams in Japan and China worked together. It made me proud of working for Munters.*

#### What about the future?

*My focus is to sell more! I am surrounded by very nice people which, I think, is one of the most important factors in continuing to work at the same place.*

\* The survey covered approximately 50 percent of all employees, and was carried out through comparisons of wages for men and women in identical roles. We have defined a global wages survey process that will be carried out every other year; the next time will be in 2018.

promoting inter-function collaboration and increasing understanding of the diversity of cultures in Munters, as well as, the employee's personal development.

Coaching and mentoring are good ways of developing. Women have priority in our global mentor program, which began in 2016, but employees at all levels have the opportunity to be given a personal mentor in the company. Mentorship runs for a year and a new round opened in December 2017. The mentor program is also

**Name:**

Zara Pedersen

**Where do you work**

**today?** I am a Mechanical Engineer – Technical Product Manager at R&D, based in Sweden.

**How can we at Munters make a difference?**

I am currently working on several development projects, in which I always aim to deliver innovative and user-friendly products that solve problems for Munters customers. If we continue to nurture and develop our solutions, we will continue to make a difference for our customers and to achieve more sustainable development.

**What about the future?**

I see many future possibilities in Munters as a company, but also for my own personal goals and my own development. I look forward to the coming years at Munters, and taking an exciting career journey through all its business areas. Another challenge – which most technology companies have – is attracting more women engineers. I would really like to see more smart, driven women for greater diversity at Munters.

a way for us to strengthen the culture and inter-function collaboration we call, One Munters.

**Managers with skill and ability**

We expect that managers at Munters will promote an inclusive work environment in which all the employees' differences are welcomed. Our managers must create trust, and motivate and inspire their employees to form effective work groups. Managers must also support employees'

**Name:** Jozef Reddington

**Where do you work today?** I work for Global Services as Regional Service Manager North America, based in the USA.

**How can we at Munters make a difference?**

The Munters team can continue to make a difference by offering innovative solutions that make our customers' processes better, more efficient, and more reliable. At Global Services, we are responsible for making them sustainable throughout the life cycle of our equipment.

I find it very rewarding when friends, or family, or even the news, talks about how one of Munters customers has this great product, or that Munters is the leader in their field, or has revolutionized the industry, and knowing that our solutions make it possible.

**What about the future?**

My next challenge is the same as my current challenge: to grow the Service Organization in terms of capabilities and profitability.

development by setting clear goals directly linked to our business strategy and through regular feedback.

Most of our managers are internally recruited and we offer various development programs for improving their skills and strengthening important leadership abilities. We strive to increase the proportion of women leaders and continually modify our recruitment profiles to obtain a broader candidate base.

All new managers participate in a two-day introduction program. During 2017, we also started the Munters Leadership Development Program, in which we place particular importance on inclusive leadership. This includes special activities for the purpose of strengthening the visibility, self-esteem, and networks of women managers.

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

**Health and well-being**

Munters has a policy for safety, health, and the environment which applies to all employees. We have a Vision Zero plan for work-related accidents and strive to continuously improve safety at our work sites. As part of our sustainability efforts, we monitor the Total Recordable Incident Rate (TRIR), which is calculated by putting the number of accidents in relation to production volume. For additional information, refer to pages 13 and 18.

To perform and develop, people must feel happy and at ease. A good balance between private life and working life is important. At the end of 2017, we decided on a global policy that encourages managers to offer their employees the possibility of flexible working, such as working from home and using flexible working hours. We believe, that this will be appreciated by our employees, especially working parents.



## EMPLOYEE SURVEY

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

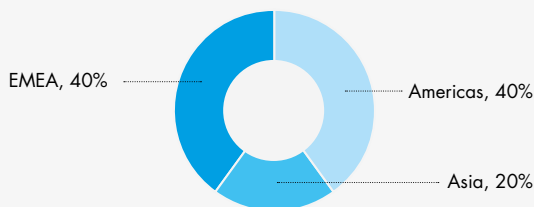
	Benchmark	2011	2012	2013	2015	2016	2017
Response frequency	83	76	96	98	97	97	98
Employee index	86	77	79	87	88	97	93
Leadership index	71	64	68	72	74	78	78
Engagement index	77	64	75	78	79	80	80
Net Promoter Score	7	-12	-12	-3	3	16	10

Every executive receives a report with the results for their own unit and support from HR for working on the most important areas for improvement.

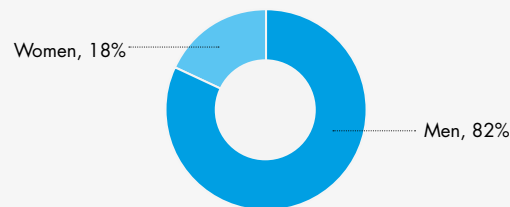
The employee survey is conducted by our external partner, Netsurvey. No employee survey was conducted in 2014.

Below benchmark Above benchmark

## EMPLOYEES PER REGION



## EMPLOYEES BY GENDER



## THE VALUES THAT BUILD ONE MUNTERS

To ensure satisfied customers, the highest possible quality in our products and services, as well as, engagement and well-being among our employees, Munters operations are built on the following values:

WHAT WE CREATE:

### SUSTAINABLE VALUE CREATION

We create sustainable, lasting value in everything we do.

HOW WE ACT:

### PASSION FOR RESULTS

We deliver what we promise and we strive to be the best.

HOW WE THINK:

### THERE IS ALWAYS A BETTER WAY

We are innovative and continually improving.

HOW WE WORK:

### TEAM SPIRIT

We honor different perspectives, and share ideas and common goals globally.

# Air Treatment

Air Treatment is a global leader in energy-efficient air treatment for industrial and commercial fields of application. The business area offers climate solutions for mission-critical processes that require exact control of moisture and temperature. Munters climate systems provide increased security, air quality, and production efficiency.



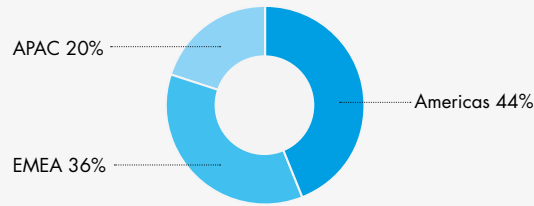
NET SALES

**3.6**  
billion SEK

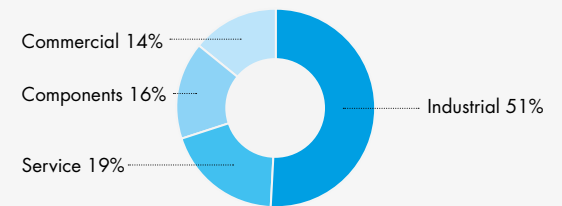
OPERATING PROFIT

**511**  
million SEK

MARKETS

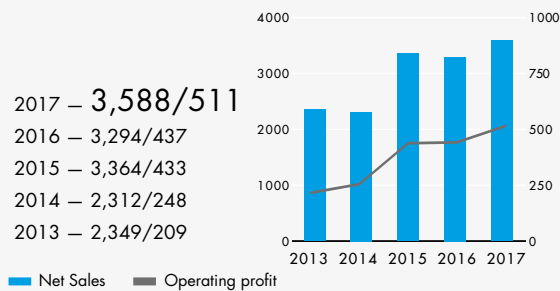


SUB SEGMENTS



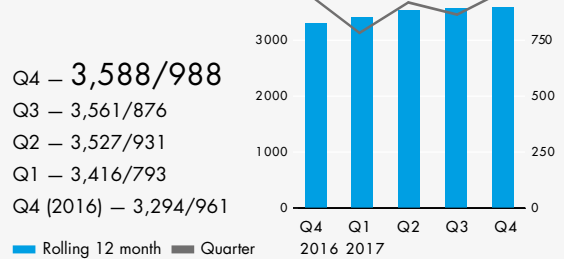
NET SALES AND OPERATING PROFIT

SEK m



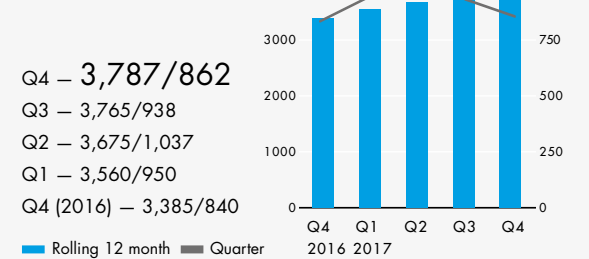
NET SALES ROLLING 12 MONTHS AND PER QUARTER

SEK m



ORDER INTAKE 12 MONTHS AND PER QUARTER

SEK m



“Munters facilitates 45 percent of lithium-ion battery production in the world”

### Important events 2017

- Strong global growth in the important Industrial segment (food, pharmaceuticals, and electronics). Characteristic of this was the growth in the lithium-ion battery market, with a 39 percent increase in order intake and 33 percent in sales.
- Continued phase-out of products in the commercial segment with a low degree of specific technological content (MII – Munters Intelligence Inside) and lower margins in general.
- Continued strong growth for OEM component sales in APAC, with underlying growth in pollution control of volatile organic compounds (VOC) and the lithium-ion battery market.
- Full-scale implementation of the web-based sales and estimation system, Genesys, which enables a more rapid and more precise response to customers.
- The business area reported additional costs for manufacturing humidification materials owing to production difficulties in the manufacturing plant in Mexico.

### The past year

- Order intake during 2017, increased by 12 percent and 13 percent organically. The Industrial sub segment, led by pharmaceutical and electronic applications, was the main growth engine for the business area in 2017. Demand from the Supermarket end-market also increased substantially, but overall order intake in the Commercial sub-segment was in line with prior year as a result of existing lower value-added product offerings. Services and Components showed stable growth in orders for the year.
- Net sales for 2017, grew by nine percent, all organic. The revenue growth was generated by increased deliveries to industrial customers in food, pharmaceuticals, electronics, transport and aerospace industries. Revenues from Services grew in all three regions. Deliveries

to OEMs were strong in Americas and Asia, which contributed to growth in the Components sub-segment.

- EBIT increased to SEK 511 million (437). Two non-recurring items affected earnings positively: a final estimation of a contingent purchase consideration which resulted in a gain of SEK 53 million and profit from the sale of a building of SEK 7 million. The production difficulties in the Mexican facility during the year had a negative impact on earnings.

### Priorities for 2018

- In the Industrial sub-segment, there is currently a number of smaller industries and areas of application that have great potential to develop into future focus industries as our technology becomes more established. In 2018, for example, the Aerospace market is expected to continue to grow and has become a focus industry.
- The launch of two new products in the Commercial segment in 2018. The American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) in the US is strengthening the guidelines for Moisture Removal Efficiency (MRE). The aim of our products is to further secure our leading position in this segment, which has great potential for growth.
- Broaden the product portfolio for less reliance on the FMCG (Fast Moving Consumer Goods) market, as larger businesses in this market are undergoing a transformation owing to increased e-commerce.
- Continued development of our IoT offering. Munters goal for 2018, is to offer our customers products that are connected to the Internet. This is so we can offer analysis of outcomes, as well as, needs-oriented outcomes.

### Markets and trends

The market is driven by global factors such as growth in population and GNP, industrialization and an increased



**BUSINESS AREA PRESIDENT  
SCOTT HAYNES  
ON THE YEAR AND THE FUTURE**

*In 2017, Air Treatment intensified its strategy of focusing and investing resources in a number of priority segments and industries with strong underlying growth (food, pharmaceuticals, and electronics). We also took a strategic decision to phase out products with low technological content in the Commercial sub segment. These measures will promote a better platform for long-term profitable growth. With an ever-stronger order backlog, a number of new product launches and continued strong underlying growth in our priority markets, we look forward to 2018 with confidence.*

standard of living. The demand for advanced air treatment is also supported by regulations and industry standards, a strong focus on production and energy efficiency, and stricter requirements placed on quality and sustainability.

Air Treatment has a leading position in its core markets, which are characterized by a current consolidation with a small number of global participants. Growth is stable and the market is expected continue to grow. The demand for lithium-ion batteries, which are an effective technology for storing surplus electricity and are sometimes used in electric cars, is expected to show good growth.

Fast Moving Consumer Goods is currently undergoing a transformation as e-commerce increases. In 2017, we saw increased awareness and a shift from traditional "brick and mortar" stores to e-commerce, causing slow-downs in new store construction and in some cases store closures. To offset this, Munters has boosted its investment in MII Dedicated Outdoor Air Systems (DOAS) products for the Commercial sub segment.

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

\*Dedicated Outdoor Air System (DOAS) is an energy-efficient technology for roof ventilation that contributes up to 40 percent energy savings for grocery stores and other applications (commercial buildings) compared with conventional air conditioning systems.



### Customers

Munters prioritized customer segments for the business area are the food industry, the pharmaceutical industry, lithium-ion battery manufacturers, as well as, supermarkets and commercial venues. Markets with lower priority are being monitored and classified as potential areas of future growth. The aerospace and chemical markets, for example, are currently in this phase of development.

Air Treatment has three sales regions. The percentage of net sales in 2017 was as follows:

- Americas: 44 percent
- EMEA (Europe, Middle East and Africa): 36 percent
- APAC (Asia-Pacific): 20 percent

Approximately 19 percent of sales relate to OEM components – that is, customers who use Munters products and technology as part of their solutions. Munters targets the OEM industry in growing markets, such as lithium-ion batteries, pollution control and direct evaporative cooling.

All three Air Treatment sales regions sell into three customer segments. The percentage of net sales in 2017 was as follows:

- Industrial: 64 percent
- Commercial: 17 percent
- Component: 19 percent

## Products and services

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

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

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

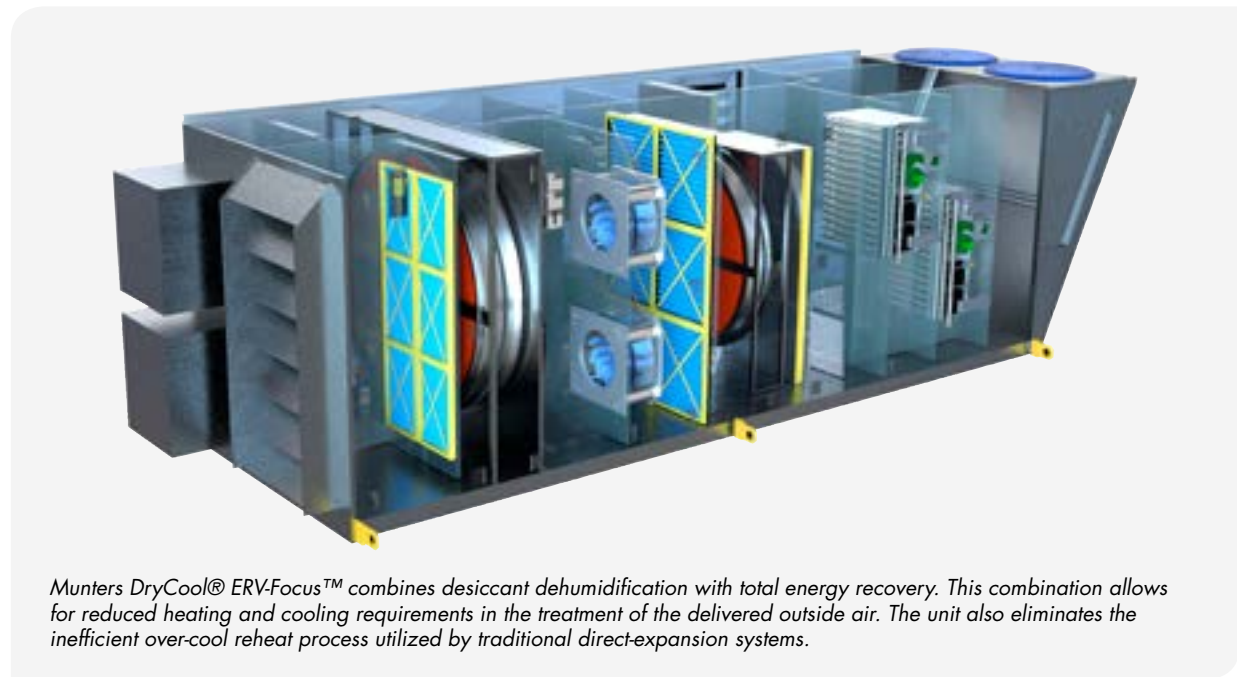
In 2017, the Cirus product was launched offering Air Treatment's first connected units. The Cirus products are a great step forward in Air Treatment's work with the Internet of Things (IoT).

## Technologies and innovations

Air Treatment's solutions cover several central technological fields, mainly in dehumidification rotors and evaporative media.

Dehumidification systems use Munters rotor technologies, dehumidification rotors and patented sorption rotor technologies designed to offer energy-efficient, customized and mission-critical solutions that can be used in a range of different applications. VOC abatement systems remove harmful volatile organic compounds (VOCs) such as chemicals and petroleum products from the air.

Munters systems can absorb 99 percent of targeted VOCs, which are then heated up and converted to water vapor and carbon dioxide using a small oxidizer.



*Munters DryCool® ERV-Focus™ combines desiccant dehumidification with total energy recovery. This combination allows for reduced heating and cooling requirements in the treatment of the delivered outside air. The unit also eliminates the inefficient over-cool reheat process utilized by traditional direct-expansion systems.*

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

Focus in R&D operations is currently on further improving dehumidification efficiency, as well as, developing system software. With our customer's continued focus on sustainability, R&D is currently working with patented Munters technologies that will increase the dehumidi-

fication system's efficiency. We are also continuing to develop Munters Genesys software. The Genesys product configuration program allows Munters sales engineers to select complete solutions for our customers in minutes (selections that previously could take weeks). The Genesys software is also linked to the production system, which allows customized solutions to begin production in a completely automated process.



AIR TREATMENT CASE STUDY  
CHAM, DONGGUAN, CHINA

## Energy-efficient production

CHAM has since its establishment in 2003, been dedicated to the R&D, manufacturing and sales of 18,650 type cylindrical lithium-ion battery. The factory in Dongguan, in southern China, produces approximately 300,000 lithium-ion batteries per year.

The use of lithium-ion batteries has many advantages, such as maximized energy output, faster energy-efficient charging, lighter weight, cleaner and more environmentally friendly energy.

In 2010, in response to government order, the Company transformed its new strategic business focus from 3c product battery to automotive power battery, for the growing electric car industry, which required stronger technology and facility support.

The manufacturing process is very sensitive to exterior influences. Batteries must be produced in environments with less than 1 percent humidity, since lithium reacts with water vapor to form lithium hydroxide, hydrogen and heat. Exposure to moisture levels greater than 1 percent results in poorer battery quality, performance and shelf life.

In 2016 CHAM purchased Munters GreenDry™, a dehumidifier which guarantees a perfect control of the dew point and that is specially developed for lithium-ion battery production. Munters solution was chosen on the base of more stable performance and lower energy consumption.

## AIR TREATMENT CASE STUDY

NHL, NATIONAL HOCKEY LEAGUE, USA AND CANADA

# Environmental partners

The National Hockey League (NHL), the world's largest hockey league with 31 teams in the US and Canada, is pursuing several projects to promote sustainable development. The league is one of the largest purchasers in the US of green electricity and is on the Environmental Protection Agency's "Top 100" list. NHL Greener Rinks is an initiative to reduce the climate and environmental impact of ice rinks.

A hockey arena has to work for both the players and the spectators, with minimal downtimes. A constant climate with controlled humidity is therefore a must. Too high humidity results in fog, condensation, mould and poor ice conditions, all of which compromise skater performance and spectator enjoyment. Humidity also increases the load on the ice refrigeration system, resulting in higher energy costs than necessary.

The NHL has named Munters a "Preferred Supplier". Munters patented desiccant dehumidifiers have been installed in more than 1,000 ice rinks in North America. The NHL recommended standard is 15.5°C and 40 percent relative humidity, which corresponds to a dew point of 1.7°C.

Munters climate system reduces energy consumption by up to 40 percent and guarantees perfect control of humidity, even at low temperatures, which improves ice quality.





# Data Centers

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



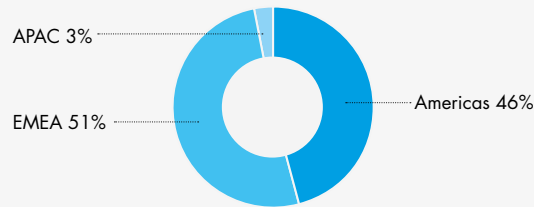
NET SALES

**900**  
million SEK

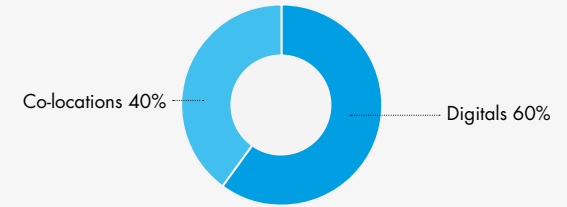
OPERATING PROFIT

**-13**  
million SEK

MARKETS



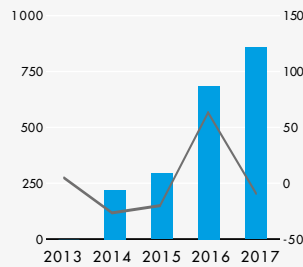
SUB SEGMENTS



NET SALES AND OPERATING PROFIT

SEkm

2017 – 856/-13  
2016 – 685/54  
2015 – 294/-23  
2014 – 220/-29  
2013 – 0/0

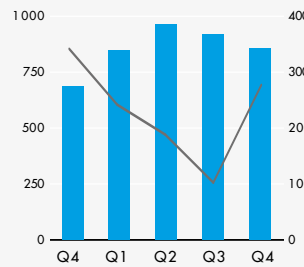


■ Net Sales ■ Operating profit

NET SALES ROLLING 12 MONTHS AND PER QUARTER

SEkm

Q4 – 856/288  
Q3 – 920/115  
Q2 – 962/200  
Q1 – 848/253  
Q4 (2016) – 685/352

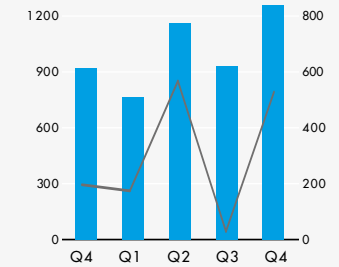


■ Rolling 12 month ■ Quarter

ORDER INTAKE 12 MONTHS AND PER QUARTER

SEkm

Q4 – 1,261/519  
Q3 – 929/20  
Q2 – 1,164/558  
Q1 – 763/165  
Q4 (2016) – 919/187



■ Rolling 12 month ■ Quarter

“Data Center cooling consumes almost one percent of global electricity and Munters systems can reduce this by up to 65 percent when compared to traditional technologies”

### Important events 2017

- Formerly part of Air Treatment, Data Centers was established as an independent Business Area beginning January 1, 2017.
- SEKm 275 order received in May from a major digital client in the US.
- Containerized version of Oasis™ launched in Singapore in September, targeting growing markets in Africa and APAC.
- SEKm 450 order received in November for two Facebook projects in Denmark & Ireland.
- Operational challenges during the year, with project postponements, production delays and high costs impacting margins. Activity plan to improve Data Center profitability launched in December.
- VP Sales APAC appointed in December, with an objective of driving growth in the region.

### The past year

- Order intake for the full year 2017, increased by 37 percent, all organic. This increase was primarily the result of an increase in orders in Europe from a large digital customer, as well as, minor increases in orders from customers in Americas and APAC.
- Net sales in 2017, increased by 25 percent, of which 24 percent was organic growth. Currency effects had a positive impact of one percent. The increase was related primarily to; sales to large digital and co-location customers in the US and Europe and was, partially offset by a decrease in sales to co-location customers in APAC, and by the delayed production of a large project in Europe.
- EBIT for the year was SEKm -13 (54). The decrease was due to low net sales volumes in the second and third quarters of the year, with low factory utilization and a production delay of a large project as well as higher project startup costs in the third and fourth quarters.

### Priorities for 2018

- Activity plan for increased profitability underway in our European manufacturing plant, improving business controls, production workflow and greater operational flexibility.
- Global Alignment Program (GAP) underway, involving the creation of a global product platform and the adoption of standardized, best-practice procedures across Data Center Business Units worldwide.
- A dry cooling system – SyCool – to be launched during the second quarter of 2018.
- Manufacturing of Data Center cooling systems to be established in Munters factory in China.

### Markets and trends

Global data traffic is increasing significantly, driven by the increased use of cloud services, video consumption, and linked services (the Internet of Things, or IoT). Society is becoming increasingly IT dependent, driving a global program of data center construction. With data centers now thought to be consuming around two percent of the world's electricity, a combination of cost pressures and environmental concerns is driving a growing demand for energy efficient cooling solutions. Cooling is typically responsible for up to 40 percent of the total electricity consumption for a data center and is the largest single operating expense.

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

According to a comprehensive market study, the market for data center cooling is expected to show strong growth in the coming years. The new generations of IT equipment require ever more efficient forms of cooling,



### PRESIDENT, BUSINESS AREA DATA CENTERS, NEIL YULE ABOUT THE YEAR AND THE FUTURE

*2017, was a challenging year from a profitability point of view for the newly formed Data Centers Business Area. Previously operating as a Segment within the Air Treatment BA, the business has continued to lead a "technology shift" in the Data Center cooling market, away from compressor-based cooling systems and towards more energy efficient air economizers.*

*The large orders secured from Facebook and another major digital client helped deliver another year of strong growth.*

*In 2018 net sales is expected to grow and we will launch a new technology that responds to a demand for dry cooling solutions.*

and having led the technology shift towards air economizers over recent years, Munters is recognized as a leading innovator in this field.

Air economizers accounted for over 95 percent of the Data Centers Business Area's sales in 2017. These solutions use outside air to provide at least some of the cooling effect, either by passing the outside air directly through the data center, or indirectly through a heat exchanger that cools a separate flow of air that then passes through the facility. In both cases, the cooling effect can be boosted by incorporating the evaporation of water.

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

Munters is a market leader in both direct and indirect evaporative cooling systems for data centers, with a global share of approximately 33 percent of the indirect evaporative cooling market and 10 percent of the overall air economizer market.

Munters is one of only a few companies able to compete on a global scale within the targeted market. Significant competitors include Schneider, Vertiv and Stultz, all of whom have developed their own air economizer solutions. On a local level, Munters competes with a number of smaller regional players.

The substantial, sustained growth of the air economizer market stimulates a drive for constant innovation. Product life cycles are, therefore, significantly shorter in this market than, for example, those seen in the industrial markets served by the Air Treatment business area. Minor enhancements are being implemented on an almost constant basis and significant upgrades typically occur every two to three years, requiring a higher proportion



of revenue to be invested in R&D than is the case in the more mature markets served by Munters.

#### Customers and distribution

Data Center operators can be categorized into three segments:

*Digital Operators* – comprising large corporations for whom “computing” in its various forms is the core business, including many global digital brands such as Google, Facebook, Microsoft, etc.

*Enterprise Operators* – comprising large organizations for whom computing is not a core activity, but are of such a scale that their IT requirements can justify building and running their own data centers.

*Co-Location Providers* – for whom building and running data centers is a core activity. These firms build and operate data centers for enterprise customers, providing advantages that can include economies of scale, flexibility and operational expertise.

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

The business area provides solutions to data center operators across the Americas, EMEA and APAC, with a substantial share of its revenue being generated by customers within whom it trades in more than one continent. Sales and service personnel operate from multiple locations worldwide, while manufacturing has typically taken place at two regional production units in Dison, Belgium and Virginia, USA. Additional manufacturing capacity is available at factories in Brazil, USA and the Czech Republic. Data center production will start in China to serve the growing market in APAC.

EMEA accounted for 51 percent of revenue in 2017, with the Americas contributing 46 percent and APAC

3 percent. A characteristic of the data center market when compared to the other markets served by Munters is the large scale of the projects into which the products are applied. One benefit of this is the high level of revenue that can be generated for a given investment in sales resources. A downside, however is the impact on operational efficiency created by the volatile nature of the demand.

### Products and services

The Data Centers business area focuses on the growing market segment for advanced air economizers. High capacity, reliability, and energy efficiency are business critical for the customer, and the systems offered provide exact control of temperature, humidity and air quality. Alongside a range of standard units, customized solutions that meet specific requirements are configured in close collaboration with the customers.

An example of this in 2017, was a special version of the Oasis™ Indirect Evaporative Cooler developed for Facebook in Denmark, that incorporated a unique Waste Heat Recovery (WHR) System. Facebook data centers are amongst the most advanced and energy efficient in the world and the facility is powered by 100 percent renewable energy. The WHR System will capture the excess heat generated by the servers and recycle it into a local district heating system operated by Fjernvarme Fyn. When complete, the heat recovery infrastructure is expected to recover up to 100,000 MWh of energy per year, which could produce enough heat to warm up to 6,900 homes.

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

### Technologies and innovations

Data Centers products and solutions incorporate a range of core technologies, including Munters patented EPX

polymer heat exchanger, GlasDek™ evaporative media and desiccant dehumidification rotors. These technologies are incorporated into packaged air handling units and sub-assemblies, ready for on-site installation.

Munters is one of the pioneers in the market for indirect evaporative cooling. According to independent studies, the Munters Oasis™ system can provide energy savings in excess of 65 percent when compared to traditional compressor-based cooling systems. 2017, saw the launch of DCiE – a version of Oasis™ that is designed to be shipped around the world in standard shipping containers, providing Munters with access to markets that were previously difficult to access.

In the market for direct evaporative cooling, Munters provides a variety of solutions, ranging from loose media, through self-contained cooling modules with framed media and water circulation circuit, to a range of complete packaged air handling units.

### R&D News

Another example of the type of patented technical solution that has helped Munters position itself as a leading innovator in data center cooling, is the Mineral Removal Media (MRM) System. This system uses a sacrificial section of Munters media to evaporate waste water that would otherwise be discharged to drain, providing a small cooling boost, a reduction in overall water consumption, and the potential to eliminate charges for waste water drainage.

Listening to the voice of the customer and responding to the need for an energy efficient air economizer that does not require a water supply, Munters has also developed and patented a new technology, called "SyCool." Based on the concept of a thermosiphon, incorporating a refrigerant circuit that can be driven simply by a combination of the waste heat from the data hall and the cooling capacity of the outside air, SyCool is able to provide



*According to independent studies, the Munters Oasis system can provide energy savings in excess of 65 percent when compared to traditional compressor-based cooling systems.*

a reliable, energy efficient, dry solution. Aimed at those markets where water is expensive, of poor quality or in short supply.



## DATA CENTERS CASE STUDY

SABEY DATA CENTERS, QUINCY, WASHINGTON, USA

# Efficient cooling of hot data centers

Sabey Data Centers designs, constructs, and operates data centers for clients of all sizes. In Quincy, Washington, one of the world's most energy-efficient data centers has been constructed. The facility, which covers just over 400,000 m<sup>2</sup>, is located close to the mighty Columbia River and uses inexpensive, environmentally friendly, and reliable hydroelectric power from one of the largest hydroelectric power stations in the US.

Its energy consumption is 33 percent lower than the average for data centers in the US. Intergate.Quincy is certified under the EPA's Energy Star standard, and has received the highest level of certification for four years running.

The combination of low energy costs and a cold, dry climate is perfect for efficient evaporative cooling. Intergate. Quincy has installed Munters Oasis™ Indirect Evaporative Cooling System on its roof. Evaporative cooling uses the same cooling principle as when humans sweat: heat evaporates and cools down the system. The air recirculates and the little outside air taken in is filtered and adjusted to indoor air. The air inside the data center is kept completely separate from the air outside.

Munters patented Oasis™ technology saves approximately 65 percent of energy consumption compared with a conventional system.

# AgHort

AgHort is one of the world's leading suppliers of innovative, energy-efficient climate control solutions for livestock farming and greenhouses, as well as, software for controlling and optimizing the entire food production value chain.

Munters solutions increase productivity while enabling sustainable food production in which strict requirements are placed on quality, animal health, and food safety.



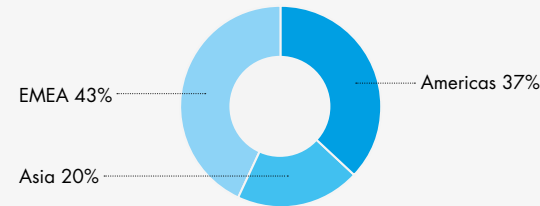
NET SALES

1.8 billion SEK

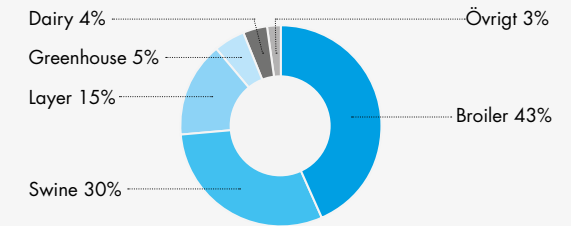
OPERATING PROFIT

225 million SEK

MARKETS

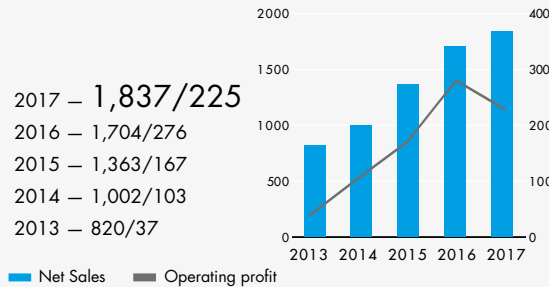


SUB SEGMENTS



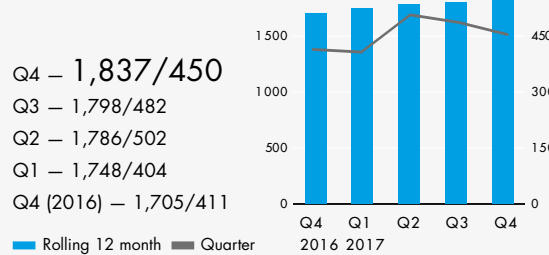
NET SALES AND OPERATING PROFIT

SEK m



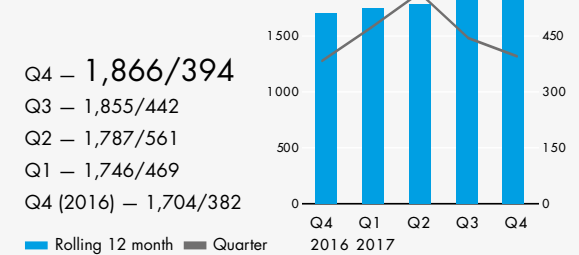
NET SALES ROLLING 12 MONTHS AND PER QUARTER

SEK m



ORDER INTAKE 12 MONTHS AND PER QUARTER

SEK m



“Food in 1/7 of all meals is grown in installations where Munters provides climate control”



### Important events in 2017

- Acquisition of the MTech Systems software company in the US, and Edata in Brazil.
- Rapid growth in the swine end-market in China.
- Temporarily lower demand in several major markets such as the US, the Middle East, and Russia.
- Development of a new IoT offering that gives customers increased control over the entire value chain.

### The past year

- Order intake in 2017, increased by 10 percent of which two percent was organic. Strong growth was seen in Asia, primarily driven by the Chinese swine market. Order intake in Americas, excluding structural effects, declined compared to the same period 2016.
- Net sales in 2017, increased by eight percent compared to 2016, primarily driven by the acquisitions. The organic growth was minus one percent. However, the slowdown in end-user investments, which started in the third quarter 2016, has reduced the demand in many markets. The global footprint enabling the fast growth in Asia, and the expanded exposure to five different markets segments, lowered the negative impact for Munters from the market slowdown.
- During the fourth quarter, AgHort won its first order involving the combined software and connectivity solutions enabling customers to control the entire value chain based on MTech Systems solutions. This is of strategic importance and holds the potential of transforming the industry; enabling increased efficiency and control throughout the broiler production chain.
- During the year, the largest item affecting comparability compromised of the effect from the early Reventa acquisition earn-out of SEKm 30. In addition to the margin pressure and cost increases seen in the full year result, earnings included cost of SEKm 7 related to the acquisition of MTech Systems and Edata, as well

as, costs related to the production issues in Mexico. The shift of net sales volumes from the US (Layer sub-segment) to China (Swine sub segment) has led to additional costs for building up the AgHort organization in China and a less favorable sales mix.

### Priorities for 2018

- Continued focus on selling complete climate control solutions and offer more product families to existing customers.
- Launch of new solutions for data collection and analysis to optimize production.
- Product development with a focus on selected areas – both to broaden the product portfolio and to update and improve the existing product offering.
- Additional acquisitions in our defined market segments.

### Markets and trends

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

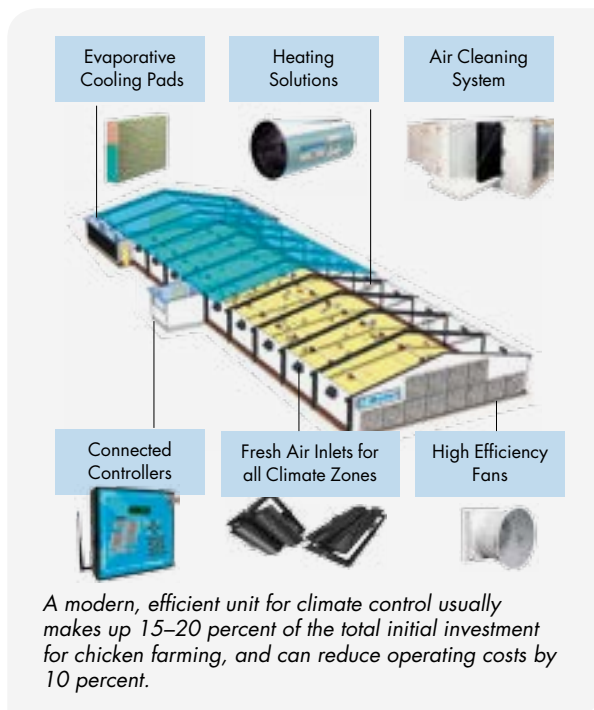
Increased traceability of food is a rapidly-growing need that leads to increased demands for data collection and analysis throughout the entire food chain, including feed production, stalls, production facilities and transportation all the way to the store. Together with increased



**PRESIDENT, BUSINESS AREA AGHORT  
PETER GISEL-EK DAHL  
ABOUT THE YEAR AND THE FUTURE**

*AgHorts' strategy balanced sales across the various segments of the business area and geographic markets – played an important role in 2017. Healthy growth in Asia compensated for temporarily decreased demand in the US. Becoming more global and having a presence in more segments makes the business area less sensitive to temporary fluctuations in local markets.*

*In January 2018, AgHort launched a new solution for connecting farms to Munters cloud-based software. Being able to offer food producers data and analysis in real time based on machine learning will take the entire industry a great step forward and, is thus, an important area of growth for AgHort. A breakthrough occurred in the area in December 2017, when AgHort won a deal in the US covering more than 400 connected broiler houses.*



demands for productivity, this has led to rapid development of the software used by food producers. Through its acquisition of MTech Systems, Munters is now a world leader in the software market in the Broiler and Layer sub-segments.

The AgHort market is expected to show good growth the coming years. Growth varies from year to year, due to factors such as the ratio between the market price for feed and the market price for eggs, which affects profitability and investment levels among the producers.

AgHort has further strengthened its market position during the year through acquisitions, the launch of new products, and closer collaboration with larger distributors.

### Customers

AgHort is one of the world's leading suppliers of advanced climate control for various agricultural segments, with a particularly strong position in the layer market in the US and Europe, as well as, in the broiler markets, primarily in the US and Brazil. AgHort is also one of the leading players in the swine farming market with a strong position in the US, and is active in dairy and greenhouses.

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

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

### Products and services

AgHort offers complete systems for controlling the environment in stalls, including equipment for ventilation, cooling, and heating, as well as, various types of control systems. The product portfolio also includes software, aimed mainly at food producers active along large parts of the value chain.

Our offering is built on long experience and innovative products that are reliable and sustainable. We collaborate with end customers and resellers to optimize and tailor our units for customers with regard to moisture content, temperatures, emissions and energy consumption.

We are seeing increased interest in real-time data collection and analysis. Digitalized processes are becoming an important factor for being able to optimize produc-

tion, increasing the integration among various players, and strengthening the food production value chain. Through the acquisition of MTech Systems in February 2017, AgHort strengthened our offering in connected climate control solutions. In early 2018, a new solution was launched comprising both new hardware, such as sensors and gateways, and new software for presenting and analyzing data. We see great potential in these solutions, but competition is stiff and requires investments in new organizations and technology. We believe it will take a few years before we see any major financial effect from these investments.

### Technologies and innovations

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

- Controllers and advanced software regulate climate and other functions such as feeding, lighting, the animals' weight, water consumption and air quality. Status updates are provided in real time.
- Circulation and extraction fans especially developed for animals and greenhouses. The latest generation of fans with Munters drive motors can reduce energy consumption and increase productivity by adapting ventilation in a more exact manner than was previously possible with traditional motors. Examples of other equipment that AgHort offers are heaters, air intakes, and cooling systems.
- The portfolio also includes software adapted for food producers that controls the entire value chain including feed, eggs, medicines and optimization of logistics and production.

*According to the "Chinese Consumers Ready for High-Welfare Pork" study, nearly 90 percent of consumers are willing to change their purchasing behavior in order to get swine farmers to give their pigs better lives, and 75 percent are prepared to pay for better livestock farming.*



## AGHORT CASE STUDY

KINNARD FARMS, WISCONSIN, USA

# Sustainable milk

Kinnard Farms has been at the same location in Green Bay, Wisconsin since 1948. Today, it is run by the second generation of the Kinnard family. There are 7,000 dairy cows here; every day, they provide a total of 343,000 kilograms of high-quality milk to stores. Kinnard Farms does more to care for its animals and the environment, going further than the law requires to ensure that the dairy farm manages the land, water, air, animals, and people sustainably.

In 2015 a new, modern facility was built where the cows have plenty of space to lie down and rest. Here they are given feed and fresh water, and are protected from the cold Wisconsin winters when the temperature falls to nearly  $-30^{\circ}\text{C}$  ( $-20^{\circ}\text{F}$ ).

To get the very best indoor climate, Kinnard Farms selected a high-quality climate control solution from Munters. In addition, they gained higher reliability and lower costs. And happy dairy cows.

*The climate control solution from Munters in the free stall barn comprised 225 VX 55-inch fans, 463 m of CELdek™ cooling pads (corrugated paper pads), a cooling frame and one controller to manage all of the equipment.*



# Mist Elimination

Mist Elimination is a leading provider of mechanical gas and liquid separation as well as mass transfer. Munters mist eliminators are key components in scrubbers to clean emissions from power plants and ships across the world.

These highly efficient mist eliminators also create optimum operating conditions and protect equipment in process industries, windmills, gas turbines and ships.



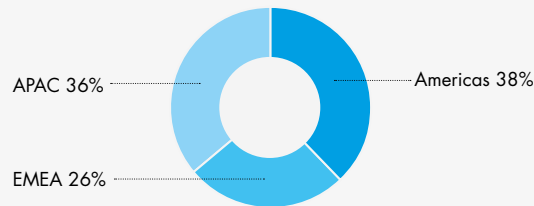
NET SALES

**400**  
millions SEK

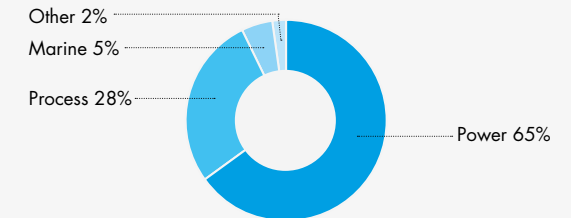
OPERATING PROFIT

**34**  
millions SEK

MARKETS



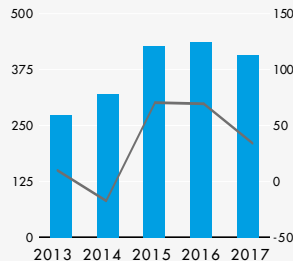
SUB SEGMENTS



NET SALES AND OPERATING PROFIT

SEK m

2017 – 406/34  
2016 – 437/69  
2015 – 428/70  
2014 – 320/-17  
2013 – 273/10

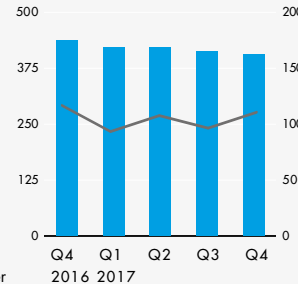


■ Net Sales ■ Operating profit

NET SALES ROLLING 12 MONTHS AND PER QUARTER

SEK m

Q4 – 406/110  
Q3 – 412/96  
Q2 – 422/107  
Q1 – 421/93  
Q4 (2016) – 437/116



■ Rolling 12 month ■ Quarter

ORDER INTAKE 12 MONTHS AND PER QUARTER

SEK m

Q4 – 394/83  
Q3 – 407/100  
Q2 – 422/111  
Q1 – 414/100  
Q4 (2016) – 416/95



■ Rolling 12 month ■ Quarter

“Munters equipment cleans 1/5 of all electricity globally”

### Important events 2017

2017, was a year of change for Mist Elimination caused by both internal and external events.

- Successful acquisition of Kevin Enterprises enabling future growth in the process industry and less dependency on the coal-fired power industry.
- The slow-down in the Chinese Coal FGD retrofit market.
- Changes within the management team with a new business area president and new management team members.

### The past year

- Order intake for the full year 2017, decreased by five percent with no currency impact, but positive structural effects of six percent (Kevin acquisition). The main reason for the weak organic order intake during 2017, has been the slowdown within Coal FGD in China.
- Net sales for the full year, 2017, decreased by seven percent with no currency impact, but positive structure impact of seven percent. The main reasons were lower full-year Coal FGD volumes in the US and in China.
- Mist Elimination is in a transition period where new business opportunities other than Coal FGD are being actively pursued, for example, within Marine (emission gas cleaning for ships) and Process industries. To support this, the acquisition of Kevin Enterprises was made in April 2017.
- EBIT for the full year was SEKm 34 (69). The key reasons for the accumulated decline are unfavorable mix impacts, with lower volumes of high-margin FGD projects in the US, and the limited volumes of Coal FGD projects in China in Q4. A set of low-margin projects in Europe, mainly in Q4, also impacted full year results negatively.

### Priorities for 2018

Main priorities will be to continue the transformation of the business area in order to reach a state of sustainable profitable growth. Key strategies to achieve this are:

- Strong focus on selected core geographies; US, Europe, Middle-East, India and China.
- Growth in the Process sub-segment by globalization of the acquired mass transfer offering outside India.
- Successful implementation of a technology center of excellence in order to turn local expertise and specific application knowledge into a global competitive advantage.

### Markets and trends

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

The competitive landscape in terms of mist elimination for Coal FGD consists of a small number of global players and many smaller manufacturers locally, the latter especially in Asia. In the Autumn of 2017, a weaker market situation in China regarding projects for flue gas desulphurization (FGD) was noted, with fewer after-market installation projects in Su-Clean, as well as, a low level of market activity in Europe.

Wind turbines require clean air to function efficiently,



**PRESIDENT, BUSINESS AREA  
MIST ELIMINATION  
WOLF-MARKUS FRANK  
ABOUT THE YEAR AND THE FUTURE**

*Mist Elimination conducted their annual customer survey in Q3 2017, and results were positive in all regions; 87 percent of interviewed customers claimed to have Munters as their first choice supplier and customer satisfaction index is highest ever at 90 percent.*

*I feel proud when I see the good results from the customer survey. It means that our people in the field, as well as, supporting roles are really adding value to the customer. We will continue to focus on customer excellence going forward, as we see this as a key success factor for us in the global market arena.*

and Munters mist eliminators purify intake air of dust and particles thereby protecting and prolonging filter lifetime. Wind power is increasing its share of electricity production and the underlying wind power market is expected to show solid growth in the foreseeable future fueled by current environmental macro trends. Munters enjoys a strong position, especially in the European market where a set of larger wind turbine manufactures are located.



*Process:* Pulp and paper, steel and metal, the chemical and petrochemical, as well as, refining industries, constitute a stable growth market with regional variations driven by increased streamlining and stricter environmental requirements. Munters mist eliminators are used to manage a range of problems that drops of fluid would otherwise cause, such as reduced efficiency, damage to components, and loss of product and processing fluids. Munters is focused on a set of specific niche applications, where it holds strong positions. The mass transfer business which Munters acquired into during 2017, is dominated by two large companies Sulzer and Koch-Glitsch.



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

#### Customers

The power industry – primarily coal-fired power plants in China and the US – was responsible for 65 percent of business area sales in 2017. The processing industry – including also the new mass transfer business – was responsible for 28 percent, and the marine industry for five percent of external sales (two percent in Other). The changed mix between segments was caused by the less favorable market development in Coal FGD coupled with the acquisition of Kevin Enterprises.

Mist Elimination is focused on continued expansion in

China and India through a broadened product portfolio and expansion in selected areas of application such as wind power, the process industry, and marine scrubber systems. Kevin Enterprises was acquired in April 2017. The main strategic rationale of the acquisition was to enable accelerated growth in the process segment by broadening scope of supply through adding mass transfer components to the portfolio. Secondly, the acquisition also strengthened Munters footprint in the fast-growing Indian market.

#### Products and applications

Mist Elimination offers products for different types of applications, but all with a high degree of precision and performance. The product offering consists of a large set of different types of vane mist eliminators available in various materials (e.g. steel, plastics etc). These are mainly used for emission gas scrubbing applications and for protecting subsequent equipment at air intakes.

Munters also offers a full set of so called mass transfer components and services used mainly in mass transfer and separation processes in refining and chemical plants.

All products and solutions are durable and dependable, and can be designed to handle extreme operating conditions where needed. They are customized for specific industries and customer needs, and are often critical for customers' operations.

#### Technologies and innovations

*Mist elimination:* Vane type mist elimination is, no matter the application, a process where droplets get separated away from a gas stream when passing through a set of stacked profiles.

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

The Munters range of mist eliminators consists of approximately 50 different profiles for vane type mist elimination, each optimized for specific operating conditions and drop sizes.

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



**Mass transfer:** Munters provides a complete range of mass transfer solutions and equipment typically found within towers/columns at petroleum refining, chemical, petrochemical and fertilizer plants world-wide. Components are typically categorized as tower packings (random and structured), fractionation trays, mist eliminators (normally mesh), and all other column internals.

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

Developing and delivering state-of-the-art mass transfer solutions in order to meet customers' requirements in terms of both energy and process output efficiency will continue within Munters going forward.





## MIST ELIMINATION CASE STUDY CHINA

# To clean the air we breathe

The demand for power in China has increased over the years and as many power plants are fired with coal, this has resulted in problems with air pollution. Sulfur emissions from power plants create what is called "acid rain" and is a much debated environmental problem in many countries. The Chinese authorities have, therefore, introduced stringent regulations to reduce this type of emissions.

By cleaning flue gases from coal power plants, the amount of environmentally hazardous emissions can be sharply reduced. Mist elimination from Munters is a critical part of this process. More than 95 percent of the contaminating substances are eliminated.

The leading power industries and power engineering companies in China are using Munters mist elimination technology in their flue-gas cleaning process. Their reason for doing so is that there is no room for error. They require a reliable and advanced system to ensure emissions are below limits.

Munters has more than 50 years of experience in this area and has made about 1,500 installations globally.

# Service optimizes and expands our offering

We offer our customers a broad selection of services, primarily in the Air Treatment and Data Centers business areas. Our service organization can offer everything from installation and monitoring, to maintenance, spare parts and upgrades, ensuring that Munters solutions are optimized for the customer's needs.

Service is a vital part of the Munters offering. With solutions based on the specific needs of each customer, it is the best guarantee of getting optimal results from the equipment. Service operations represented 11 percent of the Group's net sales for 2017. At the close of 2017, Munters had 40 service centers around the world and offered services via a large global service network. Our local presence makes close customer relations and rapid support possible.

Customers in the Air Treatment and Data Centers business areas currently represent the majority of sales, and Munters installed base of approximately 200,000 products means a great deal of potential. The self-contained service organization was built to develop a complete service offering with customizable solutions targeted at both new and existing customers.

Service makes use of its deep knowledge in applications and its understanding of best practices to provide customers continuous service and support – and valuable upgrades that reduce energy consumption, ensure quality and environmental performance, and extend the economic life of the products.

## Broad service offering

We offer our customers a comprehensive selection of services such as, installation monitoring and startup, performance checks, upgrades, maintenance and repairs, as well as, spare parts sales. All in all, this helps customers achieve reliable, effective and sustainable results from their Munters solutions.

Installation monitoring or commissioning support is included in the majority of sales agreements.

Munters service agreements for preventive maintenance and inspection are also offered in connection with new sales. The service contracts are adapted to the customer's needs, but are usually multi-year and cover a range of scheduled services such as on-site training, planned maintenance, and monitoring of performance and performance history.

## Regular inspections ensure efficient operation

All Munters products are manufactured from high-quality parts and undergo comprehensive testing. Our solutions are often operation critical, and certain components – sorption rotors, for example – require regular capacity checks to ensure efficient performance.

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



SEBASTIEN LEICHTNAM  
PRESIDENT GLOBAL SERVICES



### New services increase penetration

The objective remains to increase penetration by increasing sales of service contracts in connection with sales of new equipment, but also to reach out with attractive offers to existing customers.

Service continuously expands its offering by developing more service products providing customers with “peace-of-mind”. During the year, a new rental solution was launched to accommodate customers with time-limited needs or those who, for other reasons, do not wish to own the product. Service continues to work on creating more products in which Munters can agree on increased responsibility in the relationship with the customer, thereby being able to deliver more complex services.

Historically, services have been offered primarily to the Air Treatment and Data Centers business areas, but Service is also expanding its offering to increase penetration among Mist Elimination and AgHort customers. In 2017, companies were acquired that strengthen the pro-

duct portfolio in both of these business areas, and thus opened doors to new possibilities regarding Service.

### Connected services

Within the whole of Munters intense work is ongoing to broaden and improve the selection of connected solutions, thus being able to furnish more advanced services. Many years of experience, in combination with modern technology, provide the opportunity to diagnose and optimize the performance of equipment remotely. The technology behind the Internet of Things (IoT) facilitates monitoring and troubleshooting the equipment’s performance, heightening the effectiveness of services.

In 2017, an advanced service offering was introduced to customers covering energy optimization, remote monitoring, and control. Currently, a number of projects are ongoing to make more efficient use of skills for the customers benefit through connected solutions.

## SERVICE OFFERING – EIGHT CATEGORIES

**Installation** – installation services for all products and equipment.

**Commissioning/Start-up** – usually offered and frequently sold in the original sales contract.

**Performance Checks and Inspections** – to assess the condition of the equipment and to optimize the results.

**Reconditioning/Repairs** – either at a specialized service center or on-site.

**Upgrades/Retrofits** – component and system upgrades give the customers access to latest technology, and can thereby improve energy efficiency and equipment performance.


**Spare Parts** – original parts, or adapted for customers in different geographical regions. Also offer finished spare parts kits for all types of installations.

**Training** – of customers’ technicians, both on-site and in training centers.

**Rental Solutions** – for customers who have temporary needs, not willing to stop operations during a maintenance period, want a proof-of-concept, or wish to rent instead of purchase.

**Service Maintenance Agreements** – cover scheduled performance checks, training on site, maintenance and measures as well as, monitoring of equipment performance history. Usually multi-year.

**Maintenance** – service technicians are also available for customers who choose not to sign a service contract.



“More than 95 percent of the sulfur in emissions from coal-fired power plants is eliminated with Munters solutions”

# Proactive risk management

Risks are a natural element of all business operations, and effective risk management at all levels in the company is crucial for Munters to achieve its business goals and to pursue long-term successful operations. A properly defined process for identifying, evaluating, managing and reporting risks enables, among other things:

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

The Group's activities are directed at customers in all industries and market segments. Munters has production plants and sales in some 15 countries, and sales-only offices in another 15. All together, this provides Munters with favorable underlying risk diversification.

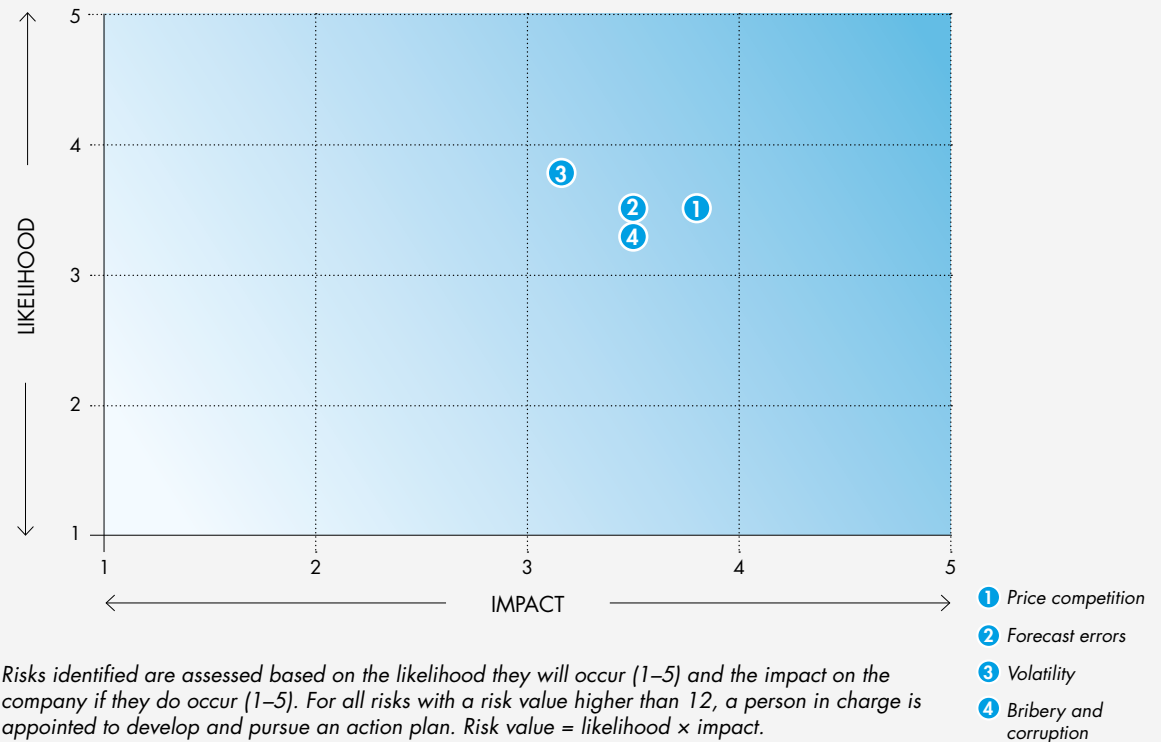
## Responsibility

Managing risks is an important part of internal control, The Board of Directors has final responsibility for the Group's risk management. Group Management identifies, evaluates, and manages risks in their respective areas of responsibility, and the CEO reports to the Audit Committee and the Board. The Group Vice President for Corporate Social Responsibility CSR is responsible for coordination and the annual risk evaluation.

## Annual risk evaluation

Every year, Munters conducts a Group-wide risk evaluation as a link in its strategy process. Group Manage-

## SPECIALLY PRIORITIZED RISKS, 2017



ment identifies and evaluates risks based on probability and potential impact on sales, earnings, and financial position.

Risks are divided into four categories:

- Strategic risks
- Operational risks
- Legal and regulatory risks
- Financial risks

This concerns both general risks due to political and macroeconomic trends, and specific risks directly related to the Group's operations. A number of risks lie outside Munters direct control, while others can be controlled. For high-value risks, an action plan is developed. The results are reported to the Audit Committee and to the Board of Directors. In addition, major incidents are reported on a continual basis.

### Specially prioritized risk areas

A total of 96 risks were identified in this year's risk evaluation.

Four risks were deemed to possibly have significant impact on the Group as a whole:

1. Risk of increased price competition
2. Risk of forecast errors that negatively impact allocation of resources and reporting for the market
3. Risk of high volatility in demand, primarily in Data Centers
4. Risk of corruption and bribery

### Financial risks

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

### Sustainability risks

The Group is also exposed to risks related to the field of sustainability, for example, risks concerning environmental issues, health and safety, respect for human rights, bribery and corruption. The only sustainability risk deemed to be a particular priority is the risk of corruption and bribery.

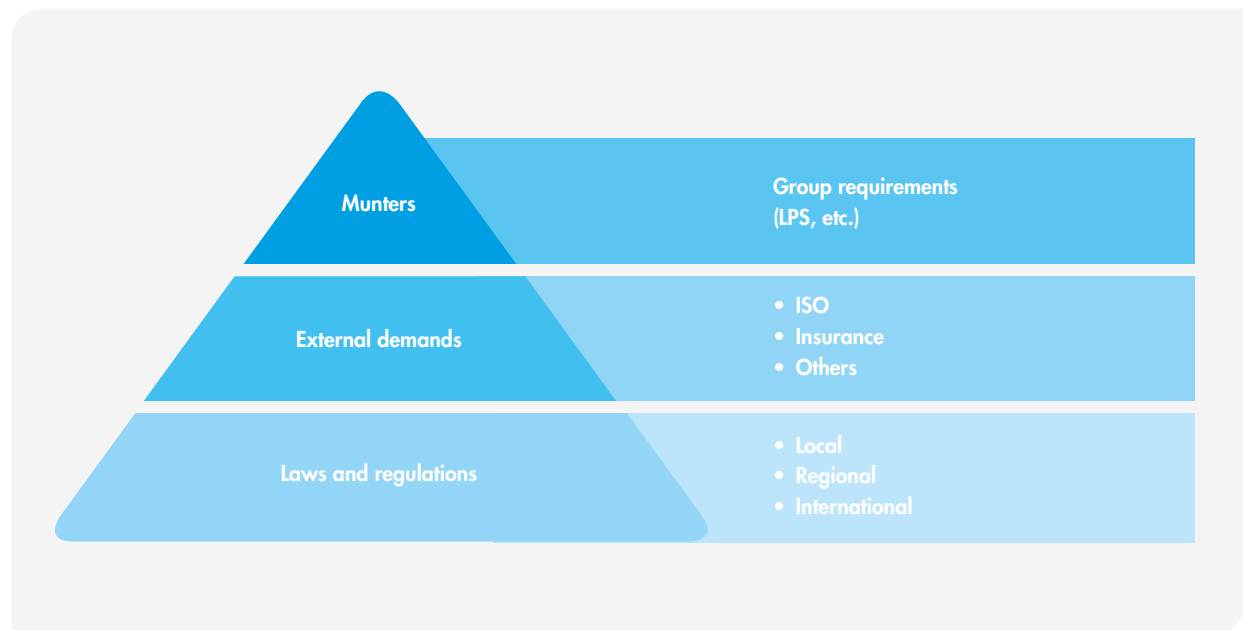
### Insurable risks

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

### Munters Loss Prevention Standard

Munters Loss Prevention Standard (LPS) is a system for working preventively to minimize the risks found in a fire, the work environment, and health and safety. LPS is built on the Group's standards, but also local laws and other rules, as well as, insurance requirements. LPS is used in the risk evaluations carried out by our production plants. The objective is for all production plants to be evaluated over a three-year cycle. LPS is also used for evaluations in conjunction with business acquisitions, investments, and construction.

*Read more about internal control in the Corporate Governance Report, pages 66–75.*



## SPECIALLY PRIORITIZED RISK AREAS AND RISKS IN THE FIELD OF SUSTAINABILITY

Risk area	Description	Management
<b>Strategic risks</b>		
<b>Price competition</b>	Risk of increased competition and pricing pressure can impact Munters financial position negatively.	Focus on high rate of innovation and continual development of new products in close collaboration with customers. Benefit from our global presence, with a leading position in most customer segments. Each business area has a customer segment organization in close proximity to the customers, and a unique knowledge of application. Monthly follow-ups of market and sales trends, including price trends, enables rapid measures. Continual work on reducing product costs through sourcing initiatives, "cost out" programs and initiatives in Lean.
<b>Forecasts</b>	Risk of forecast errors that negatively impact allocation of resources and reporting to the market.	Monthly updates and careful reviews of forecasts enable rapid measures. The forecasts are analyzed on several levels in the organizations – regional, business area and Group – before they are published and reported internally and externally.
<b>Operational risks</b>		
<b>Volatility</b>	Sudden changes in demand can impact the Group's sales and earnings. Munters Data Centers operation is linked to projects where the base comprises relatively large deliveries to customers. Lead times from delivery to installation are relatively long and vary between periods. Quarterly variations of delivery volumes exist. This impacts net sales and quarterly earnings to a great degree.	Flexibility on the supplier's side and increased outsourcing. Flexible manufacturing enables rapid adjustment. The possibility of producing several different products in the same production plant. Properly diversified sales with customers in different geographies and industries. Increased aftermarket share with sales of spare parts and service.
<b>Health and safety</b>	Sick leave, accidents and workplace incidents can negatively impact productivity and damage Munters standing as an employer.	A global safety manual (the Munters Occupational Health and Safety Program) and a set of Munters-specific visual standards for safety instructions were launched during the year. A questionnaire for carrying out audits of our production plants, in which safety is an important area, was developed during the year.
<b>Environmental risks</b>	The Group's production plants risk impacting the environment negatively through emissions or hazardous waste. Insufficient regard for the environment can result in fines and other sanctions, and involve major costs for cleanup and environmental investments. This could also negatively impact Munters standing.	Munters operations affect the external environment through measures such as the handling of chemicals and waste, and transport of input goods and finished products to and from Munters manufacturing plants. Through its Environment, Health & Safety (EHS) policy, Munters ensures that the organization is always attentive towards the environmental impact of its operations, and continually works to push through improvements in its environmental efforts in the locations where it operates.
<b>Sustainable supplier management</b>	The risk of suppliers not acting in accordance with Munters Code of Conduct for suppliers, and that this will result in impaired standing and a weaker financial position for Munters.	New global Code of Conduct for suppliers has been produced and communicated on the Company's website. The next step is to send the Code out to our most important suppliers and ensure that they certify they are complying with the guidelines it describes.
<b>Laws and regulations</b>		
<b>Bribery and corruption</b>	If the Group's employees and distributors do not comply with laws against bribery and corruption, this could have both legal and financial consequences and the Group's standing could be damaged.	There are policies in the area in the form of the Code of Conduct and a specific anti-corruption policy. Online training course for all salaried employees in Munters rolled out in January 2018. Contract with distributors contains paragraphs stipulating that the distributors must comply with anti-corruption laws and regulations.

# The share

Shares in Munters have been listed on Nasdaq Stockholm since May 19, 2017, and are traded under the ticker MTRS. The introductory price was SEK 55. In 2017, the share price dropped 16 percent at the same time as the OMXS 30 index on Nasdaq Stockholm dropped three percent over the same period and the Capital Goods industry index increased one percent.

The closing price on the last trading day of the year was SEK 55.25, which was equivalent to a market capitalization of SEK 10.1 billion. The highest price paid in 2017, was SEK 84.75, and the lowest price was SEK 49.02.

## Trade in Munters shares

During 2017, a total of 63.8 million shares were traded, at a value of SEK 4.08 billion. Average trading volume over the year totaled 408,781 shares per day.

## Dividend and yield

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

The Board of Directors has proposed a dividend of SEK 0.30 per share to the 2017 Annual General Meeting. This is equivalent to a total dividend of SEK 55

million, and a yield of 0.5 percent based on the price at year-end. The proposed dividend is equivalent to 32 percent of net profits for the period.

## Share capital

At December 31, 2017, the number of shares and votes in Munters totaled 183,597,802. Each share has a quota value of SEK 0.03, and share capital totaled SEK 5,507,934.06. Munters share capital is composed of one share class, in which each share has the same number of votes and yields the same right to a dividend. Under the Articles of Association, the number of shares may not fall below 150,000,000 and not exceed 600,000,000. The Company's share capital may not fall below SEK 4,500,000 and not exceed SEK 18,000,000. The Company's shares are registered with Euroclear Sweden AB, which administers the Company's share register and records the shares for individual persons. Munters holds no shares in treasury.

## Owners

At December 31, 2017, the number of shareholders totaled 6,514. There are shareholders in a total of 25 countries, and the proportion of shareholders outside Sweden totaled 67 percent at year-end. The ten largest individual shareholders had 86.3 percent of the share capital at that time. At the end of the year, the members of Munters Group Management held a total of 3,417,330 shares in Munters. Members of the Board of

Directors, excluding the CEO, owned 678,999 shares at the same point in time. Total Group Management and Board of Directors holdings in Munters shares corresponded to 2.2 percent of total shares outstanding in the Company.

Nordic Capital was the largest shareholder, with 50.1 percent of the share capital.

## Analyst coverage

At the end of 2017, analysts from Carnegie, Goldman Sachs, Danske Securities, Nordea, Kepler Chevreux and Jefferies were actively following Munters.



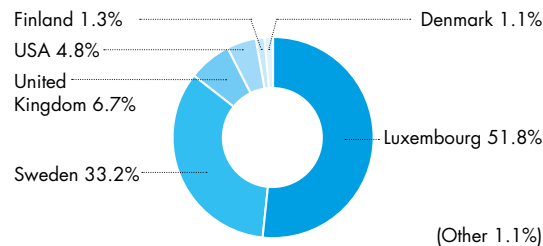
## THE MUNTERS SHARE



## SHAREHOLDING, SIZE DIVIDED

Holding	Number of shareholders	Holding %	Votes %
1-500	5,479	0.33	0.33
501-1 000	368	0.17	0.17
1 001-5 000	417	0.54	0.54
5 001-10 000	82	0.35	0.35
10 001-15 000	15	0.10	0.10
15 001-20 000	20	0.19	0.19
20 001-	133	98.31	98.31

## OWNERSHIP DISTRIBUTION PER COUNTRY



## KEY FIGURES

Number of shares at year-end (millions)	184
Market capitalization at year-end (SEKm)	10.1
Number of shareholders	6,514
Share price at year-end, SEK	55.25
Earnings per share, SEK	1.45
P/E ratio at year-end	38.05
Change in share price during the year, %	0.45
Regular dividend, SEK/share	0.30*
Dividend as a percentage of earnings per share	21
Total dividend yield (price increase + dividend), %	1.00
Proportion of shares in Sweden, %	33.20
Proportion of shares owned by the ten largest shareholder groups, %	86

\* Proposed dividend

## THE TEN LARGEST SHAREHOLDER GROUPS

Name	Holding	Holding %
Nordic Capital	91,999,607	50.11
FAM AB	20,967,907	11.42
AMF – Försäkring och Fonder	12,724,802	6.93
ALECTA Pensionsförsäkring, Ömsidigt	9,190,000	5.01
Första AP-fonden	8,327,387	4.54
CGML PB Client Acct-Sweden Treaty	5,507,933	3.00
CBNY-Norges Bank	3,461,432	1.89
JP Morgan Chase Bank N.A.	2,542,040	1.38
Catella Fondförvaltning	1,908,453	1.04
Leesi, John Peter	1,823,829	0.99

## STATEMENT FROM THE CHAIRMAN OF THE BOARD

# 2017, an exciting year for Munters

Munters had an exciting past year highlighted by its return to the capital markets as a publicly listed company this past May. There was a great deal of work on the part of many employees and our advisor partners who made the event a success and set the stage for the next phase of the company. We should also take note that the period of time that the company was under the private ownership of Nordic Capital had a very positive effect helping shape and position the company for the future. As we look forward, we are positive about the prospects of the company as we are active in markets where the underlying growth is strong, our technology and innovation helps our customers be more efficient and the impact of our solutions is a positive force to do great things for both business and society. A powerful combination that motivates our employees each day.

## Governance

To strengthen our corporate governance, we were fortunate to recruit three highly skilled directors to the board to complement our existing team adding to the depth of experience and diversity of the board. While our "center of gravity" corporately is Sweden, our board has a truly global outlook which is most appropriate given the international potential of the company. We support the board's work through two standing committees (Audit and Remuneration), while engaging the full board on matters of strategy and policy beyond the charters of the two committees.

## Munters ahead

Today, the Board and management are focused on insuring the near term performance of the company advances while also reaching our longer term potential. As such, we as a Board promote a balanced discussion between our support, guidance and challenge of management today and how we execute, while at the same time, discussing how the company evolves to meet a market that will undoubtedly work at a faster pace and where the competitive intensity will increase. This work has resulted in a visionary agenda that management will share with our investors and other stakeholders as that program will be the blue print for how we evolve the business to meet our future objectives. The agenda focuses on the ways in which our company works to insure that we provide an outstanding customer experience while also insuring that we "scale" our business efficiently, as first and foremost, Munters is a growth story.

The Board and management has worked closely together during the year and we look forward to our continued close collaboration in order to meet the full potential of Munters.

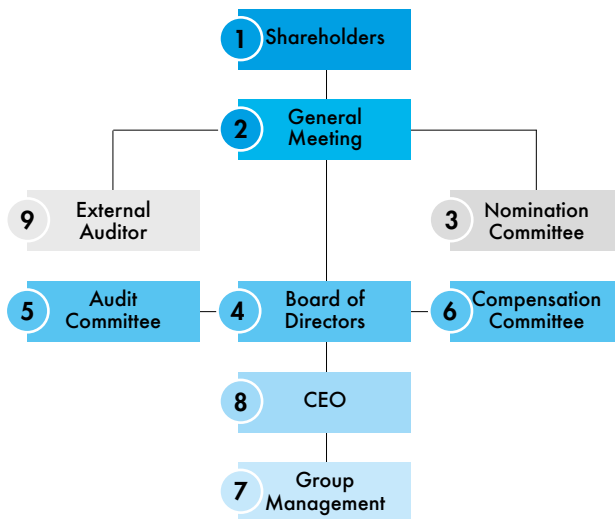
Chris Curtis  
Chairman of the Board



# Corporate Governance Report

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, by Nasdaq Stockholm's rulebook for issuers, and by the Swedish Corporate Governance Code ("the Code"). Munters has applied the Code starting from May 19, 2017, when the company's shares were admitted for trade on Nasdaq Stockholm.

## THE MUNTERS CORPORATE GOVERNANCE STRUCTURE



### Observance of rules

#### External governance systems

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

#### Internal governance systems

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

In addition to this, the Group has a number of policies and instructions with rules and principles for the Group's operations and employees, for example, the Code of Conduct, the Policy against Bribes and Corruption, and the Insider Policy.

### Deviations from the Code

The Code applies to all Swedish companies whose shares are listed on a regulated market in Sweden, and shall apply from the first day of trade. 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 respond to 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 Rules 9.7 and 9.8 in the Code

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, a shorter period than the minimum three years prescribed by the Code. The other warrant series entitles participants to exercise the warrants to subscribe for shares after a three-year period. The offering of warrants with terms of exercise after two and three years, respectively, is considered to be in line with Munters long-term business plan, strategy, and financial targets. In future, Munters intends to implement only three-year programs.

Munters deviates from Rule 9.8 of the Code in that the CEO's total entitlement of fixed salary during notice period and severance pay upon the Company's termination of his employment will amount 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 will be subject to a non-competition undertaking,

which the Company considers to be in the interest of the Company and its shareholders, and thus motivates 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 were registered at the Swedish Companies Registration Office on May 19, 2017. The complete Articles of Association can be found at the Munters website.

## 1 Shareholders

Shares in Munters have been listed on Nasdaq Stockholm since May 19, 2017. The number of shares in Munters Group AB totaled 183,597,802 at year-end. All shares are of the same type, and have equal rights in every respect.

On December 31, 2017, Munters had 6,514 shareholders. The largest shareholders were Nordic Capital (50.1 percent of votes) and FAM (11.4 percent of votes).

Additional information on the share and shareholders can be found on Munters website.

## 2 Annual General Meeting

Pursuant to the Swedish Companies Act (SFS 2005:551), the Annual General Meeting (AGM) is the Company's supreme decision-making body, where the shareholders exercise their voting rights.

Shareholders who are recorded in the share register on the record date who have registered for the AGM within the time period indicated in the notice to attend have the right to participate in the AGM, either in person or by proxy.

At the Annual General Meeting, each share carries one vote, and shareholders are entitled to vote for the total number of shares held or represented, without limitation of the voting powers.

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

The AGM is charged with appointing Board members and the Chairman of the Board, selecting auditors, deciding on the adoption of income statements and balance sheets, and appropriation of the Company's earnings, as well as, discharge from liability for the Board and the CEO. The AGM also decides, where appropriate, on issues such as changes to the Articles of Association, the adoption of principles for the composition and work of the Nomination Committee and guidelines for terms of compensation and employment for the CEO and other senior executives.

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

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

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

All shareholders who are directly recorded in the share register maintained by Euroclear Sweden five weekdays (Saturdays included) prior to the Annual General Meeting and who have notified the Company of their intention to participate in the AGM not later than the date indicated in the notice of the AGM are entitled to attend the AGM and vote for the number of shares

they hold. In addition to notifying the Company, shareholders whose shares are nominee registered through a bank or other nominee must request that their shares be temporarily registered in their own names in the register maintained by Euroclear Sweden, in order to be entitled to participate in the AGM. Shareholders should inform their nominees well in advance of the record date.

Shareholders may attend AGMs in person or by proxy and may also be accompanied by a maximum of two people. It will normally be possible for shareholders to register for the AGM in several different ways, as indicated in the notice of the meeting.

Shareholders who wish to have an issue brought before the AGM must submit a request in writing to the Board of Directors. The request must normally be received by the Board of Directors not later than seven weeks prior to the AGM.

### *Annual General Meeting and extraordinary meetings during the Spring of 2017*

At an Extraordinary General Meeting on February 3, 2017, Helen Fasth Gillstedt was appointed new Board member.

Prior to the listing of the Company's shares on Nasdaq Stockholm in May 2017, decisions were taken at the AGM on March 28, 2017, and at the extraordinary General Meeting on May 7, 2017, on issues including the adoption of guidelines on compensation for senior executives, instructions for the Nomination Committee, the election of Board members, and the introduction of incentive programs for certain individuals in Group Management.

### *2018 Annual General Meeting (AGM)*

The 2018 Annual General Meeting will be held on May 17, 2018, in Stockholm. For further information, see Munters website.

### 3 Nomination Committee

Pursuant to the Code and the criteria adopted by the 2017 AGM, the Nomination Committee in respect of the AGM shall be composed of representatives of the four largest shareholders in terms of voting rights listed in the share register maintained by Euroclear Sweden AB as of the last banking day of August each year. The Nomination Committee also includes the Chairman of the Board, who convenes the first meeting.

Prior to the AGM, the Nomination Committee shall present proposals concerning the Chair of the meeting, Board members including who shall be the Chairman of the Board, remuneration for the Chairman and other board members, as well as remuneration for committee work,

election of and remuneration to the auditor and proposals for changes to the Nomination Committee instructions for the AGM, which shall be valid until further notice.

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

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

### NOMINATION COMMITTEE PRIOR TO THE 2018 AGM

Name	Appointed by	Share of votes, 2017
Robert Furuhjelm, Chairman, Nomination Committee	Nordic Capital	50.1%
Lars Wedenborn	FAM AB	11.4%
Tomas Risbecker	AMF Försäkringar och Fonder	6.9%
Magnus Billing	Alecta	5.0%
Chris Curtis	Chairman of the Board, Munters	0.3%

### 2017 BOARD MEETINGS

During 2017, the Board of Directors held 20 meetings.

Below is an overview of the most important issues addressed at these meetings.

#### December

Two meetings. Decision on press release concerning developments in the Data Centers business area. Compensation to CEO and CFO for 2018.

#### November

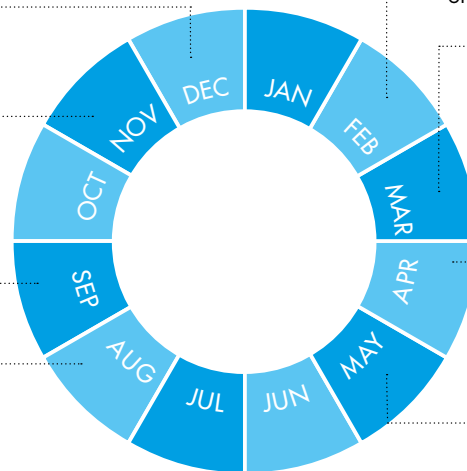
Three meetings. Decision on approval and release of Q3 report. 2018 financial plan. Discussion of long-term strategy.

#### September

One meeting. Strategy 2018–2020.

#### August

One meeting. Decision on approval and release of Q2 report.



#### February

Four meetings. Helen Fasth Gillstedt new chair of Audit Committee. Approval of 2016 year-end accounts. Approval of new leasing agreement in China.

#### March

Four meetings. EY presented its audit work for 2016. Approval of 2016 Annual Report and 2017–2019 business plan. Approval of acquisition of Edata. Adoption of financial targets and dividend policy. Appointment of members of the Audit and Compensation Committees. Application to Nasdaq Stockholm on admission for trading. Adoption of policies. Decision on concluding new financing.

#### April

Two meetings. Approval of Q1 report. Establishment of new subsidiary in Thailand and capital contribution to said company. Approval of press release confirming Munters intention to be listed on the stock exchange.

#### May

Three meetings. Approval of prospectus ahead of listing. Decision on allocation of shares in set-off issue, warrants in the incentive programs and shares in new share issue prior to listing.

#### Nomination Committee prior to the 2018 AGM

The composition of the Nomination Committee prior to the 2018 AGM was announced through a press release and published on Munters website on September 27, 2017. Up until the statement of the Annual Report, the Nomination Committee had four minuted meetings. The Nomination Committee has announced that it has applied Rule 4.1 of the Code as diversity policy in producing the proposal for the Board prior to the 2018 AGM.

#### 4 Board of Directors

The duties of the Board of Directors are primarily set forth in the Swedish Companies Act and the Code. In addition to this, the work of the Board is guided by formal rules of procedure that the Board adopts every year. The rules of procedure govern the division of work and of responsibility among the members of the Board, its committees, its Chairman and the CEO. The instructions for the CEO also contain instructions for financial reporting.

The tasks of the Board of Directors include adopting strategies, business plans and targets, and issuing interim reports and year-end financial statements, as well as, setting policies and guidelines. The Board is also required to follow economic developments and ensure the quality of financial reporting and the internal controls, and evaluate the Group's operations based on the objectives and guidelines set by the Board of Directors. The Board is also responsible for appointing the CEO. Finally, the Board of Directors decides on major investments and changes in organization and activities.

#### Composition of the Board of Directors

According to 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. The Board

#### COMPOSITION OF THE BOARD OF DIRECTORS

Name	Elected in	Fee, SEK <sup>5</sup>	Independent	Present		
				Board Meeting	Audit Committee	Compensation Committee
Chris Curtis, Chairman	2015	1,050,000	Yes	20/20		5/5
Helen Fasth Gillstedt	2017	500,000	Yes	19/19 <sup>6</sup>	5/5	
Per Hallius	2013	400,000	Yes <sup>7</sup>	19/20		
Joakim Karlsson	2010	400,000	No <sup>1</sup>	13/20		
John Peter Leesi, President and CEO	2011	–	No <sup>2</sup>	19/20		
Andreas Näsvik	2011	400,000	No <sup>1</sup>	19/20	3/5	5/5
Lena Olving	2017	400,000	Yes	10/12 <sup>6</sup>	4/5	
Kristian Sildeby	2017	366,667	No <sup>1</sup>	8/8 <sup>6</sup>		
Joachim Zetterlund	2012	450,000	Yes	19/20		5/5
Pia Nordqvist <sup>3</sup>	2010	–	–	19/20		
Robin Hedén <sup>3</sup>	2017	–	–	17/20		
Simon Henriksson <sup>4</sup>	2017	–	–	17/20		
Robert Wahlgren <sup>4</sup>	2010	–	–	20/20		

1) Independent in relation to the Company and Group Management, but not to the Company's major shareholders.

2) Independent in relation to the Company's major shareholders, but not to the Company and Group Management.

3) Employee representative.

4) Employee representative, deputy.

5) Remuneration determined regarding work from the 2017 AGM to the 2018 AGM.

6) Participation in the meetings held from the date when the respective individual was elected to the Board of Directors.

7) Per Hallius has a consulting agreement with Nordic Capital Limited and Nordic Capitals Fonder.

currently consists of nine members elected at the meeting. The trade unions have the right under Swedish law to representation on the Board, and they have appointed two members and two deputies.

At the AGM on March 28, 2017, Lena Olving was

elected to the Board, and at the Extraordinary General Meeting on May 7, 2017, Kristian Sildeby was elected to the Board. The CEO of Munters is part of the Board of Directors, and the CFO participates as a presenter at Board meetings. Lawyer Johan Lekholm serves as the

Board's secretary. Other Company officers participate in Board meetings to provide presentations on specific issues.

#### *Independence of the Board of Directors*

In accordance with the Code, a majority of the Board members elected by the General Meeting are to be independent in relation to the Company and its management, and two of these must be independent in relation to the Company's major shareholders. The Board members' position of dependence is indicated by the table "Composition of the Board of Directors."

#### *Responsibilities of the Chairman of the Board*

The Chairman of the Board of Directors leads and governs the work on the Board, ensuring that its activities are conducted efficiently. The Chairman also ensures that the Swedish Companies Act and other applicable laws and regulations are observed, and that the Board is given the training required and that it improves its knowledge of Munters. The Chairman follows operations in close dialogue with the CEO, conveys opinions from shareholders to the other Board members, and serves as a 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.

#### *Remuneration for the Board of Directors*

At the 2017 AGM, it was decided that fees of SEK 1,050,000 would be paid to the Chairman and of SEK 400,000 each to the other members elected at the meeting. It was further decided that fees of SEK 100,000 would be paid to the Chairman of the Audit Committee and of SEK 50,000 to the Chairman of the Compensation Committee.

#### *Evaluation of the work of the Board*

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

Under 2017, the Board conducted a Board evaluation in which the members of the Board had to respond to a comprehensive questionnaire concerning issues such as strategies and objectives, investments, reporting and control, organization and directors, the forms of the Board's work, the composition and overall function of the Board of Directors, and their competence and their own work on the Board. The Nomination Committee was notified of the outcome of the Board evaluation in January 2018.

#### **Board Committees**

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

#### **5** *The Audit Committee*

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

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

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

The Audit Committee has three members: Helen Fasth Gillstedt (chair), Andreas Näsvisk and Lena Olving. The Audit Committee fulfills the requirement in respect of accounting and auditing competence as set forth in the Swedish Companies Act.

The Audit Committee had five meetings during 2017. Members' attendance is shown in the table on page 70.

#### **6** *Compensation Committee*

The task of the Compensation Committee is to prepare issues relating to compensation for the CEO and Munters other senior management.

The Compensation Committee proposes guidelines for, among other things, the relationship between fixed and variable compensation, the principal conditions for bonuses and incentive schemes, conditions for non-monetary benefits, pensions, termination and severance

pay. The Committee also makes proposals on individual compensation packages for the CEO and other executives in the Company's senior management. Furthermore, the Compensation Committee shall monitor and evaluate the outcome of variable compensation schemes and the Company's compliance with compensation guidelines adopted by the Annual General Meeting.

The Compensation Committee has three members: Joachim Zetterlund (Chairman), Christopher Curtis and Andreas Näsivik.

The Compensation Committee had five meetings

during 2017. Members' attendance is shown in the table on page 70.

## 7 Group Management

Apart from the President and CEO, Group Management consists 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.

Until August 1, Per Hedeback was Group VP for Mist Elimination. Until September 2017, Ola Carlsson was Group VP for Global Operations. For the rest of the year, John Peter Leesi was acting VP for Global Operations. Katarina Lindström has been recruited for this role, and she will take office in the spring of 2018.

## 8 CEO

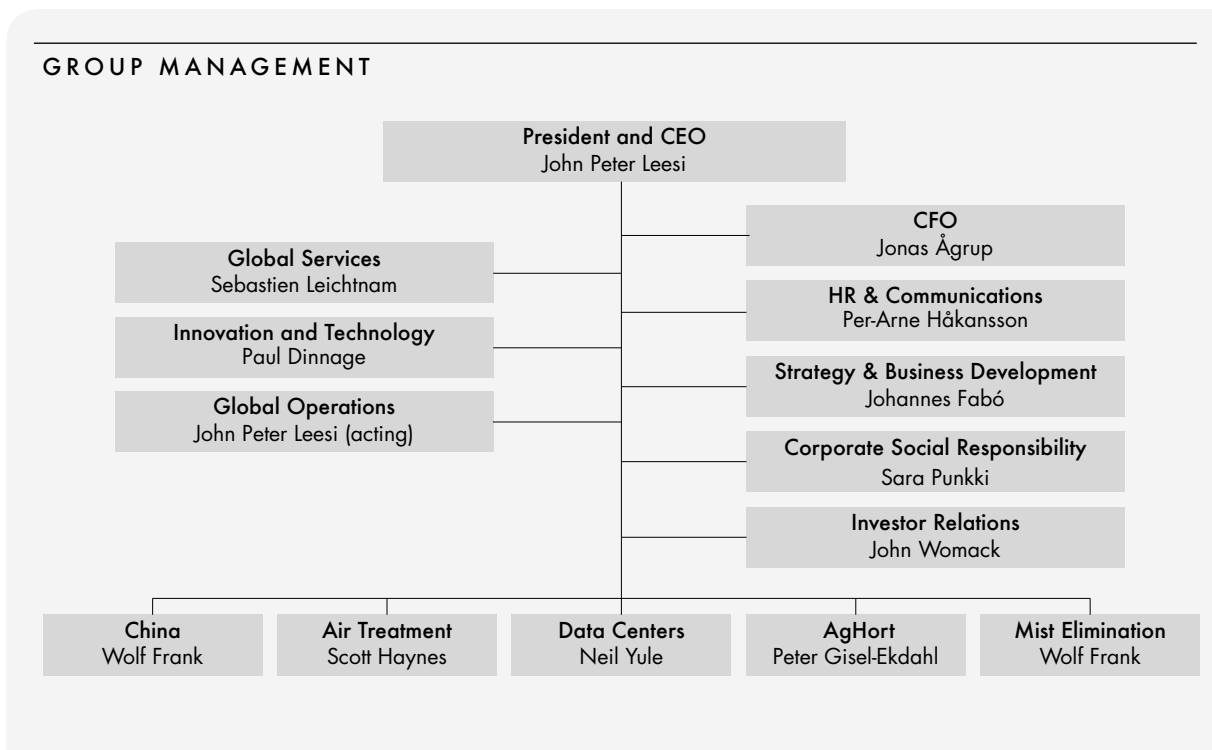
The CEO is responsible for day-to-day management in accordance with the guidelines and instructions of the Board of Directors. The CEO's responsibilities include taking all measures necessary to ensure that the organization and control of the Company's accounting takes place in accordance with current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

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

### Guidelines for compensation to Group Management

Guidelines for compensation to senior executives are evaluated and put forward for approval on a yearly basis at the AGM by the Board of Directors. Compensation for the CEO 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. The guidelines decided on at the AGM on March 28, 2017, and which are in effect until the 2018 AGM, are described below.

The group of senior executives encompassed by the





guidelines comprises the CEO and other members of Group Management, as well as, members of the Board of Directors of Munters, to the extent employment or consulting agreements are entered into. The guidelines are valid for remuneration under agreements entered into after the approval of the guidelines by the AGM, and for changes made to existing agreements thereafter.

Compensation to Group Management may consist of fixed salary, variable salary, long-term incentive programs, pension and other benefits. The total remuneration package should be based on market terms, be competitive and enable Munters to recruit and retain the managers needed for the Company to meet its short-term and long-term targets.

#### *Fixed salary*

The fixed salaries 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 salaries for the CEO and the other members of the senior management are 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 work for the Board, consulting fees and/or other remuneration for such work may be payable. Annual fixed salary here means fixed salary in cash earned during the year excluding pension, supplements, benefits and the like.

#### *Variable salary*

Variable salary in cash is conditional upon the fulfillment of defined and measurable criteria and should be maximized to 140 percent of the annual fixed salary for the CEO and 70 percent for the other members of senior management. These criteria are determined for the promotion of the Company'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 salary should be designed so that the Board of Directors, if exceptional economic circumstances prevail, has the option of limiting or refraining from payment of variable salary if such a measure is considered reasonable.

#### *Long-term incentive programs*

The Company's long-term incentive programs aim at creating long-term commitment to the Company, attracting and retaining members of the senior management and key employees, and to align the interests of the participants with the interests of the shareholders.

The Company's long-term incentive programs should constitute a complement to the fixed salary and the variable salary, with participants to be nominated based on factors such as competence and performance.

#### *Pension benefits*

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

#### *Notice period and severance pay*

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

#### *Other benefits and compensation*

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 indi-

vidual cases. Such extraordinary arrangements may, for example, include a one-off cash payment, or a support package including relocation support or similar.

#### *Deviations 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.

### **Current terms of employment for the CEO and Group Management**

#### *Compensation*

Compensation to the Group Management comprises fixed salary, variable compensation, pension and other benefits. Note 28 contains information about salaries and other remuneration for the CEO and other senior executives recognized as expenses in 2017.

#### *Notice of termination*

The notice period for the CEO and other members of Group Management is six months in the event of termination by the senior executive, without entitlement to severance pay. In the event of termination by Munters, the notice period is 12 months for the CEO and 6 months for other members of Group Management.

In such an event, severance pay equivalent to 24 months' salary is payable to the CEO and severance pay equivalent to 12 months' salary is payable to other members of Group Management.

#### *Share-based incentive programs*

At the Munters Extraordinary General Meeting on May 7, 2017, it was resolved to issue warrants as part of an incentive program for certain members of Group Management (the "Participants"). In total, the incentive program comprises eight individuals and not more than 5,222,000 warrants. The Participants were allowed to

subscribe for warrants at a market value corresponding to in total not more than SEK 17.99 million. The maximum number of warrants corresponds to approximately 2.77 percent of Munters share capital, assuming full exercise of the warrants. The warrants are being issued in two separate series. Each Participant has received an equal number of warrants of both series.

The number of warrants depends on the Participant's position within Munters, and the number of shares held by the Participant at the time the program commenced.

Series 2017/2019 comprises up to 2,611,000 warrants that may be exercised during the following subscription period: May 19 to November 19, 2019, with the exception of the thirty-day period preceding, (a) the day of publication of the company's interim report for the second quarter of 2019, and (b) the day of publication of the Company's interim report for the third quarter of 2019.

Series 2017/2020 comprises up to 2,611,000 warrants that may be exercised during the following subscription period: May 19 to November 19, 2020, with the exception of the thirty-day period preceding (a) the day of publication of the company's interim report for the second quarter of 2020, and (b) the day of publication of the Company's interim report for the third quarter of 2020.

The exercise price for Series 2017/2019 corresponds to 121.22 percent of the offer price per share in connection with the Company's listing on Nasdaq Stockholm (SEK 55), but may not be lower than the quotient value of the share. Furthermore, if at the time of subscription, the last paid price for the shares on the closing of the stock exchange on the trading day preceding the subscription of new shares exceeds 157.74 percent of the determined exercise price, the exercise price shall be increased with an amount corresponding to an amount of the said price that exceeds 157.74 percent of the exercise price.

The exercise price for Series 2017/2020 corresponds to 130.91 percent of the offer price per share in connec-

tion with the Company's listing on Nasdaq Stockholm (SEK 55), but may not be lower than the quotient value of the share. Furthermore, if at the time of subscription, the last paid price for the shares on the closing of the stock exchange on the trading day preceding the subscription of new shares exceeds 189.29 percent of the determined exercise price, the exercise price shall be increased with an amount corresponding to an amount of the said price that exceeds 189.29 percent of the exercise price.

The terms of both warrant series include customary recalculation provisions, including for dividend payments made prior to the exercise of the warrants. The Company has reserved the right to repurchase warrants if, for example, the Participant's employment with the Company is terminated. Munters total costs for the program during its term are not expected to exceed SEK 13.3 million (mainly relating to social security contributions for Participants in jurisdictions where participation in the incentive program is taxed as earned income).

## 9 External auditor

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

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

The fee for the auditor for their audit work is paid out on a continual basis according to approved invoices.

Apart from audit work, Munters audit firm EY provided other services during the year, primarily tasks in conjunction with the Company's listing, acquisitions and tax-related issues. For information on remuneration to EY, refer to Note 29.

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



Erik Sandström,  
Authorized Public  
Accountant, EY

### Internal control and risk management

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

Munters internal control of its financial reporting is based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The most important objectives for Munters internal control environment for financial reporting is that it is suitable and efficient, produces reliable reports and complies with laws and regulations.

#### *Control environment*

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

The basis for the internal control process consists of a framework that creates structure for the other four components in the process: risk assessment, control activities, information and communication, and monitoring.

#### *Risk assessment*

Risk assessment is conducted on a yearly basis pursuant

to the Group's risk management policy. The likelihood of an error occurring, and the impacts of such an error, are evaluated here. Furthermore, an action plan for the most material risks is prepared. These risk assessments take strategic, operational, and financial, as well as, legal and regulatory risks into account. For more information on Munters' risk assessment efforts, refer to pages 61–63.

#### *Control activities*

Control activities are carried out in the entire organization, at all levels, and for all functions. They encompass a range of different activities such as approvals, reconciliations, review of the operation's earnings and allocation of responsibilities. Munters CFO is responsible for ensuring that identified risks relating to financial reporting at the Group level are addressed. Within each reporting unit, the finance staff are responsible for fair and accurate accounting and balancing the books. Global controllers, as well as, financial directors in the respective business areas, update forecasts and conduct outcome analyses. All business areas present their financial results in written reports on a monthly basis to the CFO, who in turn presents these to Group Management.

#### *Information and communication*

Munters has informational and communications channels that aim at ensuring that information is identified, collected, and communicated in a way and within a time frame that enables employees and directors to perform their tasks. Instructions for reporting and accounting guidelines are conveyed to the employees concerned through monthly newsletters and quarterly telephone conferences. The Group uses a shared system for reporting and consolidation of financial information.

Governing documents – in the form of policies, guidelines, and manuals for financial reporting – are

communicated primarily via the intranet and the Group's financial handbook, which is updated as needed.

Information for external parties is communicated on Munters' website together with other news and press releases. Quarterly reports are published and supplemented with presentations and investor meetings.

The Annual Report is provided to shareholders and other stakeholders through publication on Munters' website, and in print upon request.

#### *Monitoring*

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

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

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.

# Board of Directors <sup>1/2</sup>



CHRIS CURTIS

Born 1957. Chairman of the Board since 2015. Member of the Compensation Committee.

**Principal education and professional experience:** BA, LeMoyne College. Studies in History and Economics. Twenty years of experience in leading positions at Schneider Electric.

**Other current assignments/positions:** CEO of Wencor Group. Non-executive director of S&C Electric Company. Trustee of LeMoyne College.

**Previous assignments/positions (past five years):** CEO of Schneider Electric North America. Non-executive director of Aegion Corporation and Kimball Electronics.

**Holding in Munters Group AB:** 501,437 Shares.\*

HELEN FASTH  
GILLSTEDT

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

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

**Other current assignments/positions:** Board member of Handelsbanken Fonder AB, Samhall AB, Humana AB, and CEO of Blong AB.

**Previous assignments/positions (past five years):** Board member of AcadeMedia AB, Lindorff Group AS, Swedesurvey AB, Svefa Holding AB, Sjölanda Gärd Ekogrossisten AB.

**Holding in Munters Group AB:** 3,000 Shares.\*



PER HALLIUS

Born 1962. Board member since 2013.

**Principal education and professional experience:** MBA, Harvard Business School. M.Sc. in Economics and Business Administration, Stockholm School of Economics. Independent 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 the Board of Nefab Group AB. Vice Chairman of the Board of Ruukki Construction Oy. Board member of PMH Affärsutveckling AB, Beowulf AB and Quant AB. Industrial Advisor to the Nordic Capital Funds. Advisor to senior executives of large industrial multinationals.

**Previous assignments/positions (past five years):** Chairman of the Board of United Minds Samhällsanalys AB and My Academy Sweden.

**Holding in Munters Group AB:** 84,031 Shares.\*



JOAKIM KARLSSON

Born 1971. Board member since 2010.

**Principal education and professional experience:** M.Sc. in Economics, Stockholm School of Economics. Part of the advisory group of JP Morgan, 1997–1998. Attendance in the Swedish Army Language School. Employed at the Stockholm Institute of East European Studies, 1993–1994, and the Swedish Embassy in Moscow, 1991–1993.

**Other current assignments/positions:** Chairman of the Board of Nordic Capital AB and Partner of NC Advisory AB, advisor to the Nordic Capital Funds. Board member of Resman AB, Coach Nebez Academy AB, Cidron Full Service Top Holding AB, and Luvata Oy. Deputy Board member of Motiv Stockholm AB.

**Previous assignments/positions (past five years):** Chairman of the Board of Nordic Fashion Topholding AB. Board member of Reynolds Holding AB. Deputy Board member of Ellos Holding AB.

**Holding in Munters Group AB:** –\*



JOHN PETER LEESI

Born 1961. President and Chief Executive Officer since 2014.

**Principal education and professional experience:** BA in Business and Finance, Stockholm University. Chairman of the Board of Munters 2012-2015. Former CFO of Sony Ericsson.

**Other current assignments/positions:** Board member of Incell International AB.

**Previous assignments/positions (past five years):** Chairman of the Board of Luvata Heat Transfer Solutions I AB and Luvata Oy.

**Holding in Munters Group AB:** 1,823,829 Shares and 2,500,000 warrants.\*



ANDREAS NÄSVISK

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

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

**Other current assignments/positions:** Board member of SNV Holding AB, Avvir Invest Svenska AB, Hinter Lake Holding AB, and Lock TopCo AS. Partner of NC Advisory AB, advisor to the Nordic Capital Funds, and board member of Intrum AB.

**Previous assignments/positions (past five years):** Board member of Lindorff AB.

**Holding in Munters Group AB:** –\*



LENA OLVING

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

**Principal education and professional experience:** M.Sc. in Mechanical Engineering, Chalmers University of Technology. President and CEO of Mycronic AB (publ). Former Deputy CEO and COO of Saab AB (publ), leading positions at Volvo Personvagnar AB during 25 years, incl. 7 years in Group Management. CEO of Samhall Högländ AB.

**Other current assignments/positions:** Board member of Investment AB Latour (publ), Teknikföretagen and Kollegiet för svensk bolagsstyrning.

**Previous assignments/positions (past five years):** Board member of SJ AB and Novozymes AS.

**Holding in Munters Group AB:** 500 Shares.\*

\* No indirect holding

# Board of Directors <sup>2/2</sup>



KRISTIAN SILDEBY

Born 1976. Board member since 2017.

**Principal education and professional experience:** M.Sc. in Economics and Business Administration, Stockholm School of Economics.

Investment Manager and CFO in FAM AB. Former Vice President, Head of Finance and Risk Management at Investor AB.

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

**Previous assignments/positions (past five years):** Chairman of the board of Blasieholmen 54 Restaurang AB, Board member of Lindström & Göthberg Executive Development AB, Power Wind Partners AB, Elk Holding AB and Mathias Dahlgren Innovations AB.

**Holding in Munters Group AB:** 6,000 Shares.\*



JOACHIM ZETTERLUND

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

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

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

**Previous assignments/positions (past five years):** Chairman of the Board of Office IT-Partner i Sverige AB. Board member of Basset AB and Tailormade Consulting Group Sweden AB.

**Holding in Munters Group AB:** 84,031 Shares.\*



PIA NORDQVIST

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

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

**Holding in Munters Group AB:** –\*



ROBIN HEDÉN

Born 1991. Board member since 2017. Employee representative appointed by IF Metall.

**Position at Munters:** Unit Assembler, Tobo plant.

**Holding in Munters Group AB:** –\*



SIMON HENRIKSSON

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

**Position at Munters:** Material supplier, Tobo plant.

**Holding in Munters Group AB:** 350 shares\*



ROBERT WAHLGREN

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

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

**Holding in Munters Group AB:** –\*

\* No indirect holding

# Group Management <sup>1/2</sup>



JOHN PETER LEESI

Born 1961. President and Chief Executive Officer since 2014.

**Principal education and professional experience:** BA in Business and Finance, Stockholm University. Chairman of the Board of Munters 2012–2015. Former CFO of Sony Ericsson.

**Other current assignments/positions:** Board member of Incell International AB.

**Previous assignments/positions (past five years):** Chairman of the Board of Luvata Heat Transfer Solutions I AB and Luvata Oy.

**Holding in Munters Group AB:** 1,823,829 Shares and 2,500,000 warrants.



JONAS ÅGRUP

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

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

**Other current assignments/positions:** Board member of Handelsbanken Kista.

**Previous assignments/positions (past five years):** -

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



JOHANNES FABÓ

Born 1978. Group Vice President Strategy, Business Development and M&A since 2012.

**Principal education and professional experience:** M.Sc. in Industrial Engineering and Management, Chalmers University of Technology. Consultant and Project Leader at the Boston Consulting Group.

**Other current assignments/positions:** -

**Previous assignments/positions (past five years):** -

**Holding in Munters Group AB:** 79,333 Shares and 450,000 warrants.

PER-ARNE  
HÅKANSSON

Born 1955. Group Vice President HR and Communications since 2011.

**Principal education and professional experience:** BA in Political Science and Economics, University of Lund. BA in Psychology, University of Lund. Various positions in Maersk and Digital Equipment Corporation.

**Other current assignments/positions:** -

**Previous assignments/positions (past five years):** Board member of Quant AB and PAHIT Consulting AB.

**Holding in Munters Group AB:** 126,401 Shares and 725,000 warrants.



SARA PUNKKI

Born 1975. Group Vice President CSR since 2017.

**Principal education and professional experience:** Master's degree in business law, Jönköping University. Various positions in Munters and prior to that in Arthur Andersen, Deloitte, Ericsson and Swedbank.

**Other current assignments/positions:** -

**Previous assignments/positions (past five years):** -

**Holding in Munters Group AB:** 31,026 Shares and 42,000 warrants.



PAUL DINNAGE

Born 1962. President Innovation and Technology.

**Principal education and professional experience:** B.S. Mechanical Engineering Massachusetts Institute of Technology 1984. Numerous roles within Munters over 32 years, from Operations Management to Vice President Technology.

**Other current assignments/positions:** -

**Previous assignments/positions (past five years):** -

**Holding in Munters Group AB:** 353,842 Shares.



JOHN WOMACK

Born 1966. Head of Investor Relations since 2017.

**Principal education and professional experience:** B.Sc. in Economics, Lund University. Diploma degree in Communication and Advertising, Stockholm University.

**Other current assignments/positions:** Board member of ArtGlass i Malmö AB, Womack Investor Relations AB and CarpetVista Group AB. Senior Advisor of Fogel & Partners.

**Previous assignments/positions (past five years):** Director of Investor Relations of Alimak Group AB (publ). Director of Information and Investor Relations of Clas Ohlson AB (publ).

**Holding in Munters Group AB:** 100 Shares.

# Group Management <sup>2/2</sup>



**SEBASTIEN  
LEICHTNAM**

Born 1971. Group Vice President Global Services since 2016.

**Principal education and professional experience:** MBA, EDHEC Business School. Executive education, INSEAD. Technician certificate diploma degree, Lille Catholic University. Various management positions in Tetrapak AB, Cardo AB, Crawford France and Hafa Manutention.

**Other current assignments/positions:** –

**Previous assignments/positions (past five years):** –

**Holding in Munters Group AB:** 57,307 Shares.



**SCOTT HAYNES**

Born 1963. Group Vice President Air Treatment since 2014.

**Principal education and professional experience:** B.Sc. in Business Administration, Isenberg School of Management at the University of Massachusetts. Management Development Program, Boston University. Sales Management Training Program, General Electric. Leadership & International Management, Swedish Institute of Management AB/Duke University. Various management positions in within Munters 1994–2004.

**Other current assignments/positions:** –

**Previous assignments/positions (past five years):** –

**Holding in Munters Group AB:** 332,157 Shares and 240,000 warrants.



**PETER GISEL-EKDAHL**

Born 1970. Group Vice President AgHort since 2011.

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

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

**Previous assignments/positions (past five years):** Deputy Board member of Drivec AB.

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



**NEIL YULE**

Born 1960. Group Vice President Data Centers since 2016.

**Principal education and professional experience:** MBA in Business Administration, Open Business School. Various management positions in Fläkt Woods Group. Managing Director of Waterloo Air Management plc, Hampton Mouldings Ltd and Salex Acoustic Materials Ltd.

**Other current assignments/positions:** –

**Previous assignments/positions (past five years):** –

**Holding in Munters Group AB:** 42,951 Shares and 555,000 warrants.



**WOLF-MARKUS  
FRANK**

Born 1968. Group Vice President Mist Elimination since 2017, President Munters China since 2013.

**Principal education and professional experience:** MBA, Bradford University. MBA, University Paderborn. Various positions in Electrolux and jlu Group.

**Other current assignments/positions:** Managing Director of UBB-Frank GmbH.

**Previous assignments/positions (past five years):** Board member of Electrolux Spain.

**Holding in Munters Group AB:** 60,173 Shares.

## OUR HISTORY

## Our promise to customers: Creating the perfect climate

Munters has been an innovator in advanced climate control solutions since its founding in 1955. Carl Munters (1897–1989), a Swedish inventor and entrepreneur, built the company on his insights into the laws of thermodynamics and his ability to transform them into innovative technologies and commercial successes.

As time went on, Carl Munters would receive nearly 1,000 patents, most of them in the areas of dehumidification and evaporative cooling – which are today's core technologies at Munters. 227 of the patents he registered during his time at the company are still active today. Carl Munters was a passionate inventor, and his example is a strong source of inspiration in our daily work. Curiosity, innovation and the art of engineering are his legacy to us.



### CARL MUNTERS (1897–1989)

*In 1923, Carl Munters (above, right), and Baltzar von Platen invent the first refrigerator without moving parts, and sell the rights to Electrolux.*

*In the 1940s, Carl and a number of his employees developed the central inventions behind Munters operations: an air conditioning system based on evaporative cooling and dehumidification. The key components of the system were the sorption rotor and the evaporative cooling pads.*



## OUR HISTORY


**1950s:**  
**A breakthrough in modern dehumidifiers**

Carl Munters founds Carl Munters & Co together with a number of partners, including Marcus Wallenberg, in 1955. The idea was to develop modern air conditioning systems based on evaporative cooling, dehumidification and heat recuperation. The starting shot for Munters dehumidification business is fired in 1958, when the Swedish Armed Forces orders 200 dehumidifiers.

1950

**1960s:**  
**Out into the world**

The company expands its production base, establishing dehumidifier production in the US. Its best-selling model ever, the M100, is launched in 1964.



1960

**1970s:**  
**New markets**

Product ranges, customer segments, and areas of use all expand. An international distribution network is established. The oil crisis of 1973 results in severe demands on energy savings, giving Munters major market potential. The company is acquired by Incentive AB in 1974, and Carl Munters retires.

1970

**1980s:**  
**Broad international expansion**

A modern Munters takes shape through acquisition of resellers and agents. The company establishes operations in several countries, including Japan in 1987. Munters focuses on environmental improvements; in 1988 it acquires a unique Swedish air purification technology (Zeol) that it further improves with Munters rotor technology.

1980

**1990s:**  
**An international Group**

Munters expands to become an international Group, with sales offices in over 25 countries.

A new manufacturing plant is built in San Antonio to concentrate dehumidification solutions for supermarkets and ice rinks. Environmental issues become increasingly important, laying the basis for new products in evaporative cooling. Munters finalizes its largest acquisition to date, and through Euroemme is now able to offer complete climate solutions for the rapidly expanding poultry industry. In 1997, Munters is listed on the Stockholm Exchange.

1990

**2000s:**  
**Strategic acquisitions**

Munters invests in sales and production in Asia. The acquisitions of Aerotech, Agro A/S, Turbovent Environment and Form make Munters a world leader in climate systems for livestock farming and greenhouse cultivation. Munters also acquires Des Champs Technologies – strengthening the company's position as a leading supplier of energy-efficient solutions for commercial buildings – and Toussaint Nyssenne, a leading European manufacturer of large-scale air treatment systems.

2000

**2010s:**  
**Focus on the core**

Munters is acquired by Nordic Capital Fund VII and is de-listed from the Stockholm Exchange in 2010. Several strategic acquisitions are made in the following areas:

*Livestock farming and greenhouses*

- Rotem – experts in control and management systems
- Reventa – specialists in climate control
- MTech and Edata – two outstanding companies in software for poultry and swine production

*The power and processing industry*

- Kevin Enterprises in India.

2010

*Air treatment for industrial and commercial applications*

- ProFlute – a leading supplier of desiccant rotors to the global OEM market
- HB Group – a significant supplier of high-quality customized hygienic air treatment systems to clients such as the food industry

In 2017, Munters Group [ticker: MTRS] was listed on Nasdaq Stockholm.



# 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, for which the extent is presented on page 15 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 April 17, 2018  
Ernst & Young AB

Erik Sandström  
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 2017-01-01–2017-12-31 on pages 66–75 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 April 17, 2018  
Ernst & Young AB

Erik Sandström  
Authorized Public Accountant

# Board of Directors' Report

The Board of Directors and the Managing Director of Munters Group AB (publ), renamed from Munters Topholding AB in 2017, corp. reg. no. 556819-2321, with its registered office in Stockholm, Sweden, hereby submits the consolidated accounts and annual report for the fiscal year 1 January – 31 December 2017. "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 26 March 2018. The consolidated and Parent Company income statements and balance sheets will be submitted for approval at the Annual General Meeting on 17 May 2018.

## OPERATIONS

The Munters Group is a world leading supplier of energy efficient dehumidification and air treatment solutions. Using innovative technology, Munters' experts create the perfect climate for customers in our focused business segments. Our largest customers are found in the food, pharmaceutical, retail, data centers, livestock and power industries. Munters has been a pioneer in the field of air treatment since the company was founded in 1955. As of 2017 the operation is organized into four business areas: Air Treatment, Data Centers, AgHort and Mist Elimination. During 2016 a decision was taken to reorganize the operation into four business areas, where Data Centers is separated from the business area Air Treatment. Services was also restructured and became a global product organization which serves all business areas. Munters' business areas focus on industrial process air treatment, comfort-oriented climate control, data center cooling, climate control for livestock and greenhouses and flue gas cleaning. Manufacturing and sales are carried out through subsidiaries in some 30 countries. The Group has approximately 3,900 employees.

## FINANCIAL PERFORMANCE AND POSITION

Five-year summary	2017	2016	2015	2014	2013
Order intake, SEKm	7,197	6,373	5,420	4,323	3,837
Net sales, SEKm	6,604	6,040	5,399	4,216	3,791
Organic growth, %	6	8	12	7	-5
Earnings before interest and tax (EBIT), SEKm	453	577	384	-104	77
EBIT margin, %	7	10	7	-2	2
Profit/Loss after financial items, SEKm	152	153	13	-513	-264
Income for the year, SEKm	173	85	-18	-435	-276
Net debt, SEKm <sup>1)</sup>	2,661	2,724	2,617	2,148	1,662
Equity/assets ratio, % <sup>1)</sup>	41	38	37	39	43
Total assets, SEKm	9,198	8,991	8,008	7,271	6,627
Investments, SEKm	170	184	113	104	222
Average number of employees	3,559	2,953	2,874	2,635	2,658

1) Net debt and equity ratio are calculated excluding shareholder loans for the years 2016 to 2013.

## Order intake and net sales

### The Group

Order intake year to date increased by 13% to SEKm 7,197 (6,373) of which 10% organically. The increase was mainly due to strong order intake in Air Treatment and Data Centers. AgHort reported minor organic growth during the year despite the current market decline.

Net sales year to date increased by 9% to SEKm 6,604 (6,040) and 6% organically. The increase was due to revenue growth in Air Treatment and Data Centers while AgHort and Mist Elimination showed negative organic growth. Structural effects in net sales were 3% comprising of the acquisitions.

### Air Treatment

Order intake for the full year 2017 increased by 12% and 13% organically. The Industrial sub-segment led by food, pharmaceutical and electronic applications was the main growth engine for the business area in 2017. Demand from the Supermarket end-market also increased substantially, but overall order intake in the Commercial sub-segment was in line with prior year as a result of exiting lower value-add product offerings. Services and Components showed solid growth in orders for the year.

Net sales for the full year 2017 grew by 9%, all organic. The revenue growth was generated by increased deliveries to industrial customers in food, pharmaceutical, electronics, transport and aerospace industries. Revenues from Services grew in all three regions. Deliveries to OEMs were strong in Americas and Asia, boosting growth in the Components sub-segment.

### Data Centers

Order intake for the year ended 2017 increased by 37%, all organic. This increase was primarily the result of an increase in orders in Europe to a large digital customer as well as minor increases in orders from customers in Americas and APAC.

Net sales year to date increased by 25% of which 24% was organic growth. The increase was related primarily to sales to large digital and co-locations customers in the US and Europe and was partially offset by a decrease in sales to co-location customers in APAC.

### AgHort

Order intake in 2017 increased by 10% whilst the organic growth was 2%. Strong growth was seen in Asia, primarily driven by the Chinese swine market. Order intake in Americas, excluding structural effects, declined compared to the same period 2016.

Net sales in 2017 increased by 8% compared to 2016 primarily driven by the acquisitions of MTech. The organic growth was slightly negative (-1%). However, the slowdown in end-user investments starting late in 2016 has reduced the demand in many markets. The global footprint enabling the fast growth in Asia, and the exposure to five different markets segments lowered the negative impact for Munters from the market slowdown.

### Mist Elimination

Order intake for the full year of 2017 decreased by 5% with no currency impact but structural effects of +6% (Kevin acquisition). The main reason for the weak organic order intake during 2017 has been the slowdown within Coal FGD in China.

Net sales for the full year of 2017 decreased by 7% with no currency effect but structure impacting by +7%. The main drivers were lower full-year Coal FGD volumes in the US and in China.

Mist Elimination is in a transition period where new business opportunities other than Coal FGD are being actively pursued, for example within Marine (emission gas cleaning for ships) and Process industries. To support this, the acquisition of Kevin Enterprises was made in April 2017.

### Gross profit

Gross profit for Munters amounted to SEKm 2,146 (2 109) and the gross margin was 32.5 % (34.9).

### Indirect costs

Selling and - och administrative costs for Munters amounted to SEKm 1,566 (1,425) corresponding to 23.7 percent (23.6) of net sales.

### Operating profit (EBIT)

#### The Group

Operating profit (EBIT) year to date decreased by 22% to SEKm 453 (577), including depreciations of SEKm -79 (-75) and amortizations and write-downs of SEKm -209 (-186), whereof SEKm -189 (-169) was related to surplus values derived through acquisitions.

### Air Treatment

EBIT increased to SEKm 511 (437) for the year. Two items were effecting comparability; settlement of an acquisition earn-out, which resulted in a gain of SEKm 53 and gain from a property sale of SEKm 7. The production challenges in the Mexican facility during the year had a negative impact on the earnings.

### Data Centers

EBIT for the year was SEKm -13 (54). The decrease was due to low net sales volumes in the second and third quarter of the year, mainly caused by the postponement of a large order in the US. The low factory utilization during the second and third quarter had a profit impact of approximately SEKm 40-50. The decreased profit for the full year 2017 compared to 2016 was also impacted by the production delays in Europe with lower than planned sales volumes and higher project startup costs in the third and fourth quarter of 2017.

### AgHort

EBIT in 2017 was SEKm 225 (276). Previous year included a positive item effecting comparability due to effect from the early settlement of the Reventa acquisition earn-out of SEKm 30. In addition to the margin pressure on larger projects and cost increases mainly related to R&D, earnings included cost of SEKm 7 related to the acquisition of MTech Systems and Edata, as well as costs related to the production issues in Mexico. The shift of net sales volumes from the US (Layer sub-segment) to China (Swine segment) has led to additional costs for building up the AgHort organization in China and a less favorable sales mix.

### Mist Elimination

EBIT for the full year was SEKm 34 (69). The key reasons for the accumulated decline are unfavorable mix impacts, with lower volumes of high-margin FGD projects in the US (despite volume increase in Q4), and the limited volumes of Coal FGD projects in China in Q4. A set of low-margin projects in Europe, mainly in Q4, also impacted full year results negatively.

### Net finance items

Financial income and expenses for the full year amounted to SEKm -301 (-424). The improvement compared to last year was due to better terms on the external financing and that interest cost related to the former shareholder loan has ceased after the conversion to equity in May 2017. The total average weighted interest rate per end the year, including financing fees, was 3.5% (6.8).

### Taxes

Income taxes for the full year amounted to SEKm 21 (-69).

Impact of the US tax reform (Tax Cuts & Jobs Act) for the full year was a one-off net income effect of SEKm 74.5, deriving from revaluation of deferred tax liability at the lower tax rate, mainly related to prior acquisitions.

The effective tax for the full year 2017, excluding the mentioned one-off related to the US tax reform, was 35% (45%). The tax cost was negatively impacted by the non-deductible interest costs relating to the shareholder loans prior to the conversion in May, amounting to SEKm -16. It was also positively impacted by the settlement of the HB earn-out in the second quarter, amounting to SEKm 12.

However, as a result of the decreased tax rate in the US from 1 January 2018 the effective tax rate is expected to decrease further in 2018.

### Items affecting comparability

Items affecting comparability that impacted income for 2017 totaled SEKm -13 (-17), consisting primarily of preparation costs for listing Munters amounting to SEKm 73 and a positive effect of SEKm 53 after final agreement on the purchase consideration for HB Group.

### Investments

Investments in tangible assets during the period totaled SEKm 126 (163). One part relates to machinery and equipment for the production operations in Mexico, Italy, the US, China, and Germany. Investments in intangible assets excluding goodwill and other intangible assets related to acquisitions totaled SEKm 44 (20) in 2017. Depreciation, amortization and impairments totaled SEKm 288 (262).

### Goodwill

Goodwill as of December 31, 2017 amounted to SEKm 4,251 (4,227). The change is primarily attributable to the year's acquisitions (refer to Note 5), which impacted goodwill by a total of SEKm 243, and to negative exchange-rate effects of SEKm 220, mainly owing to a stronger SEK against USD compared to the previous year.

### Financial position and liquidity

Munters primary financing is through bank loans with a group of Scandinavian banks as lenders. The 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, which stipulates a limit on the consolidated net debt in relation to Adjusted EBITDA. Out of the total Revolving Credit Facility, is EURm 20 allocated to overdraft- and guarantee facilities. Available unutilized credit facilities as of December 31 amounted to SEKm 811 (68). Interest bearing liabilities amounted to SEKm 2,855 (5,661) at the end of the quarter. Cash and cash equivalents amounted to SEKm 402 (432) as of December 31, 2017.

### Outlook for the coming year

Demand is expected be slightly better in 2018 than in 2017.

## SIGNIFICANT EVENTS DURING THE YEAR

### Acquisitions and divestments

Acquisition of 60% of the shares in MTech Systems was completed on February 1. The purchase price amounted to SEKm 222.

On April 1, Munters completed the acquisition of Kevin Enterprises Private Limited, a privately owned company headquartered in Mumbai, India. The acquisition was structured as an asset deal, acquiring company being Munters India Humidity Control Private Limited (Munters India).

On May 30, Munters announced the acquisition of Brazilian-based Edata specializing in key software for food processing plants, primarily for poultry production. Further information on acquisitions and divestments is presented in Note 5.

### Market listing

Munters Group AB was listed on Nasdaq Stockholm on May 19, 2017. The price per share in the offering was SEK 55, corresponding to a total value of the number of outstanding shares in Munters of SEKm 10,098.

Excluding Over-Allotment Option, the offering consisted of 73,439,120 shares, of which 1,872,728 new shares were issued by the Company. The remaining 71,566,392 existing shares were offered mainly by the principal shareholders: Nordic Capital Fund VII and Five Arrows. The offering of new shares provided Munters with gross proceeds of SEKm 103.

After full exercise of the Over-Allotment Option, the value of the offering amounted to approximately SEKm 4,524 corresponding to approximately 44.8% of the total number of outstanding shares in Munters upon completion of the offering.

As a result of the set-off issue and the new cash share issue carried out by Munters Group AB in connection with the initial public offering, the number of shares and votes in the company has increased by 166,799,454 since the first day of trading on Nasdaq Stockholm.

As of 31 December 2017, the number of shares and votes in Munters Group AB was a total of 183,597,802.

### Share Capital

In connection with the listing of Munters shares on Nasdaq Stockholm, all preference shares and all common shares of the company were converted into one class of common shares outstanding. Furthermore, a directed set off issue of new common shares was made to the selling shareholders against set-off of shareholder loans to the company. The extraordinary general meeting held on 7 May 2017 resolved on the following corporate actions to effect the share conversion and the set off issue.

- A conversion of each outstanding preference share (preference shares of class A and class B) and each common share (common shares of class A and class B) into one new common share (common shares class B).
- A directed set-off issue of new common shares is, with deviation from shareholders' preferential rights, given to the selling shareholders against set-off of shareholder loans to the company. The aggregate value of the shareholder loans and accrued interest thereon amounted to SEKm 2,553 and SEKm 251, respectively, as of 19 May 2017. The set-off issue comprised an issuance of up to 164,926,726 shares.

### Incentive program

At the extraordinary general meeting on 7 May 2017, it was resolved to issue warrants as part of an incentive program for certain members of the Group management (the "participants"). In total, the incentive program comprises 8 individuals and not more than 5,222,000 warrants. The participants could subscribe for warrants at a market value corresponding to in total not more than SEKm 17.99. The maximum number of warrants that could be subscribed for by the participants corresponded to approximately 2.77% of the Company's share capital following completion of the offering and assuming full exercise of the warrants.

The warrants were issued in two separate series. Each participant subscribed for an equal number of warrants of both series. This number of warrants per participant and series depended on the participant's position within the Group and the number of shares held by the participant at the time of the commencement of the program. Series 2017/2019 comprised up to 2,611,000 warrants that was exercised during the following subscription period; 19 May to 19 November 2019, with the exception of the thirty-day period preceding (a) the day of the announcement of the company's interim report for the second quarter of 2019, and (b) the day of the announcement of the company's interim report for the third quarter of 2019. The exercise price for series 2017/2019 corresponded to 121.22% of the offer price.

Series 2017/2020 comprises up to 2,611,000 warrants that may be exercised during the following subscription period; 19 May to 19 November 2020, with the exception of the thirty-day period preceding (a) the day of the announcement of the company's interim report for the second quarter of 2020, and (b) the day of the announcement of the Company's interim report for the third quarter of 2020. The exercise price for series 2017/2020 corresponds to 130.91% of the offer price. The Company has reserved the right to repurchase warrants for example if the participant's employment with the company is terminated.

### SIGNIFICANT EVENTS AFTER PERIOD END

Katarina Lindström was appointed President Global Operations in January 2018. Katarina will be a member of the Group Management team and will assume her position during spring of 2018.

### FINANCIAL INSTRUMENTS

Financial instruments in the Group, beyond those arising in operating activities, consist of interest-bearing bank borrowings, shareholder loans and currency hedging. Further information on the financial instruments is presented in Notes 3 and 18.

### RESEARCH AND DEVELOPMENT

Overall, research and development costs incurred by the Group amounted to SEKm 167 (138), corresponding to 9.8 percent (9.0) of operating expenses. Capitalization of internally generated intangible assets totaled

SEKm 31 (13). Activities in the area comprise research initiatives, technology and product development and product ownership. Ensuring value creation with good staying power requires trying to attain a balance between the various activities in the portfolio, in which a continual flow of innovative ideas are gradually refined into products with unrivalled customer value. By basing this to a greater extent on product requirements taken from various market segments, we achieve greater certainty in developing the right products for the respective markets. Thanks to the efforts made during the year, greater resources could be allocated to new development, and we are seeing a marked increase in the number of patent applications.

## EMPLOYEES

The number of permanent employees at year-end was 3,496 (2,939), which corresponds to an increase of 557 people (19 percent) compared with the previous year. The increase in the number of permanent employees is primarily attributable to increased production personnel in Data Centers and to the acquisition of Kevin Enterprises Private Limited. The average number of employees during the period was 3,559 people (2,953), an increase of 21 percent compared with the previous year. Women accounted for 18 percent (18) of all employees. Staff turnover totaled 20 percent (16), which is relatively high. The high staff turnover relates mainly to Mexico, the US, and Asia, where Munters has large production operations. The average age was 42 (43). For remuneration to senior management as well as adopted remuneration guidelines, see Note 28.

## FINANCIAL RISKS

Financial risks mainly consist of currency, interest and financing risks. The continued development of the global economy including changes of interests and currency rates is a factor of uncertainty for future profitability. A more detailed description of the Group's financial risks and how they are monitored and managed are disclosed in Note 3.

## PARENT COMPANY

The Parent Company does not engage in sales of goods and services to external customers. Cash and cash equivalents at the end of the period amounted to SEKm 134 (44). The Parent Company has two permanent employees.

## SHARE CAPITAL AND OWNERSHIP

The share capital of SEK 5,507,934 comprises 183,597,802 shares with a par value of SEK 0.03 per share. The shares in Munters Group AB are listed on Nasdaq Stockholm's list of major companies under the symbol MTRS. The ten largest owners in Munters Group AB holds 83.2 percent of the number of shares outstanding. Of these, Nordic Capital holds 50.1 percent indirectly via its Nordic Capital VII fund, and FAM AB 11.4 percent. No other shareholder holds more than ten percent of the shares, either directly or indirectly.

## PROPOSAL ON DISTRIBUTION OF DIVIDEND

Earnings of SEK 4,275,457,022 are at the disposal of the Annual General Meeting.

The Board of Directors of Munters Group AB proposes that the Annual General Meeting 2018 resolves on a dividend of SEK 0.30 per share, equivalent to a total dividend amount of SEK 55,079,341. The Board of Directors further proposes that 21 May 2018 be set as the record date for the dividend. If the Annual General Meeting resolves in accordance with the Board of Directors' proposal, the payment is expected to be distributed by Euroclear Sweden on 24 May 2018.

## STATEMENT BY THE BOARD OF DIRECTORS PURSUANT TO CHAPTER 18, SECTION 4 OF THE SWEDISH COMPANIES ACT

By reason of the Board of Directors' proposed dividend, the Board of Directors hereby makes the following statement pursuant to Chapter 18, Section 4 of the Swedish Companies Act (2005:551).

As of 31 December 2017, Munters' restricted equity totaled SEK 5,507,934 and its non-restricted equity totaled SEK 3,742,760,259 whereof 2017 year's profit amounts to SEK 172,641,287.

Provided that the Annual General Meeting 2018 approves the Board of Directors' proposed allocation of profits, an amount of SEK 3,687,680,918 will be carried forward. The company's restricted equity will thus be fully covered after the proposed dividend.

It is the Board of Directors' assessment that the shareholders' equity of the company and the group, after the distribution of the dividend, will be sufficient in relation to the nature, scope and risks of the business. In this context, the Board of Directors has considered factors such as the company's and group's historical development, budgeted development and the cyclical situation.

The Board of Directors has also considered the company's and the group's financial position and the company's and the group's prospects of fulfilling their commitments in the short and long term. The proposed dividend amounts to approximately 1.29 percent of the company's shareholders' equity and 1.47 percent of the group's shareholders' equity.

After the distribution of the dividend, the company's and the group's equity/assets ratio will amount to approximately 99 percent and 40 percent, respectively. Accordingly, the equity/assets ratio of the company and the group is satisfactory by comparison with the industrial sector. The Board of Directors is of the opinion that the company and the group will be able to assume future business risks and to withstand potential losses. The proposed dividend will not have a negative impact on the company's or the group's capacity to make further investments pursuant to the plans of the Board of Directors.

The proposed dividend will not negatively affect the company's and the group's ability to fulfil their payment obligations. The company and the group have ready access to short- as well as long-term credits that can be drawn down at short notice. Accordingly, the Board of Directors considers the company and the group well prepared to respond to any changes in liquidity as well as unexpected events.

In addition to the above, the Board of Directors has considered other known circumstances that may be significant to the company's and the group's financial position. In this context, no circumstance has arisen implying that the proposed dividend would not appear justifiable.

With reference to the above, the Board of Directors is of the opinion that the proposed dividend is justifiable considering the requirements that the nature, extent and risks of the operations impose on the company's and the group's equity as well as the company's and the group's consolidation requirements, liquidity and position in general.

## GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

For the guidelines for remuneration to senior executives in effect during 2017, refer to Note 28. The Company's auditors have checked that the guidelines adopted by the Annual General Meeting have been followed.

The Board of Directors proposes that the annual general meeting 2018 resolves on guidelines for the remuneration of senior executives to apply up to the annual general meeting 2019, pursuant to the following.

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

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

### Fixed salary

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

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

### Variable compensation

Variable compensation in cash is conditional upon the fulfilment of defined and measurable criteria and should be maximised to 140 per cent of the annual fixed salary for the CEO and 70 per cent for the other members of senior management, except for three members of senior management, the President AgHort, the President Data Centers and the President Global Services, whose variable cash compensation instead shall be maximised to 210 per cent of the annual fixed salary. Any variable compensation in cash exceeding 50 per cent of the annual fixed salary for these three members of senior management shall be conditional on 75 per cent of the exceeding amount (after deduction of taxes payable) being invested in shares in Munters and such shares being retained during a period of at least one year. If the investment in shares in Munters is not carried out, or if the shares are divested prior to the expiration of the one-year period, the part of the variable cash compensation that was conditional on the investment in, and retention of, shares in Munters shall be refunded to Munters.

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

### Long-term incentive programmes

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

Long-term incentive programs, if any, should constitute a complement to the fixed salary and the variable 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 three years for the CEO and 18 months for the other members of senior management.

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

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.

## 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 can be found on Pages 66–75 and the Sustainability Report on Pages 15–22. 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.

# Statement of comprehensive income

## GROUP

Amounts in SEKm	Note	2017	2016
Net sales	6	6,604	6,040
Cost of goods sold		-4,458	-3,931
<b>Gross profit/loss</b>		<b>2,146</b>	<b>2,109</b>
Other operating income	7	53	31
Selling expenses		-978	-913
Administrative costs		-588	-512
Research and development costs		-167	-138
Other operating expenses	7	-14	0
<b>Earnings before interest and tax (EBIT)</b>	4, 8, 9	<b>453</b>	<b>577</b>
Financial income	10	8	12
Financial expenses	10	-309	-436
<b>Profit/Loss after financial items</b>		<b>152</b>	<b>153</b>
Tax	11	21	-69
<b>Income for the year</b>		<b>173</b>	<b>85</b>
Attributable to Parent Company shareholders		174	85
Attributable to non-controlling interests		-1	0
Average number of outstanding shares before dilution		119,658,011	16,798,348
Average number of outstanding shares after dilution		119,720,995	16,798,348
Earnings per share before dilution, SEK	12	1.45	5.08
Earnings per share after dilution, SEK	12	1.45	5.08
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange-rate differences on translation of foreign operations		-89	198
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains and losses on defined-benefit pension obligations, incl. payroll tax	21	-13	-17
Income tax effect on other comprehensive income not to be reclassified to profit or loss in subsequent periods	11	3	4
<b>Other comprehensive income, net after tax</b>		<b>-99</b>	<b>185</b>
<b>Comprehensive income for the year</b>		<b>74</b>	<b>270</b>
Attributable to Parent Company shareholders		75	270
Attributable to non-controlling interests		-2	0

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

# Statement of cash flows

## GROUP

Amounts in SEKm	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Earnings before interest and tax (EBIT)		453	577
Reversal of non-cash items;			
Depreciation, amortization, and impairments	8	288	262
Provisions		13	-27
Other profit/loss items not affecting liquidity		-24	-18
<b>Cash flow before interest and tax</b>		<b>730</b>	<b>794</b>
Paid financial items		-176	-206
Taxes paid		-109	-130
<b>Cash flow from operating activities before changes in working capital</b>		<b>445</b>	<b>458</b>
<b>Cash flow from changes in working capital</b>		<b>-210</b>	<b>-180</b>
<b>Cash flow from operating activities</b>		<b>235</b>	<b>277</b>
<b>INVESTING ACTIVITIES</b>			
Business acquisitions	5	-268	-2
Sales of tangible assets		1	-
Sales of intangible assets		1	-
Business divestment	5	-27	-
Investment in tangible assets	13	-126	-163
Investment in intangible assets	14	-44	-20
<b>Cash flow from investing activities</b>		<b>-464</b>	<b>-186</b>
<b>FINANCING ACTIVITIES</b>			
New share issue		99	-
Warrants		18	-
Loans raised	18	3,749	503
Amortization of loans	18	-3,662	-522
<b>Cash flow from financing activities</b>		<b>205</b>	<b>-19</b>
<b>Cash flow for the year</b>		<b>-24</b>	<b>72</b>
Cash and cash equivalents at 1 January		432	346
Exchange-rate differences in cash and cash equivalents		-6	14
<b>Cash and cash equivalents at 31 December</b>		<b>402</b>	<b>432</b>

Interest received totaled 8 (2). Interest paid on bank debt totaled -123 (137).



# Statement of financial position

## GROUP

Amounts in SEKm at December 31	Note	2017	2016
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Goodwill	15	4,251	4,227
Patents, licenses, brands, and similar rights	14,15	1,456	1,550
Buildings and land	8, 13	155	156
Plant and machinery	8, 13	219	172
Equipment, tools, fixtures, and fittings	8, 13	142	133
Construction in progress	13	48	69
Other financial assets	18	14	24
Deferred tax assets	11	242	242
<b>Total non-current assets</b>		<b>6,526</b>	<b>6,574</b>
<b>CURRENT ASSETS</b>			
Raw materials and consumables		386	321
Products in process		135	123
Finished products and goods for resale		243	208
Work on contract		16	8
Advances to suppliers		18	17
Accounts receivable	3, 18	1,204	1,094
Prepaid expenses and accrued income	17	106	76
Derivative instruments	18	2	2
Current tax assets		35	32
Other receivables	18	126	103
Cash and cash equivalents	18	402	432
<b>Total current assets</b>		<b>2,672</b>	<b>2,417</b>
<b>TOTAL ASSETS</b>		<b>9,198</b>	<b>8,991</b>

# Statement of financial position

## GROUP

Amounts in SEKm at December 31	Note	2017	2016
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
<i>Attributable to Parent Company shareholders</i>	20		
Share capital		6	0
Other capital contributions		5,083	2,167
Reserves		351	439
Profit brought forward		-1,691	-1,850
		<b>3,748</b>	<b>756</b>
Non-controlling interests	20	0	11
<b>Total equity</b>		<b>3,748</b>	<b>767</b>
<b>NON-CURRENT LIABILITIES</b>			
Shareholder loan	18	-	2,688
Interest-bearing liabilities	18	2,848	2,544
Provisions for pensions and similar commitments	21	207	179
Other provisions	22	22	30
Other liabilities	18	137	15
Deferred tax liabilities	11	394	525
<b>Total non-current liabilities</b>		<b>3,607</b>	<b>5,981</b>
<b>CURRENT LIABILITIES</b>			
Interest-bearing liabilities	18	7	429
Advances from customers		382	315
Accounts payable	18	581	530
Accrued expenses and deferred income	23	486	565
Derivative instruments	18	2	4
Current tax liabilities		52	53
Other liabilities	18	212	232
Provisions for pensions and similar commitments	21	8	5
Other provisions	22	114	110
<b>Total current liabilities</b>		<b>1,843</b>	<b>2,243</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,198</b>	<b>8,991</b>

# Statement of changes in equity

## Attributable to Parent Company shareholders

GROUP	Attributable to Parent Company shareholders						
	Share capital	Other capital contributions	Trans-lation reserve	Profit brought forward	Total	Non-controlling interests	Total equity
Amounts in SEKm							
<b>Opening balance, January 1, 2017</b>	<b>0</b>	<b>2,167</b>	<b>439</b>	<b>-1,850</b>	<b>756</b>	<b>11</b>	<b>767</b>
<b>Changes in equity, 2017</b>							
Set off issue	6	2,798			2,803	-	2,803
Warrants		18			18	-	18
New share issue		99			99	-	99
Change in non controlling interest				-	-	-10	-10
Put/call option related to non controlling interests				19	19	-	19
Acquisition of non-controlling interests				-24	-24	1	-23
Income for the year				174	174	-1	173
Other comprehensive income, net after tax			-89	-10	-98	-1	-99
Comprehensive income for the year			-89	164	75	-2	74
<b>Closing balance, December 31, 2017</b>	<b>6</b>	<b>5,083</b>	<b>351</b>	<b>-1,691</b>	<b>3,748</b>	<b>0</b>	<b>3,748</b>
<b>Opening balance, January 1, 2016</b>	<b>0</b>	<b>2,167</b>	<b>241</b>	<b>-1,921</b>	<b>487</b>	<b>8</b>	<b>495</b>
<b>Changes in equity, 2016</b>							
Shareholders' contributions	-	-				3	3
Acquisition of non-controlling interests			-	-	-	-	-
Income for the year				85	85	-	85
Other comprehensive income, net after tax			198	-13	185	-	185
Comprehensive income for the year			198	71	270	-	270
<b>Closing balance, December 31, 2016</b>	<b>0</b>	<b>2,167</b>	<b>439</b>	<b>-1,850</b>	<b>756</b>	<b>11</b>	<b>767</b>

The new share issue put SEKm 103 into the Group; together with transaction costs of SEKm 4, net SEKm 99.

# Statement of comprehensive income

## PARENT COMPANY

Amounts in SEKm	Note	2017	2016
Net sales		-	-
<b>Gross profit/loss</b>			
Administrative costs		-77	-5
<b>Earnings before interest and tax (EBIT)</b>	8	-77	-5
Financial expenses	10	-84	-202
<b>Profit/Loss after financial items</b>		<b>-161</b>	<b>-207</b>
Group contributions		86	27
<b>Profit/Loss before tax</b>		<b>-75</b>	<b>-180</b>
Tax	11	-	-
<b>Income for the year</b>		<b>-75</b>	<b>-180</b>

# Other comprehensive income

Amounts in SEKm	Note	2017	2016
Profit/Loss for the year		-75	-180
Other comprehensive income, net after tax		-	-
<b>Comprehensive income for the year</b>		<b>-75</b>	<b>-180</b>

# Statement of financial position

## PARENT COMPANY

Amounts in SEKm, at Dec 31	Note	2017	2016
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Participations in subsidiaries	16	4,086	4,086
<b>Total non-current assets</b>		<b>4,086</b>	<b>4,086</b>
<b>CURRENT ASSETS</b>			
Prepaid expenses and accrued income	17	0	-
Receivables from subsidiaries		86	27
Other receivables		0	-
Cash and cash equivalents		134	44
<b>Total current assets</b>		<b>220</b>	<b>71</b>
<b>TOTAL ASSETS</b>		<b>4,306</b>	<b>4,157</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>	20		
<i>Restricted equity</i>			
Share capital		6	0
<i>Unrestricted equity</i>			
Share premium reserve		4,074	1,177
Profit brought forward		276	437
Income for the year		-75	-180
<b>Total equity</b>		<b>4,281</b>	<b>1,434</b>
<b>NON-CURRENT LIABILITIES</b>			
Shareholder loan	18	-	2,688
<b>Total non-current liabilities</b>		<b>-</b>	<b>2,688</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable		1	-
Accrued expenses and deferred income	23	2	35
Liabilities to subsidiaries		20	-
Other liabilities		2	-
<b>Total current liabilities</b>		<b>25</b>	<b>35</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,306</b>	<b>4,157</b>

# Statement of cash flows

## PARENT COMPANY

Amounts in SEKm	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Profit/Loss after financial items		-161	-207
Profit/loss items not affecting liquidity		82	202
<b>Cash flow from operating activities before changes in working capital</b>		<b>-78</b>	<b>-5</b>
<b>Cash flow from changes in working capital</b>		<b>4</b>	<b>0</b>
<b>Cash flow from operating activities</b>		<b>-74</b>	<b>-5</b>
<b>FINANCING ACTIVITIES</b>			
New share issue		99	-
Warrants		18	-
Shareholders' contributions		-	-
Group contributions		27	53
Loans raised		20	-
Loan amortization		-	-4
<b>Cash flow from financing activities</b>		<b>165</b>	<b>49</b>
<b>Cash flow for the year</b>		<b>90</b>	<b>44</b>
Cash and cash equivalents at the beginning of the period		44	0
<b>Cash and cash equivalents at the end of the year</b>		<b>134</b>	<b>44</b>

Total non-cash items comprise of capitalized interest from shareholder loans.

# Statement of changes in equity

## PARENT COMPANY

Amounts in SEKm	Restricted equity	Unrestricted equity			Income for the year	Total
	Share capital	Share premium reserve	Other capital contributions	Profit brought forward		
<b>Opening balance January 1, 2017</b>	<b>0</b>	<b>1,177</b>	<b>-</b>	<b>437</b>	<b>-180</b>	<b>1,434</b>
<b>Changes in equity, 2017</b>						
Debt conversion	6	2,798				2,804
Warrants			18			18
New share issue	0	99				99
To be carried forward				-180	180	0
Income for the year					-75	-75
<b>Closing balance, December 31, 2017</b>	<b>6</b>	<b>4,074</b>	<b>18</b>	<b>257</b>	<b>-75</b>	<b>4,281</b>
<b>Opening balance January 1, 2016</b>	<b>0</b>	<b>1,177</b>	<b>-</b>	<b>575</b>	<b>-138</b>	<b>1,614</b>
<b>Changes in equity, 2016</b>						
To be carried forward				-138	138	0
Income for the year					-180	-180
<b>Closing balance, December 31, 2016</b>	<b>0</b>	<b>1,177</b>	<b>-</b>	<b>437</b>	<b>-180</b>	<b>1,434</b>

# Notes

## NOTE 1 ACCOUNTING POLICIES

Munters Group AB, corp. reg. no. 556819-2321, is a Swedish public limited company registered in Sweden with its registered office in Stockholm, Sweden. The address of the headquarters is Munters Group AB, Box 1188, SE-164 26 Kista, Sweden. This Annual Report and Consolidated Accounts were signed by the Board of Directors for Munters Group AB on March 26th 2018, 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 were adopted by the Annual General Meeting on May 17th 2018. 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 1 January 2017

#### IAS7 Statement of Cash Flows

A change has been introduced into IAS 7 *Statement of Cash Flows*, signifying that information on changes to debts attributable to financing operations – including changes linked to cash flows, for example loan disbursement and repayment of loans; changes not affecting cash flows such as from acquisitions and divestments; and changes from currency effects.

None of the new interpretations that will start being applied during the fiscal year opening on 1 January 2017 have had any substantial impact on the financial reports.

#### New and amended IFRS that have not started being applied

A number of new standards will go into effect for fiscal years beginning after 1 January 2017, and have not been applied in the preparation of this financial report. These new standards are expected to impact the Group as follows:

#### IFRS 9 Financial Instruments

IFRS 9 *Financial instruments* is a new standard on accounting for financial instruments and will replace IAS 39. The standard comprises classification, valuation and impairment of financial instruments as well as hedge accounting. Munters group accounting has engaged in a project to analyze the implications of the transition to IFRS 9 to the Group's financial statements and has concluded that the only part of IFRS 9 with an impact on the Group's financial statements is the impairment model

for expected credit losses, however the impact is not material since the current applied model used is similar to the requirements in IFRS 9.

#### IFRS 15, Revenue from contracts with customers

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

#### *The new standard summary*

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

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

#### *Transition to IFRS 15*

During 2017 Munters has engaged in an IFRS 15 project to analyze the implications of the transition to IFRS 15 to the Group's financial statements. The focus has been to identify deviations between current revenue recognition principles and the new requirements under IFRS 15 as well as to prepare for implementation of the new standard within the Group. The evaluation phase included a questionnaire circulated to all business units and business areas in order to identify the various types of contracts that exists within the group. The questionnaire has been followed up with discussions between local/regional controllers and group accounting in order to understand terms and conditions in Munters' customer contracts, both general customer contracts and contracts of a more complex character.

Munters has decided to use the full retrospective approach for transition to the new revenue standard which means that prior reporting periods are to be adjusted. The overall assessment from the IFRS 15 transition project is that the new revenue standard does not have material impact on Munters' historical consolidated financial statements, based on the fact that Munters as of December 2017 did not have open contracts of material values that would have been treated differently should IFRS 15 have been applied. Munters will therefore not report any prior period adjustments.

#### *Revenue recognition principles going forward*

Munters provides goods such as components, equipment (units) and spare parts to customers within four business areas. Customer contracts can contain pure component/equipment (units) sales or sales of equipment (units) including activities such as installation, startup and commissioning. Both equipment (units) and installation, startup and commissioning are all

distinct in accordance with the definitions in IFRS 15 meaning any bundled sales will comprise several performance obligations under IFRS 15.

#### *Sale of goods*

The majority of customer contracts within Munters business areas Air Treatment, AgHort and Mist Elimination fulfill the requirement to recognize revenue at a point in time, meaning revenue for the performance obligation to deliver equipment (units) will be recognized when this performance obligation is satisfied (when control passes of the equipment/units). Revenue is already today recognized at a point in time (when control has passed) and therefore there is no change from current principles. Contracts including installation, startup and commissioning activities include several separate performance obligations and the performance obligations to provide installation, startup and commissioning will be satisfied over time, meaning revenue related to these performance obligations will be recognized over time according to the measurement of progress towards complete satisfaction. For the majority of customer contracts revenue relating to these activities is already deferred and recognized over time as they are performed according to current principles; however, some customer contracts have recognized revenue for these activities already at equipment delivery.

The total transaction price will be allocated to each performance obligation according to each performance obligations relative standalone selling price. This will result in a change with the effect that a somewhat higher amount of the total transaction price being recognized at equipment/units delivery.

Customer contracts within Data Centers fulfill the requirement to recognize revenue over time, i.e. equipment/units are 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/units will therefore be recognized over time using a measurement of progress towards complete satisfaction. The Group will use an output method (units produced method) for this purpose, meaning number of produced units in relation to total units in the customer contract. Data Centers customer contracts including installation, startup and commissioning supervision means several separate performance obligations and the performance obligations to provide installation, startup and commissioning supervision are performance obligations satisfied over time. Revenue relating to these performance obligations will be recognized over time according to the measurement of progress towards complete satisfaction. Revenue from customer contracts within Data Centers is already under current principles recognized over time and IFRS15 therefore there is no change from current principles.

Within Air Treatment, AgHort and Mist Elimination there are a number of customer contracts that fulfills the requirement to recognize revenue over time according to the criteria's mentioned above. Revenue for the performance obligation to deliver equipment/units will therefore be recognized over time according to the measurement of progress towards complete satisfaction. The Group will use the output method (units produced method). Since revenue from equipment/units are recognized at equipment/unit delivery (at the time when control passes) already under current principles this will not be any material change. There are no open contracts of significance as of yearend 2017 that has affected the opening balance as of 2018.

#### *Rendering of service*

Munters provides different kinds of services to customers such as maintenance services. Revenue from service contracts is already recognized over time as the customer simultaneously receives and consumes the benefits of the services and there will be no change from current principles.

#### *Warranty obligations*

Munters provides assurance-type warranties where the warranty is a guarantee of quality of the goods provided. These will continue to be accounted for under IAS 37 *Provision, Contingent Liabilities and Contingent Assets*. Certain contracts with customers also include extended warranty. These warranties are regarded as service-type warranties and will be accounted for as a separate performance obligation with revenue recognized over time. This is a change and will affect the timing of revenue since these warranties are currently recognized at the end of each warranty year. There are no open contracts of significance as of yearend 2017 that has affected the opening balance as of 2018.

#### *Presentation and disclosure*

Qualitative and quantitative disclosures will increase in volume in the Group's financial statements going forward. Disclosures will include contract terms, significant judgments (and changes in judgments) made in applying the Standard, disaggregation of revenue in to categories, information on when the Group typically satisfies its performance obligations, significant payment terms, explanations of how the timing of satisfaction of performance obligations relates to the typical timing of payment, types of warranties and related obligations, for performance obligations that an entity satisfies over time, methods used to recognize revenue, and methods used to determine and allocate the transaction price.

#### **IFRS 16 Leases**

Munters has begun to analyze the impact of IFRS 16 *Leases* on the Groups financial statements. In brief, the initial analysis shows that Munters, as an operational lessee, will be impacted by the implementation of IFRS 16. Monetary calculations of the effect of IFRS 16 and choice of transition approach have not yet been carried out. Based on the Group's preliminary review of its leases (primarily lease agreements in respect of premises), including notice periods and rental amounts, the Group currently consider that IFRS 16 will have an impact on the consolidated accounts and financial key performance indicators, primarily ratios based on gross assets and gross liabilities.

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

#### **BASIS FOR CONSOLIDATION**

The Consolidated Accounts encompass Munters Group AB (the Parent Company) and its subsidiaries.

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

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

#### **Business acquisitions**

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

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

If the initial recognition of a business combination is incomplete at the end of the reporting period when the business combination took place, the amounts for items where recognition is incomplete is recognized on a preliminary basis. These preliminary amounts can be adjusted during the evaluation period, or additional assets or liabilities can be recognized, to

reflect new information obtained about the facts and conditions that existed as of the time of acquisition, and would have impacted the recognized amounts at that time if the information had been available.

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

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

- In the event the conditions are deemed to mean that all economic benefits and disadvantages accrue to Munters right from the time of acquisition, no non-controlling interest is recognized but a liability equivalent to the fair value of the future redemption price, on the other hand, is; changes in value attributable to the liability are recognized over the income statement. At 31 December 2017, Munters recognizes no options based on this principle.
- In the event the conditions in the put/call options are not deemed to mean that all financial benefits and disadvantages accrue to Munters as of the time of acquisition, Munters recognizes non-controlling participation initially and allocates this part of the income. The Group also recognizes a liability corresponding to the discounted expected redemption price for the options whereupon non-controlling participations attributable to the options are eliminated. The difference between liabilities for the options and the non-controlling participations to which the options refer is recognized directly in equity and disclosed separately from other changes in equity. The dissolution of the discounting effect is also therefore directly recognized against equity. Munters recognized the option attributable to MTech Systems in the US based on this principle.

### Associated companies

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

### Non-controlling interests

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

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

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

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

Items included in the financial reports for the various units in the Group are valued in the currency used in the economic environment where the respective companies primarily operate (functional currency).

The Consolidated Accounts are prepared in SEK, which is the functional and reporting currency of the Parent Company. Results of operations and financial condition for all Group companies that have a functional currency other than the reporting currency are translated into the Group's reporting currency as follows:

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

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

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

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

Currency	Country	Average rate		Closing rate	
		2017	2016	2017	2016
AUD	Australia	6.54	6.37	6.42	6.57
CAD	Canada	6.58	6.46	6.56	6.74
CNY	China	1.26	1.29	1.26	1.31
DKK	Denmark	1.29	1.27	1.32	1.29
EUR	Euro zone	9.63	9.47	9.85	9.57
GBP	United Kingdom	10.99	11.57	11.10	11.18
JPY	Japan	0.08	0.08	0.07	0.08
NOK	Norway	1.03	1.02	1.00	1.05
SGD	Singapore	6.18	6.20	6.16	6.29
THB	Thailand	0.25	0.24	0.25	0.25
USD	United States	8.54	8.56	8.23	9.10
ZAR	South Africa	0.64	0.59	0.67	0.67

### TRANSACTIONS IN FOREIGN CURRENCIES

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

## SEGMENT REPORTING

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

The accounting policies applied to the segments are the same ones applied to the Group. From 2017 the Data Centers' cooling business, previously a part of Air Treatment, is reported as a separate business area. The comparative figures from 2016 for Data Centers and Air Treatment have been translated. Earnings for the segments are reported in Note 6.

## REVENUE RECOGNITION

Net sales are recognized at the sales value less discounts, value added tax and other taxes.

Revenue from the sale of goods is recognized upon delivery, at which point essentially all risks and rights are transferred to the purchaser. Normally, this means that sales are reported on delivery to the customer in accordance with the terms of sale.

Revenue from major project assignments, essentially originating from the Data Centers segment, are recognized in relation to the degree of completion at the end of the reporting period, provided that the profit can be reliably calculated. The degree of completion is determined mainly on the basis of units produced in relation to the total number of units in the project. Anticipated losses are expensed directly.

In the event delivery is delayed, and this delay is due to the customer requesting postponement of delivery, revenue from the sale is recognized only in the event 1) the customer specifically consents to invoicing; 2) it is likely that delivery will occur; 3) that the commodity is finished and ready for immediate delivery; and 4) that no changes are made to the terms of payment arising out of the delay in delivery.

### *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.

## BORROWING EXPENSES

Borrowing expenses are recognized as costs in the period in which they arise, apart from borrowing expenses that are directly attributable to the purchase, design or production of an asset that will necessarily take substantial time to complete and that is intended for use or sale. Borrowing expenses are capitalized in the respective asset when they are directly attributable.

## WARRANTY COMMITMENTS

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

## INCOME TAXES

Tax expenses for the period cover current tax calculated on taxable earnings according to the prevailing tax rate. Current tax costs are adjusted with changes to deferred tax assets and liabilities attributed to temporary differences and loss carry-

forwards. Current tax costs are calculated on the basis of the tax regulations decided, or decided in practice, in the countries where the Parent Company and its subsidiaries operate and generate taxable income. Taxes are recognized in the income statement except when the underlying transaction is recognized directly in equity or other comprehensive income, in which case the associated tax is also recognized in equity or other comprehensive income.

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

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

## TANGIBLE AND INTANGIBLE FIXED ASSETS

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

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

### **Buildings, machinery and equipment**

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

### **Leases**

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

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

### **Goodwill**

Goodwill relates to the value by which consideration remitted, non-controlling interest (if any) in one's own company and the fair value of previous equity share in the acquired company at the date of acquisition (if the business combination was carried out in steps) exceed the fair value of identified net assets. If the amount falls below fair value for the net assets acquired (in the event of an acquisition at low price) the average difference is recognized directly in the income statement.



Goodwill is not amortized, but the impairment is tested yearly, or more often if events or changes in circumstances indicate a possible decrease in value. Goodwill is reported at acquisition cost less accumulated amortizations. In connection with the sale of a unit, the recognized value of goodwill is included in the resulting profit/loss.

### Patents, licenses and similar intellectual property rights

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

### Research and development

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

### Impairment testing

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

#### *Impairment testing of individual assets*

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

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

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

#### *Impairment testing of goodwill*

For the purpose of testing the need for amortization, goodwill acquired in a business combination is allocated to cash-generating units or groups of cash-generating units expected to be favored by synergies in the acquisition. Each unit or group of units goodwill has been allocated to corresponds to the lowest level in the group at which the goodwill in question is monitored in internal governance. It is not a larger part of the group than a segment (i.e. a business area according to the Group's segment reporting). Amortization of goodwill 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.

## WORK ON CONTRACT

Work on contract consists of committed expenses attributable to currently incomplete work.

## FINANCIAL INSTRUMENTS

Financial instruments are all forms of contract that give rise to a financial asset in one company and a financial liability or an equity instrument in another company. Financial instruments are classified in the following categories: (a) financial assets and liabilities measured at fair value through the income statement; (b) loans receivable or accounts receivable; (c) financial instruments held to maturity; (d) financial assets available for sale; and (e) other financial liabilities. Classification depends on the purpose for which the instrument was acquired. Management establishes the classification of an instrument for initial recognition and reassesses this classification at each reporting date. All financial instruments are recognized from the transaction date the date the Group engages to purchase or sell the instrument.

### Classification of financial assets and liabilities

Munters has financial assets and liabilities in the following categories:

#### *Financial assets and liabilities measured at fair value through the income statement*

This category has two sub-groups: financial assets and liabilities held for trading, and assets and liabilities that are initially classified as measured at fair values through the income statement. A financial asset or liability is classified in this category if it was acquired primarily with the intention to sell or buy it soon, or if this classification was determined by management. Derivative instruments are also classified as held for trading if they are not identified as hedges. Assets and liabilities in this category are classified as current assets or other liabilities if they are held for trading or are expected to be realized within 12 months of the end of the reporting period. Munters has foreign exchange forwards, contingent purchase considerations and put/call options classified in this category.

#### *Loans receivable and accounts receivable*

Loans receivable and accounts receivable are non-derivative financial assets with determined or determinable payments that are not quoted on an active market. Characteristic for these assets is that they arise when the Group provides money, goods or services directly to a customer without the intention to trade the resulting receivable. They are included in current assets, with the exception of items falling due more than 12 months after the end of the reporting period, which are classified as non-current assets. Munters has cash and cash equivalents, accounts receivable, accrued income and certain other receivables in this category.

#### *Other financial liabilities*

Other financial liabilities are financial liabilities not held for trading. Munters' borrowing and accounts payable, as well as certain accrued expenses, are included in this category.

### Recognition and measurement of financial instruments

Financial assets and liabilities measured at fair value through the income statement

Derivatives are recognized 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.

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. The net investments attributable to Munters' net investments in foreign currency are not currently hedged. Exchange-rate effects on receivables that constitute an extended investment in the subsidiary are recognized through other comprehensive income in the same way as translation differences pertaining to investments in foreign subsidiaries.

#### *Loans receivable and accounts receivable*

This category is initially measured at fair value. On subsequent occasions, the assets are measured at amortized cost using the effective-interest method and adjusted for any credit losses. A provision for credit losses is made when there are strong indications that the Group will not be able to receive the amounts specified in the original terms of the receivable.

#### *Other financial liabilities*

This category is initially measured at fair value. For borrowing, this corresponds to the amount received, less any transaction costs. On subsequent occasions, the liabilities are measured at amortized cost using the effective-interest method. Any gains or losses arising in conjunction with the disposal of financial instruments or the repurchase of loan obligations are recognized through the income statement.

#### **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.

#### **Accounts receivable**

As the expected tenor of accounts receivable is short, they are recognized at the amount expected to be paid in based on an individual assessment of undiscounted bad debts according to the method for amortized cost. Any amortization of accounts receivable affects operating profit or loss.

#### **Cash and cash equivalents**

Cash and cash equivalents are defined as cash, bank balances, and 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**

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.

#### **Borrowing**

Borrowing is initially recognized at fair value, net after transaction costs. It is subsequently recognized at amortized cost as described above under *Other financial liabilities*, 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.

#### **RECLASSIFICATIONS AND CHANGE OF ACCOUNTING POLICY**

From 2017 the Data Centers' cooling business, previously a part of Air Treatment, is reported as a separate business area. The comparative figures from 2016 for Data Centers are translated. Earnings for the segments are reported in Note 5.

#### **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.

#### **EMPLOYEE BENEFITS**

##### **Short-term employee benefits**

Liabilities for salaries and benefits expected to be settled within 12 months after the end of the fiscal year are recognized as current liabilities at the undiscounted amount that is expected to be paid when the liabilities are settled. The cost is recognized as the services are performed by the employees.

##### **Post-employment benefits**

Within the Group, there are several defined-contribution as well as defined-benefit pension plans and other non-current employee benefits, including some with pension plan assets.

##### *Defined-contribution pension plans*

In defined-contribution pension plans, the Group pays a predetermined premium to a separate legal entity and does not have any legal or informal obligation to make additional payments if, when compensation to the employee is to be paid, the legal entity has insufficient assets. The Group's payments relating to defined-contribution plans are recognized as an expense during the period the employee performed the services to which the expense relates. Deferred fees are recognized as an asset to the extent that cash repayment or reduction in future payments can be of benefit to the Group.

##### *Defined-benefit pension plans*

All other plans for post-employment benefits other than defined-contribution plans are defined-benefit plans. The liability or asset regarding defined-contribution pension plans that is recognized in the statement of financial position is the present value of the defined-benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined-benefit pension obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined-benefit obligation is established by discounting estimated future cash flows using the interest rate for high-quality corporate or housing bonds issued in the same currency that the benefits will be paid in, with tenors comparable to the pension obligation in question. For Swedish plans, the discount rate equals the housing bond rate. Net interest is calculated by applying the discount rate to defined-benefit plans and to the fair value of the plan assets. This cost is included in labor costs in the income statement.

Revaluation gains and losses arising out of experience adjustments and changes to actuarial assumptions are recognized in other comprehensive income during the period in which they arose. They are included in profit brought forward in the statement of changes in equity and in the statement of financial position. Expenses for employment during previous periods are recognized directly in the income statement. Expenses for the year for employment in the current year are recognized in administrative costs and the interest expense for the defined-benefit net liability is recognized in financial expenses in the income statement.

Special employer's contribution in Sweden is calculated on the difference between the pension obligation adopted according to IAS 19 and according to the rules applied for the legal entities. Calculated future employer's contribution is recognized in the statement of financial position as a part of the pension obligation. The change in the provision is recognized, to the extent that it pertains to the effects of revaluations, in other comprehensive income.

## SHARE CAPITAL

Ordinary shares are classified as equity. Mandatory redeemable preferential shares are classified as liabilities. Transaction costs that can be directly attributed to issue of new shares or options are reported, net after tax, in equity as a deduction from proceeds.

## DIVIDENDS

Dividends to the Parent Company's shareholders are recognized as a liability in the Group's financial reports in the period when the dividend was approved by the Parent Company's shareholders.

## EARNINGS PER SHARE

Earnings per share before dilution are calculated by dividing earnings attributable to the Parent Company's shareholders, excluding dividends attributable to preferential shares, by a weighted average number of ordinary shares outstanding during the period. Earnings per share after dilution are calculated by adjusting the amount used for calculating earnings per share before dilution through observing the effect after tax of dividends and interest expenses on potential ordinary shares and of the weighted average of additional ordinary shares that would have been outstanding in the event of a conversion of all potential ordinary shares.

## CONTINGENT LIABILITIES

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

## RELATED PARTY DISCLOSURES

The companies related to Munters are defined as the Parent Company, subsidiaries, and associated companies as well as other companies managed by Nordic Capital. "Related physical persons" are defined as Board members, senior executives, and close family members of such persons. Companies in which any of the mentioned physical persons have significant influence are also defined as companies related to Munters. Information on transactions that entail a transfer of resources, services, or obligations between related parties is disclosed, regardless of whether or not remuneration is paid. The disclosure contains information as to the character of the relationship and the effect of the relationship on the financial statements.

## EVENTS AFTER THE END OF THE REPORTING PERIOD

If events arise that are significant but should not be taken into account when the amounts in the statement of comprehensive income and statement of financial position are adopted, then the character of the event and, if possible, an estimate of its financial impact will be disclosed in the Board of Directors' Report and notes. "Significant" implies that an omission to disclose the information could influence financial decisions made by users of the financial statements.

Significant events that confirm the situation existing at the end of the reporting period and occur after the reporting period but prior to the signing of the Annual Report will result 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 IAS 39 Financial Instruments: Recognition and Measurement. Instead, measurements are based on the acquisition costs of assets and liabilities.

### Ownership of subsidiaries

Holdings in subsidiaries are recognized in the Parent Company using the cost method. If there are indications of a decline in value, the value is tested and, if required, the holdings are impaired.

### Group contributions

The Parent Company recognized all Group contributions, paid and received, as appropriations.

### Shareholders' contribution

Shareholders' contributions from the Parent Company are recognized directly in the receiver's equity and capitalized in the shares and participations of the Parent Company, to the extent impairment is not required.

## NOTE 2 SIGNIFICANT ESTIMATES AND ASSESSMENTS

In preparing the financial statements, Company management and the Board of Directors must make assessments and assumptions that affect the final accounts and disclosures. These assessments are based on past 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 discussed 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 2017, the Group recognized goodwill to a value of SEKm 4,251 (4,227).

### 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. When establishing useful lives, Company management makes assumptions and judgements regarding how long each asset will generate financial benefits for the Group. At the end of 2017, the Group recognized Technology, Customer relationships and Brands to a value of SEKm 1,341 (1,450).

#### Development expenses

Determining whether or not 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 2017, the Group recognized intangible assets regarding product development to a value of SEKm 72 (54).

#### 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 the 2017 reporting period, the Group's total tax loss carry-forward was SEKm 968 (900). In the consolidated balance sheet, a value for tax purposes of capitalized loss carry-forwards was recognized in the amount of SEKm 120 (100), relating primarily to Australia, Belgium, Brazil, the Netherlands, Mexico, Turkey, 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. In 2016, the contingent purchase consideration in Reventa was released prematurely and the payment was SEKm 9, which was less than what had been recognized in the purchase price analysis and therefore meant a positive effect of SEKm 30. Settlement of the HB Group acquisition earn-out was reached in 2017 and also led to a positive impact on results of SEKm 53.

#### Legal disputes

Provisions for legal disputes are estimates of the future cash flows that will be required to settle the obligations. The disputes primarily related to contracted obligations attributable to contracts with customers and suppliers, though other types of disputes also arise in normal business operations. Management considers it improbable that any of the known disputes in which Munters is currently involved will have a significant negative effect on the Group's accounts.

#### Estimation of forecast and completion of assignments

Successive revenue recognition is applied in the Group, which means that revenue is recognized based on the degree of completion. The forecasts for each contract constitute an estimate of final revenue and expenses.

**NOTE 3 FINANCIAL RISK MANAGEMENT**

Through its operations in a global environment, Munters is exposed to several different financial risks, such as currency risk, interest rate risk, credit risk, and liquidity risk.

The financial risks are controlled and managed based on a financial policy adopted by the Board. The policy covers the entire Group and is updated annually. The purpose of the policy is to create a framework for managing the various financial risks. Risk management and financing activities are handled centrally by the CFO and the Group Treasury function, under the control and monitoring of the Board of Directors and CEO. The overall objective is to limit the volatility attributable to financial factors in the income statement and balance sheet, protect financial assets and future cash flows, as well as optimize the Group's financing and meet covenants. The Treasury function, which acts as the Group's internal bank, identifies, evaluates, and hedges financial risks in close cooperation with the Group's operational units.

Currency	Percentage of revenue, %		Percentage of costs, %	
	2017	2016	2017	2016
USD	43.3%	43.4%	38.4%	39.0%
EUR	26.1%	28.4%	29.7%	29.3%
CNY	9.8%	8.4%	7.3%	7.0%
DKK	3.5%	1.4%	1.5%	1.3%
SEK	3.3%	1.3%	8.9%	7.1%
JPY	2.2%	2.3%	2.1%	2.3%
GBP	1.7%	4.1%	2.3%	4.3%
BRL	1.7%	1.6%	2.1%	1.7%
KRW	1.5%	1.0%	0.7%	0.5%
AUD	1.5%	1.9%	1.1%	1.6%
THB	1.2%	0.6%	0.7%	0.5%
SGD	0.9%	3.1%	0.5%	0.5%
Övrigt	3.2%	2.5%	4.8%	4.8%
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Currency risk**

Due to Munters global presence, the Group is exposed to currency risks, both through transaction exposure in 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 sales companies, which are invoiced in the recipient's functional currency. In so doing, 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 so as to minimize the net exposure. For example, Munters has decided to have their external loans in USD to get a natural hedge towards the large inflows of USD as presented in the table above. Otherwise, hedging shall chiefly occur through the forward selling of currency. The value of forward contracts at year-end was about SEKm -0.1 (-2), see Note 18. 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 tables. The geographic distribution of Munters' production plants results in significant 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 2017. All other factors influencing earnings are assumed unchanged in the calculation.

SEK +10% compared with	Estimated effect on earnings before interest and tax (EBIT)	
	SEKm	%
USD	-57,1	-12,6%
CNY	-24,2	-5,3%
DKK	-17,0	-3,8%
KRW	-6,8	-1,5%
THB	-4,2	-0,9%
AUD	-3,6	-0,8%
SGD	-3,2	-0,7%
CAD	-3,2	-0,7%
TRY	-3,0	-0,7%
CZK	3,1	0,7%
ILS	7,8	1,7%
MXN	9,5	2,1%
EUR	14,6	3,2%
Övriga valutor	-0,6	-0,1%
<b>Total</b>	<b>-87,9</b>	<b>-19,3%</b>

*Translation exposure*

A large proportion of Munters' subsidiaries have net assets in a functional currency that 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 -89 (198). 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 the interest rate level.

To ensure efficiency and sound risk control, the major part of borrowings are managed by the Group Treasury function.

Munters is exposed to interest 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 have been 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 2017 no outstanding interest rate derivatives.

### Interest exposure

The average fixed interest term for the Group's external loans was 2.1 months (3.1) at year-end 2017. 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 24 (23). 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 14 percent (13) of total revenues, calculated on a full-year basis. At December 31, 2017, the five largest customers accounted for 17 percent (12) 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.

#### Time analysis of accounts receivable,

past due but not impaired	2017	2016
< 30 days	314	177
30-90 days	103	135
91-180 days	69	39
> 180 days	9	1
<b>Closing balance</b>	<b>494</b>	<b>352</b>

Provisions for bad debts correspond to 3 percent (4) of total receivables and changed as follows.

Provision for bad debts	2017	2016
Amount at January 1	42	51
Provision for anticipated losses	24	27
Realized losses	-8	-8
Reversals of unutilized amounts	-19	-30
Exchange-rate differences	-1	2
<b>Closing balance</b>	<b>38</b>	<b>42</b>

The credit quality of financial assets not past due or not impaired at the end of the reporting period is considered good.

The credit risk for financial assets besides accounts receivable, such as cash and cash equivalents, equals the carrying amounts.

### 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 (both direct and indirect). 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 2017, the Group had unutilized credit facilities of SEKm 811 (68).

Group Treasury works actively to ensure an effective cash management structure by centralizing the liquidity to the parent company through cash pools and other form of sweeping mechanisms. Cash surplus shall primarily be used to repay on external debt. The Group's cash and cash equivalents shall be placed in bank accounts or high-liquidity interest-bearing instruments. Surplus liquidity in subsidiaries shall be placed with Group Treasury. By securing accessibility to guaranteed long-term credit facilities and 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 18.

### Capital structure

Munters aims to have a capital structure that ensures long-term stability in the operations, satisfies various investment requirements and safeguards the value of the Group. Munters endeavors to ensure that the Group's subsidiaries shall have an optimal capital structure relating to financing requirements and 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 commonly praxis following the type of business of the individual subsidiary and country shall be taken into account 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 INFORMATION ON COSTS BY NATURE

	Cost of goods sold	Sales costs	Administrative costs	R&D costs	Other costs
<b>2017 Group</b>					
Material costs	-2,797	-	-	-	-
Other production costs	-896	-	-	-	-
Personnel and other administration	-706	-781	-570	-153	-
Cost of depreciation	-60	-8	-18	-13	-
Amortization and write downs on surplus values	-	-189	-	-	-
Other costs	0	-	-	-	-14
<b>Total</b>	<b>-4,458</b>	<b>-978</b>	<b>-588</b>	<b>-167</b>	<b>-14</b>

2016 Group	Cost of goods sold	Sales costs	Administrative costs	R&D costs	Other costs
Material costs	-2,511	-	-	-	-
Other production costs	-744	-	-	-	-
Personnel and other administration	-587	-737	-497	-126	-
Cost of depreciation	-59	-7	-15	-12	-
Amortization and write downs on surplus values		-169	-	-	-
Other costs	-32	-	-	-	-
<b>Total</b>	<b>-3,931</b>	<b>-913</b>	<b>-512</b>	<b>-138</b>	<b>-</b>

Information about acquired net assets and goodwill follows	According to final purchase price allocation
Cash purchase consideration paid	222
<b>Total purchase consideration</b>	<b>222</b>
Fair value of non-controlling interests	162
Fair value of acquired net assets	-161
<b>Goodwill</b>	<b>223</b>

Acquired net assets at time of acquisition	Fair values according to final purchase price allocation
<b>Assets</b>	
Property, plant and equipment	10
Customer relationships	29
Technology	97
Brands	19
Accounts receivable	51
Other current assets	12
Cash and cash equivalents	35
<b>Total assets</b>	<b>252</b>

<b>Liabilities</b>	
Non-current interest-bearing liabilities	0
Current interest-bearing liabilities	0
Accounts payable	1
Accrued expenses and deferred income	56
Deferred tax liabilities	22
Other current liabilities	12
<b>Total liabilities</b>	<b>91</b>
<b>Net identifiable assets and liabilities</b>	<b>161</b>

Cash purchase consideration paid	222
Cash and cash equivalents in acquired company	-35
<b>Change in the Group's cash and cash equivalents on acquisition</b>	<b>187</b>

## NOTE 5 BUSINESS ACQUISITIONS AND DIVESTMENTS

### Acquisitions 2016

No acquisitions were made during 2016.

### Acquisitions 2017

#### MTech Systems

On February 1, 2017, Munters completed an acquisition of 60% of the shares in the US based software company MTech Systems. The company is operating within the business area AgHort. The purchase price amounted to SEKm 222, corresponding to a debt-free enterprise value for 100% of the company of SEKm 370. Munters also has an option to acquire the remaining 40% of the shares that are held by senior executives of MTech Systems, who also have an option to sell, starting in December 2020. The purchase consideration on exercising the option will be based on the financial result for the 12 months prior to the date of exercising the option. As a consequence of the option Munters recognize non-controlling interest initially and allocate such part of income. The Group also recognizes a liability corresponding to the discounted expected redemption price for the option whereupon non-controlling interest attributable to the option is eliminated. The difference between liabilities for the options and the non-controlling participations to which the options refer is recognized directly in equity and disclosed separately from other changes in equity.

Compared with the purchase price allocation presented in the first quarter of 2017, the value of technology has been decreased by SEKm 25 and goodwill increased with the same amount during the second quarter. Final purchase allocations have been performed during the fourth quarter and has resulted in increased goodwill of SEKm 61. The main adjustments related to deferred income which increased by SEKm 36 and other current assets which was decreased by MSEK 27.

The acquisition of MTech Systems was financed by raising bank loans. In 2016 MTech Systems had revenues amounting to approximately SEKm 140. Acquisition costs incurred amounted to SEKm 10, which is reported as administrative costs. The goodwill arising from the acquisition, SEKm 223, was primarily attributable to future synergies expected through combining MTech Systems expertise in advanced data analysis with data from Munters controllers, creating a complete overview of the supply chain for poultry and swine producers. Overall this will significantly expand Munters offering to our customers in business area AgHort.

The acquired business contributed revenues of MSEK 124 and net profit of MSEK 34 to the group for the period from 1 April to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and profit for the year ended 31 December 2017 would have been MSEK 136 and MSEK 37 respectively.

*Kevin Enterprises*

On April 1, 2017, Munters completed an acquisition of Kevin Enterprises Private Limited, a privately owned company headquartered in Mumbai, India. The acquisition was structured as an asset deal, acquiring company being Munters India Humidity Control Private Limited, Munters India. Since April 2017, the acquired business is reported as a separate reporting unit within Munters India, and is consolidated into Business Area Mist Elimination, which is also the cash-generating unit to which the acquisition has been allocated. The purchased consideration, after preliminary net working capital and net debt adjustments, amounted to SEKm 76. Preliminary fair value of transferred net working capital and net fixed assets amounted to SEKm 18 and 35 respectively. Value of intangible assets, including goodwill, was estimated at approximately SEKm 23. Net debt items were estimated at approximately SEKm 0.2. In 2016, Kevin Enterprises generated revenues of approximately SEKm 65. Acquisition costs incurred amounted to SEKm 6, which is accounted as administrative costs.

The acquired business contributed revenues of MSEK 28 and net profit of MSEK -5 to the group for the period from 1 June to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and profit for the year ended 31 December 2017 would have been MSEK 38 and MSEK -7 respectively.

	According to final purchase price allocation
<u>Information about acquired net assets and goodwill follows</u>	
Cash purchase consideration paid	76
<b>Total purchase consideration</b>	<b>76</b>
Fair value of acquired net assets	61
<b>Goodwill</b>	<b>15</b>
	Fair values according to final purchase price allocation
<u>Acquired net assets at time of acquisition</u>	
<i>Assets</i>	
Property, plant and equipment	35
Technology	6
Order backlog	1
Favourable contract to use Brand name	1
Inventories	11
Accounts receivable	10
Other current assets	-
<b>Total assets</b>	<b>64</b>
<i>Liabilities</i>	
Accounts payable	3
Accrued expenses and deferred income	-
Other current liabilities	-
<b>Total liabilities</b>	<b>3</b>
<b>Net identifiable assets and liabilities</b>	<b>61</b>
Cash purchase consideration paid	76
<b>Change in the Group's cash and cash equivalents on acquisition</b>	<b>76</b>

*Edata*

On May 30, 2017, Munters Group acquired Brazilian-based Edata specializing in key software for food processing plants, primarily for poultry production. The purchased consideration amounted to SEKm 5. Edata provides software to keep track of production within food processing plants and is a long-term partner to MTEch Systems, the leading supplier of software solutions to the live production industry which was acquired by Munters on Feb 1, 2017. Edata delivers form-fit solutions for tracking finished products, measuring quality and yield, and for controlling waste in the food production process. Edata's software will be fully incorporated into MTEch's suite enabling Munters to integrate data from farms, hatcheries, feed mills in the food producers' production system. Identified goodwill from the acquisition has been allocated to the AgHort cash-generating unit. Acquisition costs incurred total SEKm 1 and are recognized as administrative expenses. Edata had a turnover of approximately 15 SEKm in 2016 and had 34 employees.

The acquired business contributed revenues of MSEK 8 and net profit of MSEK -6 to the group for the period from 1 June to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and profit for the year ended 31 December 2017 would have been MSEK 13 and MSEK -11 respectively.

*Krako*

Munters has divested its 50 percent share in the company Hebora SRO for SEKm 30. In connection with the divestment of Hebora SRO, Munters acquired the remaining shares in HB Krako SRO for SEKm 57, in which Munters previously had the controlling interest. HB Krako SRO is 100 percent owned by Hebora SRO. HB Krako SRO conducts operations in premises owned by Hebora SRO. A ten-year lease agreement has been drawn up between HB Krako SRO and Hebora SRO. The total effect of the transaction on cash flow totaled SEKm -27, which was reported as a divestment in the statement of cash flow.



**NOTE 6 OPERATING SEGMENTS**

Munters is a global leader in energy-efficient solutions for air treatment based on its expertise in humidity- and climate-control technologies.

**Reportable operating segments**

The Group's reportable operating segments have been identified from a management perspective. Thus the segment information disclosed is based on internal reporting to the chief operating decision maker, which at Munters has been equated with Group management.

The Group's operations are managed and reported by four business areas as described below.

Air Treatment manufactures and markets products and holistic solutions for controlling humidity and improving the indoor climate. Customers' manufacturing processes and warehousing are becoming more efficient and product quality, shelf life, and hygiene are improving.

Data Centers manufactures and markets products and precision climate control systems to medium and large scale data centers.

AgHort manufactures and markets energy-efficient products and systems to create the right indoor climate for the animal husbandry and horticultural industries.

Mist Elimination manufactures and markets environmentally friendly solutions and products for mist elimination, such as for cleaning flue gas.

Business area consolidation is performed applying the same policies as for the Group as a whole. Transactions between business areas 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 percent or more of Munters' sales.

	Air Treatment		Data Centers		AgHort		Mist Elimination		Other & Eliminations 1)		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Order intake	3,787	3,385	1,261	919	1,866	1,704	394	416	-112	-50	7,197	6,373
Sales from external customers	3,569	3,288	833	655	1,808	1,669	395	428	-	-	6,604	6,040
Transactions between business segments	19	6	23	30	30	36	11	9	-83	-80	0	0
<b>Net sales</b>	<b>3,588</b>	<b>3,294</b>	<b>856</b>	<b>685</b>	<b>1,837</b>	<b>1,705</b>	<b>406</b>	<b>437</b>	<b>-83</b>	<b>-80</b>	<b>6,604</b>	<b>6,040</b>
<b>Earnings before interest and tax (EBIT)</b>	<b>511</b>	<b>437</b>	<b>-13</b>	<b>54</b>	<b>225</b>	<b>276</b>	<b>34</b>	<b>69</b>	<b>-303</b>	<b>-258</b>	<b>453</b>	<b>577</b>
Accounts receivable	-11	24	-13	-256	-51	-18	3	-6	-4	7	-76	-249
Inventories	18	-70	-98	-21	-50	-38	-5	-2	0	0	-135	-132
Accounts payable	-17	62	50	81	52	-4	3	-0	-28	6	59	145
Advances from customers	-4	-36	42	135	40	4	4	-1	-3	2	79	104
<b>Change in operating working capital</b>	<b>-13</b>	<b>-21</b>	<b>-20</b>	<b>-61</b>	<b>-9</b>	<b>-56</b>	<b>4</b>	<b>-10</b>	<b>-35</b>	<b>15</b>	<b>-72</b>	<b>-132</b>
Internal reallocations	5	11	0	0	-0	4	1	1	-5	-16	0	0
Investment	-83	-109	-23	0	-50	-59	-4	-3	-10	-12	-170	-184
Add back of depreciation, amortization, and impairments	42	45	13	8	37	36	6	5	189	168	288	262
<b>Operating cashflow</b>	<b>462</b>	<b>364</b>	<b>-43</b>	<b>1</b>	<b>203</b>	<b>200</b>	<b>41</b>	<b>62</b>	<b>-165</b>	<b>-103</b>	<b>498</b>	<b>523</b>
<b>Other disclosures</b>												
Number of permanent employees at year end	1,886	1,598	452	488	770	639	318	156	70	58	3,496	2,939

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

**GEOGRAPHIC INFORMATION**

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

<b>External net sales</b>	<b>2017</b>	<b>2016</b>
Sweden	155	135
United States	2,413	2,153
Germany	424	456
China	783	658
Other countries	2,829	2,639
<b>Total revenues from external customers</b>	<b>6,604</b>	<b>6,040</b>

<b>Non-current assets</b>	<b>2017</b>	<b>2016</b>
Sweden	484	499
United States	3,654	3,719
Euro countries	1,889	1,892
Other countries	243	197
<b>Total non-current assets</b>	<b>6,270</b>	<b>6,308</b>

The information presented in the table above regarding non-current assets is grouped according to assets location, i.e. where the entity carries on its production of goods and services. Non-current assets consist of buildings and land, plant and machinery, equipment, tools, and installations, construction in progress, patents, licenses, brands and similar rights and goodwill.

**NOTE 7 OTHER OPERATING REVENUE AND OPERATING EXPENSES**

	Group	
	2017	2016
<b>Other operating income</b>		
Change in contingent price considerations	53	30
Other	0	1
<b>Total</b>	<b>53</b>	<b>31</b>
<b>Other operating expenses</b>		
Other	-2	-2
Exchange-rate differences	-12	2
<b>Total</b>	<b>-14</b>	<b>0</b>

Other operating revenue 2016 refers to the contingent purchase price consideration prematurely settled in the German subsidiary Munters Reventa GmbH and 2017 contained the settlement of the HB Group acquisition earn-out, that was acquired 2015.

**NOTE 8 DEPRECIATION, AMORTIZATION, AND IMPAIRMENT LOSSES**

Amortization of intangible assets and depreciation of property, plant, and equipment are based on the historical acquisition cost and the estimated useful life of different groups of assets. For assets acquired during the period, depreciation or amortization is calculated from the acquisition date. Depreciation and amortization are charged primarily on a straight-line basis over the following useful lives.

Leasehold improvements	3-7 years
Research and development work	3-5 years
Patents, licenses, brands (with definitive useful life)	3-10 years
Customer relationships	7-12 years
Technology	6-8 years
Brands (with indefinite useful life)	not amortized
Machinery and equipment	3-10 years
Buildings	20-33 years
Land lease	50 years

The brands that emerged in connection with business combinations acquired when Munters Topholding 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. Also the brands that emerged in connection with the acquisition of Profute are deemed to have an indefinite useful life. A write down by SEKm 19.6 was made during 2017, which was related to customer relations in Mtech. No other write-down of goodwill and other acquisition-related intangible assets has been made during the year.

Depreciation, amortization, and impairment losses on non-current assets were charged to income for the year as shown below.

	Group	
	2017	2016
Cost of goods sold	-60	-59
Selling expenses	-197	-176
Administrative costs	-18	-15
Research and development costs	-13	-12
<b>Total</b>	<b>-288</b>	<b>-262</b>

Amortization and impairment of acquisition-related intangible assets totaled SEKm 189 (169) and is included in the item selling expenses.

	Group	
	2017	2016
<b>Write down of inventory</b>		
Opening balance	-71	-60
Write down current year	-13	-10
Reversal of previous years write down	5	1
Organizational change	1	-
Exchange rate differences	1	-3
<b>Closing balance</b>	<b>-77</b>	<b>-71</b>

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

**NOTE 9 LEASES***Operating leases*

The period's expense for operating leases on assets, such as leased premises, machinery, and major computer and office equipment, is recognized among operating expenses and totaled SEK 106 (91). The minimum future lease payments for irrevocable operating leases have the following maturity.

2018	104
2019-2022	251
2023 and later	45
<b>Total</b>	<b>400</b>

**Finance leases**

Like last year, there are no significant amounts of financial leases.

**NOTE 10 FINANCIAL INCOME AND EXPENSES**

	Group		Parent Company	
	2017	2016	2017	2016
<b>Financial income</b>				
Interest income, subsidiaries	-	-	-	-
Interest income, other	8	10	-	-
Other financial income	0	2	-	-
	<b>8</b>	<b>12</b>	-	-
<b>Financial expenses</b>				
Interest expenses subsidiaries	-	-	-	-
Interest expenses, loans	-224	-391	-83	-202
Financing Fees	-69	-18	-	-
Exchange-rate differences	-12	-19	-1	-
Other financial expenses	-6	-7	-0	-
	<b>-309</b>	<b>-436</b>	<b>-84</b>	<b>-202</b>
<b>Total financial income and expenses</b>	<b>-301</b>	<b>-424</b>	<b>-84</b>	<b>-202</b>

**NOTE 11 INCOME TAXES**

	Group		Parent Company	
	2017	2016	2017	2016
Current tax	-98	-109	-	-
Tax attributable to prior years/withholding tax	-6	-5	-	-
Deferred tax related to temporary differences and loss carry-forwards	128	50	-	-
Income tax not calculated based on net profits	-3	-5	-	-
<b>Tax recognized in income statement for the year</b>	<b>21</b>	<b>-69</b>	<b>-</b>	<b>-</b>

**Reconciliation of effective tax**

Profit/Loss before tax	152	153	-75	-180
Tax according to prevailing tax rate for the Parent Company	-33	-34	17	40
Difference attributable to foreign tax rates	2	-18	-	-
Tax effect of;				
Non-deductible expenses 1)	-23	-54	-17	-41
Non-taxable income	17	12	-	-
Utilization of losses not recognized as an asset in the balance sheet	1	3	-	-
Change in valuation of deferred tax on temporary differences and losses	-1	36	0	1
Revaluation of deferred tax assets/liabilities due to change in tax rate 2)	69	-4	-	-
Non-income-related taxes	-3	-5	-	-
Tax attributable to prior years/withholding tax	-6	-5	-	-
Other	-	-	-	-
<b>Tax recognized in income statement for the year</b>	<b>21</b>	<b>-69</b>	<b>-</b>	<b>-</b>

1) Mainly related to interest cost on shareholder debt.

2) Mainly related to decreased tax rates in the US and Belgium.

	2017	2016
<b>Tax attributable to components of other comprehensive income</b>		
Deferred tax attributable to:		
Actuarial gains and losses on defined-benefit pension obligations	3	4
<b>Total</b>	<b>3</b>	<b>4</b>

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

	Group	
	2017	2016
<b>Deferred tax assets</b>		
Buildings	0	-
Machinery and equipment	3	5
Inventory	24	21
Accounts receivable	6	10
Provisions	9	6
Accrued expenses and prepaid income	49	61
Goodwill	5	6
Loss carry-forwards	120	100
Provisions for pensions	22	19
Other	5	14
<b>Total</b>	<b>242</b>	<b>242</b>
	Group	
	2017	2016
<b>Deferred tax liabilities</b>		
Buildings	3	3
Machinery and equipment	21	21
Technology	30	45
Brands	281	361
Customer relationships	44	83
Goodwill	11	10
Other	4	2
<b>Total</b>	<b>394</b>	<b>525</b>
	Group	
	2017	2016
<b>Change in deferred taxes</b>		
Opening balance	283	311
Acquisition of subsidiaries (Note 5)	22	-
Charges in this year's profit	-128	-50
Tax on amounts recorded in Other comprehensive income 1)	-25	22
<b>Closing balance</b>	<b>152</b>	<b>283</b>

1) Including change in Translation reserve for the year.

Deferred tax assets for pension provisions refer to the difference between the calculation of defined-benefit pension obligations based on local tax legislation and based on 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 SEK 968 million (900), of which SEK 929 million (877) may be carried forward for an unlimited period of time. Loss carry-forwards for which deferred tax assets are not recognized totaled SEK 496 million (528), of which SEK 496 million (528) may be carried forward for an unlimited period of time. Consequently, deferred tax assets on loss carry-forwards totaling SEK 472 million (372) were recognized. These losses relate to the subsidiaries in Australia SEK 18 million (14), Germany SEK 56 million (70), Belgium SEK 97 million (83), Brazil SEK 5 million (-), Mexico SEK 17 million (-), Netherlands SEK 30 million (16), Turkey SEK 8 million (24)

and Sweden SEK 241 million (155). Tax losses in Turkey may be carried forward for five years. In the other countries, losses may be carried forward for an unlimited period of time.

SEK 8 million (24) out of the SEK 472 million (372) that has been included in the basis for calculating a deferred tax asset relate to Turkey. During 2017 additional deferred tax assets relating to old loss carry-forwards were recognized in Sweden since the business conditions have improved and the loss carry-forward is thus deemed possible. Australia, Belgium, Brazil, Mexico and Netherlands has generated tax losses during the year and these losses are deemed possible to use and thus a deferred tax asset was recognized on these losses.

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

## NOTE 12 EARNINGS PER SHARE

	Group	
	2017	2016
Net income, KSEK	172,641	84,830
Attributable to Parent Company shareholders, KSEK	173,853	85,264
Attributable to non-controlling interests, KSEK	-1,212	-434
Average number of outstanding shares before dilution	119,658,011	16,798,348
Average number of outstanding shares after dilution	119,720,995	16,798,348
Earnings per share before dilution, SEK	1.45	5.08
Earnings per share after dilution, SEK	1.45	5.08

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.

In total, the incentive program comprises eight individuals and not more than 5,222,000 warrants. At 31 December 2017, the share price fell below the redemption price, while the average price for 2017 stood somewhat above the redemption price.

**NOTE 13 PROPERTY, PLANT, AND EQUIPMENT**

	Buildings and land	Plant and machinery	Equipment, tools, fixtures, and fittings	Construction in progress	Total
<b>2017 Group</b>					
<b>Acquisition cost</b>					
Opening balance	393	731	454	69	1,647
Acquisition of subsidiaries (Note 5)	26	6	6	0	38
Investment for the year	1	42	35	49	126
Divestment of subsidiaries (Note 5)	-28	-	-	-	-28
Sales and disposals	-15	-38	-33	-	-86
Reclassifications	7	48	12	-67	0
Exchange-rate differences for the year	-15	-33	-14	-3	-65
<b>Closing balance</b>	<b>371</b>	<b>756</b>	<b>460</b>	<b>48</b>	<b>1,634</b>
<b>Accumulated depreciation</b>					
Opening balance	237	559	321	-	1,117
Divestment of subsidiaries	-7	-	-	-	-7
Sales and disposals	-12	-34	-31	-	-77
Reclassifications	0	1	-1	-	0
Depreciation for the year	7	33	39	-	79
Exchange-rate differences for the year	-10	-23	-10	-	-42
<b>Closing balance</b>	<b>215</b>	<b>537</b>	<b>319</b>	<b>-</b>	<b>1,070</b>
<b>Closing carrying amount</b>	<b>155</b>	<b>219</b>	<b>142</b>	<b>48</b>	<b>563</b>

	Buildings and land	Plant and machinery	Equipment, tools, fixtures, and fittings	Construction in progress	Total
<b>2016 Group</b>					
<b>Acquisition cost</b>					
Opening balance	368	674	385	31	1,458
Investments for the year	3	55	66	39	163
Sales and disposals	-1	-36	-26	-1	-64
Reclassifications	1	1	4	-6	0
Exchange-rate differences for the year	22	39	25	5	91
<b>Closing balance</b>	<b>393</b>	<b>731</b>	<b>454</b>	<b>69</b>	<b>1,647</b>
<b>Accumulated depreciation</b>					
Opening balance	214	534	293	-	1,041
Sales and disposals	-1	-35	-24	-	-60
Reclassifications	0	-2	2	-	0
Depreciation for the year	11	32	32	-	75
Exchange-rate differences for the year	13	30	19	-	61
<b>Closing balance</b>	<b>237</b>	<b>559</b>	<b>321</b>	<b>-</b>	<b>1,117</b>
<b>Closing carrying amount</b>	<b>156</b>	<b>172</b>	<b>133</b>	<b>69</b>	<b>530</b>

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 35 (17).

## NOTE 14 PATENTS, LICENSES, CUSTOMER RELATIONS AND OTHER INTANGIBLE ASSETS WITH DEFINITE USEFUL LIFE

	Techn- ology	Customer relation- ships	Internally generated intangible assets	Other intangible assets	Total
<b>2017 Group</b>					
<b>Acquisition cost</b>					
Opening balance	519	864	89	135	1,607
Acquisition of subsidiaries (Note 5)	105	30	-	1	136
Investment for the year	-	-	31	13	44
Sales and disposals	-	-	-	-1	-1
Exchange-rate differences for the year	-32	-43	-4	0	-79
<b>Closing balance</b>	<b>592</b>	<b>852</b>	<b>116</b>	<b>147</b>	<b>1,706</b>
<b>Accumulated amortization</b>					
Closing balance	375	607	34	89	1,106
Amortization for the year	69	93	11	16	189
Impairment for the year	-	20	-	-	20
Sales and disposals	-	-	-	-1	-1
Exchange-rate differences for the year	-21	-31	-1	0	-54
<b>Closing balance</b>	<b>423</b>	<b>688</b>	<b>44</b>	<b>104</b>	<b>1,259</b>
<b>Closing carrying amount</b>	<b>169</b>	<b>163</b>	<b>72</b>	<b>42</b>	<b>446</b>

The impairment of customer relationships in 2017 was related to the segment AgHort.

	Techn- ology	Customer relation- ships	Internally generated intangible assets	Other intangible assets	Total
<b>2016 Group</b>					
<b>Acquisition cost</b>					
Opening balance	485	809	73	124	1,491
Investments for the year	-	-	13	7	20
Sales and disposals	-	-	-1	0	-2
Reclassifications	-	-	-	1	1
Exchange-rate differences for the year	33	55	4	2	95
<b>Closing balance</b>	<b>519</b>	<b>864</b>	<b>89</b>	<b>135</b>	<b>1,607</b>
<b>Accumulated amortization</b>					
Opening balance	290	474	25	68	857
Amortization for the year	62	96	9	19	186
Sales and disposals	-	-	-	0	0
Exchange-rate differences for the year	23	37	-	1	62
<b>Closing balance</b>	<b>375</b>	<b>607</b>	<b>34</b>	<b>89</b>	<b>1,106</b>
<b>Closing carrying amount</b>	<b>143</b>	<b>257</b>	<b>55</b>	<b>46</b>	<b>501</b>

### Technology

This item includes technology, SEKm 169 (143), 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 163 (257), where the majority of which was identified in conjunction with the acquisition of Munters AB in 2010.

### Other intangible assets

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

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

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

2017 Group	Brands	Goodwill
<b>Acquisition cost</b>		
Opening balance	1,055	4,253
Acquisition of subsidiaries (Note 5)	21	243
Exchange-rate differences for the year	-61	-220
<b>Closing balance</b>	<b>1,015</b>	<b>4,275</b>
<b>Accumulated impairment</b>		
Opening balance	6	26
Exchange-rate differences for the year	-0	-1
<b>Closing balance</b>	<b>6</b>	<b>25</b>
<b>Closing carrying amount</b>	<b>1,010</b>	<b>4,251</b>
2016 Group	Brands	Goodwill
<b>Acquisition cost</b>		
Opening balance	985	3,968
Acquisition of subsidiaries (Note 5)	-	0
Exchange-rate differences for the year	70	285
<b>Closing balance</b>	<b>1,055</b>	<b>4,253</b>
<b>Accumulated impairment</b>		
Opening balance	5	24
Exchange-rate differences for the year	0	2
<b>Closing balance</b>	<b>6</b>	<b>26</b>
<b>Closing carrying amount</b>	<b>1,049</b>	<b>4,227</b>
Recognized brands per cash-generating unit	2017	2016
Air Treatment	832	884
Data Centers	-	-
AgHort	119	105
Mist Elimination	59	61
<b>Total</b>	<b>1,010</b>	<b>1,049</b>

Recognized amount of goodwill per cash-generating unit	2017	2016
Air Treatment	2,907	3,067
Data Centers	229	257
AgHort	980	778
Mist Elimination	136	125
<b>Total</b>	<b>4,251</b>	<b>4,227</b>

At November 8, 2010, the subsidiary Munters Holding AB acquired 97.6 percent of the share capital and votes in the Munters Group, a global leader in energy-efficient solutions for air treatment based on its expertise in humidity- and climate-control technologies. In 2011 the remaining shares were acquired through compulsory redemption. In connection with the acquisition of the Munters group, goodwill arose, primarily attributable to the general cyclical recovery, expansion into new customer categories and markets, and efficiency enhancements in processes such as production, purchasing, and pricing. Furthermore, the brand Munters was identified upon acquisition, which essentially consists of the recognized value of the brand.

In connection with the acquisition in 2011 – of Rotem Computerized Controllers (1994) – goodwill arose. It was chiefly attributable to future synergy effects expected by adding Rotem's advanced control systems to Munters' existing product range thus offering a greater range of products, and reaching more customers through each company's sales channels.

The goodwill arising from the acquisition in 2013 of Swedish company Profute AB and its Chinese subsidiary Jiangyin SAT Air Treatment Equipment Co. Ltd ("SAT") is chiefly attributable to future synergies expected through adding Profute's advanced technology and reaching more customers through each company's sales channels. Upon acquisition, the brand Profute was also identified.

The goodwill arising from the acquisition in 2015 of the Dutch company Hebova Holding B.V., and its subsidiaries in the Netherlands, Belgium, Denmark and the Czech Republic is chiefly attributable to future synergies expected through adding Hebova Group's product portfolio and Food application knowledge into AirTs Food segment and reaching more customers through each company's sales channels. In addition, the HB Groups owns competitive production facilities in The Netherlands and the Czech Republic.

The goodwill arising from the acquisition in 2015 of the German company Reventa Group is chiefly attributable to future synergies expected through adding Reventa's market position in the husbandry of Swine and markets with colder climates. Overall, this extends Munters' market position in Europe. Upon acquisition, the brand Reventa was also identified.

No acquisitions were made during 2016. Goodwill was impacted only by positive exchange-rate effects during 2016, after SEK weakened against USD.

During 2017, goodwill increased through three acquisitions, refer to Note 5. At the same time, the goodwill value decreased owing to the Swedish crown strengthening against the US dollar.

### IMPAIRMENT TESTING OF GOODWILL AND BRANDS

The values of goodwill and brands are tested annually to ensure that the value does not deviate negatively from book value, but are tested more often if there are indications of impairment. The carrying amounts for goodwill and brands were tested at September 30 and at December 31, 2017.

Goodwill and brands with indefinite useful life are allocated to the Group's cash-generating units, which are the smallest identifiable groups of assets that, as part of continual usage, generate cash inflows that are substantially independent of other assets or groups of assets. The Group's cash-generating units are consistent with the Group's four business areas, which also comprise the Group's operating segments: Air Treatment, Data Centers, AgHort and Mist Elimination.

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

Significant assumptions used to calculate values in use are the progression of sales growth and EBIT margin, utilization of operating capital employed, and the discount rate. Management has established the forecast growth rate based on previous results and expectations about the future market trend by operating segment, which for Air Treatment substantially exceeds the current sales levels. These assessments observe various economic indicators and internal and external analyses thereof. In addition, important aspects are observed pertaining to the future financial trend, described in the Group's strategic plan. No impairment has been identified.

These calculations use a nominal discount rate (average weighted cost of capital before tax) of 9.4 percent (12.4). Lower tax rate in the US and lower cost of funding are the main reasons behind the lower rate.

A sensitivity analysis for the parameters discount rate, sales growth and EBIT margin has been performed for each cash-generating unit, as below. The effects refer to a change in the individual parameter, all else being equal.

### Sensitivity analysis

#### *Discount rate*

A 3.9 percentage point (5.0) increase in the discount rate would be required for goodwill and brands impairment to be necessary in the Air Treatment cash-generating unit, a 6.6 percentage point (26.7) increase in Mist Elimination, a 9.0 percentage point increase (12.4) in AgHort and a 22 percentage point increase in Data Centers.

#### *Sales growth*

A sales growth of 28 percent (15) in the period from 2019 to 2022 would be required for impairment of goodwill and brands to be necessary in the Air Treatment cash-generating unit. For the AgHort, Mist Elimination and Data Centers cash-generating units, no reasonable changes are judged to lead to a need for impairment.

#### *EBIT margin*

A decrease of 5.8 percentage points in the EBIT margin for the period from 2019 to 2022 would be required for impairment of goodwill and brands to be necessary in the Air Treatment cash-generating unit, and 5.9 percentage points in Mist Elimination. For the Data Centers and AgHort cash-generating units, no reasonable changes are judged to lead to a need for impairment.



**NOTE 16 PARTICIPATIONS IN SUBSIDIARIES**

Direct shareholdings, 100%	Country	Carrying amount
Munters Holding AB (corp. reg. no. 556818-9749)	Sweden	4,086
Registered office: Stockholm		
		<b>4,086</b>
Material indirect shareholdings	Country	Percentage, %
Munters AB (Corp.reg. no. 556041-0606)	Sweden	100
AB Carl Munters (Corp.reg. no. 556035-1198)	Sweden	100
Munters Europe AB (Corp.reg. no. 556380-3039)	Sweden	100
Pro Component Sweden AB (Corp.reg. no. 556904-0891)	Sweden	100
Proflute AB (Corp.reg. no. 556558-3415)	Sweden	100
Munters Corporation	United States	100
Munters Canada Inc	Canada	100
Munters de Mexico S de RL de CV	Mexico	100
Shelf Service Company No 1 S de RL de CV	Mexico	100
Munters Brasil Industria e Comércio 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.	Czechia	100
Munters France S.A.S.	France	100
Munters Italy SpA	Italy	100
Munters Ltd	United Kingdom	100
Munters Management Service Ltd	United Kingdom	100
Munters Belgium SA	Belgium	100
HB Drying Belgium (MBE)	Belgium	80
Munters Finland OY	Finland	100
Rotem Computerized Controllers (1994) Ltd	Israel	100
Munters A/S	Denmark	100
Munters (Pty) Ltd	South Africa	100
Munters-Form Endüstri Sistemleri Sanayive Ticaret A.Ş. (MTR)	Turkey	80
Munters India Humidity Control Private Ltd	India	100
Munters Air Treatment Equipment (Beijing) Co., Ltd	China	100
Jiangyin SAT Air Treatment Equipment Co Ltd	China	100
Munters Korea Co., Ltd	South Korea	100
Munters Company Ltd	Thailand	100
Munters (Thailand) Co. Ltd	Thailand	100
Munters K.K.	Japan	100
Munters Pte Ltd	Singapore	100
Munters Pty Ltd	Australia	100
M-Tech Systems USA, LLC (MTC)	United States	60
M-Tech Systems America Latina Ltda (MTS)	Brazil	60
M-Tech Processing, LLC (MTP)	United States	42
M- Tech Processing Brazil Sistemas Da Informacao, Ltda (MTB)	Brazil	42

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

	2017	2016
Acquisition cost at January 1	4,086	4,086
Shareholders' contributions, cash	-	-
Shareholders' contributions, other	-	-
<b>Accumulated acquisition cost at December 31</b>	<b>4,086</b>	<b>4,086</b>

**NOTE 17 PREPAID EXPENSES AND ACCRUED INCOME**

	Group		Parent Company	
	2017	2016	2017	2016
Prepaid rent and leases	7	8	-	-
Prepaid insurance premiums	18	19	0	-
Prepaid expenses for goods and services	4	4	-	-
Other items	77	45	0	-
<b>Total</b>	<b>106</b>	<b>76</b>	<b>0</b>	<b>-</b>

**NOTE 18 FINANCIAL INSTRUMENTS**

Munters' financial risks and how they are managed are described in Note 3.

**Derivative instruments**

At year-end, there were forward currency contracts in the Group as follows. They were recognized at fair value in the statement of financial position.

	Nominal amount in local currency, 000s	Carrying amount, SEK 000s
CNH/SEK	-17	-0.9
DKK/SEK	-15	0.2
EUR/SEK	-5	0.5
JPY/SEK	100	-0.1
SGD/SEK	1	0.1
USD/SEK	2	0.6
ZAR/SEK	-20	-0.4
<b>Total</b>		<b>-0.1</b>

Negative net amounts refer to sales, and positive net amounts refer to purchases. All forward contracts fall due for payment during 2018.

### 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. No offsetting has occurred in the balance sheet in the year 2017. The carrying amounts of such assets and liabilities amount to SEKm 1.9 (2.4) and SEKm -2.0 (-4.5) respectively.

### 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, 2017, 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.

The Group's derivatives, recognized at fair value in the statement of financial position, were measured according to IFRS 13 Level 2, fair value hierarchy – 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).

The Group's contingent earn-outs, recognized at fair value in the statement of financial position, are measured according to IFRS 13 and level 3 in the fair value hierarchy.

The table below shows how the contingent purchase considerations and put/call options changed during 2017. The largest change is attributable to the acquisition of MTech Systems (162) and is determined by MTech's earnings levels for 2020–2021. Settlement of the HB Group acquisition earn-out resulted in a gain of SEKm 53.

Contingent price considerations	2017	2016
Opening balance	51	78
Estimated liabilities at acquisition (note 5), undiscounted	162	-
Payments	-	-9
Changes recognized in other operating income	-53	-30
Discounting	-13	7
Exchange-rate differences for the year	-11	5
<b>Closing balance</b>	<b>136</b>	<b>51</b>

Group Book value of financial assets and liabilities by category	2017	2016
<b>Financial assets</b>		
<b>Loans receivable and accounts receivable</b>		
Other non-current financial assets	14	24
Accounts receivable	1,204	1,094
Other current receivables	126	103
Cash and cash equivalents	402	432
<b>Total</b>	<b>1,745</b>	<b>1,653</b>
<b>Financial assets at fair value through profit/loss</b>		
Currency derivatives whose cash flows are not subject to hedge accounting	2	2
<b>Total</b>	<b>2</b>	<b>2</b>
<b>Total financial assets</b>	<b>1,747</b>	<b>1,655</b>
	<b>2017</b>	<b>2016</b>
<b>Financial liabilities</b>		
<b>Financial liabilities measured at amortized cost</b>		
Non-current interest-bearing liabilities	2,848	5,231
Current interest-bearing liabilities	7	429
Accounts payable	581	530
Accrued expenses	9	35
Other non-current liabilities	1	15
Other current liabilities	212	181
<b>Total</b>	<b>3,657</b>	<b>6,421</b>
<b>Financial liabilities at fair value through profit/loss</b>		
Currency and interest rate derivatives whose cash flows are not subject to hedge accounting	2	4
Additional purchase consideration HB Group, current	-	51
Acquisition warrant MTech, non-current 1)	136	-
<b>Total</b>	<b>138</b>	<b>55</b>
<b>Total financial liabilities</b>	<b>3,795</b>	<b>6,475</b>

1) Fair value adjustments recorded through equity.

The table below maps the maturity of the Group's financial liabilities. The amounts specified in the table are the contractual, non-discounted cash flows. Variable interest streams with future interest adjustment dates are estimated using the anticipated market interest rate at year-end for each settlement date and each interest adjustment date. All cash flows in foreign currency are converted into SEK using the rate at the end of the period.

31 December 2017	<1 year	1-5 years	>5 years	Total
Interest-bearing liabilities	82	3,116	-	3,197
Derivative instruments	2	-	-	2
Other liabilities	220	137	-	357
Accounts payable	581	-	-	581
<b>Total</b>	<b>885</b>	<b>3,253</b>	<b>-</b>	<b>4,137</b>

31 December 2016	<1 year	1-5 years	>5 years	Total
Interest-bearing liabilities	590	570	6,683	7,843
Derivative instruments	4	-	-	4
Other liabilities	234	17	-	251
Accounts payable	530	-	-	530
<b>Total</b>	<b>1,358</b>	<b>587</b>	<b>6,683</b>	<b>8,629</b>

### Changes in interest-bearing liabilities

Munters has during the year re-financed the loan portfolio which has generated changes of the mix of types of loans and currencies. The Term Loan in USD has been decreased in favor of increased utilization of credit facilities. The currency effects shown in the table below are mainly caused by changes in the US dollar.

Non current loans	Opening balance	Cash flow	Currency effects	Non cash movements	Closing balance
Term loan	2,591	-296	-237	-	2,058
Revolving credit facility	-	819	-5	-	815
Shareholder loan	2,688	-	-	-2,688	-
Other third party debt	16	-6	-7	-	3
Financing fees	-63	-22	0	57	-28
<b>Total</b>	<b>5,232</b>	<b>496</b>	<b>-249</b>	<b>-2,631</b>	<b>2,848</b>

Current loans	Opening balance	Cash flow	Currency effects	Non cash movements	Closing balance
Revolving credit facility	387	-387	0	-	0
Other third party debt	42	-28	-7	-	7
<b>Total</b>	<b>429</b>	<b>-415</b>	<b>-7</b>	<b>-</b>	<b>7</b>

**Total loans** **5,661** **2,855**

### Interest-bearing liabilities

Interest-bearing liabilities comprises of non-current and current bank loans, and amounting to SEKm 2 855 (5 660) at year end. The distribution is presented in the table below.

Maturity	Type of loan	Interest rate	Currency	Book value 2017	Book value 2016
<b>Non-current loans</b>					
2022	Shareholder loan	Fixed	SEK	-	2,688
2022	Term Loan	Variable	USD	2,030	2,528
2022	Utilized committed credit facilities Sweden	Variable	USD	189	-
2022	Utilized committed credit facilities Sweden	Variable	EUR	295	-
2022	Utilized committed credit facilities Sweden	Variable	SEK	330	-
		Fixed/	Various		
2017-2025	Other non-current loan	Variable	currencies	3	16
<b>Total</b>				<b>2,848</b>	<b>5,231</b>
<b>Current portion of non-current loans</b>					
	Non-current loan	Variable	USD	-	27
		Fixed/	Various		
	Other non-current loan	Variable	currencies	1	1
<b>Total</b>				<b>1</b>	<b>28</b>
<b>Other current loans</b>					
	Utilized committed credit facilities Sweden	Variable	USD	-	182
	Utilized committed credit facilities Sweden	Variable	SEK	-	205
		Fixed/	Various		
	Other current loan	Variable	currencies	6	14
<b>Total</b>				<b>6</b>	<b>401</b>
<b>Total loans</b>				<b>2,855</b>	<b>5,660</b>

### Non-current loans

In connection with the listing at the stock exchange, Munters entered into a loan facility agreement with a group of six Scandinavian banks. The loan is unsecured and the facilities contains of a Term Loan of USDm 250 and a Revolving Credit Facility of EURm 185. There is no mandatory amortization requirement. The final maturity date is in May 2022. The loan agreement contains one financial covenant which stipulates a limit on the consolidated net debt in relation to Adjusted EBITDA.

Also along with the listing, the Shareholder loan which at previous years was a large portion of the interest bearing debt, was converted into equity. The table below outlines the long term debt together with local bank debt in group companies in Brazil, Czech Republic, the Netherlands and Canada.

Munters' financial policy regulates the management of external borrowings. The management and Board monitor the Group's forecast performance in relation to the limits stipulated by the covenant. This ensures that the Group fulfills its commitments to external lenders and minimizes the liquidity and financing risk. At December 31, 2017, the covenant was met and is expected to be met during 2018. The revolving credit facility has final maturity in year 2022. Drawings under the facility are listed among non-current loans.

### Current loans

The table outlines current bank debt in Munters subsidiaries in China, the Netherlands, Czech Republic Brazil and Canada. The total average weighted interest rate including both long- and short term financing at the end of the year was 3.26 percent (6.26).

## NOTE 19 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

Unrestricted equity in parent company:	
Profit brought forward	1,434,348
Capital contribution	2,915,850
Income for the year	-74,741
<b>Total</b>	<b>4,275,457</b>

The Board of Directors proposes that earnings be distributed as follows:

Dividend	55,079
To be carried forward	4,220,378
<b>Total</b>	<b>4,275,457</b>

The proposed dividend corresponds to SEK 0.30 per share.

## NOTE 20 EQUITY

### Share capital

The share capital of SEK 5,507,934 comprises 183,597,802 shares with a par value of SEK 0.03 per share. The shares in Munters Group AB are listed on Nasdaq Stockholm's list of major companies under the symbol MTRS. The ten largest owners in Munters Group AB hold a total of 86.3 percent of outstanding shares. Of these, Nordic Capital holds 50.1 percent indirectly via its Nordic Capital VII fund, and FAM AB 11.4 percent. 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 in 2017.

### Number of shares

<b>Opening number, January 1, 2016</b>	<b>2,399,764</b>
Equity shares A and B	536,981
Preference shares A and B	1,862,783

### Changes 2016:

<b>Closing number, December 31, 2016</b>	<b>2,399,764</b>
Equity shares A and B	536,981
Preference shares A and B	1,862,783

### Changes 2017:

Conversion of preference shares A and B and of Equity shares A to Equity share B 1:1	0
Share B, split by 1/7	14,398,584
Off set issue	164,926,726
Share issue	1,872,728
<b>Closing number, December 31, 2017</b>	<b>183,597,802</b>
Equity shares B	183,597,802

### Reserve for exchange rate differences

<b>Opening balance, January 1, 2016</b>	<b>241</b>
Exchange-rate differences	198
<b>Closing balance, December 31, 2016</b>	<b>439</b>
Exchange-rate differences	-88
<b>Closing balance, December 31, 2017</b>	<b>351</b>

The reserve for exchange-rate differences consists of differences that arise when the income statements and balance sheets of foreign subsidiaries are translated into SEK. Compared with last year, the positive exchange-rate effects during 2017 were mainly to a stronger SEK against USD.

### Holdings of treasury shares

Munters Group AB does not have any treasury shares.

### Dividend during the period

No dividend has been made during the period.

**NOTE 21 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS**

Group	2017	2016
Non-current defined-benefit obligations to employees	193	175
Other benefits to employees	14	4
<b>Non-current</b>	<b>207</b>	<b>179</b>
Current defined-benefit commitments to employees	6	4
Other current employee benefits	2	1
<b>Current</b>	<b>8</b>	<b>5</b>
<b>Total provisions for pensions and similar commitments</b>	<b>215</b>	<b>184</b>
Non-current defined-benefit obligations to employees	193	175
Current defined-benefit commitments to employees	6	4
<b>Provisions recognized as per IAS 19</b>	<b>199</b>	<b>179</b>

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 Belgium. 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 28.

Defined-benefit pension plans in Sweden constitute 93 per cent (94) of total Group provisions for pensions recognized as per IAS 19. The calculations are primarily based on final salary and the plans are unfunded. The pension plan in Belgium is funded and constitutes 0 per cent (0) of total pension provisions. The pension plans in Italy, which constitute 4 per cent (4) of total pension provisions, are 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 SEK 69 million (73).

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 -13 (-17) for the period.

Recognition of provisions for pensions recognized as per IAS 19 in the consolidated balance sheet:

2017 Group	Present value of defined benefit obligation	Fair value of plan assets	Recognized provision, net
<b>Opening balance</b>	<b>195</b>	<b>-16</b>	<b>179</b>
<b>Pension expenses current year, included in Income for the year</b>			
Current service cost	6	-	6
Interest cost/income on benefit obligation	5	-	5
	<b>11</b>	<b>-</b>	<b>11</b>
<b>Re-measurement, included in Other comprehensive income</b>			
Return on plan assets			
Actuarial changes arising from changes in demographic assumptions	-	-	-
Actuarial changes arising from changes in financial assumptions	13	-	13
Experience adjustments	1	-	1
	<b>14</b>	<b>-</b>	<b>14</b>
<b>Transactions</b>			
Benefits paid by employer	-6	-	-6
Benefits paid from plan assets	-5	5	0
Benefits paid by employer to plan assets	-	-2	-2
	<b>-11</b>	<b>3</b>	<b>-8</b>
Exchange rate differences for the year	6	-3	3
<b>Closing balance</b>	<b>215</b>	<b>-16</b>	<b>199</b>
Of which funded plans:			
Other countries (Belgium)	14	-14	0
	-	-	-
Of which unfunded plans:			
Sweden	189	-	189
Other countries	11	-	11

2016 Group	Present value of defined benefit obligation	Fair value of plan assets	Recognized provision, net
<b>Opening balance</b>	174	-4	170
<b>Pension expenses current year, included in Income for the year</b>			
Current service cost	7	-	7
Result from settlement 1)	0	-	0
Interest cost/income on benefit obligation	5	-	5
	<b>12</b>	<b>-</b>	<b>12</b>
<b>Re-measurement, included in Other comprehensive income</b>			
Return on plan assets	0	0	0
Actuarial changes arising from changes in demographic assumptions	8	-	8
Actuarial changes arising from changes in financial assumptions	9	-	9
Experience adjustments	0	0	0
	<b>17</b>	<b>0</b>	<b>17</b>
<b>Transactions</b>			
Benefits paid by employer	-7	-	-7
Benefits paid from plan assets	0	0	1
Benefits paid by employer to plan assets	0	-1	-1
Settlements 1)	-12	-	-12
	<b>-19</b>	<b>-1</b>	<b>-20</b>
Additional pension plan 2)	11	-11	0
Exchange rate differences for the year	0	0	0
<b>Closing balance</b>	<b>195</b>	<b>-16</b>	<b>179</b>
Of which funded plans:			
Other countries (Belgium)	17	-16	1
Of which unfunded plans:			
Sweden	167	-	167
Other countries	11	-	11

1) Redeemed benefits.

2) Pension plan reclassified as defined benefit pension plan due to changed legislation in Belgium.

Plan assets comprise insurance contracts signed with independent insurance companies. No portion of plan assets in 2017 was invested in the Company's equity instruments, debt instruments, real estate, or other assets used by the Company. The Company only has a minor share of funded plans. The most important actuarial assumptions are as follows:

#### Significant actuarial assumptions

Group, weighted values	2017		2016	
	Sweden	Others	Sweden	Others
Discount rate, %	2.60	1.30	2.70	1.50
Future inflation, %	1.75	1.70	1.50	1.70
Future wage and salary increases, %	2.70	2.80	2.70	2.80
Pension increases, %	1.75	-	1.50	-
Social security increases, %	2.70	-	2.70	-

At the end of the reporting period, the discount rate is derived from a functioning market based on investment-grade corporate bonds adjusted for the duration of the commitment.

#### Sensitivity analysis

A reduction of 0.5 percentage points in the discount rate would increase the pension commitments by around SEKm 22, while an increase in the rate of 0.5 percentage points would reduce the commitment by around SEKm 20. Altered assumptions with respect to inflation being 0.5 percentage points lower would reduce the commitment by around SEKm 15, and increase it by around SEKm 17 in an assumption of it being 0.5 percentage points higher. The sensitivity analysis is performed by an 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 5 for 2018.

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

Payments in the future years	2017	2016
Within the next 12 months	5	5
Between 1 and 2 years	6	5
Between 2 and 5 years	16	16
Between 5 and 10 years	38	35
<b>Total</b>	<b>65</b>	<b>62</b>

The weighted average duration for the defined-benefit commitments is 18.9 years (19.8).

#### NOTE 22 OTHER PROVISIONS

2017 Group	Provisions for warranties	Provision for restructuring	Other provisions	Total
<b>Opening balance</b>	<b>113</b>	<b>4</b>	<b>23</b>	<b>140</b>
Additional provisions	36	1	2	38
Acquisition of subsidiaries (Note 5)	-	-	0	0
Reversals of unutilized provisions	-15	0	-	-15
Exchange-rate differences	-5	0	0	-5
Utilized during the year	-14	-1	-7	-22
<b>Closing balance, December 31, 2017</b>	<b>115</b>	<b>3</b>	<b>17</b>	<b>136</b>

2016 Group	Provisions for warranties	Provision for restructuring	Other provisions	Total
<b>Opening balance</b>	<b>108</b>	<b>2</b>	<b>17</b>	<b>128</b>
Additional provisions	29	6	7	42
Reversals of unutilized provisions	-25	0	-4	-29
Exchange-rate differences	7	0	2	9
Utilized during the year	-7	-4	0	-11
<b>Closing balance, December 31, 2016</b>	<b>113</b>	<b>4</b>	<b>23</b>	<b>140</b>

Provisions consist of:	2017	2016
Current portion	114	110
Non-current portion	22	30
<b>Total</b>	<b>136</b>	<b>140</b>

#### NOTE 23 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2017	2016	2017	2016
Vacation pay liabilities	91	77	1	-
Social security contributions	34	41	0	-
Other expenses related to personnel	78	157	-	-
Received goods not yet invoiced	76	82	-	-
Commissions to agents/sales representatives	31	61	-	-
Interest expenses	9	35	-	33
Other	167	111	0	1
<b>Total</b>	<b>486</b>	<b>565</b>	<b>2</b>	<b>35</b>



**NOTE 24 PLEDGED ASSETS AND CONTINGENT LIABILITIES**

Pledged assets for liabilities to credit institutions	Group		Parent Company	
	2017	2016	2017	2016
Non-current assets	-	207	-	-
Current assets	14	586	-	-
Bank accounts	13	193	-	-
Receivables from subsidiaries	-	42	-	-
Other net assets 1)	-	2,380	-	-
Shares in subsidiaries	-	-	-	4,086
<b>Total</b>	<b>27</b>	<b>3,408</b>	<b>-</b>	<b>4,086</b>

1) Other net assets refer to consolidated values for all subsidiaries pledged with the exception of individual assets pledged and separately specified in the table above.

Contingent liabilities	Group		Parent Company	
	2017	2016	2017	2016
FPG guarantees	2	2	-	-
Guarantees from banks and insurance companies	152	113	-	-
<b>Total</b>	<b>154</b>	<b>115</b>	<b>-</b>	<b>-</b>

The change of guarantees from banks between 2016 and 2017 is due to the new financing is done without any secured assets. A description of the loans are found in note 18.

FPG guarantees refers to pension liabilities in Sweden. Other guarantees are operational guarantees, such as advances and completion guarantees.

**Litigation**

Munters is involved in a small number of commercial disputes. None of these disputes are deemed to have any major negative effect on the Company's financial position or earnings.

Hunter New England Health District has sued Munters' Australian subsidiary, Munters Pty Ltd., for breach of contract in relation to services provided to John Hunter Hospital in the spring of 2008. The services were provided as part of Munters Pty Ltd.'s Moisture Control Services, which were later discontinued in 2010. Munters Pty Ltd. disputes the claim. Furthermore, Munters Pty Ltd is of the opinion that the plaintiff's demands are greatly exaggerated, and that the plaintiff through carelessness and negligence contributed to the damage they are claiming compensation for. In the event Munters Pty Ltd. is held liable for the damage, there will be a not insignificant adjustment of the amount of damages. Munters Pty Ltd is protected under local liability insurance and for surplus amounts up to the limit in effect at the time under Munters AB's insurance. In the event Munters Pty Ltd. is held liable for the damage, there is a risk that the company will have to bear that part of the damage that exceeds the part covered by insurance.

Other significant legal proceedings are attributable to Munters' subsidiary in the United States, Munters Corporation. The company is currently named as co-respondent in 8 (8) asbestos-related cases (a few of which have multiple plaintiffs). In the past few years, Munters Corporation has in seven cases won through summary judgments, and these are no longer in progress. Munters Corporation is of the firm opinion that the remaining claims are unfounded and intend to strongly dispute every claim. Munters Corporation has coverage for the asbestos-related claims through several insurance policies. Subject to certain reservations, the insurance companies have confirmed that, until further notice, they will pay a significant portion of the expenses for legal defense. Munters Corporation also has a dispute in progress regarding product liability for damages arising out of a fire at the facilities of S&R Egg Farms. Munters Corporation has disputed the claim in its entirety and is of the opinion that Munters will probably win in the trial. Munters Corporation has coverage for the claim.

**NOTE 25 TRANSACTIONS WITH RELATED PARTIES**

Shares in Munters Group AB are owned indirectly through the companies Cidron Maximus Limited and Cidron Maximus S.a.r.l. 50.1 percent owned by Nordic Capital through its fund Nordic Capital VII Limited.

Other parties related to Munters include other portfolio companies managed by Nordic Capital, and associated companies as well as Munters board of directors and group management. The table below shows significant transactions and other outstanding dealings with other portfolio companies. Sales and purchasing have occurred on market terms. 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.

Group	2017			
	Sales	Purchasing	Receivables	Liabilities
Luvata	0	42	-	1

Group	2016			
	Sales	Purchasing	Receivables	Liabilities
Luvata	1	35	-	2

Until 19 May 2017 Munters Group AB had a shareholder loan, which was put in place during 2010. The debt amounted to SEK 2,688 million as per 31 December 2016 and was converted to equity in connection with the IPO. During 2017 the interest cost related to the shareholder loan amounted to SEK 83 million (202).

Remuneration for senior executives and individual members of the Board is presented in Note 28. 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 26 AVERAGE NUMBER OF EMPLOYEES AND GENDER DISTRIBUTION**

Group	2017		2016	
	Number	of which men, %	Number	of which men, %
United States	1,025	82	886	83
China	380	81	354	81
Sweden	324	74	277	76
Mexico	241	74	155	74
Germany	225	84	212	83
Belgium	214	92	173	93
India	173	91	21	95
Italy	168	83	157	83
Brazil	166	84	104	88
Israel	130	78	125	81
Czech Republic	82	88	76	91
United Kingdom	74	80	59	78
Netherlands	73	92	67	90
Japan	56	82	45	84
Denmark	40	70	38	70
Australia	32	84	29	83
France	29	83	27	85
South Africa	21	81	22	82
Singapore	19	79	18	78
Korea	18	72	16	75
Thailand	17	59	17	59
Finland	11	82	11	82
Spain	10	80	10	80
Turkey	10	80	34	82
Canada	4	75	4	75
Poland	4	100	3	100
Austria	4	75	4	75
United Arab Emirates	4	86	3	100
Switzerland	3	67	3	67
Vietnam	3	67	3	67
	<b>3,559</b>	<b>82</b>	<b>2,953</b>	<b>82</b>

**Gender distribution – Board of Directors and Group management**

At year-end, the Board of Directors consisted of eight men and three women. Group management, including the CEO, consisted of eleven men and one woman. The Parent company consisted of one man and one woman.

**NOTE 27 WAGES, SALARIES, OTHER REMUNERATION, AND SOCIAL SECURITY EXPENSES**

	Group		Parent Company	
	2017	2016	2017	2016
Wages, salaries and other remuneration	1,520	1,341	4	-
Social security expenses	381	307	1	-
Pension expenses - defined contribution	69	73	1	-
Pension expenses - defined benefit	6	7	-	-
<b>Summa</b>	<b>1,976</b>	<b>1,728</b>	<b>5</b>	<b>-</b>

**NOTE 28 REMUNERATION TO BOARD MEMBERS AND SENIOR EXECUTIVES**

Senior executives in the Group have been defined as the same as senior executives in the corporate group that Munters Group AB acquired by acquiring Munters AB through Munters Holding AB. During 2017 the same Chief Executive Officer (CEO) has been appointed in Munters Group AB as previously appointed in Munters Holding AB and Munters AB.

**Guidelines**

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

**Fixed salary**

The fixed salary for the CEO and the other members of the senior management shall mirror the demands and responsibility that the position entails as well as individual performance. The fixed salary for the CEO and the other members of the senior management is to be reviewed on a yearly basis. To the extent a member of the Board of Directors carries out work for the Company or for another group company, in addition to the board work, consulting fees and/or other remuneration for such work may be payable.

**Variable salary**

Variable salary in cash is conditional upon the fulfillment of defined and measurable criteria and should be maximized to 140 per cent of the annual fixed salary for the CEO and 70 per cent for the other members of senior management. These criteria are determined for the promotion of the Company's/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 salary should be designed so that the Board of Directors, if exceptional economic circumstances prevail, has the option of limiting or refraining from payment of variable salary if such a measure is considered reasonable. In this context, fixed annual salary means cash salary earned during the year, excluding pension, supplements, benefits and similar.

**Long-term incentive programs**

The aim of having long-term incentive programs is to create a long-term commitment to the Company, to attract and retain members of the senior management and key employees and to align the interests of the participants with the interests of the shareholders. Long-term incentive programs, if any, should constitute a complement to the fixed salary and the variable salary, with participants to be nominated based on, among other things, competence and performance.

**Pension**

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

**Other benefits and compensation**

Fixed salary during notice periods and severance payment, including payments for any non-compete restrictions, shall in aggregate not exceed an amount equivalent to the fixed salary for three years for the CEO and 18 months for the other members of senior management. Other compensation may consist of other benefits that are customary and in line with market practice, such as healthcare insurance, which shall not constitute a material portion of the total remuneration.

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

**Deviation from the guidelines**

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

**Remuneration and other benefits to senior executives during the year**

	2017					Total
	Board fee/Base salary	Variable remuneration	Other benefits	Pension expenses		
<b>Amounts in SEK 000s</b>						
Members of the Board: (3 women and 8 men)						
Christopher Curtis, chairman	1,218	-	-	-	-	1,218
Helen Fasth Gillstedt, board member and chairman of audit committee	375	-	-	-	-	375
Joakim Karlsson, board member	363	-	-	-	-	363
Andreas Näsvisk, board member	363	-	-	-	-	363
Lena Olving, board member	300	-	-	-	-	300
Joachim Zetterlund, board member	442	-	-	-	-	442
Per Hallius, board member	404	-	-	-	-	404
Kristian Sildeby, board member	280	-	-	-	-	280
Klas Nordin, board member	63	-	-	-	-	63
Pia Nordqvist, board member and employee representative	-	-	-	-	-	-
Simon Henriksson, deputy board member and employee representative	-	-	-	-	-	-
Robert Wahlgren, deputy board member and employee representative	-	-	-	-	-	-
CEO	6,104	-	297	2,440	-	8,841
Other senior executives (1 woman and 11 men)	25,357	864	5,132	6,472	-	37,825
<b>Total</b>	<b>35,268</b>	<b>864</b>	<b>5,429</b>	<b>8,912</b>		<b>50,473</b>

	2016				Total
	Board fee/Base salary	Variable remuneration	Other benefits	Pension expenses	
<b>Amounts in SEK 000s</b>					
Members of the Board (1 woman and 8 men)					
Christopher Curtis, chairman	954	-	-	-	954
Joakim Karlsson, board member	150	-	-	-	150
Andreas Näsvisk, board member and chairman of audit committee	150	-	-	-	150
Joachim Zetterlund, board member	250	-	-	-	250
Per Hallius, board member	250	-	-	-	250
Klas Nordin, board member	150	-	-	-	150
Pia Nordqvist, board member and employee representative	-	-	-	-	-
Gunnar Ståhlberg, employee representative	-	-	-	-	-
Simon Henriksson, deputy board member and employee representative	-	-	-	-	-
Robert Wahlgren, deputy board member and employee representative	-	-	-	-	-
CEO	6,188	8,258	312	2,475	17,234
Other senior executives (10 men)	21,297	13,931	5,043	5,088	45,358
<b>Total</b>	<b>29,389</b>	<b>22,189</b>	<b>5,355</b>	<b>7,563</b>	<b>64,496</b>

Senior executives refer to the Chief Executive Officer, Chief Financial Officer, Group Vice President Air Treatment, Group Vice President AgHort, Group Vice President Mist Elimination, Group Vice President Munters China, Group Vice President Operations, Group Vice President Business Development & PMO, Group Vice President Human Resources and Corporate Communication, Group Vice President Data Centers, and Group Vice President Global Services.

From 1 April 2017 Group Vice President Human Corporate Social Responsibility, and from 1 October 2017 Group Vice President Innovation & Technology, will be included as senior executives.

Variable remuneration refers to the period's proportional share of variable remuneration for the fiscal year 2017, which will be paid in 2018. For the CEO, the variable remuneration corresponds to at most 140 percent of fixed annual salary. For other senior executives, the variable remuneration corresponds to 40–70 percent of fixed annual salary.

Other benefits refer to company cars and meal benefits, as well as housing benefits. The amount specified under other benefits also includes housing and school allowances for four senior executives temporarily based outside Sweden during the year. Pension expenses include costs for disability pension insurance, survivor annuity, and the like. The amounts are stated excluding special employer's contribution pension expenses.

**Severance pay**

Between the Company and the CEO, the period of notice shall not be longer than 24 months. Between the Company and other senior executives, the period of notice shall not be longer than six months. If employment is terminated by the Company, severance pay will be paid equal to 12 months' base salary. Severance pay is not considered pensionable income. If the CEO or other senior executive takes the initiative in terminating employment, there is no severance pay.

**NOTE 29 INCENTIVE PROGRAM**

At the extraordinary General Meeting on 7 May 2017, it was resolved to issue warrants as part of an incentive program for certain members of the Group Management ("the participants"). In total, the incentive program comprises eight individuals and not more than 5,222,000 warrants. The participants could subscribe for warrants at a market value corresponding to in total not more than SEKm 17.99. The maximum number of warrants that could be subscribed for by the Participants corresponded to approximately 2.77 percent of the Company's share capital following completion of the offering and assuming full exercise of the warrants.

The warrants were issued in two separate series. Each participant subscribes for an equal number of warrants of both series. This number of warrants per participant and series depends on the participant's position within the Group and the number of shares held by the participant at the time of the commencement of the program. Series 2017/2019 comprises up to 2,611,000 warrants that may be exercised during the following subscription period: 19 May to 19 November 2019, with the exception of the thirty-day period preceding (a) the day of publication of the company's interim report for the second quarter of 2019, and (b) the day of publication of the Company's interim report for the third quarter of 2019. The exercise price for series 2017/2019 corresponds to 121.22 percent of the offer price.

Series 2017/2020 comprises up to 2,611,000 warrants that may be exercised during the following subscription period: 19 May to 19 November 2020, with the exception of the thirty-day period preceding (a) the day of publication of the company's interim report for the second quarter of 2020, and (b) the day of publication of the Company's interim report for the third quarter of 2020. The exercise price for series 2017/2020 corresponds to 130.91 percent of the offer price.

The Company has reserved the right to repurchase warrants for example if the employment is terminated. Since the participants have paid market value for the options there are no expenses incurred in the Group related to this incentive program.

Other services concerning 2016 (KSEK 24,690) consisted primarily of advisory services in conjunction with preparations ahead of the listing of Munters.

**NOTE 31 SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD**

Katarina Lindström was appointed President Global Operations and will assume her position during the spring of 2018.

**NOTE 30 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.

Amounts in SEK 000s	Group		Parent Company	
	2017	2016	2017	2016
<b>Ernst &amp; Young</b>				
Audit engagements	10,171	8,558	539	142
Audit business beyond audit engagements	8,925	-	-	-
Tax advice	1,406	1,248	-	-
Other services	5,308	24,690	-	-
<b>Other auditors</b>				
Audit engagements	109	102	-	-
Tax advice	13	14	-	-
Other services	-	-	-	-
<b>Total</b>	<b>25,932</b>	<b>34,612</b>	<b>539</b>	<b>142</b>

# Assurance 2017

The undersigned assures that the Annual Report has been prepared in accordance with generally accepted accounting principles, and that the consolidated accounts have been prepared in accordance with international accounting standards as referred to in Regulation EC 1606/2002 of the European Parliament and of the Council of July 19, 2002, on the application of international accounting standards, provide a true and fair view of the Company's and the Group's financial position and earnings, and that the Board of Directors' report and the Board of Directors' report for the Group provide a fair view of the development of the Company's and the Group's operations, financial position, and earnings and describe material risks and uncertainty factors to which the Company and the companies in the Group are exposed.

Stockholm, March 26 2018

**Christopher Curtis**  
*Chairman of the Board*

**John Peter Leesi**  
*President and CEO*

**Helen Fasth Gillstedt**  
*Board Member*

**Per Hallius**  
*Board Member*

**Joakim Karlsson**  
*Board Member*

**Andreas Näsвик**  
*Board Member*

**Lena Olving**  
*Board Member*

**Kristian Sildeby**  
*Board Member*

**Joachim Zetterlund**  
*Board Member*

**Robin Heden**  
*Board Member,  
employee representative*

**Pia Nordquist**  
*Board Member,  
employee representative*

**Simon Henriksson**  
*Deputy Board Member,  
employee representative*

**Robert Wahlgren**  
*Deputy Board Member,  
employee representative*

Our Auditor's report was submitted on  
April 17, 2018  
**Ernst & Young AB**

**Erik Sandström**  
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 year the financial year 2017. The annual accounts and consolidated accounts of the company are included on pages 83-124 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 2017 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 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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, revenue from sale of goods is recognized on delivery when risks and rewards are transferred to the buyer in accordance with the delivery terms. Revenue from larger project assignments are recognized in proportion to percentage of completion at the reporting date, given the presumption that the outcome can be reliably calculated.

The company's customer agreements often contain several different commitments. To determine the timing of revenue recognition an assessment must be made of when the risk and reward transfer. In the same way, estimation is required to determine the percentage of completion in larger project assignments, as described in note 2.

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 2017, 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 SEK 4,251 million and SEK 1,010 million 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, which for the company coincides with the respective operating segments, 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 not 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 2017, 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 and by involving our valuation specialists in the audit.

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 83-124. 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 scepticism 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 2017 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 scepticism 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 26<sup>th</sup> of May 2016 and has been the company's auditor since 2010.

Stockholm April 17, 2018  
Ernst & Young AB

**Erik Sandström**  
Authorized Public Accountant



# Definitions of key financial indicators

In this annual report as well as in the quarterly interim reports, there are references to a number of performance measures. Some of the measures are defined in IFRS, others are alternative performance measures and are not disclosed in accordance with applicable financial reporting frameworks or other legislations. The performance measures are used by the Group to assist both investors and management in analyzing Munters' business. Below are the performance measures found in this annual report described, defined and the reason for use disclosed.

## Organic growth

Change in order intake and net sales compared to the previous period, excluding currency translation effects and contributions to order intake and net sales from businesses that were acquired and/or divested during the current period and/or any comparison period. The measure is used by Munters to monitor order intake and net sales growth driven by changes in volume and price between different periods.

## Order backlog

Received and confirmed sales orders not yet delivered and accounted for as net sales. Order Backlog is a useful measure to indicate the efficiency of the conversion of received and confirmed sales orders into net sales in future periods, and is used by Munters to monitor business performance and customer demand, and adjust operations.

## Order intake

Received and confirmed sales orders during the reporting period. The order intake is an indicator of future revenues and, consequently, an important KPI for the management of Munters' business.

## Operating profit (EBIT)

Earnings before interest and tax. Munters believes that EBIT shows the profit generated by the operating activities.

## Adjusted EBITA

Operating profit, adjusted for amortizations, write-downs of intangible assets and items affecting comparability. Munters believes that using adjusted EBITA is helpful in analyzing our performance as it removes the impact of items considered not to be of recurring character and therefore do not reflect our core operating performance.

## Adjusted EBITA margin

Adjusted EBITA as a percentage of net sales. Munters believes that Adjusted EBITA margin is a useful measure for showing the Company's profit generated by the operating activities.

## Items affecting comparability (IAC)

Items affecting comparability relates to income statement items that have an impact on operating profit and are, in our opinion, considered not to be of recurring character.

## Capital employed

Capital employed is calculated as the balance sheet's total assets, excluding interest-bearing assets and deferred tax assets, less total liabilities, excluding interest-bearing liabilities, pension liabilities and deferred tax liabilities.

## Return on capital employed (ROCE)

Operating profit (EBIT), divided by the average capital employed. The average capital employed for each year consists of an average of the closing capital employed in the last 13 months.

Return on capital employed (ROCE) is also presented applying EBIT adjusted for IAC and Capital employed adjusted for goodwill for improving comparability against other industrials.

## Cash and cash equivalents

Cash and bank balances plus investments in securities and the like with maturity periods not exceeding three months. This is a measure that highlights the short-term liquidity.

## LTM

LTM (last twelve months) after any key indicator means that the KPI corresponds to an accumulation of previous twelve month reported numbers. The measure highlight trends in different KPIs, which is valuable in order to gain a deeper understanding of the development of the business.

## Net debt

Net debt calculated as interest bearing debt and pension liabilities, deducted by cash and cash equivalents. This is a measure of the ability to repay the debt if it was all due.

## Average number of employees

Average number of employee is calculated as the sum of permanent employees at the end of each of the last 13 months divided by 13.

## Operating cash flow

Earnings adjusted for depreciation, amortization, and impairments, as well as for investments and operating capital.

## Operating working capital

Accounts receivables, inventories, accounts payables and advances from customers.

## Earnings per share

Net income adjusted for the right of preferential shares to dividend, divided by the weighted average number of ordinary shares.

## Equity/assets ratio

Equity (including holdings with non-controlling interests) divided by total assets.



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