

**SUSTAINABILITY
REPORT 2018**



RESOURCE EFFICIENCY

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RESPONSIBLE BUSINESS PRACTICES

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

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



PEOPLE & SOCIETY

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A leading global supplier

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

NET SALES

SEK 7.1 BILLION

NET SALES GROWTH

8 %

INNOVATIVE SOLUTIONS SINCE

1955



NUMBER OF EMPLOYEES

~3,700

NUMBER OF PLANTS

18

MANUFACTURING AND SALES, COUNTRIES

>30

Munters creates value in many industries

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

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



THE DRUG INDUSTRY

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



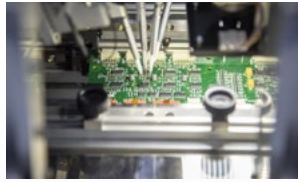
FOOD AND DRINK

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



FARMING

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



ELECTRONICS

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



DATA CENTERS

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



GREENHOUSE

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



FMCG AND RETAIL

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



AVIATION AND DEFENCE

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



SHIPBUILDING AND MARINE

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

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

RESOURCE EFFICIENCY

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

Goals and outcomes

ENERGY EFFICIENCY

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

OUTCOME 2018

1.11%

OUTCOME 2017: 1.15%

GREEN ELECTRICITY

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

OUTCOME 2018

31%

OUTCOME 2017: 29%

RATE OF RECYCLING

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

OUTCOME 2018

59%

OUTCOME 2017: 57%

EMPLOYEES' ASSESSMENT

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

OUTCOME 2018

96%

NEW MEASUREMENT

ENVIRONMENTAL FINES

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

OUTCOME 2018

0 SEK

OUTCOME 2017: 0 SEK

SUSTAINABLE DEVELOPMENT GOALS (SDG)

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



GOVERNANCE

■ Policy for the environment, health and safety: Munters commitments for environmentally friendly and safe production.

■ ISO 14001: seven of eighteen facilities are certified under ISO 14001.

■ Review process: governance for achieving Munters sustainability goals, see page 60.

■ Code of Conduct for suppliers: describes the requirements Munters imposes on its partners (e.g. suppliers and distributors) in the areas of environmental and social responsibility, as well as business ethics.

Areas of Focus

SUSTAINABLE PRODUCTS AND OFFERINGS

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

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

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

SUSTAINABLE PRODUCTION

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

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

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

SUSTAINABLE TRANSPORTATION

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

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

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

ACTIVITIES 2018

■ CO₂ calculations have been made to understand the current situation at three of our facilities (Australia, Italy and Sweden).

■ A Supplier Summit with a focus on sustainability was held for suppliers of electricity and transport services in the US.

■ Munters production facilities in Italy, China and Sweden underwent ISO 14001 audits during the year.

■ The production facilities in Belgium and Germany switched electricity contracts during the year so that they now purchase electricity from renewable sources.

PLANNED ACTIVITIES 2019

■ The continued work on CO₂ measurements and investigating the possibility of setting relevant goals.

■ Continued focus on renewable energy and the opportunity to switch to electricity contracts with green electricity.

■ Review of the policy for the environment, health and safety (EHS).

RESPONSIBLE BUSINESS PRACTICES

Goals and outcomes

CODE OF CONDUCT FOR SUPPLIERS

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

OUTCOME 2018

66%

NEW MEASUREMENT

ONLINE TRAINING

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

OUTCOME 2018

97%

NEW MEASUREMENT

EMPLOYEES' ASSESSMENT

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

OUTCOME 2018

97%

NEW MEASUREMENT

WHISTLEBLOWER CASES

Number of whistleblower cases via the external reporting channel.

OUTCOME 2018

7

NEW MEASUREMENT

SUSTAINABLE DEVELOPMENT GOALS (SDG)

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



GOVERNANCE

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

Areas of Focus

SUSTAINABLE, PROFITABLE OPERATIONS

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

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

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

ACTIVITIES 2018

■ After having conducted an internal self-assessment of our subsidiaries' regulatory compliance in the areas of the environment, human rights and business ethics, Munters adopted the UN Global Compact, thereby committing to support and implement the ten principles.

■ Munters published a position paper in accordance with the UK Modern Slavery Act.

■ The Code of Conduct has been sent to our most important suppliers, and they have been encouraged to affirm that they are in compliance with it. Suppliers who do not accept the Code of Conduct will be promptly phased out. Moreover, we have evaluated various digital tools to facilitate administration and monitoring of the our suppliers' self-assessments of routines and procedures in the areas covered by the Code of Conduct.

BUSINESS ETHICS

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

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

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

PLANNED ACTIVITIES 2019

■ Further development of the procedure for supplier self-assessment and our evaluations on site at our suppliers of the areas covered by the Code of Conduct. The goal is to invest in and implement software that facilitates and automates this work, and to produce a checklist that can be used when our purchasers are out on site visits to suppliers.

■ Follow-up work on online training was conducted during the year; the focus was on ensuring that even newly hired personnel were included in the process.

■ An Ethics Advisory Board was created to manage various ethical questions as they arise. The forum consists of people from Munters Group Management.

LIKE-MINDED COLLABORATION

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

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

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

■ Initiate an evaluation of annual sustainability checks. The areas concerned could, for example, be business principles, discrimination, harassment, competition regulations and bribes.

■ The sourcing function will continue its work on getting all our most important suppliers to affirm their compliance with the Code of Conduct for suppliers.

// All our subsidiaries drew up equality plans in 2018

PEOPLE & SOCIETY

Goals and outcomes

PROPORTION OF WOMEN

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

OUTCOME 2018

20%

OUTCOME 2017: 18%

WOMEN EXECUTIVES

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

OUTCOME 2018

20%

OUTCOME 2017: 17%

TOTAL RECORDABLE INCIDENT RATE* (TRIR)

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

OUTCOME 2018

3.4

OUTCOME 2017: 3.5

EMPLOYEES' ASSESSMENT

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

OUTCOME 2018

96%

OUTCOME 2017: 95%

SUSTAINABLE DEVELOPMENT GOALS (SDG)

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



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



GOVERNANCE

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

Areas of Focus

AN EQUAL AND INCLUSIVE WORK ENVIRONMENT

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

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

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

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

ACTIVITIES 2018

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

COMMUNITY INVOLVEMENT

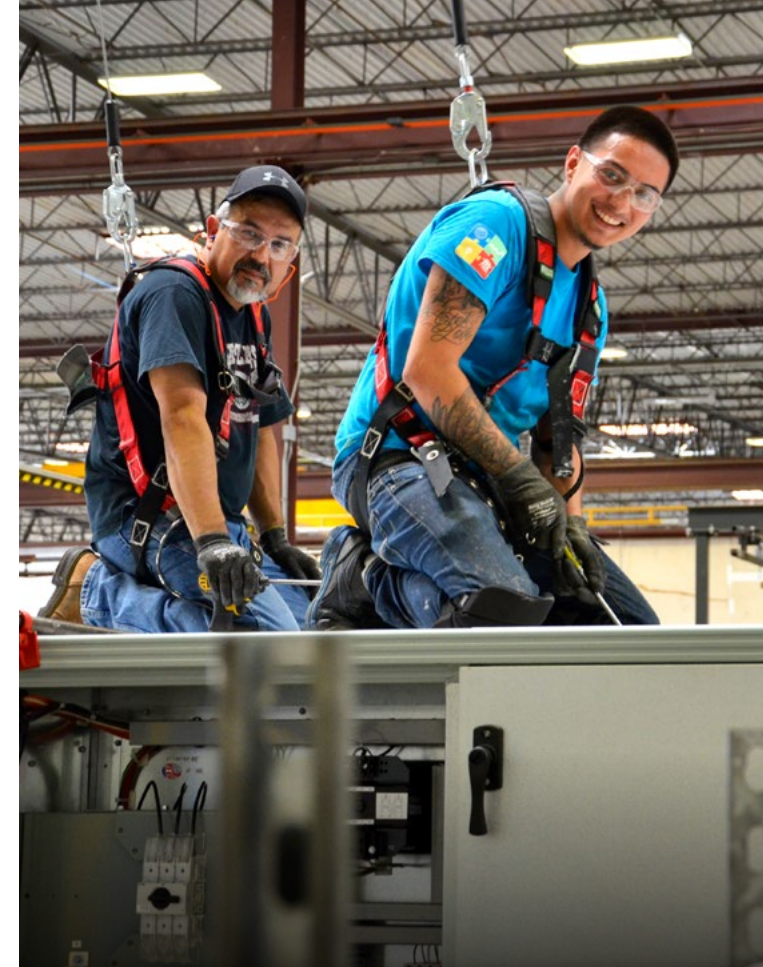
8 We conduct dialogue with our stakeholders and with the local communities where we operate.

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

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

PLANNED ACTIVITIES 2019

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



Stakeholder dialogue and materiality

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

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

ORGANIZATION AND GOVERNANCE

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

The Group's position on various issues in the field of sustainability is described in a number of policies and governing documents. The two most fundamental documents are the Code of Conduct and the special Code of Conduct for suppliers.

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

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

STAKEHOLDER OVERVIEW

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

CPIS WITH EXPLANATION OF TREND DURING THE YEAR

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



Risks and risk management

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

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

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

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

RESPONSIBILITY

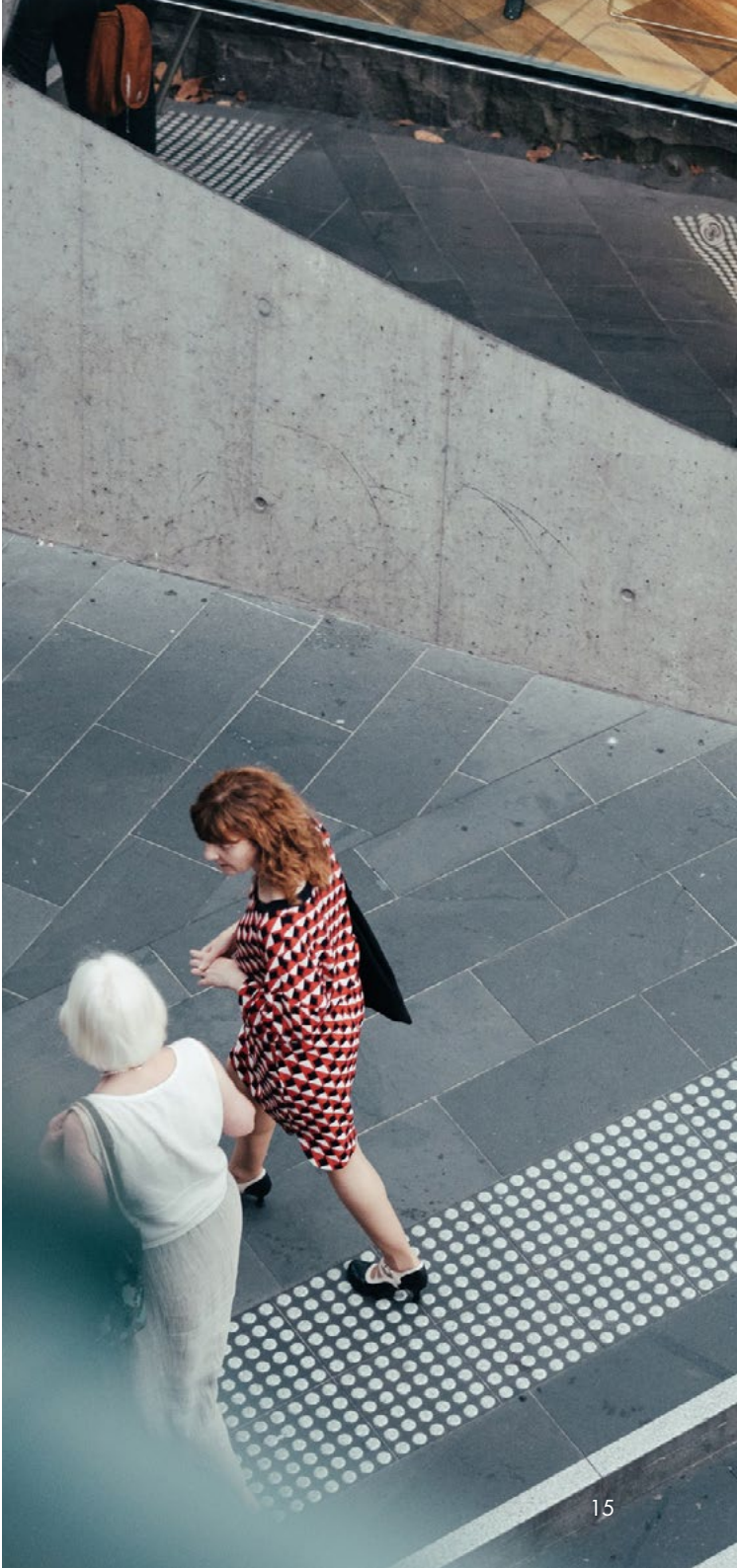
Managing risks is an important part of internal control. The Board of Directors has ultimate responsibility for the Group's risk management and approves the company's risk management policy. Group Management identifies, evaluates, and manages risks in their respective areas of responsibility. The CFO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

ANNUAL RISK EVALUATION

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

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





RISK CATEGORIES

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

Strategic risks

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

Operational risks

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

Regulatory risks

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

Financial risks

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

SUSTAINABILITY RISKS

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

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

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

INSURABLE RISKS

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

MUNTERS LOSS PREVENTION STANDARD

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

SUSTAINABLE OPERATIONS RISKS AND RISK MANAGEMENT

SPECIALLY PRIORITIZED RISKS, 2018

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

STRATEGIC RISKS

Allocation of production capacity

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

Management

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

Change management

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

Management

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

Trade barriers

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

Management

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

M&A implementation, planning and integration

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

Management

One central function responsible for managing M&A projects has been established. PMO, the internal project function, spent the year working on monitoring acquisitions carried out over the last few years.

Forecasts

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

Management

Monthly updates and careful reviews of forecasts enable rapid measures. The forecasts are analyzed on several levels in the organizations: regional, business area and Group, before they are published and reported internally and externally.

Technology changes, IoT

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

Management

An IoT council with representatives from all business areas, Global Services and IT headquarters meets regularly to discuss and coordinate development projects in progress. One person has been designated responsible for IT security regarding connected products.

OPERATIONAL RISKS

Dependence on small number of customers

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

Management

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

Dependence on small number of manufacturing plants

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

Management

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

Quality control

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

Management

A Global Quality Manager position was added during the year. The purpose was to create an efficient, uniform quality system at Munters. A Global Production Development position was appointed who will take office in January 2019. The role is responsible for developing and implementing the Munters Production System.

Employees and key competences

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

Management

A long-term incentive programme was introduced in 2018. HR is working on a salary survey to ensure that Munters is offering competitive salaries. New managers, managers in production and experienced managers who wish to take their leadership to the next level are offered leadership development courses.

Volatility

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

Management

During the year, Data Centers management worked together with Operations management to investigate the possibilities of, for example, increasing flexibility on the supplier side, outsourcing parts of production and/or adding products from other business areas to Data Centers production facilities. In addition, Data Centers management routinely works to increase sales of spare parts and services, thereby becoming less dependent on product sales. In conjunction with the release of the Q4 2018 report in February 2019, Group Management announced the intent going forward to focus primarily on the US market as regards Data Centers. The intent is also to close down production in Dison, Belgium.

REGULATORY RISKS

Agreement routines

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

Management

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

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

Bribery and corruption

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

Management

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

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

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

Whistleblower channel that facilitates anonymous reporting.

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

Sanctions

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

Management

Sanctions policy and guidance available.

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

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



Sustainability is at the heart of our business

By providing safe, reliable and energy-efficient climate solutions, we help leading companies around the world maximise their opportunities while minimising their global carbon emission footprint.

