

Grundfos Holding A/S

Poul Due Jensens Vej 7

DK-8850 Bjerringbro


CVR-no. 31 85 83 56

Annual Report 2016

(ninth financial year)

The Annual General Meeting adopted the annual report on 28 April 2017

Chairman of the meeting



Andreas F. Brandt

Contents

	<u>Page</u>
Company details	1
Management statement	2
Independent auditor's report	3
Key figures / Management report	6
Accounting policies	9
Profit and loss account for 2016	16
Balance sheet at 31.12.2016	17
Statement of changes in equity	19
Notes	20



Company details

Company

GRUNDFOS Holding A/S

Poul Due Jensens Vej 7

DK-8850 Bjerringbro, Denmark

CVR no. 31 85 83 56

Registered in the municipality of Viborg

Phone +45 87 50 14 00

Internet www.grundfos.com

Board of Directors

Chairman Jens Winther Moberg

Vice-Chairman Bo Risberg

Board member Ingelise Mose Bogason

Board member Jens Maaløe

Board member Carsten Joachim Reinhardt

Board member Niels Erik Olsen

Board member Kitty Thaarup Herholdt, elected by employees

Board member John Bjerregaard Jacobsen, elected by employees

Board member Rudolf Martini, elected by employees

Executive Board

Group President and CEO Mads Nipper

Group Executive Vice President Mikael Andreas Holm Geday

Group Executive Vice President Poul Due Jensen

Group Executive Vice President Stephane Laurent Gilles Simonetta

Group Executive Vice President Ernst Lutz

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab



Management statement

The Board of Directors and the Executive Board have today reviewed and approved the annual report of Grundfos Holding A/S for the financial year 1 January to 31 December 2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the annual accounts gives a true and fair view of the Company's assets, liabilities and financial position as at 31 December 2016 and of its financial performance for the financial year 1 January to 31 December 2016.

We believe that the management report contains a fair review of the matters covered by the report.

We recommend the annual report for adoption at the Annual General Meeting.

Bjerringbro, 1 March 2017

Executive Board



Mads Nipper



Mikael Andreas Holm Geday

Poul Due Jensen

Stephane Laurent Gilles Simonetta

Ernst Lutz

Board of Directors



Jens Winther Moberg
Chairman



Bo Risberg



Ingelise Mose Bogason



Jens Maaløe



Carsten Joachim Reinhardt



Niels Erik Olsen



Kitty Thaarup Herholdt



John Bjerregaard Jacobsen



Rudolf Martini

Independent auditor's report

To the shareholders of Grundfos Holding A/S

Opinion

We have audited the annual accounts of Grundfos Holding A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The annual accounts are prepared in accordance with the Danish Financial Statement Act.

In our opinion, the annual accounts give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statement Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other 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 opinion.

Management's responsibilities for the annual accounts

Management is responsible for the preparation of annual accounts that give a true and fair view in accordance with the Danish Financial Statement Act, and for such internal control as Management determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the annual accounts unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual 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 opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, indi-

vidually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual 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 opinion. 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 internal control relevant to the 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the annual accounts, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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 or, if such disclosures are inadequate, to modify our opinion. 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 the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures in the notes, and whether the annual accounts represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management report

Management is responsible for the management report.

Our opinion on the annual accounts does not cover the management report, and we do not express any form of assurance conclusion thereon.

ATS

In connection with our audit of the annual accounts, our responsibility is to read the management report and, in doing so, consider whether the management report is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management report provides the information required under the Danish Financial Statement Act.

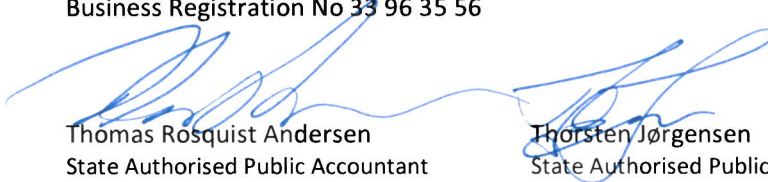
Based on the work we have performed, we conclude that the management report is in accordance with the annual accounts and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the management report.

Copenhagen, 1 March 2017

PH

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



Thomas Rosquist Andersen
State Authorised Public Accountant

Thorsten Jørgensen
State Authorised Public Accountant

Key figures

	<u>2016 *)</u> DKK m	<u>2015 *)</u> DKK m	<u>2014</u> DKK m	<u>2013</u> DKK m	<u>2012</u> DKK m
Key figures and financial ratios					
Key figures					
Net turnover	3,253	4,296	4,344	4,333	4,080
Operating profit	557	406	179	153	221
Income from investments in affiliated companies	1,133	1,244	559	611	905
Net financials	159	27	29	86	40
Profit before tax	1,849	1,677	767	849	1,166
Profit for the year	1,680	1,485	642	758	1,054
Equity	14,487	13,549	7,950	7,863	7,768
Balance sheet total	21,869	18,368	12,401	12,289	11,474
Investments in intangible assets	118	265	295	291	475
Investments in tangible fixed assets	305	39	49	95	45
Number of employees at year-end	1,432	1,405	1,446	1,562	1,551
Financial ratios					
Operating profit as a percentage of net turnover (%)	17.1	9.5	4.1	3.5	5.4
Return on equity (%)	12.0	13.8	8.1	9.7	13.9
Equity ratio (%)	66.2	73.8	64.1	64.0	67.7

Definition of key figures

Operating profit as a percentage of net turnover (%)	=	$\frac{\text{Operating profit} \times 100}{\text{Net turnover}}$
Return on equity (%)	=	$\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$
Equity ratio (%)	=	$\frac{\text{Equity} \times 100}{\text{Balance sheet total}}$

Financial highlights are defined and calculated in accordance with 'Recommendations & Ratios 2015' issued by the Danish Finance Society.

*) Equity method is used in 2016 and 2015 while cost price method is used in the period 2012-2014.

Management report

Primary activity

The Company's primary activities include long-term tasks in relation to the development of new and existing products for Group Production & Sales, and general tasks relating to coordination, planning and management. In addition, the Company acts as the parent company of subsidiaries in the Grundfos Group and in that capacity performs a number of overarching functions and services, including inter-company deposits and lending.

Development in activities and finances

In 2016, the Company changed the accounting policies for the parent financial statements applicable to recognising group enterprises to the effect that they are recognised under the equity method. Previously, group enterprises were recognised at cost less any write-downs, and dividends received were recognised as income. At the same time exchange-rate adjustment related to designated loans has been moved from profit and loss to equity in 2015. The reason for the change in accounting policies is that Management assesses that it will be more relevant to present return on investments in group enterprises as a share of profit for the year instead of dividends. The change in accounting policies has affected profit/loss for the year by DKK 338 million (2015: DKK -339 million), the balance sheet total by DKK 4,331 million (2015: DKK 4,010 million) and equity at the beginning of year by DKK 4,010 million. The comparative figures for 2015 have been restated accordingly.

As from 1 January 2016 the OEM business was transferred to Grundfos Operations A/S which resulted in lower revenues and lower costs.

Profit before tax for the year amounts to DKK 1,849 million compared to DKK 1,677 million previous year. The increase in profit before tax is mainly due to increased earnings within the Grundfos Group, resulting in higher royalty fees received from the Group.

Profit after tax for the year thus amounts to DKK 1,680 million compared to DKK 1,485 million the previous year. The result is regarded as satisfactory.

Environment and corporate social responsibility

The Company's activities have no particular impact on the external environment. In connection with new product development, the Company focuses on product sustainability, primarily in relation to the use of materials and energy optimisation.

For further information about corporate social responsibility (CSR), see the Group Annual Report for the Poul Due Jensen Foundation, CVR no. 83 64 88 13.

Particular risks

Financial risks

The general framework for management of the financial risks of the Company and the Group is determined by the Board of Directors and managed on a day-to-day basis by the Group's Finance Department. It is the Group's policy to identify and appropriately hedge all major financial risks.

Foreign exchange risks

Services are primarily invoiced in Euros, American dollars, British pounds and Japanese yen.

Credit risks

The credit risk relates to accounts receivable from affiliated companies.

Research and development activities and knowledge resources

The research activities concentrate on identifying and developing materials, production processes and other technologies that minimise the environmental strain caused by the manufacture and use of the product, while at the same time ensuring the lowest possible total costs, including energy consumption, during the lifetime of the pump solutions offered.

Development activities focus on optimising and developing new trend-setting and sustainable products.

Composition of management regarding gender

The board of directors in Grundfos Holding A/S has 9 members, of which 3 have been elected by the employees. The remaining 6 members are composed of 5 men and 1 woman, thus women accounts for 17% and as such women are under-represented according to the target. The board intends to increase the female representation to 2 out of 6 members. The board has set a goal for achieving this by the end of 2020. At the time of election of 2 new board members in 2016, the most qualified candidates were males.

For all other management positions Grundfos Holding A/S has defined a diversity policy, in which the first priorities are to increase the number of non-Danes and women in management positions. Non-Danes in other management positions made up 5% in 2016. By the end of 2016 the status was 16% female leaders. The short term goal for the gender distribution is that by end of 2020, at least 25% of our leaders in general must be women. For getting more females into executive positions a mandate to always include qualified female candidates and Non-Danes in executive recruitments has been put in place.

Outlook for 2017

The Company anticipates a profit for the year in line with 2016.

Accounting policies

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act for large C class companies.

In pursuance of section 86(4) of the Danish Financial Statements Act, the Company has not prepared a cash flow statement. Referring to section 96(3) of the Danish Financial Statements Act, the Company also does not disclose the fee paid to the auditors appointed by the general meeting.

In accordance with section 112(3.2) of the Danish Financial Statements Act, the Company has not prepared consolidated annual accounts. The Company is included in the consolidated annual accounts for the Poul Due Jensen Foundation, DK-8850 Bjerringbro. The consolidated annual accounts for the Poul Due Jensen Foundation are available to the public at the offices of the Danish Business Authority under CVR no. 83 64 88 13.

In 2016, the Company changed the accounting policies for the parent financial statements applicable to recognising group enterprises to the effect that they are recognised under the equity method. Previously, group enterprises were recognised at cost less any write-downs, and dividends received were recognised as income. At the same time exchange-rate adjustment related to designated loans has been moved from profit and loss to equity in 2015. The reason for the change in accounting policies is that Management assesses that it will be more relevant to present return on investments in group enterprises as a share of profit for the year instead of dividends. The change in accounting policies has affected profit/loss for the year by DKK 338 million (2015: DKK -339 million), the balance sheet total by DKK 4,331 million (2015: DKK 4,010 million) and equity at the beginning of year by DKK 4,010 million. The comparative figures for 2015 have been restated accordingly. Figures for 2012-2014 have not been restated. Investment in affiliated companies and equity would be positively affected if the figures were restated.

For development costs recognized after 1 January 2016 a 'Reserve for development Projects' is recognized under equity. The reserve is deducted deferred tax and is reduced by the current depreciations after tax.

Apart from this, the accounting policies for the Annual Accounts remain unchanged in comparison with last year.

General information about recognition and measurement

Assets are recognised in the balance sheet when it is likely that future economic benefits accrue to the Company and the asset value can be measured reliably.

Liabilities are recognised in the balance sheet when they are probable and can be measured reliably.

Assets and liabilities are measured at cost at the initial recognition. Subsequently, assets and liabilities are measured for the individual items as described below.

Accounting policies

At recognition and measurement, allowance is made for predictable losses and risks that appear before the annual report is presented and that confirm or deny conditions that were present on the balance sheet date.

Income is recognised in the profit and loss account when earned, whereas costs are recognised by the amounts attributable to the financial year in question. Value adjustments of financial assets and liabilities are recognised in the profit and loss account as financial income or financial costs.

Mergers

The merger method is applied in connection with inter-company mergers. The difference between the amount paid for the acquiree and the equity value of the acquiree is recognised directly in the equity of the acquirer at the beginning of the financial year in which the transaction takes place.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Exchange differences that arise between the exchange rate at the transaction date and the exchange rate at the payment date are recognised in the profit and loss account.

Accounts receivables and payables in foreign currency are translated into Danish kroner at the exchange rate on the balance sheet date. Realised and unrealised exchange rate adjustments are included in the profit and loss account.

Foreign exchange rate adjustments of balances, which are considered part of the total investment in companies with a different functional currency than Danish kroner, are recognised directly in the equity.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost, and subsequently at market value. Positive and negative market values of derivative financial instruments are included in other accounts receivable and other liabilities, respectively.

Changes in the market value of derivative financial instruments that secure the market value of recognised assets or liabilities are recognised in the profit and loss account in the same item as changes in the value of the hedged asset or the hedged liability.

Changes in the market value of derivative financial instruments that secure future assets or liabilities are recognised directly in equity. When the hedged transactions are realised, the changes are recognised as part of the relevant items in the annual accounts.

As regards other derivative financial instruments, which are not hedging instruments, changes are continuously recognised in the profit and loss account at market value.

Accounting policies

Public grants

Research and development grants are recognised as revenue in the profit and loss account under R&D costs, thus offsetting the costs they compensate.

Grants for the purchase of assets and development projects that are capitalised are offset in the cost of the assets to which the grants are given.

Profit and loss account

Net turnover

Net turnover includes all management, development and group services to companies in the Grundfos Group invoiced during the year and before 2016 also invoiced sale of products to OEM customers less returns and discounts directly associated with the sale.

Research and development costs

Research and development costs are costs, that relate to the Company's R&D activities, including salaries and depreciation.

Research costs are recognised in the profit and loss account in the year they are incurred.

Development costs incurred for the maintenance and optimisation of existing products or production processes are recognised in the profit and loss account. Costs for the development of new products are recognised in the profit and loss account, unless the criteria for entry in the balance sheet are met for the individual development project.

Production costs

Production costs comprise costs relating to the Company's general production and logistics activities, including salaries and depreciation. Before 2016 the item also includes cost of sales relating to the OEM business.

Sales and distribution costs

Sales and distribution costs comprise costs relating to the sale and distribution of the Company's products and services, including salaries for sales staff, advertising and exhibition expenses, depreciation, etc.

Administrative costs

Administrative costs comprise costs for the administrative staff and Management, including salaries and depreciation.



Accounting policies

Staff costs

Staff costs include the Company's total costs of wages, salaries, pensions and other social insurance costs.

Costs of wages, salaries, pensions, etc. are distributed across functions in accordance with the functions primarily executed by the relevant staff.

Other operating income

Other operating income includes income of a secondary nature in relation to the Company's primary activities.

Income from investments in affiliated companies

Income from investments in affiliated companies is recognised in accordance with the equity method, which means that the pro rata share of the affiliated companies' profit following elimination of internal margins is recognised in the Company's profit and loss account.

Financials

Financials comprise interest received and interest paid, realised and unrealised capital gains and capital losses on securities as well as exchange rate adjustments of financials in foreign currencies.

Tax on profit for the year

The anticipated tax on the taxable income of the year is recognised in the profit and loss account, adjustment being made for timing differences in relation to the provided deferred tax.

Changes in deferred tax as a consequence of changed tax rates are recognised in the profit and loss account.

Deferred tax is measured by the balance sheet liability method of all timing differences between the fiscal and financial value of assets and liabilities.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

The Company is jointly taxed with wholly owned Danish subsidiaries. The current Danish corporation tax is distributed among the jointly taxed Danish companies proportionally to their taxable income (full distribution with a refund concerning tax losses).

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Accounting policies

Balance sheet

Development projects

Development projects on clearly defined and identifiable products, for which the technical rate of utilisation, adequate resources and a potential future market or development possibility in the company can be shown, and where the intention is to produce, market or use the product in question, are recognised as intangible assets. Other development costs are recognised as costs in the profit and loss account as incurred.

Capitalised development projects are measured at cost less accumulated amortisation or at the recoverable amount, whichever is lower.

The cost of development projects includes costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Capitalised development projects are amortised by the straight-line method upon completion of the development work using the estimated useful lives of the assets. The amortisation period is usually 5–7 years.

In case of development projects that are considered to have great sales potential and where the anticipated economic life of the developed products and technologies so warrant, the amortisation period exceed five years.

Other intangible fixed assets

Other intangible fixed assets are measured at cost less accumulated amortisation and write-downs. Other intangible fixed assets are amortised by the straight-line method using the estimated useful lives of the assets, which, based on individual assessments, are as follows:

Other intangible fixed assets	3 – 5 years
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Tangible fixed assets

Technical installations and machinery and other installations are measured at cost less accumulated depreciation and write-downs.

Cost comprises the purchase price, expenses directly connected to the acquisition, and expenses for the preparation of the asset until the time when the asset is ready for use. For company-manufactured assets, cost comprises direct and indirect costs of materials, components, sub-suppliers and labour costs.

Tangible fixed assets are depreciated by the straight-line method through the anticipated useful and economic life to the estimated residual value. The useful lives and the residual value, if any, of large assets are de-

Accounting policies

terminated individually, whereas the useful life of other assets is determined for groups of similar assets. The estimated useful lives are:

Business jet	15 - 20 years
IT equipment	3 years
Technical installations and machinery and other installations	4 - 10 years

Investment in affiliated companies

Investments in affiliated companies are measured by the equity method at the pro rata owned share of the companies' equity. This means that investments are measured at the pro rata share of the enterprises' equity plus unamortised goodwill and plus or less unrealised intra-group profits or losses.

Net revaluation of investments in affiliated companies is brought forward under the equity to the revaluation reserve by the equity method to the extent that the accounting value exceeds the original cost.

Inventories

Inventories are measured at cost in accordance with the FIFO principle or net realisable value, whichever is lower.

Cost of work in progress consists of costs of direct labour and materials as well as indirect production costs.

Cost of goods for resale consists of purchase price plus delivery costs.

Obsolete goods, including slow-moving goods, are written down.

Accounts receivable

Accounts receivable are measured at amortised cost, usually equalling nominal value less provisions for bad debts.

Prepayments recognised under assets include costs incurred relating to the following accounting year. Prepayments are measured at cost.

Securities (current assets)

Securities include bonds and shares measured at market value. Realised and unrealised capital losses and gains are included in the profit and loss account under financials.

Equity

Proposed dividend for the financial year is recognised as a separate item in equity.

Accounting policies

Liabilities under guarantee

Liabilities under guarantee comprise expected expenses under guarantees which the Company normally incurs in relation to the products sold.

Other provisions

These provisions include other obligations, including obligations relating to anniversary lump sum payments and share-based long-term incentive programme. Obligations related to the share-based long-term incentive programme are measured according to the graded vesting principle.

Financial liabilities

Bank loans, etc. are valued at the time of borrowing at the received net yield less borrowing costs. In subsequent periods, the financial liabilities are recognised at amortised cost.

Other liabilities, including trade creditors, debt to affiliated companies and other debts are measured at amortised cost.

Deferred income recognised under liabilities include income received relating to the following accounting year. Deferred income are measured at cost.



Profit and loss account for 2016

	<u>Note</u>	<u>2016</u> <u>DKK '000</u>	<u>2015</u> <u>DKK '000</u>
Net turnover	3	3,253,461	4,295,790
Production costs	4	<u>-81,922</u>	<u>-1,552,703</u>
Gross profit		3,171,539	2,743,087
Research and development costs	4	-1,108,888	-973,476
Sales and distribution costs	4	-506,577	-409,047
Administrative costs	4	<u>-999,033</u>	<u>-954,559</u>
Operating profit		557,041	406,005
Income from investments in affiliated companies		1,132,779	1,243,629
Financial income	5	178,280	101,606
Financial costs	6	<u>-19,309</u>	<u>-74,706</u>
Profit before tax		1,848,791	1,676,534
Tax on profit for the year	7	<u>-168,687</u>	<u>-191,638</u>
Profit for the year	8	<u>1,680,104</u>	<u>1,484,896</u>

Balance sheet as at 31.12.2016

	Note	2016 DKK '000	2015 DKK '000
Completed development projects		421,388	307,908
Other intangible fixed assets		151,206	280,075
Development projects in progress		46,412	326,348
Other intangible fixed assets in progress		<u>37,442</u>	<u>36,652</u>
Intangible fixed assets	9	<u>656,448</u>	<u>950,983</u>
Technical installations and machinery		94,667	95,699
Other technical installations		60,926	124,508
Tangible fixed assets in progress		<u>289,112</u>	<u>21,493</u>
Tangible fixed assets	10	<u>444,705</u>	<u>241,700</u>
Investment in affiliated companies		13,626,049	11,912,791
Accounts receivable from affiliated companies		3,139,243	3,003,485
Other accounts receivable		<u>30,135</u>	<u>13</u>
Financial fixed assets	11	<u>16,795,427</u>	<u>14,916,289</u>
Total fixed assets		<u>17,896,580</u>	<u>16,108,972</u>
Inventories	12	<u>15,396</u>	<u>63,043</u>
Accounts receivable from sales		281	268,381
Accounts receivable from affiliated companies		1,868,743	1,380,621
Other accounts receivable		103,318	40,326
Prepayments	13	<u>57,640</u>	<u>41,585</u>
Accounts receivable		<u>2,029,982</u>	<u>1,730,913</u>
Securities		<u>1,879,337</u>	<u>458,169</u>
Cash at bank and in hand		<u>47,791</u>	<u>7,320</u>
Total current assets		<u>3,972,506</u>	<u>2,259,445</u>
Total assets		<u>21,869,086</u>	<u>18,368,417</u>

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Balance sheet as at 31.12.2016

	<u>Note</u>	<u>2016</u> <u>DKK '000</u>	<u>2015</u> <u>DKK '000</u>
Share capital		380,909	380,909
Reserve for development projects		56,319	0
Reserve equity method		4,171,598	3,850,489
Retained profit		9,053,428	8,592,622
Proposed dividend		<u>825,000</u>	<u>725,000</u>
Equity		<u>14,487,254</u>	<u>13,549,020</u>
Liabilities under guarantee	14	0	3,027
Other provisions	15	53,229	34,585
Deferred tax	16	<u>131,705</u>	<u>209,745</u>
Provisions		<u>184,934</u>	<u>247,357</u>
Bank overdrafts and loans		1,846	44
Trade creditors		253,694	133,609
Debts to affiliated companies		6,701,916	4,102,584
Corporation tax		30,111	34,227
Other liabilities		<u>209,331</u>	<u>301,576</u>
Short-term liabilities		<u>7,196,898</u>	<u>4,572,040</u>
Total liabilities		<u>7,196,898</u>	<u>4,572,040</u>
Total equity, provisions and liabilities		<u>21,869,086</u>	<u>18,368,417</u>
Financial instruments	17		
Related parties	18		
Shareholders	19		
Securities, contingent liabilities, etc.	20		

18

Statement of changes in equity

	Share capital DKK '000	Reserve for developm. projects DKK '000	Reserve equity method DKK '000	Retained profit DKK '000	Proposed dividend DKK '000	Total DKK '000
Equity at 01.01.2015	380,909	0	0	7,319,149	250,000	7,950,058
Change accounting policy			4,045,842	123,100		4,168,942
Restated equity at 01.01.2015	380,909	0	4,045,842	7,442,249	250,000	12,119,000
Dividend paid					-249,876	-249,876
Transfer				124	-124	0
Profit for the year			-384,186	1,144,082	725,000	1,484,896
Exchange-rate adjustment			149,879			149,879
Other equity adjustments			38,954			38,954
Exchange-rate adjustment designated loans				-11,879		-11,879
Tax on exchange-rate adjustment designated loans				2,791		2,791
Reversed value of hedging instruments, opening				19,684		19,684
Reversed tax on equity items, opening				-4,429		-4,429
Equity at 31.12.2015	380,909	0	3,850,489	8,592,622	725,000	13,549,020
Dividend paid					-724,870	-724,870
Transfer				130	-130	0
Profit for the year		56,319	365,486	433,299	825,000	1,680,104
Exchange-rate adjustment			-51,099			-51,099
Other equity adjustments			6,722			6,722
Exchange-rate adjustment designated loans				35,099		35,099
Tax on exchange-rate adjustment designated loans				-7,722		-7,722
Equity at 31.12.2016	380,909	56,319	4,171,598	9,053,428	825,000	14,487,254

The share capital consists of 38,090,911 shares of DKK 10 each, in total DKK 380,909,000.

Notes

1. Unusual events

In 2016, the Company changed the accounting policy to equity method. Furthermore the OEM business was transferred to Grundfos Operations A/S.

See further information in management report page 7.

2. Events after the balance sheet date

No events have occurred after the balance sheet date which would influence the evaluation of the annual report.

	<u>2016</u> <u>DKK '000</u>	<u>2015</u> <u>DKK '000</u>
3. Net turnover		
Inter-company services	3,253,461	2,660,446
External turnover	<u>0</u>	<u>1,635,344</u>
	<u>3,253,461</u>	<u>4,295,790</u>
4. Staff costs		
Salaries and wages	878,280	842,506
Pensions	69,551	73,197
Social contributions	<u>12,437</u>	<u>13,064</u>
	<u>960,268</u>	<u>928,767</u>
Fees paid:		
Board of Directors	6,650	6,306
Executive Board	<u>42,995</u>	<u>31,408</u>
	<u>49,645</u>	<u>37,714</u>

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Notes

The Group continued the long-term incentive (LTI) program targeted at Group Management and other members of senior management that was implemented in 2015. Members of the boards of the Poul Due Jensen Foundation and Grundfos Holding A/S do not participate in the LTI program, unless a board member is part of senior management.

Under the LTI program, participants may receive shares in Grundfos Holding A/S based on the Group meeting certain targets for profit growth and return on capital employed. Shares granted will be vested to the participants in the four years following the year they were earned.

	2016	2015
	DKK '000	DKK '000
Average number of full-time employees	<u>1,397</u>	<u>1,445</u>
Number of full-time employees, closing	<u>1,432</u>	<u>1,405</u>

5. Financial income

Value adjustment, etc. from bonds	7,038	0
Interest income from bonds	8,193	3,481
Value adjustment, etc. from shares	21,055	49,265
Exchange-rate adjustments other	9,081	4,968
Financial income, affiliated companies	121,088	43,779
Other financial income	<u>11,825</u>	<u>113</u>
	<u>178,280</u>	<u>101,606</u>

6. Financial costs

Value adjustment, etc. from bonds	0	4,998
Hedging forward contracts	3,517	0
Financial costs, affiliated companies	15,531	29,149
Other financial costs	<u>261</u>	<u>40,559</u>
	<u>19,309</u>	<u>74,706</u>

Notes

	2016	2015
	DKK '000	DKK '000
7. Tax on profit for the year		
Current tax	236,805	122,168
Deferred tax	-66,543	-13,851
Deferred tax due to change in tax rate	0	-4,488
Adjustment previous years	-21,326	64,805
Tax at source paid abroad	19,751	23,004
	168,687	191,638
Reconciliation of tax amounts:		
Tax on profit for the year before tax	406,734	393,986
Adjustment previous years	-21,327	64,664
Deferred tax due to change in tax rate	0	-4,163
Tax at source paid abroad	19,751	23,004
Non-deductible expenses	13,322	7,280
Non-taxable income	-249,793	-293,133
Other adjustments	0	0
Total tax for the year	168,687	191,638
Tax rate on profit before tax	9.1 %	11.4 %

Deferred tax primarily relates to fixed assets.

8. Proposed profit appropriation

Reserve for development projects	56,319	0
Reserve equity method	365,486	-384,186
Dividend	825,000	725,000
Retained profit	433,299	1,144,082
	1,680,104	1,484,896

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Notes

	Compl. devel. projects DKK '000	Other intang. fixed assets DKK '000	Devel. proj. in progress DKK '000	Other intang. fixed assets in progress DKK '000
9. Intangible fixed assets				
Cost 01.01.2016	839,148	633,510	326,348	36,652
Transfer to affiliated company	-45,321	-9,300	-20,636	0
Additions of the year	0	22,297	74,884	25,426
Disposals of the year	-80,705	-104,822	0	0
Transfers	<u>319,851</u>	<u>20,263</u>	<u>-319,851</u>	<u>-24,636</u>
Cost 31.12.2016	<u>1,032,973</u>	<u>561,948</u>	<u>60,745</u>	<u>37,442</u>
Amortisation and write-downs 01.01.2016	531,240	353,435	0	0
Transfer to affiliated company	-15,002	-7,440	0	0
Amortisation and write-downs for the year	176,052	169,569	14,333	0
Amortisation and write-downs on disposals for the year	-80,705	-104,822	0	0
Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amortisation and write-downs 31.12.2016	<u>611,585</u>	<u>410,742</u>	<u>14,333</u>	<u>0</u>
Accounting value 31.12.2016	<u>421,388</u>	<u>151,206</u>	<u>46,412</u>	<u>37,442</u>
Accounting value 31.12.2015	<u>307,908</u>	<u>280,075</u>	<u>326,348</u>	<u>36,652</u>

Grundfos Holding A/S recognises only development projects which generate new saleable products that meet a certain criterion for profitability. Project progress is assessed regularly during the development phase in accordance with the Company's 'Decision Point Model'. Development projects in progress are related to core pump business. After sales release, where amortization commences, it is assessed annually for each project, if there is indication of impairment. If this is the case, a more thorough impairment test is carried out for such projects. In case of impairment the project in question is written down to its recoverable amount.

Notes

	Technical install. and machinery <u>DKK '000</u>	Other install. etc. <u>DKK '000</u>	Fixed install. in progress <u>DKK '000</u>
10. Tangible fixed assets			
Cost 01.01.2016	337,554	370,289	21,493
Transfer to affiliated company	-651	-508	0
Additions of the year	7,260	11,453	282,343
Disposals of the year	-4,496	-208	0
Transfers	<u>13,951</u>	<u>5,146</u>	<u>-14,724</u>
Cost 31.12.2016	<u>353,618</u>	<u>386,172</u>	<u>289,112</u>
Depreciation and write-downs 01.01.2016	241,855	245,781	0
Transfer to affiliated company	-273	-85	0
Depreciation and write-downs for the year	21,865	79,758	0
Depreciation and write-downs on disposals for the year	-4,496	-208	0
Transfers	<u>0</u>	<u>0</u>	<u>0</u>
Depreciation and write-downs 31.12.2016	<u>258,951</u>	<u>325,246</u>	<u>0</u>
Accounting value 31.12.2016	<u>94,667</u>	<u>60,926</u>	<u>289,112</u>
Accounting value 31.12.2015	<u>95,699</u>	<u>124,508</u>	<u>21,493</u>

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Notes

	Investments affiliated companies DKK '000	Accounts receivable from aff. companies DKK '000	Other accounts receivables DKK '000
11. Financial fixed assets			
Cost 01.01.2016	9,788,656	3,003,485	13
Exchange rate adjustments	0	35,099	1,641
Additions of the year	1,392,149	100,659	28,481
Disposals of the year	<u>-73,154</u>	<u>0</u>	<u>0</u>
Cost 31.12.2016	<u>11,107,651</u>	<u>3,139,243</u>	<u>30,135</u>
Value adjustments 01.01.2016	-1,885,673	0	0
Change accounting policy	4,009,808	0	0
Profit for the year	1,132,779	0	0
Dividend received	-767,293	0	0
Disposals of the year	73,154	0	0
Other adjustments	<u>-44,377</u>	<u>0</u>	<u>0</u>
Value adjustments 31.12.2016	<u>2,518,398</u>	<u>0</u>	<u>0</u>
Accounting value 31.12.2016	<u>13,626,049</u>	<u>3,139,243</u>	<u>30,135</u>
Accounting value 31.12.2015	<u>11,912,791</u>	<u>3,003,485</u>	<u>13</u>

The accounting value of investments in affiliated companies does not include goodwill.

Notes

Investments in affiliated companies include:

Grundfos Holding AG, Switzerland, 100 % (and 90 underlying subsidiaries)

Bombas Grundfos Españã S.A.U, Spain, 100 %

Bombas Grundfos Portugal S.A, Portugal, 100 %

Grundfos Pompe Italia S.r.l, Italy, 100 % (and 1 underlying subsidiary)

Grundfos Pumps Baltic SIA, Latvia, 100 %

Pompes Grundfos S.A.S, France 100 %

Pompes Grundfos Distribution S.A.S, France, 100 %

Grundfos Insurance Management AG, Switzerland, 100 %

Grundfos Pompe Romania S.r.l, Romania, 100 %

Bombas Grundfos de Argentina S.A., Argentina, 10 %

Grundfos BioBooster A/S, Denmark, 100 %.

Grundfos LifeLink A/S, Denmark, 100 %.

Grundfos Operations A/S, Denmark, 100 %

Grundfos US ApS, Denmark, 100 % (and 9 underlying subsidiaries)

DWT Holding S.P.A., Italy, 100 % (and 13 underlying subsidiaries)

The Poul Due Jensen Foundation, Bjerringbro, Denmark, which owns 88% of the shares in Grundfos Holding A/S, prepares consolidated annual accounts comprising all the above-mentioned companies.

	<u>2016</u> <u>DKK '000</u>	<u>2015</u> <u>DKK '000</u>
12. Inventories		
Work in progress	15,396	6,393
Manufactured goods and goods for resale	<u>0</u>	<u>56,650</u>
Inventories	<u>15,396</u>	<u>63,043</u>
13. Prepayments		
Prepayments 01.01.2016	41,585	51,287
Changes for the year	<u>16,055</u>	<u>-9,702</u>
Prepayments 31.12.2016	<u>57,640</u>	<u>41,585</u>

Prepayments include IT costs, sponsorship, marketing costs, membership fees and insurance.

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Notes

	<u>2016</u> <u>DKK '000</u>	<u>2015</u> <u>DKK '000</u>
14. Liabilities under guarantee		
Liabilities under guarantee 01.01.2016	3,027	3,012
Transfer to affiliated company	-3,027	0
Changes for the year	<u>0</u>	<u>15</u>
Liabilities under guarantee 31.12.2016	<u>0</u>	<u>3,027</u>
15. Other provisions		
Other provisions 01.01.2016	34,585	49,549
Transfer to affiliated company	-199	320
Changes for the year	<u>18,843</u>	<u>-15,284</u>
Other provisions 31.12.2016	<u>53,229</u>	<u>34,585</u>
Other provisions include jubilee provision and provision according to a global share based incentive programme for senior management in the Group.		
16. Deferred tax		
Deferred tax 01.01.2016	209,745	223,655
Transfer to affiliated company	-11,497	0
Changes in tax rates	0	-4,488
Deferred tax recognized in profit and loss account	-66,543	-13,851
Deferred tax recognized in equity	<u>0</u>	<u>4,429</u>
Deferred tax 31.12.2016	<u>131,705</u>	<u>209,745</u>
17. Financial instruments		
For hedging purposes Grundfos Holding A/S has entered into financial contracts covering 1-24 months. The contracts are transferred to affiliated companies and hence the net exposure in Grundfos Holding A/S is zero.		

Notes

18. Related parties

Related parties with a controlling influence in Grundfos Holding A/S:

The Company's parent foundation, The Poul Due Jensen Foundation and The Board of Grundfos Holding A/S.

Transactions with related parties are only disclosed in the annual report if they are not on arm's length terms. Transactions between Grundfos Holding A/S and related parties are on arm's length terms.

19. Shareholders

The following shareholders are registered as holding more than 5% of the Company's share capital:

The Poul Due Jensen Foundation, Bjerringbro, Denmark, 88%

20. Securities, contingent liabilities, etc.

Lease commitments: Accumulated payments on operating lease contracts due within the next seven years amount to a maximum of DKK 36 million (2015: DKK 31 million).

The Company has provided security for debts and leasing liabilities in subsidiaries. The total liability amount to DKK 44 million at 31.12.2016 (2015: DKK 51 million).

The Company has provided security for facilities in subsidiaries. The total corporate guarantee amount to DKK 426 million at 31.12.2016 (2015: DKK 475 million), hereof utilised DKK 53 million at 31.12.2016 (2015: DKK 74 million). In addition to this the Company has issued letters of intent to support bank debt of DKK 62 million at 31.12.2016 (2015: DKK 71 million).

The Company has issued performance and payment guarantees of DKK 19 million (2015: DKK 19 million).

The Danish group enterprises participate in a Danish joint taxation arrangement with Grundfos Holding A/S serving as the administration company and are therefore jointly and severally liable from the financial year 2013 for the total income tax and from 1 July 2012 also for obligations, if any, to withhold tax on interest, royalties and dividends for the jointly taxed enterprises. The total net liability to the Danish tax authorities is recognised in financial statements of Grundfos Holding A/S.