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ANNUAL REPORT

Grundfos Holding A/S,
Poul Due Jensens Vej 7,
DK-8850 Bjerringbro
CVR no.: 31 85 83 56

*The annual report (01.01.2019-31.12.2019) is presented
and approved at the Annual Meeting on 24 April 2020.
Conductor: Andreas F. Brandt*

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GRUNDFOS 

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Management report 2019

This report covers the annual result of the Grundfos Group, Grundfos Holding A/S, and its affiliated companies. To read the majority owner's annual report, please visit the Poul Due Jensens Fond's website, www.poul-duejensenfoundation.com.

2019 was a record-breaking year for Grundfos. Our earnings and cash flow were the best ever. We recorded the highest ever employee motivation and satisfaction. We repeated very high customer loyalty and satisfaction results. We continued to reduce our own water and energy footprint. We played an instrumental part in bringing water access to approximately 850 thousand people in close collaboration with our partners.

Challenging market conditions

Despite challenging market conditions, our net turnover grew 2.2% over 2018 when measured in local currencies. Following an appreciation in selected currencies in 2019 versus 2018, the growth measured in DKK landed at 3.0%, bringing net turnover to DKK 27.5bn.

Our core European markets demonstrated solid growth throughout the year, and we also experienced growth in the large markets in China and the Americas, although at lower levels than in 2018.

Our strategically important global service business continues to show solid growth, and our successful focus on improving profitability in our Heating, Ventilation, Air Condition (HVAC) OEM business, delivering pumps to residential HVAC appliances, has resulted in a flat sales development.

In Asia, we have been impacted by the decline in capital investments, which, in turn, has lowered demand among our customers within the machine tooling business.

The DAB branded business has delivered another year of solid growth.

Record-breaking profitability and cash flow

In 2019, we generated Earnings before Interest and Tax (EBIT) of DKK 2,791m, which

is an improvement of DKK 391m (up 16%) over 2018.

When adjusting for non-performance related items, including costs for our employee share programme and restructuring costs, our "performance EBIT" totalled DKK 2,926m. Performance EBIT has grown 19% over 2018, and it is the highest performance EBIT delivered in Grundfos' history.

Performance EBIT/net turnover stands at 10.6%, thereby meeting our ambition of exceeding 10% return on sales at the latest by 2020.

The general improvement in the stock markets in 2019 has resulted in income on Grundfos' securities portfolio and securing a positive net financial income for the year of DKK 168m compared to a loss of DKK 74m in 2018.

At the end of October 2019, the Grundfos Group repaid a loan with the Poul Due Jensens Fond settling most of the loan repayment by transfer of the securities portfolio held by the Grundfos Group. For this reason, the Grundfos Group end of 2019 has significantly reduced its securities portfolio and its loans from affiliates compared to the 2019 opening balances.

Profit before Tax (PBT) ended at DKK 2,959m up DKK 633m over last year.

Cash flow from operating activities in 2019 was DKK 3,947m, which is the highest cash flow from operating activities in company history. The strong cash flow is a result of the strong operating result in combination with diligent working capital management.

Net investments for the year stand at DKK 1,236m. The free cash flow (before purchase and sale of securities) ended at DKK 2,711m, which also is record-breaking for Grundfos. A solid cash flow generation is critical for our independence and our ability to invest in realising our strategic ambitions.

A solid balance sheet gives us the strength to make long-term decisions without risking

our financial independence. Our equity ratio at the end of 2019 stands at 68.1%.

Delivering on the Strategy 2020 ambitions

In 2015 we launched our Strategy 2020 including five Group KPIs as measures of success. With 2019 past us, we can take final stock of how we met these Group KPIs. The five Group KPIs in the 2020 Strategy were:

- Employee motivation and satisfaction
- Customer loyalty
- Sales growth
- Return on sales (Performance EBIT/Net turnover)
- Return on Capital Employed

Further below, we will introduce the new strategic KPIs set out in the Grundfos Strategy 2025.

The result of our 2019 survey on employee motivation and satisfaction showed an overall satisfaction score of 75, up two points over 2018. The 75 score is the best result ever measured across the Group and is considered a strong performance for an industrial company of our size.

Already in 2018, we exceeded our 2020 ambition on customer loyalty reaching a record-high score of 88 against our 2020 target being 86. In 2019, we repeated this score, which cements our close and trusted relationship to our customers.

Our ambition on sales growth was to outgrow the market with a minimum average growth rate over the period of 3%. With a 2.2% sales growth in 2019 the year in isolation was below target. Seen over the strategy period (2016-2019), the average growth rate is 3.6%, i.e. above target.

On profitability, our ambition was to reach a 10% performance EBIT/Net turnover by 2020. With a 10.6% performance EBIT/Net turnover in 2019 we have met our ambition, thus giving Grundfos a strong starting point for the new strategy period.

Finally, we set out to realise a Return on Capital Employed (ROCE) of 17%. In 2019, we delivered a ROCE of 21.2% thus comfortably meeting the target.

We have therefore delivered on most of our strategic ambitions set out in our 2020 Strategy.

Our strategy towards 2025

In April 2019, we launched the Grundfos Strategy 2025 including among others a revised purpose and setting new ambitions towards 2025.

Our purpose is to pioneer solutions to the world's water and climate challenges and to improve the quality of life for people. Our purpose builds on our long heritage of going beyond business as usual, taking responsibility for societal issues and contributing with our knowledge and technology to a more sustainable world.

To succeed with our purpose, we want to take market leadership in the businesses we compete in, we will innovate to differentiate, as differentiation is our primary source of competitiveness, and we continuously strive for operational excellence.

The Grundfos Strategy 2025 is ambitious and entails two major transformations of our business. Firstly, we want to become true digital solutions and service providers with an ambition to secure 20% of our revenue from digital offerings by 2025. Secondly, water solutions will be a critical platform for future growth, which entails, among others, building a sizeable business within water treatment.

New Group KPIs

As part of the Grundfos Strategy 2025, we have updated our Group Key Performance Indicators (KPIs) representing our measure of successfully delivering on the strategy. The six Group KPIs represent a balanced set of measures on how we create value for all the company's stakeholders; customers, employees, society and shareholders.

- Employee motivation and satisfaction
- Customer satisfaction
- Sales growth
- Return on sales (Performance EBIT/Net turnover)
- Cash conversion (Cash Flow from Operations/EBITDA)
- Sustainability Index

We continue with Employee motivation and satisfaction as a vital KPI, and we have chosen to maintain a high ambition level of reaching a score of 78 by 2025.

We introduce customer satisfaction as a performance measure instead of customer loyalty. Although the two measures are closely related, customer satisfaction is a better measure for how our customers feel here and now, whereas customer loyalty reflects a longer-term measure. Our 2019 annual customer satisfaction survey showed a comparatively high score of 78, which is on par with previous years. Towards 2025, we have an ambition to further increase the score to 81.

On sales growth, we have set an ambition to always outgrow the market – though with a minimum average growth rate in the strategy period of 4%.

As part of the Grundfos Strategy 2025 we have introduced cash conversion as one of our Group KPIs. Cash conversion is measured

as Cash Flow from Operations/Earnings before Interest, Depreciation and Amortisation (EBITDA). Our ambition is to reach an average cash conversion ratio of 0.75 in the strategy period. Following our strong Cash Flow from Operations in 2019, the cash conversion ratio for the year reached 0.97, i.e. above the target average.

Finally, we have in the 2025 Strategy introduced a sustainability index as a Group KPI. The sustainability index includes measures covering social responsibility, climate management and water management. The ambition is to reach index 100 by 2025, which will represent us meeting all ambitious targets across the measures. Our starting point at the end of 2019 is an index of 30. Please see more about the Sustainability Index in the Sustainability Report.

The six Group KPIs form an integral part of the incentive scheme for our most senior leadership.

Below, we have reported on our 2019 results on the new Group KPIs.

Risk management

Grundfos is exposed to several business risks that could negatively impact our ability to reach the objectives set out in our Strategy 2025. We have a risk management process allowing the Group to monitor relevant risks continuously and to imple-

The table below shows the 2025 targets and realised figures for 2018 and 2019 for the Grundfos Group.

KPI	2018	2019	2025 target
Sales growth (excl. currency impact)	6.6%	2.2%	Grow more than served market (avg. 4%)
Customer satisfaction	78	78	81
Employee motivation and satisfaction	73	75	78
Return on Sales (performance EBIT/net turnover)	9.2%	10.6%	10%
Cash conversion	0.65	0.97	Average 0.75
Sustainability index	n.a.	30*	100

**Indicative baseline*

ment appropriate mitigating measures where needed.

Some of the critical risk areas relevant to Grundfos are:

- **Protecting our supply chain:** We are operating a global supply chain with significant inter-company flows of components. A disruption in a part of our supply chain may adversely affect the Group's operations.
- **Barriers to trade:** Trade conflicts and protection of national markets may restrict our ability to use our global supply chain most optimally.
- **Volatility in currencies and material prices:** Despite manufacturing and sourcing activities dispersed across several countries, the Group has a large proportion of sourcing and manufacturing in EUR. This means exposure to currency swings. The Group currently mitigates this risk based on its currency hedging policy. Previously, the Group has hedged selected raw materials. However, hedging of raw materials has been discontinued with full effect from Q4 2019 as the available hedging instruments were considered less relevant and with no material impact on the Group's financial performance. For further information, we refer to note 26 to the consolidated group accounts.

Research and development

Research and development (R&D) activities continue to be critical for Grundfos. Our R&D functions are primarily located at company headquarters in Bjerringbro, Denmark. R&D covers a wide range of activities such as research into materials, product development, production technologies and methodologies etc. There are also R&D teams located in selected key markets.

We partner with universities and public and private partners, supporting research activities and applying technology in practice.

Uncertainty relating to recognition and measurement

We have, in conjunction with the financial reporting for 2019, not identified any areas

with material uncertainties regarding recognition and measurement.

Outlook for 2020

Growth in the global economy is expected to stay modest, and we expect significant negative impacts both on the demand and the supply side following the COVID-19 outbreak. We therefore forecast flat or slightly negative sales growth compared to 2019 though with a high uncertainty given the unpredictable market conditions. Independent of market development, we expect to gain global market share in our industry.

For 2020, we forecast a performance EBIT/Net turnover around our strategic ambition of 10%, but with some uncertainty following recent developments. Following this and as we plan investing in strategic initiatives supporting our 2025 Strategy, we forecast a nominal performance EBIT lower than in 2019.

Grundfos in Society

Our purpose and the Grundfos Strategy 2025 are rooted in our commitment to pioneering solutions to the world's water and climate challenges.

We have supported the UN Global Compact principles since 2002 and will continue doing so, in particular focusing on achieving results on Sustainable Development Goals #6 (water and sanitation) and #13 (climate change).

Our Sustainability Report and this Annual Report shall be seen in conjunction. By publishing our Sustainability Report, we fulfil the requirements for corporate sustainability reporting set out in section 99a of the Danish Financial Statements act as well as section 99b on the gender balance at management levels, etc.

Please go to our Sustainability Report here: <https://www.grundfos.com/about-us/news-and-press/reports-magazines/sustainability-reports.html>

Management's report on the Parent Company

Grundfos Holding A/S is the Parent Company of the Grundfos Group and holds the shares

of all the other Grundfos Group companies – either directly or indirectly. The company's activities include the majority of the Group's R&D functions as well as group functions involving coordination, planning and management.

In this capacity, Grundfos Holding A/S performs several overarching functions and services. Grundfos Holding A/S had 1,609 employees at the end of 2019 (2018: 1,623). In 2019, the net turnover of Grundfos Holding A/S totalled DKK 3,401m (2018: DKK 3,251m), and the operating profit amounted to DKK 254m (2018: DKK 155m).

According to the equity method, income from the other group companies amounted to DKK 1,744m (2018: 1,508m). Profit after tax stands at DKK 2,204m (2018: 1,758m). The balance sheet shows equity of DKK 17,142m (2018: DKK 16,031m), corresponding to an equity ratio of 75.0% (2018: 54.1%).

Key figures and financial ratios

THE GRUNDFOS GROUP

Amounts in DKKm

CONSOLIDATED PROFIT AND LOSS ACCOUNT	2019	2018	2017	2016	2015
Net turnover	27,518	26,721	25,634	24,677	24,800
Operating profit	2,791	2,405	2,351	2,255	1,969
Earnings before interest and tax (EBIT)	2,791	2,400	2,346	2,248	2,083
Net financials	168	(74)	69	26	(25)
Profit before tax	2,959	2,326	2,415	2,274	2,058
Consolidated profit after tax	2,208	1,762	1,755	1,680	1,491
CONSOLIDATED BALANCE SHEET					
<i>Assets</i>					
Intangible fixed assets	589	535	628	884	1,176
Tangible fixed assets	6,020	6,099	6,229	6,755	6,991
Financial fixed assets	818	1,177	1,435	1,797	1,551
Current assets	17,787	19,895	17,697	15,208	12,919
Total assets	25,214	27,706	25,989	24,644	22,637
<i>Liabilities</i>					
Equity	17,160	16,045	15,200	14,503	13,577
Provisions	1,264	1,026	1,245	1,314	1,177
Long-term liabilities	128	21	20	126	143
Short-term liabilities	6,662	10,614	9,524	8,701	7,740
Total liabilities and equity	25,214	27,706	25,989	24,644	22,637
KEY FIGURES AND RATIOS					
Number of employees at year-end	19,060	19,014	18,596	17,777	17,942
Capital investments, tangible	983	1,010	768	942	954
Capital investments, intangible	259	132	143	139	281
Total capital investments	1,242	1,142	911	1,081	1,235
Research and development costs, incl. capitalised	1,109	1,190	1,162	1,151	1,106
Interest-bearing net accounts receivable	6,710	4,817	4,388	2,950	1,617
Net cash flow from operating and investment activities before impact from purchase and sale of securities	2,711	1,488	2,214	2,069	1,603
Sales growth	3.0%	4.2%	3.9%	-0.5%	5.0%
Sales growth in local currencies	2.2%	6.6%	5.3%	0.5%	0.8%
EBIT as a percentage of net turnover	10.1%	9.0%	9.2%	9.1%	8.4%
Return on equity	13.3%	11.3%	11.8%	12.0%	11.5%
Equity ratio	68.1%	57.9%	58.5%	58.9%	60.0%

DEFINITION OF KEY FIGURES AND RATIOS:

Sales growth: Yearly change in consolidated net turnover measured in DKK.

Sales growth in local currencies: Yearly change in consolidated net turnover adjusted for currency impact.

Return on equity: Consolidated profit after tax as a percentage of the average equity.

Equity ratio: Equity at year-end as a percentage of total assets.

Net cash flow from operating and investment activities before impact from purchase and sale of securities: Net cash flow from operating and investments added cash flow effect from purchase and sale of securities.

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

Changes in accounting policies regarding provision for uncertain tax positions (IFRIC 23) have been made in 2019. Comparison figures for 2015-2018 have not been restated.

Group Management



From left:

Lone Tvis, Senior Vice President – Human Resources. **Mikael Geday**, Group Executive Vice President – Finance, IT & Corporate Affairs.

Mads Nipper, Group President, CEO. **Poul Due Jensen**, Group Executive Vice President – Sales & Service.

Stéphane Simonetta, Group Executive Vice President – Operations. **Ulrik Gernow**, Group Executive Vice President – Global Segments, Marketing & Communication.

Board of Directors



From left:

Anders Vedel, Member of the Board. **Kitty Thaarup Herholdt**, Member of the Board, elected by employees. **Jens Maaløe**, Member of the Board.

Jens Winther Moberg, Chairman. **Natalie Knight**, Member of the Board. **Carsten Reinhardt**, Vice Chairman.

John B. Jacobsen, Member of the Board, elected by employees. **Rudolf Martini**, Member of the Board, elected by employees.

Management's statement

STATEMENT BY THE BOARD OF DIRECTORS AND GROUP MANAGEMENT ON THE ANNUAL REPORT

Today, the Board of Directors and Group Management have reviewed and approved the Annual Report of Grundfos Holding A/S for the financial year 1 January – 31 December 2019.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements of the Parent Company give a true and fair view of the financial position at 31 December 2019, the results of the Group's and Parent Company's operations, and consolidated cash flows for the financial year 2019.

In our opinion, the Management's Report includes a true and fair account of the development in the operations and financial circumstances of the results for the year, and of the financial position of the Group and the Parent Company, as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Bjerringbro, 4 March 2020

REGISTERED GROUP MANAGEMENT

Mads Nipper

Group President, CEO

Mikael Andreas

Holm Geday

Group Executive Vice President

Stéphane Laurent

Gilles Simonetta

Group Executive Vice President

BOARD OF DIRECTORS

Jens Winther Moberg

Chairman

Carsten Joachim Reinhardt

Vice Chairman

Jens Maaløe

Member of the Board

Natalie Knight

Member of the Board

Anders Vedel

Member of the Board

Rudolf Martini

*Member of the Board,
elected by employees*

John Bjerregaard Jacobsen

*Member of the Board,
elected by employees*

Kitty Thaarup Herholdt

*Member of the Board,
elected by employees*

Independent auditor's report

To the shareholders of Grundfos Holding A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Grundfos Holding A/S for the financial year 1 January – 31 December 2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2019, and of the results of their operations and the consolidated cash flows for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group 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 consolidated financial statements and the parent financial statements

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

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent'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 consolidated financial statements and the parent financial statements, unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements 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, individually or in the aggregate, they could reasonably be expected to influence the economic deci-

sions of users taken on the basis of these consolidated financial statements and these parent financial statements.

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 consolidated financial statements and the parent financial statements, 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 Group's and the Parent'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 consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent'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 consolidated financial statements and the parent

financial statements 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 Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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's report

Management is responsible for the management's report.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management's report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management's report and, in doing so, consider whether the management's report is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowl-

edge obtained in the audit, or otherwise appears to be materially misstated.

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

Based on the work we have performed, we conclude that the management's report is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management's report.

Aarhus, 4 March 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

Thomas Rosquist Andersen
State-Authorised Public Accountant
MNE no 31482

Lars Siggaard Hansen
State-Authorised Public Accountant
MNE no 32208

Consolidated profit and loss account

1 January – 31 December 2019

Amounts in DKKm

	Note	2019	2018
Net turnover	1, 2	27,518	26,721
Production costs	2, 3	(16,932)	(16,558)
Gross profit		10,586	10,163
Research and development costs	3, 4	(1,176)	(1,289)
Sales and distribution costs	3, 4	(4,421)	(4,269)
Administrative costs	3, 4	(2,198)	(2,200)
Operating profit		2,791	2,405
Share of profit, associated companies		0	(5)
Earnings before interest and tax (EBIT)		2,791	2,400
Income from fixed asset investments		24	18
Financial income	5	305	184
Financial costs	2, 6	(161)	(276)
Profit before tax		2,959	2,326
Tax on profit for the year	7	(751)	(564)
Consolidated profit for the year	8	2,208	1,762

Consolidated balance sheet

As at 31 December 2019

Amounts in DKKm

ASSETS	Note	2019	2018
Fixed assets			
Intangible fixed assets			
Completed development projects		167	255
Goodwill		57	68
Other intangible fixed assets		338	206
Development projects in progress		27	6
	9	589	535
Tangible fixed assets			
Land and buildings		2,812	2,769
Technical installations and machinery		2,156	2,340
Other technical installations		408	442
Tangible fixed assets in progress		644	548
	10	6,020	6,099
Financial fixed assets			
Investments in associated companies		5	5
Securities		66	634
Deferred tax assets	11	682	477
Other accounts receivable		65	61
	12	818	1,177
Total fixed assets		7,427	7,811
Current assets			
Inventories			
	13	4,158	4,496
Accounts receivable			
Trade debtors		5,008	4,815
Work in progress	14	29	50
Corporation tax		689	566
Other accounts receivable		925	909
Prepayments	15	179	185
		6,830	6,525
Securities		835	4,706
Cash at bank and in hand		5,964	4,168
Total current assets		17,787	19,895
Total assets		25,214	27,706

Consolidated balance sheet

As at 31 December 2019

Amounts in DKKm

LIABILITIES	Note	2019	2018
Equity			
Share capital		381	381
Retained profit		15,661	14,775
Proposed dividend		1,100	875
Grundfos Holding's share of equity		17,142	16,031
Minority interests		18	14
Total equity		17,160	16,045
Provisions			
Liabilities under guarantee	16	213	189
Pension liabilities	16	578	370
Other provisions	16	433	393
Deferred tax liabilities	11	40	74
Total provisions		1,264	1,026
Liabilities			
Long-term liabilities			
Bank loans		39	12
Other loans		89	9
	17	128	21
Short-term liabilities			
Short-term element of long-term liabilities		10	15
Bank overdrafts and loans		17	79
Trade creditors		2,374	2,364
Work in progress	14	14	12
Debt to affiliated companies		0	4,576
Corporation tax		1,075	491
Other liabilities		2,999	2,888
Deferred income	18	173	189
		6,662	10,614
Total liabilities		6,790	10,635
Total equity, provisions and liabilities		25,214	27,706

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Statement of changes in consolidated equity

1 January – 31 December 2019

Amounts in DKKm

	Share capital	Retained profit	Proposed dividend	Grundfos Holding's share of equity	Minority interests	Total equity
Equity 01.01.2018	381	13,935	875	15,191	9	15,200
Profit for the year		883	875	1,758	4	1,762
Exchange rate adjustments, affiliated companies, etc.		49		49	1	50
Dividend paid			(875)	(875)		(875)
Changes in actuarial assumptions		107		107		107
Reversed value of hedging instruments, opening		(111)		(111)		(111)
Reversed tax on equity items, opening		12		12		12
Recognised value of hedging instruments, closing		(96)		(96)		(96)
Recognised tax on equity items, closing		(4)		(4)		(4)
Equity 31.12.2018	381	14,775	875	16,031	14	16,045
Profit for the year		1,104	1,100	2,204	4	2,208
Change in accounting policies		(182)		(182)		(182)
Exchange rate adjustments, affiliated companies, etc.		129		129	0	129
Dividend paid			(875)	(875)		(875)
Changes in actuarial assumptions		(226)		(226)		(226)
Reversed value of hedging instruments, opening		96		96		96
Reversed tax on equity items, opening		4		4		4
Recognised value of hedging instruments, closing		(68)		(68)		(68)
Recognised tax on equity items, closing		29		29		29
Equity 31.12.2019	381	15,661	1,100	17,142	18	17,160

Consolidated cash flow statement

1 January – 31 December 2019

Amounts in DKKm

	Note	2019	2018
Consolidated profit after tax		2,208	1,762
Adjustments	23	2,164	1,762
Changes in working capital	24	102	(542)
Cash flow from operating activities before financials		4,474	2,982
Income from financial fixed assets		24	18
Financial income		284	115
Financial costs		(161)	(6)
Cash flow from ordinary activities		4,621	3,109
Corporation tax paid		(674)	(530)
Cash flow from operating activities		3,947	2,579
Investment in tangible assets		(983)	(1,010)
Disposal of tangible fixed assets		6	51
Investment in intangible fixed assets		(259)	(132)
Purchase and sale of securities		4,448	(304)
Cash flow from investment activities		3,212	(1,395)
Net cash flow from operating and investment activities		7,159	1,184
Changes in loans		(4,576)	585
Changes in liabilities		41	71
Dividend paid		(875)	(875)
Cash flow from financing activities		(5,410)	(219)
Change in liquid funds		1,749	965
Available funds, opening	25	4,215	3,203
Available funds, closing	25	5,964	4,168

Individual items in the cash flow statement cannot be directly deduced from the consolidated profit and loss account and the consolidated balance sheet.

Notes to the consolidated accounts

Amounts in DKKm

Note 1	Net turnover	2019	2018
	Europe (including Russia)	14,912	14,627
	North and South America	4,500	4,235
	Asia	6,713	6,512
	The Middle East/Africa	1,393	1,347
		27,518	26,721

The Grundfos Group's activities lie solely within the segment of the manufacture and sale of pump solutions. Therefore, net turnover has only been divided according to geographical markets.

Note 2	Result from hedging instruments recognised in profit and loss account	2019	2018
	Foreign exchange rate contracts recognised in net turnover	(229)	(26)
	Foreign exchange rate contracts recognised in production costs	7	(18)
	Raw material contracts recognised in production costs	(50)	64
	Foreign exchange rate contracts recognised in financial costs	(15)	(4)
		(287)	16

Amounts in DKKm

Note 3	Staff costs	2019	2018
	Total Group payments to employees and the Board of Directors	6,549	6,197
	Pensions	476	409
	Social contributions	599	604
		7,624	7,210
	Staff costs are recognised as follows:		
	Production costs	3,496	3,185
	Research and development costs	771	793
	Sales and distribution costs	2,189	2,127
	Administrative costs	1,168	1,105
		7,624	7,210
	Staff costs of the year include fees to Group Management and the Board of Directors of Grundfos Holding A/S for directorships in Grundfos Holding A/S		
	Board of Directors	8	7
	Registered Group Management	34	52
		42	59
	The registered Group Management consisted of five members from January 2019 until the beginning of March 2019. For the rest of the year, the registered Group Management consisted of three members.		
	The Group continued the long-term incentive (LTI) programme targeted at Group Management and other members of senior management that was implemented in 2015. Members of the Board of Grundfos Holding A/S do not participate in the LTI programme.		
	Under the LTI programme, participants may receive shares in Grundfos Holding A/S based on the Group meeting certain targets for sales growth, 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.		
	Average number of full-time employees	19,019	18,888
	Number of employees, closing	19,060	19,014

Note 4	Depreciation, amortisation and write-downs	2019	2018
	Intangible fixed assets	224	239
	Tangible fixed assets	1,078	1,066
	Gain/loss from sale of fixed assets	18	(10)
		1,320	1,295
	Recognised in the profit and loss account under the following items:		
	Production costs	915	886
	Research and development costs	202	208
	Sales and distribution costs	92	88
	Administrative costs	111	113
		1,320	1,295

The amounts for research and development costs and goodwill include write-downs of DKK 0m (2018: DKK 0m).

Amounts in DKKm

Note 5	Financial income	2019	2018
	Value adjustments, etc. from shares	137	0
	Dividend income from shares	36	69
	Interest income from bonds	37	41
	Other financial income	95	74
		305	184

Note 6	Financial costs	2019	2018
	Value adjustments, etc. from shares	0	190
	Value adjustments, etc. from bonds	38	15
	Interest, affiliated company	4	7
	Other financial costs	119	64
		161	276

Note 7	Tax on profit for the year	2019	2018
	Current tax	737	677
	Deferred tax	(194)	(56)
	Change in deferred tax due to changes in tax rates	(1)	(6)
	Adjustment regarding previous years	209	(51)
	Tax on profit for the year	751	564
	Reconciliation of tax rate for the year:		
	Danish tax rate	22%	22%
	Deviations in tax in foreign companies in relation to Danish tax rate	1%	1%
	Non-deductible expenses and non-taxable income	0%	1%
	Non-deductible withholding taxes	2%	2%
	Change regarding deferred tax assets	(1%)	0%
	Other, including adjustments regarding previous years	1%	(2%)
	Effective tax rate for the year	25%	24%

Amounts in DKKm

Note 8	Consolidated profit for the year	2019	2018
	Attributable to:		
	Minority shareholders' share of profit in subsidiaries	4	4
	Proposed distributions (distribution)	1,100	875
	Retained profit	1,104	883
		2,208	1,762

Note 9	Intangible fixed assets	Completed develop- ment projects	Goodwill	Other intangible fixed assets	Develop- ment projects in progress	Total
	Cost					
	Cost 01.01.2019	507	487	746	6	1,746
	Exchange rate adjustments	0	1	4	0	5
	Additions of the year	5	1	229	24	259
	Disposals of the year	(45)	(79)	(46)	0	(170)
	Transfers	3		18	(3)	18
	Cost 31.12.2019	470	410	951	27	1,858
	Acc. amortisation/write-downs of the year					
	Acc. amortisation/write-downs 01.01.2019	252	419	540	0	1,211
	Exchange rate adjustments	0	0	4	0	4
	Amortisation of the year	96	13	115	0	224
	Amortisations and write-downs on disposals of the year	(45)	(79)	(46)	0	(170)
	Transfer	0	0	0	0	0
	Acc. amortisation/write-downs 31.12.2019	303	353	613	0	1,269
	Book value 31.12.2019	167	57	338	27	589
	Book value 31.12.2018	255	68	206	6	535

The Group recognises only development projects which generate new saleable products that meet a certain criteria for profitability. Project progress is assessed regularly during the development phase in accordance with the Group's "Decision Point Model". Development projects in progress are related to core pump business. After sales release, where amortisation 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.

Amounts in DKKm

Note 10	Tangible fixed assets	Land and buildings	Technical installations and machinery	Other technical installations	Tangible fixed assets in progress	Total
	Cost					
	Cost 01.01.2019	5,917	12,441	1,613	548	20,519
	Exchange rate adjustments	78	27	16	3	124
	Additions of the year	76	301	74	530	981
	Disposals of the year	(24)	(186)	(62)	(12)	(284)
	Transfers	109	265	33	(425)	(18)
	Cost 31.12.2019	6,156	12,848	1,674	644	21,322
	Acc. depreciation/write-downs of the year					
	Acc. depreciation/write-downs 01.01.2019	3,148	10,101	1,171	0	14,420
	Exchange rate adjustments	26	24	21	0	71
	Depreciation of the year	192	748	138	0	1,078
	Depreciation and write-downs on disposals of the year	(22)	(179)	(64)	0	(265)
	Transfers	0	(2)	0	0	(2)
	Acc. depreciation/write-downs 31.12.2019	3,344	10,692	1,266	0	15,302
	Book value 31.12.2019	2,812	2,156	408	644	6,020
	Book value 31.12.2018	2,769	2,340	442	548	6,099

Book value of financially leased facilities as at 31.12.2019 amounts to DKK 10m (2018: DKK 15m).

Amounts in DKKm

Note 11	Deferred tax assets and deferred tax liabilities	2019	2018
	Changes in deferred taxes:		
	Deferred tax 01.01.2019	403	316
	Exchange rate adjustments	6	4
	Acquisition/sale of companies	0	0
	Adjustment regarding previous years	0	0
	Changes in tax rates	1	6
	Deferred tax recognised in profit and loss account	194	56
	Deferred tax recognised in equity	38	21
	Deferred tax 31.12.2019	642	403
	Break-down of deferred tax:		
	Fixed assets	(66)	(57)
	Current assets	414	408
	Provisions	188	(85)
	Liabilities	102	134
	Deficit (tax loss carry-forward)	4	3
		642	403
	The above has been recognised in the balance sheet as:		
	Deferred tax assets	682	477
	Deferred tax liabilities	(40)	(74)
		642	403

The Group recognises deferred tax assets, including the tax value of loss carry-forwards, where Management assesses that the tax assets may be utilised in the foreseeable future or set off against positive taxable income. The assessment is made annually and is based on budgets and business plans for future years, including planned business initiatives. Key parameters are expected turnover and EBIT development considering expected allocation on future taxable income based on the transfer pricing policy in place.

The majority of the tax assets are related to ordinary and recurring temporary differences, while tax loss carry-forwards represent only a small portion of the total tax asset, in 2019 DKK 4m (2018: DKK 3m).

Unrecognised tax assets related to tax losses carry-forward amount to approx. DKK 110m (2018: DKK 110m).

Tax assets related to carry-forward losses are only recognised, if they are expected to be utilised within 3 years.

Amounts in DKKm

Note 12	Financial fixed assets	Investments in associated companies	Securities	Deferred tax assets	Other accounts receivable	Total
	Cost					
	Cost 01.01.2019	29	636	477	72	1,214
	Change in accounting policies	0	0	4	0	4
	Exchange rate adjustments	0	3	10	1	14
	Additions of the year	0	26	237	10	273
	Disposals of the year	(24)	(597)	(46)	(6)	(673)
	Cost 31.12.2019	5	68	682	77	832
	Value adjustments					
	Value adjustments 01.01.2019	24	2	0	11	37
	Exchange rate adjustments	0	0	0	0	0
	Revaluations of the year	0	0	0	0	0
	Write-downs of the year	0	0	0	0	0
	Disposals of the year	(24)	0	0	1	(23)
	Value adjustments 31.12.2019	0	2	0	12	14
	Book value 31.12.2019	5	66	682	65	818
	Book value 31.12.2018	5	634	477	61	1,177

The market value of securities as at 31.12.2019 amounts to DKK 66m (2018: DKK 652m).

Note 13	Inventories	2019	2018
	Raw materials and consumables	1,579	1,758
	Work in progress	1,353	1,473
	Manufactured goods and goods for resale	1,226	1,265
		4,158	4,496

Note 14	Work in progress	2019	2018
	Selling price of project contracts	220	226
	Progress billings	(205)	(188)
		15	38
	Recognised as follows:		
	Receivables	29	50
	Current liabilities	(14)	(12)
		15	38

Amounts in DKKm

Note 15 **Prepayments**

Prepayments comprise prepaid costs regarding rent, insurance premiums, marketing and subscriptions.

Note 16	Provisions	Liabilities under guarantee	Pension liabilities	Other provisions
	01.01.2019	189	370	393
	Exchange rate adjustments	3	5	2
	Provisions spent during the year	(19)	(45)	(71)
	Provisions reversed	0	(20)	(18)
	Provisions of the year	40	268	127
	31.12.2019	213	578	433

Liabilities under guarantee

The ordinary guarantee on products sold covers a period of 24 months.

Other provisions

Other provisions include DKK 32m (2018: DKK 52m) according to a long-term incentive (LTI) programme for senior management in the Group.

Note 17	Long-term liabilities	2019	2018
	Debt falling due after more than one year but less than five years:		
	Bank loans	39	12
	Other monetary creditors	89	9
		128	21

No debt falling due after more than five years.

Distribution of currencies and interest as at 31.12.2019:

Currency	2019	Average interest rate
DKK	78	0.0%
EUR	11	3.5%
GBP	6	5.9%
Other	33	7.2%
Total	128	

Amounts in DKKm

Note 18 **Deferred income**

Deferred income consists of payments received in respect of income in subsequent financial years.

Note 19 **Financial instruments**

For hedging purposes, the Group has entered into financial contracts covering 1-12 months. On the balance sheet date, financial contracts can be broken down into the following principal items:

	Volume 2019	Deferred recognition in the profit and loss account before tax 2019	Volume 2018	Deferred recognition in the profit and loss account before tax 2018
Currency contracts EUR	4,059	(55)	4,025	(73)
Currency contracts USD	1,119	(13)	1,427	13
Currency contracts SGD	396	(5)	423	(6)
Currency contracts, other	263	3	285	(4)
Interest rate swaps	8	(1)	8	(1)
Raw material contracts (DKKm)	0	0	209	(45)
Electricity contracts (MWh)	75	1	79	20
Gas contracts (m ³)	422,000	0	435,000	0
Total		(70)		(96)

Note 20 **Auditors' remuneration**

	2019	2018
Fee to Deloitte for statutory auditing	14	14
Fee to Deloitte for other assurance engagements	0	0
Fee to Deloitte for tax advisory services	9	10
Fee to Deloitte for other services	5	6
	28	30

Note 21 **Related parties**

Related parties of Grundfos Holding A/S comprise the parent foundation, the Poul Due Jensens Fond and the Board of Directors of Grundfos Holding A/S and the registered Group Management 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.

Amounts in DKKm

Note 22	Securities, contingent liabilities, etc.	2019	2018
	Operational leasing contracts and lease obligations for the coming years amount to	658	735

The Group is party to a number of disputes, lawsuits and legal actions including tax disputes. It is the view of Management that the outcome of these legal actions will have no other significant impact on the Group's financial position beyond what has been recognised and stated in the annual report.

The Group has issued performance and payment guarantees of DKK 136m (2018: DKK 140m).

The Group is under no material contractual obligations to acquire assets.

Note 23	Adjustments	2019	2018
	Depreciation	1,302	1,305
	Liabilities under guarantee and other provisions	261	(176)
	Gain from sale of fixed assets	18	(10)
	Share of profit, affiliated companies	0	5
	Income financial fixed assets	(24)	(18)
	Financial income	(305)	(115)
	Financial costs	161	207
	Tax on profit for the year	751	564
	Adjustments	2,164	1,762

Note 24	Changes in working capital	2019	2018
	Changes in inventories	338	(391)
	Changes in accounts receivable	(321)	(320)
	Change in trade creditors, other liabilities and deferred income	93	214
	Unrealised exchange rate adjustments	(8)	(45)
	Changes in working capital	102	(542)

Note 25	Available funds, opening	2019	2018
	Cash at bank and in hand	4,168	3,184
	Exchange rate adjustments	47	19
	Available funds, opening	4,215	3,203

Amounts in DKKm

Note 26 Financial risks

As a result of the Group's international activities, group profit and equity are influenced by a number of financial risks. Foreign exchange risks in the operating companies are managed centrally, as are interest and liquidity risks, as well as a significant part of the external coverage of the Group's financial positions.

The use of financial instruments is determined by instructions from the Board of Directors and Group Management.

Liquidity risks:

Financial independence is a main concern of the Group, and the Group therefore always seeks to maintain an adequate cash reserve. In addition to unused borrowing facilities, the reserve may be calculated as follows:

	2019	2018
Cash at bank and in hand	5,964	4,168
Securities, current assets	835	4,706
Securities, fixed assets	66	634
	6,865	9,508
The securities portfolio consists of:		
Bonds	718	4,420
Shares	183	920
Total	901	5,340

Interest rate risk

The Group's interest rate risk is primarily related to bank deposits, bonds and loans. Bank deposits have a short investment horizon, whereas the exposure of the bond portfolio – amounting to a total of DKK 718m (2018: DKK 4,420m) when expressed by an increase of the interest rate by 1 percentage point – is approx. DKK 12m (2018: approx. DKK 112m). The Group's total borrowing increased by DKK 40m in 2019 (2018: DKK 69m).

To reduce the Group's interest rate exposure, a set of general guidelines have been adopted for the Group's borrowing and use of interest rate instruments. Derivative financial instruments applied to reduce the interest rate risk totalled DKK 8m (2018: DKK 8m).

Foreign exchange risk

It is group policy that group operating companies mainly raise loans in their local currencies. This ensures that the foreign exchange risk of the group balance sheet is reduced to the net assets. When appropriate, loans are raised in a foreign currency and subsequently converted to the local currency using financial instruments.

Forward exchange contracts used in connection with foreign exchange swaps amount to DKK 172m (2018: DKK 778m).

The Group's policy is to secure the currency exchange rates for the most essential flow of goods, i.e. sale and purchase of goods. The most important currencies are the euro and the US dollar. At the end of 2019, currency contracts to reduce the foreign exchange risk in connection with the flow of goods amounted to DKK 6,294m (2018: DKK 6,556m). Of this, a contract volume of DKK 457m has been recognised for hedging of balance sheet items as at the balance sheet date (2018: DKK 396m).

Amounts in DKKm

Note 26 **Financial risks – continued**

Raw material risk

During 2018, it was decided to cease hedging raw materials as it is only possible to hedge a very small part of the types of raw materials used by the Group. Thus, there are no raw material contracts by the end of 2019.

Credit risk

The maximum credit risk includes balance sheet items regarding the Group's trade debtors, securities and bank receivables. The Group's trade debtors comprise a large number of customers, and the Group's risk in that connection is not considered unusually high.

The credit risk is reduced on cash reserves in financial institutions, forward exchange contracts and other derivative financial instruments by selecting financial business partners with a high credit rating.

Note 27 **Events after the balance sheet date**

No events have occurred after the balance sheet date that may materially impact the Group's financial position.

Grundfos Holding A/S Group: Accounting Policies

The consolidated annual accounts are presented in accordance with the provisions of the Danish Financial Statements Act for large class C companies.

The accounting policies for the consolidated annual accounts remain unchanged, apart from the change noted below.

Compared to 2018 we have changed the accounting treatment of uncertain tax positions in accordance with IFRIC 23, which serves as an interpretation to the Danish Financial Statements Act. As a consequence, the net provision for uncertain tax positions increases by DKK 182m as of 1 January 2019. Comparison figures have not been restated.

General information about recognition and measurement

Assets are recognised in the balance sheet when it is likely that future economic benefits accrue to the Group and the 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.

Certain financial assets and liabilities are measured at amortised cost, whereby a constant redemption yield is recognised for the term. Amortised cost is calculated as initial cost minus any instalments and plus/minus the accumulated amortisation of the difference between cost and nominal amount.

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

Income is recognised in the profit and loss account as it is realised, including the value

adjustment of financial assets and liabilities, which are measured at market value or amortised cost. In addition, costs incurred in order to achieve the earnings of the year, including depreciation, write-downs, provisions and reversals following accounting estimates of amounts which have previously been recognised in the profit and loss account, are recognised.

Consolidation policies

The consolidated annual accounts comprise Grundfos Holding A/S (Parent Company) and the companies (subsidiaries) where the Parent Company directly or indirectly owns more than 50% of the voting shares or in another way has a dominant participation. Companies in which the Group owns between 20% and 50% of the voting shares and has a significant position are considered associated companies.

The consolidated annual accounts are prepared as a consolidation of the accounts of the Parent Company and the individual subsidiaries. Adjustments are made for inter-company turnover and expenditure, shareholdings, intragroup balances and dividends, as well as unrealised internal income and loss. The accounts used for the consolidation are prepared in accordance with the Group's accounting policies.

Newly acquired subsidiaries are recognised in the profit and loss account as from the date of acquisition.

When acquiring new companies, the acquisition method is used, upon which the identified assets and liabilities in the newly acquired companies are measured at market value at the date of acquisition. Provisions are made for planned and published reorganisation in the acquired company in connection with the acquisition. Positive balances are recognised as Group goodwill in the year of acquisition. Any negative balances (badwill) are recognised as turnover.

When subsidiaries are sold, they cease to be recognised in the profit and loss account at the time of transfer, and earnings or losses at the time of sale are recognised in the profit and loss account. Earnings or losses are specified as the difference between the sale total and the accounting value of the net assets sold, including non-depreciated goodwill and estimated costs for sale or phasing out.

Minority interests

The items of subsidiaries are fully recognised in the consolidated annual accounts. The minority interests' pro rata share of the profit and equity of the subsidiaries is adjusted annually and recorded as separate items in the equity. Goodwill acquired from minority shareholders after 1 January 2016 is recognised directly in equity.

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 rate at the transaction date and the rate at the payment date are recognised in the profit and loss account.

Accounts receivable and debts in foreign currencies 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.

The profit and loss accounts of foreign subsidiaries are translated into Danish kroner at the average exchange rate of the individual months. The balance sheets of foreign subsidiaries are translated at the exchange rate of the balance sheet date.

Exchange rate adjustments of the net assets of the subsidiaries at the beginning of the financial year are recognised directly in the equity. This also applies to exchange rate differences following the translation of the profit and loss account of each month at

the average exchange rate to the exchange rate of the balance sheet date.

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.

Subsidiaries in countries affected by high inflation rates have been adjusted to eliminate the effect of inflation.

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 the equity. Income and costs regarding such hedging transactions are transferred from the equity at the realisation of the hedged items and are recognised in the same item as the hedged item.

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

Public grants

R&D grants are recognised as turnover 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 is recognised in the profit and loss account, provided that delivery and the passing of risk to the buyer have taken place before the end of the year, and provided that the income can be reliably calculated and is expected. Net turnover is measured exclusive of VAT, duties, returns and discounts that are directly connected with the sale.

Contracted work-in-progress is entered under net turnover subject to the percentage-of-completion method so that the net turnover corresponds to the sales value of the work carried out in the financial year.

Production costs

Production costs comprise payroll costs, cost of sales as well as indirect costs, including salaries, amortisation, depreciation and write-downs which are incurred in order to realise the net turnover for the year.

Research and development costs

R&D costs are costs that relate to the Group'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 recognition in the balance sheet are met for the individual development project.

Sales and distribution costs

Sales and distribution costs include costs relating to the sale and distribution of the

Group's products, including salaries for sales staff, advertising and exhibition expenses, depreciation, etc.

Administrative costs

Administrative costs comprise costs of the administrative functions, staff, management, etc., including salaries, depreciation and amortisation of goodwill.

Staff costs

Staff costs include the Group's total costs of wages, salaries, pensions and other social insurance costs. Staff costs also include costs in accordance with the Group's employee share programme.

Costs of wages, salaries, pensions, etc. are distributed across functions in accordance with the functions primarily executed by the relevant employees. Costs relating to the employee share programme are distributed across functions in relation to the distribution of other staff costs.

Other operating income

Other operating income includes income of a secondary nature in relation to the Group's primary activities, including gains from the sale of companies.

Share of profit, associated companies

The Group's share of profits after tax in associated companies is recognised in the profit and loss account by the equity method.

Income from fixed asset investments

In addition to dividends and interest yields, this item comprises estimated gains or losses on investments.

Financials

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

Tax on profit for the year

The anticipated tax on the taxable income of the year in the individual companies is charged to the profit and loss account, adjustment being made for timing differences in relation to the provided deferred tax. The portion of the tax expense attributable to items directly in the equity, however, is recognised in the equity.

Changes in deferred tax as a consequence of changed tax rates are recognised in the profit and loss account except for items recognised directly in equity.

All Danish subsidiaries are taxed jointly. The current Danish corporation tax is distributed among the jointly taxed companies in relation to their taxable income (full distribution with refunds regarding tax-related deficits).

Withholding taxes regarding repatriation of dividends from foreign subsidiaries are charged as expenditure in the year in which the dividend is generated.

Balance sheet

Intangible fixed assets

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 opportunity in the enterprise can be established, and where the intention is to manufacture, 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.

Costs includes wages, salaries, services and amortisation that are directly and indirectly

attributable to the company's development activities.

After completion of the development work, capitalised development projects are amortised by the straight-line method over the anticipated economic life of the asset.

The amortisation period is five years.

Goodwill

Goodwill is recognised at first recognition in the balance sheet at cost as described under consolidation policies.

Goodwill is amortised according to the straight-line method over the anticipated economic life. In the case of strategic acquisitions, and where the economic life so warrants, the amortisation period for goodwill is up to 20 years.

Other intangible fixed assets

Other intangible fixed assets are measured at cost less accumulated amortisation and write-downs.

Amortisation on other intangible fixed assets is made according to the straight-line method over the anticipated economic life of the asset, which – based on individual assessments – is up to five years.

Tangible fixed assets

Land and buildings are measured at cost less accumulated depreciation and write-downs. Land is not depreciated.

Technical installations and machinery as well as other installations are measured at cost less accumulated depreciation and write-downs. The cost price 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. Tangible fixed assets produced in-house are recorded at initial cost, including a proportion of the indirect production costs. No interest is included in the cost.

Tangible fixed assets are depreciated on a straight-line basis to the estimated residual value using the estimated useful technical and economical lives of the assets. The useful life of large assets is determined individually, whereas the useful life of other assets is determined for groups of similar assets. Estimated useful lives and residual values are reassessed annually. The estimated useful lives are:

Buildings 20-40 years
Technical installations
and machinery 3-10 years
Other technical installations 3-10 years

Financially leased assets are capitalised and depreciated by the straight-line method over the useful life of the leased asset.

Value in the use of intangible and tangible fixed assets

The accounting value of intangible and tangible fixed assets is reviewed in general to determine whether there is any indication of impairment in addition to that expressed by amortisation or depreciation.

If this is the case, the recoverable amount of the asset is determined, and writing down is performed to the recoverable amount provided that it is lower than the accountable amount.

The recoverable amount of the asset is determined as the value of the net sales price and the capital price, whichever is higher.

Financial fixed assets

Investments in associated companies are measured by the equity method in the balance sheet at the pro rata share of the companies' equity with the addition of goodwill.

Listed bonds are measured at amortised cost, as the intention is to keep them until maturity.

Inventories

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

The cost of goods for resale, raw materials and consumables includes the purchase price with the addition of delivery costs. The cost of manufactured goods and work in progress includes expenses for raw materials, consumables and direct wages as well as indirect production costs.

Indirect production costs include a proportion of the capacity costs incurred which have led to the current position and condition of goods in progress and manufactured goods. The indirect production costs calculated include costs of operation, maintenance and depreciation relating to production facilities, as well as administration and factory management.

Obsolete goods, including slow-moving goods, are written down. The net realisable value of inventories is calculated as the estimated selling price less cost of completion and expenses incurred to make the sale.

Accounts receivable

Accounts receivable are measured at amortised cost less writing down to meet the risk of losses based on individual assessments. The loss potential of minor receivables is estimated on the basis of their age.

Contracted work in progress is measured at sales value of the completed part of the contracts as at the balance sheet date.

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 realised and unrealised capital gains are included in the profit and loss account under financials.

Provisions

Liabilities under guarantee

Provisions made to cover liabilities under guarantee are recognised on the basis of previous years' experience concerning claims raised within the guarantee period.

Pension liabilities

The Group has made pension agreements with a considerable number of its employees. The majority of the agreements are for defined contribution schemes, whereas defined benefit schemes have been agreed for employees in a few companies.

In connection with contribution schemes, the Group makes regular payments to independent pension companies. The Group has no obligations apart from these payments.

Defined benefit schemes, organised in independent pension funds, are characterised by the employees being entitled to a certain annual benefit in connection with retirement (e.g. a share of the employee's exit salary). Such pension liabilities are calculated for the Group by actuarially discounting pension liabilities to the net present value, which is calculated on the basis of assessments of the future development in, among other things, interest, inflation, mortality and disablement. The actuarially calculated net present value less assets attached to the scheme is recognised in the balance sheet under pension liabilities.

Gains and losses incurred as a consequence of changes in the basis for the calculation of the pension liability or in the calculation of the assets attached to the scheme are recognised in the profit and loss account.

Actuarial gains and losses incurred as a consequence of changes in the assumptions applied when calculating the discounted value of the pension liability or the assets attached to the scheme are recognised directly in the equity.

Provisions are made during the employment period to cover other minor pension liabilities – relating to benefit schemes – resting with the Group.

Other provisions

These provisions include other obligations, including anniversary lump sums, legal disputes, unhedged insurance risks, share-based long-term incentive programme etc. Obligations related to the share-based long-term incentive programme are measured according to the graded vesting principle.

Deferred tax

Deferred tax is measured by the balance sheet liability method of all temporary differences between the accounting and tax value of assets and liabilities. For consolidation purposes, deferred tax is calculated on the eliminated unrealised internal profit margins. Deferred tax liabilities relating to investments in affiliated companies are not calculated.

Deferred tax assets are recognised in the balance sheet provided that they are likely to reduce tax payments within a short period of time.

Deferred tax is measured on the basis of tax rules and tax rates that – based on current legislation on the balance sheet date – will be in force when the deferred tax is expected to be converted into current tax.

Financial liabilities

Mortgage debt and debt owed to banks, etc. is 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.

Financial liabilities also include the capitalised outstanding liability on financial lease contracts.

Other liabilities, including trade creditors, other debts etc. are measured at amortised cost.

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

Cash flow statement

The cash flow statement is prepared by the indirect method based on consolidated profit after tax, and shows cash flows from operating, investment and financing activities as well as the Group's available funds at opening and closing.

Cash flow from operating activities is specified as the profit for the year adjusted for non-cash operating items, changes in the working capital, and corporation tax paid.

Cash flow from investment activities includes the purchase and sale of intangible and tangible fixed assets, and fixed asset investments, including the purchase and sale of companies.

Cash flow from financing activities includes the raising and repaying of long-term liabilities, short-term bank loans and the payment of dividends.

Available funds include cash resources.

Profit and loss account for Grundfos Holding A/S (Parent Company)

1 January – 31 December 2019

Amounts in DKKm

	Note	2019	2018
Net turnover	1	3,401	3,251
Production costs	2	(260)	(197)
Gross profit		3,141	3,054
Research and development costs	2	(1,020)	(1,190)
Sales and distribution costs	2	(610)	(553)
Administrative costs	2	(1,257)	(1,156)
Operating profit		254	155
Other operating income		0	0
Income from investments in affiliated companies		1,744	1,508
Earnings before interest and tax		1,998	1,663
Income from fixed asset investments		10	8
Financial income	3	437	246
Financial costs	4	(95)	(158)
Profit before tax		2,350	1,759
Tax on profit for the year	5	(146)	(1)
Profit for the year	6	2,204	1,758

Balance sheet for Grundfos Holding A/S (Parent Company)

As at 31 December 2019

Amounts in DKKm

ASSETS	Note	2019	2018
Fixed assets			
Intangible fixed assets			
Completed development projects		148	226
Other intangible fixed assets		256	298
Development projects in progress		26	6
Other intangible fixed assets in progress		80	19
	7	510	549
Tangible fixed assets			
Technical installations and machinery		94	110
Other technical installations		221	253
Tangible fixed assets in progress		95	41
	8	410	404
Financial fixed assets			
Investments in affiliated companies		11,354	15,125
Accounts receivable from affiliated companies		3,110	3,135
Securities		0	431
Other accounts receivable		30	29
	9	14,494	18,720
Total fixed assets		15,414	19,673
Current assets			
Inventories	10	13	9
Accounts receivable			
Accounts receivable from affiliated companies		2,205	2,636
Corporation tax		42	85
Other accounts receivable		30	53
Prepayments	11	55	48
		2,332	2,822
Securities		834	4,694
Cash at bank and in hand		4,272	2,427
Total current assets		7,451	9,952
Total assets		22,865	29,625

Balance sheet for Grundfos Holding A/S (Parent Company)

As at 31 December 2019

Amounts in DKKm

LIABILITIES	Note	2019	2018
Equity			
Share capital		381	381
Reserve for development projects		70	65
Reserve using the equity method		1,448	5,291
Retained profit		14,143	9,419
Proposed dividend		1,100	875
Total equity		17,142	16,031
Provisions			
Other provisions	12	65	81
Deferred tax liabilities	13	116	117
Total provisions		181	198
Liabilities			
Long-term liabilities			
Other loans		38	4
		38	4
Short-term liabilities			
Bank overdrafts and loans		38	96
Trade creditors		176	135
Debt to affiliated companies		4,912	12,834
Other liabilities		378	327
		5,504	13,392
Total liabilities		5,542	13,396
Total equity, provisions and liabilities		22,865	29,625

Financial instruments	14
Related parties	15
Securities, contingent liabilities, etc.	16
Events after the balance sheet date	17

Statement of changes in equity for Grundfos Holding A/S (Parent Company)

1 January – 31 December 2019

Amounts in DKKm

	Share capital	Reserve development projects	Reserve equity method	Retained profit	Proposed dividend	Total equity
Equity 01.01.2018	381	69	4,474	9,392	875	15,191
Dividend paid					(875)	(875)
Profit for the year		(4)	905	(18)	875	1,758
Exchange rate adjustment			(8)			(8)
Other equity adjustments			(80)			(80)
Exchange rate adjustment, designated loans				57		57
Tax on exchange rate adjustment, designated loans				(12)		(12)
Equity 31.12.2018	381	65	5,291	9,419	875	16,031
Change of accounting policy			(182)			(182)
Dividend paid					(875)	(875)
Profit for the year		5	(3,658)	4,757	1,100	2,204
Exchange rate adjustment			100			100
Transfers			55	(55)		0
Other equity adjustments			(158)			(158)
Exchange rate adjustment, designated loans				29		29
Tax on exchange rate adjustment, designated loans				(7)		(7)
Equity 31.12.2019	381	70	1,448	14,143	1,100	17,142

The share capital consists of 38,090,911 shares of DKK 10 each, in total DKK 380,909,110.

Notes to the accounts of Grundfos Holding A/S (Parent Company)

Amounts in DKKm

Note 1	Net turnover	2019	2018
	Inter-company services	3,401	3,251
		3,401	3,251

Net turnover consists of royalty fee and fees for IT and other intra-group services.

Note 2	Staff costs	2019	2018
	Salaries and wages	1,106	1,048
	Pensions	84	83
	Social contributions	16	16
		1,206	1,147

Staff costs of the year include the following fees to the Group Management and the Board of Directors of Grundfos Holding A/S for directorships in this company.

	Board of Directors	8	7
	Registered Group Management	34	52
		42	59

The registered Group Management consisted of five members from January 2019 until the beginning of March 2019. For the rest of the year, the registered Group Management consisted of three members.

The Group continued the long-term incentive (LTI) programme targeted at Group Management and other members of senior management that was implemented in 2015. Members of the Board of Grundfos Holding A/S do not participate in the LTI programme.

Under the LTI programme, participants may receive shares in Grundfos Holding A/S based on the Group meeting certain targets for sales growth, 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.

	Average number of full-time employees	1,585	1,609
	Number of full-time employees, closing	1,609	1,623

Amounts in DKKm

Note 3	Financial income	2019	2018
	Interest income from bonds	37	41
	Value adjustment, etc. from shares	172	0
	Hedging forward contracts	58	44
	Exchange rate adjustments, other	8	1
	Financial income, affiliated companies	143	126
	Other financial income	19	34
		437	246

Note 4	Financial costs	2019	2018
	Value adjustment, etc. from bonds	38	15
	Value adjustment, etc. from shares	0	121
	Financial costs, affiliated companies	25	14
	Other financial costs	32	8
		95	158

Amounts in DKKm

Note 5	Tax on profit for the year	2019	2018
	Current tax	137	75
	Deferred tax	(1)	(21)
	Adjustment regarding previous years	(5)	(66)
	Withholding taxes paid abroad	15	13
	Tax on profit for the year	146	1
	Restatement of tax rate for the year:		
	Danish tax rate	22%	22%
	Adjustment regarding previous years	0%	(4%)
	Withholding taxes paid abroad	1%	1%
	Deferred tax due to change in tax rates	0%	0%
	Non-deductible expenses/non-taxable income	(16%)	(19%)
	Other adjustments	0%	0%
		6%	0%
	Deferred tax primarily relates to fixed assets.		

Note 6	Profit for the year	2019	2018
	Attributable to:		
	Reserve for development projects	5	(4)
	Brought forward to revaluation reserve using the equity method	(3,658)	905
	Proposed dividend	1,100	875
	Retained profit	4,757	(18)
		2,204	1,758

Amounts in DKKm

Note 7	Intangible fixed assets	Completed development projects	Other intangible fixed assets	Development projects in progress	Other intangible fixed assets in progress	Total
	Cost					
	Cost 01.01.2019	431	444	6	19	900
	Additions of the year	6	62	23	77	168
	Disposals of the year	0	(37)	0	0	(37)
	Transfers	3	22	(3)	(16)	6
	Cost 31.12.2019	440	491	26	80	1,037
	Acc. amortisation/write-downs of the year					
	Acc. amortisation/write-downs 01.01.2019	205	146	0	0	351
	Amortisation of the year	87	126	0	0	213
	Amortisation and write-downs on disposals of the year	0	(37)	0	0	(37)
	Acc. amortisation/write-downs 31.12.2019	292	235	0	0	527
	Book value 31.12.2019	148	256	26	80	510
	Book value 31.12.2018	226	298	6	19	549

Grundfos Holding A/S recognises only development projects which generate new saleable products that meet certain criteria for profitability. Project progress is assessed regularly during the development phase in accordance with the Group's "Decision Point Model". Development projects in progress are related to core pump business. After sales release, where amortisation 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.

Write-downs of completed development projects and development projects in progress amount to DKK 0m (2018: DKK 0m).

Amounts in DKKm

Note 8	Tangible fixed assets	Technical installations and machinery	Other technical installations	Tangible fixed assets in progress	Total
	Cost				
	Cost 01.01.2019	415	583	41	1,039
	Additions of the year	8	10	86	104
	Disposals of the year	(10)	(1)	0	(11)
	Transfers	12	14	(32)	(6)
	Cost 31.12.2019	425	606	95	1,126
	Acc. depreciation/write-downs of the year				
	Acc. depreciation/write-downs 01.01.2019	305	330	0	635
	Depreciation of the year	30	56	0	86
	Depreciation and write-downs on disposals of the year	(4)	(1)	0	(5)
	Acc. depreciation/write-downs 31.12.2019	331	385	0	716
	Book value 31.12.2019	94	221	95	410
	Book value 31.12.2018	110	253	41	404

Book value of financially leased facilities as at 31.12.2019 amount to DKK 10m (2018: DKK 15m).

Amounts in DKKm

Note 9	Financial fixed assets	Investments in affiliated companies	Accounts receivable, affiliated companies	Securities	Other accounts receivable	Total
	Cost					
	Cost 01.01.2019	16,438	3,135	432	30	20,035
	Exchange rate adjustments	0	30	0	1	31
	Additions of the year	163	0	0	0	163
	Disposals of the year	(91)	0	(432)	0	(523)
	Cost 31.12.2019	16,510	3,165	0	31	19,706
	Value adjustments					
	Value adjustments 01.01.2019	(1,313)	0	(1)	(1)	(1,315)
	Change of accounting policy	(182)	0	0	0	(182)
	Profit for the year	1,744	0	0	0	1,744
	Dividend received	(5,402)	0	0	0	(5,402)
	Disposals of the year	0	0	1	0	1
	Transfer to accounts receivable	55	(55)	0	0	0
	Other adjustments	(58)	0	0	0	(58)
	Value adjustments 31.12.2019	(5,156)	(55)	0	(1)	(5,212)
	Book value 31.12.2019	11,354	3,110	0	30	14,494
	Book value 31.12.2018	15,125	3,135	431	29	18,720

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

The market value of securities as at 31.12.2019 amounts to DKK 0m (2018: DKK 442m).

Note 10	Inventories	2019	2018
	Work in progress	13	9
		13	9

Note 11 **Prepayments**

Prepayments comprise prepaid costs regarding rent, insurance premiums, marketing and subscriptions.

Amounts in DKKm

Note 12	Other provisions	
	Other provisions 01.01.2019	81
	Provisions spent during the year	(36)
	Provisions reversed	0
	Provisions of the year	20
	Other provisions 31.12.2019	65
	Other provisions include jubilee provisions and provisions relating to a global share-based programme for senior management in the Group.	

Note 13	Deferred tax	2019	2018
	Deferred tax 01.01.2019	117	138
	Deferred tax recognised in profit and loss account	(1)	(21)
	Deferred tax 31.12.2019	116	117
	Deferred tax is mainly related to tangible and intangible fixed assets.		

Note 14	Financial instruments
	For hedging purposes, Grundfos Holding A/S has entered into financial contracts covering 1-12 months. The contracts are transferred to affiliated companies and hence the net exposure in Grundfos Holding A/S is zero.
	For hedging purposes, Grundfos Holding A/S has entered into forward exchange contracts that are used in connection with foreign exchange swaps amounting to DKK 172m (2018: DKK 778m).
	Reference is made to the group policy on hedging in note 26 to the consolidated accounts.

Amounts in DKKm

Note 15 **Related parties**

Related parties with a controlling interest in Grundfos Holding A/S are the Company's parent foundation, the Poul Due Jensens Fond, the Board of Directors of Grundfos Holding A/S and the registered Group Management 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.

Note 16 **Securities, contingent liabilities, etc.**

Operational leasing contracts for the coming years amount to DKK 28m (2018: DKK 28m).

The company has provided security for debts and leasing liabilities in subsidiaries. The total liability amounts to DKK 0m (2018: DKK 2m).

The company has provided security for facilities in subsidiaries. The total corporate guarantee amounts to DKK 338m (2018: DKK 292m), hereof utilised DKK 42m (2018: DKK 96m).

In addition to this, the company has issued letters of intent to support bank debt of DKK 66m (2018: DKK 27m).

The company has issued performance and payments guarantees of DKK 13m (2018: DKK 32m).

The company has issued support letters for a number of subsidiaries.

The Danish affiliated companies 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 corporation tax and from 1 July 2012 also for obligations, if any, to withhold tax on interest, royalties and dividends for the jointly taxed companies. The total net liability to the Danish tax authorities is recognised in the financial statements of Grundfos Holding A/S.

Note 17 **Events after the balance sheet date**

No events have occurred after the balance sheet date that materially impacts the company's financial position.

Grundfos Holding A/S (Parent company): Accounting Policies

The annual accounts are presented in accordance with the provisions of the Danish Financial Statements Act for large class C 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.

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 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.

Certain financial assets and liabilities are measured at amortised cost, whereby a constant redemption yield is recognised for the term. Amortised cost is calculated as initial cost minus any instalments and plus/minus the accumulated amortisation of the difference between cost and nominal amount.

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

Income is recognised in the profit and loss account as it is realised, including the value

adjustment of financial assets and liabilities, which are measured at market value or amortised cost. In addition, costs incurred in order to achieve the earnings of the year, including depreciation, write-downs, provisions and reversals following accounting estimates of amounts which have previously been recognised in the profit and loss account, are recognised.

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 rate at the transaction date and the rate at the payment date are recognised in the profit and loss account.

Accounts receivable and debts in foreign currencies 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 the equity. Income and costs regarding such hedging transactions are transferred from the equity at the realisation of the hedged items and are recognised in the same item as the hedged item.

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

Public grants

R&D grants are recognised as turnover 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 sale of products to OEM customers less returns and discounts directly associated with the sale.

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.

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 recognition in the balance sheet are met for the individual development project.

Sales and distribution costs

Sales and distribution costs include 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 of the administrative functions, staff, management, etc., including salaries and depreciation.

Staff costs

Staff costs include the Group's total costs of wages, salaries, pensions and other social insurance costs. Staff costs also include costs related to the employees of the Company who participate in the Group's employee share programme.

Costs of wages, salaries, pensions, etc. are distributed across functions in accordance with the functions primarily executed by the relevant employees. Costs relating to the employee share programme are distributed across functions in relation to the distribution of other staff costs.

Other operating income

Other operating income includes income of a secondary nature in relation to the Group'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 the elimination of internal margins is recognised in the Company's profit and loss account.

Income from fixed asset investments

In addition to dividends and interest yields, this item comprises estimated gains or losses on investments.

Financials

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

Tax on profit for the year

The anticipated tax on the taxable income of the year in the individual companies is charged to the profit and loss account, adjustment being made for timing differences in relation to the provided deferred tax. The portion of the tax expense attributable to items directly in the equity, however, is recognised in the equity.

Changes in deferred tax as a consequence of changed tax rates are recognised in the profit and loss account except for items recognised directly in equity.

The Company is jointly taxed with wholly owned Danish subsidiaries. The current Danish corporation tax is distributed among the jointly taxed companies in relation to their taxable income (full distribution with refunds regarding tax-related deficits).

Withholding taxes regarding repatriation of dividend from foreign subsidiaries are charged as expenditure in the year in which the dividend is generated.

Balance sheet

Intangible fixed assets

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 opportunity in the enterprise can be established, and where the intention is to manufacture, 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.

Costs include wages, salaries, services and amortisation that are directly and indirectly attributable to the Company's development activities.

After completion of the development work, capitalised development projects are amortised by the straight-line method over the anticipated economic life of the asset.

The amortisation period is five years.

Other intangible fixed assets

Other intangible fixed assets are measured at cost less accumulated amortisation and write-downs.

Amortisation on other intangible fixed assets is made according to the straight-line method over the anticipated economic life of the asset, which – based on individual assessments – is up to five years.

Tangible fixed assets

Technical installations and machinery as well as other installations are measured at cost less accumulated depreciation and write-downs. The cost price 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. Tangible fixed assets produced in-house are recorded at initial cost, including a proportion of the indirect production costs. No interest is included in the cost.

Tangible fixed assets are depreciated on a straight-line basis to the estimated residual value using the estimated useful technical and economical lives of the assets. The useful life of large assets is determined individually, whereas the useful life of other assets is determined for groups of similar assets. Estimated useful lives are reassessed annually. The estimated useful lives are:

Buildings	20-40 years
Technical installations and machinery	3-10 years
Other technical installations	3-10 years

Value in the use of intangible and tangible fixed assets

The accounting value of intangible and tangible fixed assets is reviewed in general to determine whether there is any indication of impairment in addition to that expressed by amortisation or depreciation.

If this is the case, the recoverable amount of the asset is determined, and writing down is performed to the recoverable amount provided that it is lower than the account-able amount.

The recoverable amount of the asset is deter- mined as the value of the net sales price and the capital price, whichever is higher.

Financial fixed assets

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.

Securities

Listed bonds are measured at amortised cost, as the intention is to keep them until maturity.

Inventories

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

The cost of goods for resale, raw materials and consumables includes the purchase price with the addition of delivery costs. The cost of manufactured goods and work in progress includes expenses for raw materials, consumables and direct wages as well as indirect production costs.

Indirect production costs include a propor- tion of the capacity costs incurred which have led to the current position and condi- tion of goods in progress and manufactured goods. The indirect production costs calcu- lated include costs of operation, mainte- nance and depreciation relating to produc- tion facilities, as well as administration and factory management.

Obsolete goods, including slow-moving goods, are written down. The net realisable value of inventories is calculated as the estimated selling price less cost of comple- tion and expenses incurred to make the sale.

Accounts receivable

Accounts receivable are measured at amor- tised cost less writing down to meet the risk of losses based on individual assessments. The loss potential of minor receivables is estimated on the basis of their age.

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

Securities (current assets)

Securities include bonds and shares meas- ured at market value.

Realised and unrealised capital losses and realised and unrealised capital 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.

Provisions

Liabilities under guarantee

Provisions made to cover liabilities under guarantee are recognised on the basis of previous years' experience concerning claims raised within the guarantee period.

Other provisions

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

Deferred tax

Deferred tax is measured by the balance sheet liability method of all temporary dif- ferences between the accounting and tax value of assets and liabilities. For consolida- tion purposes, deferred tax is calculated on the eliminated unrealised internal profit margins. Deferred tax liabilities relating to investments in affiliated companies are not calculated.

Deferred tax assets are recognised in the balance sheet provided that they are likely to reduce tax payments within a short period of time.

Deferred tax is measured on the basis of tax rules and tax rates that – based on current legislation on the balance sheet date – will be in force when the deferred tax is expected to be converted into current tax.

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, other debts etc. are measured at amortised cost.

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

Group structure

Denmark

Grundfos Holding A/S

Other Group companies

Argentina, Bombas Grundfos de Argentina S.A.

Austria, Grundfos Pumpen Vertrieb G.m.b.H.

Australia, BKB Aqua Engineering Pty. Ltd.

Australia, BKB Building Solutions Pty. Ltd.

Australia, DAB Pumps Oceania Pty. Ltd.

Australia, Grundfos Australia Holding Pty. Ltd.

Australia, Grundfos Pumps Pty. Ltd.

Belgium, Grundfos Bellux S.A.

Brazil, Bombas Grundfos do Brasil Ltda.

Bulgaria, Grundfos Bulgaria EOOD

Canada, Grundfos Canada Inc.

Chile, Bombas Grundfos Chile SpA

China, DAB Pumps (Qingdao) Co. Ltd.

China, Grundfos (China) Holding Co. Ltd.

China, Grundfos Pumps (Chongqing) Co. Ltd.

China, Grundfos Pumps (Hong Kong) Ltd.

China, Grundfos Pumps (Shanghai) Co. Ltd.

China, Grundfos Pumps (Suzhou) Ltd.

China, Grundfos Pumps (Wuxi) Ltd.

Columbia, Grundfos Columbia S.A.S.

Croatia, Grundfos Sales Croatia d.o.o.

Czech Republic, Grundfos Sales Czechia and Slovakia s.r.o.

Denmark, Grundfos A/S

Denmark, Grundfos BioBooster A/S

Denmark, Grundfos DK A/S

Denmark, Grundfos Finance A/S

Denmark, Grundfos LIFELINK A/S

Denmark, Grundfos Operations A/S

Denmark, Grundfos US ApS

Denmark, Sintex A/S

Egypt, Grundfos Holding Egypt LLC

Egypt, Grundfos Egypt LLC

Egypt, Grundfos Service Egypt LLC

Finland, OY Grundfos Environment Finland AB

Finland, OY Grundfos Pumput AB

France, Pompes Grundfos Distribution S.A.S.

France, Pompes Grundfos S.A.S.

Germany, Biral GmbH

Germany, DAB Pumps GmbH

Germany, Deutsche Vortex GmbH & Co. KG

Germany, Europump GmbH

Germany, Grundfos GmbH

Germany, Grundfos Pumpenfabrik GmbH

Germany, Grundfos Verwaltung GmbH

Germany, Grundfos Water Treatment GmbH

Germany, Solver Deutschland GmbH

Ghana, Grundfos Pumps Ghana Ltd.

Greece, Grundfos Hellas Single-Member A.E.B.E.

Hungary, DAB Pumps Hungary Kft.

Hungary, Grundfos Shared Services Kft.

Hungary, Grundfos Hungary Manufacturing Ltd.

Hungary, Grundfos South East Europe Kft.

India, Grundfos Pumps India Private Ltd.

Indonesia, PT Grundfos Pompa

Indonesia, PT Grundfos Trading Indonesia

Ireland, Grundfos (Ireland) Ltd.

Italy, DAB Pumps S.p.A.

Italy, DWT Holding S.p.A.

Italy, Grundfos Pompe Italia S.r.l.

Italy, Isia S.p.A.

Japan, Grundfos Pumps K.K.

Kazakhstan, Grundfos Kazakhstan LLP

Kenya, Grundfos Kenya Ltd.

Korea, Grundfos Pumps Korea Ltd.

Latvia, GRUNDFOS Pumps Baltic SIA

Malaysia, Grundfos Pumps SDN. BHD

Mexico, Bombas Grundfos de Mexico Manufacturing S.A. de C.V.

Mexico, Bombas Grundfos de Mexico S.A. de C.V.

Mexico, DAB Pumps de Mexico S.A. de C.V.

Mexico, Grundfos Mexico Servicios S.A. de C.V.

Mexico, Peerless Pump Mexico S.A. de C.V.

Netherlands, DAB Pumps B.V.

Netherlands, Solvermedia B.V.

Netherlands, Grundfos Nederland B.V.

New Zealand, Grundfos Pumps NZ Ltd.

Nigeria, Grundfos Water Solutions NGA Limited

Norway, Grundfos Norge AS
Peru, Grundfos de Peru S.A.C.
Philippines, Grundfos IS Support & Operations Centre Philippines Inc.
Philippines, Grundfos Pumps (Philippines) Inc.
Poland, DAB Pumps Poland Sp.Z.o.o.
Poland, Grundfos Pompy Sp.Z.o.o.
Portugal, Bombas Grundfos (Portugal) S.A.
Romania, SC Grundfos Pompe Romania SRL
Russia, OOO Grundfos Istra
Russia, OOO DWT Group
Russia, OOO Grundfos
Saudi Arabia, Grundfos Saudi Arabia Company Limited
Serbia, Grundfos Srbija d.o.o.
Singapore, Grundfos (Singapore) Pte. Ltd.
Slovenia, Grundfos Ljubljana d.o.o.
South Africa, Alldos (Pty) Ltd.
South Africa, DAB Pumps South Africa (Pty) Ltd.
South Africa, Grundfos (Pty) Ltd.
Spain, Bombas Grundfos España S.A.
Spain, DAB Pumps Iberica S.L.
Sweden, Grundfos AB
Switzerland, Biral AG
Switzerland, Grundfos Holding AG
Switzerland, Grundfos Handels AG
Switzerland, Grundfos Pumpen AG
Taiwan, Grundfos Pumps (Taiwan) Ltd.
Thailand, Grundfos (Thailand) Ltd.
Turkey, Grundfos Pompa Sanayi ve Ticaret Ltd. Sti.
Ukraine, TOV Grundfos Ukraine
United Arab Emirates, Grundfos Gulf Distribution FZE
United Kingdom, DAB Pumps Ltd.
United Kingdom, Grundfos Manufacturing Ltd.
United Kingdom, Grundfos Pumps Ltd.
United Kingdom, Grundfos Watermill Ltd.
USA, Enaqua
USA, Grundfos CBS Inc.
USA, Grundfos Americas Corporation
USA, Grundfos Pumps Corporation
USA, Grundfos Pumps Manufacturing Corporation
USA, Grundfos US Holding Corporation
USA, Sterling Fluid Systems (USA) LLC
 (DBA Peerless Pump Company)
USA, DAB Pumps Inc.
USA, SFS (USA) Holding Inc.
USA, Grundfos Water Utility Inc.
Vietnam, Grundfos Vietnam Company Ltd.

Ownership

Grundfos Holding A/S, based in Bjerringbro, Denmark, is the Parent Company of the Grundfos Holding A/S Group. The Poul Due Jensens Fond owns 87.6% of the share capital in Grundfos Holding A/S, while the founder's family owns 10.1% and the employees own 2.3%.

Grundfos Holding A/S directly or indirectly owns the entire share capital in all subsidiaries, except for the following:

Grundfos Pumps Services Company Limited, Saudi Arabia – 75%

Associated companies:

Better Home ApS, Denmark – 34%

KnowHowZ A/S, Denmark – 21%

Tange Sø Golf A/S, Denmark – 49%

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