

Grundfos Operations A/S
Poul Due Jensens Vej 7
DK - 8850 Bjerringbro

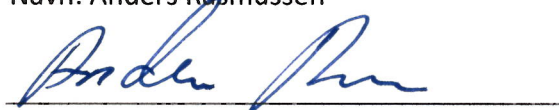
CVR no. 35 81 73 52

Annual Report 2016
(third financial year)

The Annual General Meeting adopted the annual report on 23 May 2017

Chairman of the meeting

Navn: Anders Rasmussen



A handwritten signature in blue ink, appearing to read 'Anders Rasmussen', is written over a horizontal line.

Contents

	<u>Page</u>
Company details	1
Management statement	2
Independent auditor's report	3
Managements report	6
Accounting policies	9
Profit and loss account for 2016	15
Balance sheet at 31.12.2016	16
Statement of changes in equity	18
Notes	19

Company details

Company

GRUNDFOS Operations A/S

Poul Due Jensens Vej 7

DK-8850 Bjerringbro, Denmark

CVR no. 35 81 73 52

Registered in the municipality of Viborg

Phone +45 87 50 14 00

Internet www.grundfos.com

Board of Directors

Chairman Mikael Andreas Holm Geday

Board member Stéphane Laurent Gilles Simonetta

Board member Klavs Christensen Hornum

Executive Board

Niels Herman Møller Jensen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Management statement

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

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

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

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

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

Bjerringbro, 23 May 2017

Executive Board



Niels Herman Møller Jensen

Board of Directors



Mikael Andreas Holm Geday
Chairman



Klavs Christensen Hornum



Stéphane Laurent Gilles Simonetta

Independent auditor's report

To the shareholders of Grundfos Operations A/S

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the annual accounts section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the annual accounts

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

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

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material mis-

statement when it exits. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the annual accounts, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures in the notes, and whether the annual accounts represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management report

Management is responsible for the management report.

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

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

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

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

Aarhus, 23 May 2017

Deloitte

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56



Thomas Rosquist Andersen
State-Authorised
Public Accountant



Thorsten Jørgensen
State-Authorised
Public Accountant

Key figures

	<u>2016</u> kEUR	<u>2015</u> kEUR	<u>2014</u> kEUR
Key figures and financial ratios			
Key figures			
Net turnover	1,778,393	1,170,350	0
Operating profit	38,599	28,518	-8,282
Net financials	-6,382	-2,516	-10
Profit before tax	32,217	26,002	-8,292
Profit for the year	24,506	19,929	-6,359
Equity	166,687	98,553	-12,646
Balance sheet total	546,971	501,600	9,059
Number of employees at year-end	115	55	0
Financial ratios			
Operating profit as a percentage of net turnover (%)	2.2	2.4	n/a
Return on equity (%)	18.5	23.2	neg.
Equity ratio (%)	30.5	19.7	neg.

Definition of key figures

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

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

Management report

Grundfos Group Purpose

Grundfos is a global leader in advanced pump solutions and a trendsetter in water technology. We contribute to global sustainability by pioneering technologies that improve quality of life for people and care for the planet.

Main activities in Grundfos Operations A/S

Grundfos Operations A/S is part of the Grundfos Group. Grundfos Operations A/S was established in 2014 and the purpose is to conduct business in production of primarily pumps, for resale through the Grundfos group sales companies.

As from April 2015 the production set-up was changed in the Grundfos group. The change involve all Grundfos production companies in EU. The turnover consist of sales of products to the sales companies in Grundfos Group. The main activity is to have products produced by toller manufacturing companies, for which activity the producing company receive a toller manufacturing fee.

All inventories from raw materials to finished goods relating to production and sales are owned by Grundfos Operations A/S.

As from 1 January 2016 the OEM business was transferred from Grundfos Holding A/S to Grundfos Operations A/S which resulted in higher revenue and higher costs and the financial impact from transferred assets and liabilities relating to the OEM business.

Development in activities and finances

The operational set-up is purchase of production services from Grundfos group production companies and sourcing of raw materials and components. This is the second year with sales of products to Grundfos sales companies.

Profit before tax for the year amounts to 32 mEUR compared with 26 mEUR last year. The result in 2016 is regarded satisfactory and in accordance with previously reported expectations.

Composition of management

The Board of Directors in Grundfos Operations A/S has three members, of which none has been elected by the employees. The three members are men and as such women are under-represented in relation to the share of 40%, which legislation aims to ensure. When electing members for the Board of Directors this year, there were no relevant female candidates in the recruitment base. The board intends to increase the female representation to one out of three members. The board has set a goal for achieving this by the end of 2018.

For all other management positions Grundfos Operations A/S has defined a diversity policy, in which the first priorities are to increase the number of non-Danes and women in management positions. Non-Danes in other

management positions was 10% by the end of 2016 (against 15% by end of 2015). By the end of 2016 the status was 29% female managers (against 23% by end of 2015). The goal in Grundfos Operations A/S for the gender distribution is that in 2020, at least 25% of our managers in general must be women. We follow the group process to always include qualified female candidates and Non-Danes in executive recruitments to facilitate having a more diverse workforce in Grundfos Operations A/S.

Environment, CSR and Sustainability

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

For further information on Sustainability issues at Grundfos please read the consolidated accounts of the Poul Due Jensen foundation, CVR no. 83 64 88 13.

Particular risks

Business risks

Grundfos Operations A/S is acting as owner of the products and are selling Grundfos products to all sales companies within the Grundfos Group. Geographically the risk is spread which reduce the risk relating to reduced turnover and demand on single markets.

Financial risks

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

Foreign exchange risks

Purchase of raw materials, components and service as well as invoicing of goods are primarily done in EUR, USD, GBP and HUF. The corresponding foreign risks are hedged on an ongoing basis in accordance with budgets and expectations.

Raw materials risks

The price on raw materials is depending on worldwide market prices. The corresponding risk on changes in raw material prices is hedged on an ongoing basis in accordance with budgets and expectations.

Credit risks

The credit risk relates to trade debtors and accounts receivable from affiliated companies. Trade debtors are closely monitored and the solvency of the customers assessed on a regular basis.

Events after the balance sheet date

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

With effect from 1 January 2016 the OEM business in Grundfos Holding A/S has been transferred to Grundfos Operations A/S. This change had an impact on the activities and financial reporting in Grundfos Operations A/S from the beginning of 2016 on.

Expected development in 2017

The financial expectations for 2017 is a net turnover and profit for the year, in all material respect, on a similar level as in 2016.

Accounting policies

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act for class C - large 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 annual report has been presented in accordance with the same accounting policies as last year. The currency of this Annual Report is in EUR (euro).

General information about recognition and measurement

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

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

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

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

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

Foreign currency translation

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

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

Accounting policies

Derivative financial instruments

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

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

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

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

Profit and loss account

Net turnover

Revenue is recognised in the income statement when delivery is made and risk has passed to the buyer before year end. Revenue is recognised net of VAT, duties and sales discounts and measured at fair value of the consideration fixed.

Distribution costs

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

Administrative costs

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

Staff costs

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

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

Accounting policies

Financials

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

Tax on profit for the year

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

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

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

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

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

Balance sheet

Development projects

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

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

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

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

Accounting policies

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

Other intangible fixed assets

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

Other intangible fixed assets	3 – 5 years
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Tangible fixed assets

Tangible fixed assets are depreciated by the straight-line method through the anticipated useful and economic life to the estimated residual value. The useful lives and the residual value, if any, of large assets are determined individually, whereas the useful life of other assets is determined for groups of similar assets.

The estimated useful lives are:

Technical installations and machinery and other installations	3 - 10 years
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Installations and machinery are written down to the lower of recoverable amount and carrying amount.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost of goods for resale, raw materials and consumables consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs (production fee to toller companies).

Indirect production costs (production service fee to toller companies) comprise indirect materials and labour costs, costs of maintenance of and depreciation and impairment losses on machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Trade debtors

Trade debtors and customer projects are measured at amortised cost, usually equalling nominal value less provisions for bad debts.

Accounting policies

Prepayments

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

Equity

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

Liabilities under guarantee and other provisions

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

Other provisions include other obligations, including obligations relating to anniversary lump sum payments.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

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

Financial liabilities

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

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

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

Profit and loss statement for 2016

	Note	2016 1/1 - 31/12 EUR '000	2015 1/1 - 31/12 EUR '000
Net turnover	1.2	1,778,393	1,170,350
Costs of goods sold	2.3.4	-1,624,343	-1,100,157
Gross profit		154,050	70,193
Distribution costs	3	-109,991	-39,488
Administrative costs	3	-5,460	-2,187
Operating profit		38,599	28,518
Financial income	5	6,390	4,269
Financial costs	6	-12,772	-6,785
Profit before tax		32,217	26,002
Tax on profit for the year	7	-7,711	-6,073
Profit for the year	8	24,506	19,929

Balance sheet at 31.12.2016

	Note	2016 EUR '000	2015 EUR '000
Goodwill		0	0
Other intangible assets		7,238	0
Intangible fixed assets	9	7,238	0
Technical installations and machinery		5,099	311
Tangible fixed assets in progress		1,693	2,312
Tangible fixed assets	10	6,792	2,623
Total fixed assets		14,030	2,623
Inventories	11	242,836	254,721
Trade debtors		41,753	3,002
Accounts receivable from affiliated companies		233,891	236,749
Deferred tax asset	12	2,709	542
Other accounts receivable		9,524	2,540
Prepayments		178	214
Accounts receivables		288,055	243,047
Cash at bank and in hand		2,050	1,209
Total current assets		532,941	498,977
Total assets		546,971	501,600

Balance sheet at 31.12.2016

	Note	2016 EUR '000	2015 EUR '000
Share capital	13	1,001	1,000
Reserve for development projects		1,263	0
Retained profit		164,423	97,553
Equity		166,687	98,553
Liabilities under guarantee and other provisions	14	1,421	151
Provisions		1,421	151
Loans from affiliated companies	15	200,000	200,000
Long term liabilities		200,000	200,000
Bank overdrafts and loans		9	0
Trade creditors		98,950	86,720
Debt to affiliated companies		62,646	99,939
Company tax		5,811	1,071
Other liabilities		11,447	15,166
Short term liabilities		178,863	202,896
Total liabilities		378,863	402,896
Total equity, provisions and liabilities		546,971	501,600
Securities, contingent liabilities, etc.	16		
Related parties and shareholder	17-18		
Financial instruments	19		

Statement of changes in equity

	Share Capital EUR '000	Reserve for development projects EUR '000	Retained profit EUR '000	Total EUR '000
Equity 01.01.2015	1,000	0	-13,646	-12,646
Capital injection			90,000	90,000
Profit for the year			19,929	19,929
Net adjustment after tax hedging instruments			1,270	1,270
Equity 31.12.2015	1,000	0	97,553	98,553
Capital injection OEM business	1		34,123	34,124
Profit for the year		1,263	23,243	24,506
Net adjustment after tax hedging instruments			9,504	9,504
Equity 31.12.2016	1,001	1,263	164,423	166,687

Notes

	2016 1/1 - 31/12 EUR '000	2015 1/1 - 31/12 EUR '000
1. Net turnover		
Inter-company turnover	1,534,110	1,169,136
External turnover	244,283	1,214
	1,778,393	1,170,350

Grundfos Operations A/S has only activities within the segment sale of pumps. That is the reason for showing the net turnover on customers (inter-company and external).

2. Result from hedging instruments recognised in profit and loss account

Foreign currency contracts gain/loss recognised in net turnover	5,357	-32,868
Foreign currency contracts loss/gain recognised in cost of goods sold	-299	6,143
Raw material contracts loss recognised in cost of goods sold	-7,693	-11,512

3. Staff costs

Salaries and wages	10,475	3,157
Pensions	929	284
Social contributions	146	60
	11,550	3,501

Staff costs are incorporated as shown below in the profit and loss statement:

Costs of goods sold	9,106	3,501
Distribution costs	1,363	0
Administrative costs	1,081	0
	11,550	3,501

Average number of full time employees	126	46
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Number of full time employees at year end	115	55
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4. Depreciation

Technical installations and machinery	588	13
	588	13

Depreciation is included in the profit and loss statement as follows:

Costs of goods sold	588	13
	588	13

Notes

	2016	2015
	1/1 - 31/12	1/1 - 31/12
	EUR '000	EUR '000
5. Financial income		
Interest income from affiliated companies	151	100
Interest income from bank	17	0
Currency adjustments	6,222	4,169
	6,390	4,269
6. Financial costs		
Financial costs to affiliated companies	7,127	2,395
Financial costs to bank	5	0
Currency adjustments and other financial costs	5,640	4,390
	12,772	6,785
7. Tax on profit for the year		
Current tax	14,311	3,783
Change in deferred tax	-6,593	1,805
Effect from change in tax rate (deferred tax)	0	626
Adjustment to deferred tax previous years	1,639	0
Adjustment of tax, prior years	-1,646	-141
Tax on profit for the year	7,711	6,073
Tax on profit for the year can be explained as:		
Profit before tax	32,217	26,002
	32,217	26,002
Tax calculated hereof	7,088	6,110
Tax effect of:		
Adjustment of tax, prior years	-1,646	-141
Effect from change in tax rate (deferred tax)	0	626
Effect from permanent differences, net	2,269	-522
Tax on profit for the year	7,711	6,073
Deferred taxes relates to fixed assets, current assets, provisions, liabilities and financial instruments.		
8. Profit for the year		
Proposed profit distribution		
Reserve for development projects	1,263	0
Retained profit	23,243	19,929
	24,506	19,929

Notes

	Goodwill EUR '000	Other intan- gible assets EUR '000
9. Intangible fixed assets		
Cost 01.01.2016	0	0
Transfer from affiliated company	1,248	8,851
Additions of the year	0	1,619
Cost 31.12.2016	1,248	10,470
Depreciation 31.12.2016	0	0
Transfer from affiliated company	998	2,013
Depreciation for the year	250	1,219
Depreciation 31.12.2016	1,248	3,232
Accounting value 31.12.2016	0	7,238
Accounting value 31.12.2015	0	0

Grundfos Operations A/S recognises only development projects which generate new saleable products that meet a certain criterion for profitability. Project progress is assessed regularly during the development phase in accordance with the Company's 'Decision Point Model'.

After sales release, where amortization commences, it is assessed annually for each project, if there is indication of impairment. If this is the case, a more thorough impairment test is carried out for such projects. In case of impairment the project in question is written down to its recoverable amount.

	Technical install. and machinery EUR '000	Fixed instal- lations in progress EUR '000
10. Tangible fixed assets		
Cost 01.01.2016	324	2,312
Exchange rate adjustment	364	0
Transfer from affiliated company	155	0
Additions of the year	4,863	0
Disposals of the year	0	-619
Cost 31.12.2016	5,706	1,693
Depreciation 01.01.2016	13	0
Transfer from affiliated company	48	0
Depreciation for the year	546	0
Depreciation 31.12.2016	607	0
Accounting value 31.12.2016	5,099	1,693
Accounting value 31.12.2015	311	2,312

Notes

	2016 EUR '000	2015 EUR '000
11. Inventories		
Raw materials and consumables	74,188	77,106
Work in progress	73,431	92,204
Manufactured goods and goods for resale	95,217	85,411
	242,836	254,721
12. Deferred tax		
Deferred tax 01.01	542	2,578
Deferred tax recognized in profit and loss account	6,593	-1,805
Changes in tax rate	0	-626
Deferred tax recognized in equity	-2,787	395
Adjustment to deferred tax previous years	-1,639	0
Deferred tax 31.12	2,709	542

Deferred taxes relates to fixed assets, current assets, provisions, liabilities and financial instruments.

13. Share capital

Share capital consist of 1,001,000 shares of each 1EUR.
The shares are not divided into classes.

A capital increase amounting to 1,000 EUR took place in 2016 in relation to the OEM business transfer from Grundfos Holding A/S.

	2016 EUR '000	2015 EUR '000
14. Liabilities under guarantee and other provisions		
Liabilities under guarantee and other provisions 01.01.	151	0
Transfer from affiliated company	999	0
Changes for the year	271	151
Liabilities under guarentee and other provisions 31.12.	1,421	151

Other provisions include jubilee provision and product guarentees.

15. Loans from affiliated companies

The loan is a designated group internal EUR based loan.

Repayment in full is scheduled to December 2020.

No liabilities are due after more than 5 years.

Notes

16. Pledge of assets, guarentees and other liabilities etc.

No pledge has been given in the machinery and equipment.

Guarantees have been issued for the benefit of third parties amounting to 404 kEUR as of 31 December 2016.

The company have the following rental and lease commitments:

	<u>End of contract</u>	<u>Total obligation EUR '000</u>
Cars	2017-2020	160
Total		160

There is no court case or alike which according to management can have significant impact on the companys financial situation.

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

17. Related parties

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

- The company's parent foundation, The Poul Due Jensens foundation and Grundfos Holding A/S

Grundfos Operations A/S are included in the consolidated financial statements for Poul Due Jensens Foundation, 8850 Bjerringbro. The consolidated financial statements for Poul Due Jensens Foundation, 8850 Bjerringbro is available at Erhvervsstyrelsen (Register of Commerce) under CVR no. 83 64 88 13.

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

18. Shareholder

The following shareholder is registreret as holding more than 5% of the Company's sharecapital:

GRUNDFOS Holding A/S, Poul Due Jensens Vej 7, 8850 Bjerringbro. 100 % of ownership.

The Poul Due Jensen Foundation (CVR no. 83 64 88 13) in Denmark, is the ultimate shareholder and prepares consolidated annual accounts for the Grundfos Group.

The consolidated annual accounts for the Poul Due Jensen Foundation are available to the public at the offices of the Danish Business Authority under CVR no. 83 64 88 13.

Notes

19. Financial instruments

Grundfos Operations A/S is hedging expected currency risks with currency forward contracts.

Deferred profit or loss on currency forward contracts is recognized in the balance sheet under receivables or other liabilities. The deferred profit or loss after deduction of deferred tax is recorded on equity.

At 31 December 2016 there was a net currency forward contract loss amounting to 2,486 kEUR. These losses are included in other liabilities and are due within the next 12 months.

Grundfos Operations A/S is hedging expected raw material risks with raw material contracts.

Deferred profit and loss on raw material contracts have been included in the balance sheet under other receivables or other liabilities and recorded on the equity after deduction of derred tax.

At 31 December 2016 there were net raw material contracts gain amounting to 1,782 kEUR. These net gains are included in other receivables and are due within the next 12 months.