

Grundfos Operations A/S

Poul Due Jensens Vej 7

DK - 8850 Bjerringbro

CVR no. 35 81 73 52

Annual Report 2019

(sixth financial year)

The Annual General Meeting adopted the annual report on 26 May 2020

Chairman of the meeting

Name: Astrid Nørgaard Friis

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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 Silvio Vanzo

Executive Board

Niels Herman Møller Jensen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

City Tower, Værkmestergade 2

DK – 8000 Aarhus C

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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 2019.

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

In our opinion, the annual accounts give a true and fair view of the Company's assets, liabilities and financial position as of 31 December 2019 and of its financial performance for the financial year 1 January to 31 December 2019.

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, 26 May 2020

Executive Board

Niels Herman Møller Jensen

Board of Directors

Mikael Andreas Holm Geday
Chairman

Stéphane Laurent Gilles Simonetta

Silvio Vanzo

Independent auditor's report

To the shareholder of Grundfos Operations A/S

Opinion

We have audited the financial statements of Grundfos Operations A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 financial statements 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 financial statements

Management is responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 financial statements 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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

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misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 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 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 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 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements 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 commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.



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

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

Based on the work we have performed, we conclude that the management commentary is in accordance with the 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 commentary.

Aarhus, 26 May 2020

Deloitte

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56

Lars Siggaard Hansen
State-Authorised Public Accountant
Identification No (MNE) mne32208

Jacob Tækker Nørgaard
State-Authorised Public Accountant
Identification No (MNE) mne40049

Key figures and financial ratios

	2019	2018	2017	2016	2015
	kEUR	kEUR	kEUR	kEUR	kEUR
Key figures					
Net turnover	1,851,110	1,814,428	1,788,573	1,778,393	1,170,350
Operating profit (EBIT)	37,022	36,289	35,794	38,599	28,518
Net financials	-3,135	-5,446	-6,235	-6,382	-2,516
Profit before tax	33,887	30,843	29,559	32,217	26,002
Profit for the year	26,374	24,049	23,495	24,506	19,929
Equity	234,080	202,740	199,245	166,687	98,553
Balance sheet total	697,555	722,110	700,411	546,971	501,600
Number of employees at year-end	158	173	106	115	55
Financial ratios					
Operating profit as a percentage of net turnover (%)	2.0	2.0	2.0	2.2	2.4
Return on equity (%)	12.1	12.0	12.8	18.5	23.2
Equity ratio (%)	33.6	28.1	28.5	30.5	19.7

Definition of key figures

Operating profit as a percentage of net

$$\text{turnover (\%)} = \frac{\text{Operating profit} \times 100}{\text{Net turnover}}$$

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 the current version of "Recommendations and Ratios" issued by CFA Society Denmark.

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 involves all Grundfos production companies in EU. The turnover consists of sales of products to the sales companies in the Grundfos Group. The main activity is to have products produced by toller manufacturing companies, for which activity the producing company receives 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 third year with sales of products to Grundfos sales companies.

Profit before tax for the year amounts to 34 mEUR compared with 31 mEUR last year. The result in 2019 is regarded satisfactory and fully in accordance with the expectations as mentioned in the 2018 annual report.

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 2025.

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 11% by the end of 2019 (against 5% by end of 2018). By the end of 2019, the status was 14% female managers (against 21% by end of 2018). The goal in Grundfos Operations A/S for the gender distribution is that in 2025, 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. For further details about composition of management reference is made to the Grundfos Group information mentioned in the annual accounts for Grundfos Holding A/S, which is available at Erhvervsstyrelsen (Central Commerce Register) under CVR no. 31 85 83 56.

CSR reporting

An overall report for the Grundfos Group's corporate social responsibility (CSR) has been prepared separately. Reference is made to this report for the Group's statement on corporate social responsibility.

For further information on corporate social responsibility (CSR) and Sustainability issues at Grundfos in general please see and download Sustainability Report at: www.grundfos.com/about-us/news-and-press/reports-magazines/sustainability-reports.html.

Financial 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 reduces 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 services 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 not hedged anymore. In the future, no raw material price hedge will take place.

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.

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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.

The intercompany loan amounting to 200 mEUR will be prolonged, if needed, when this is due in December 2020. Credit facilities are secured and available in the content needed for the entire business.

Management monitors the development of the current COVID-19 health situation closely and the impact on our business and employees. We seek to adhere with applicable legislation related to COVID-19 and adjusting our daily work and routines accordingly to minimize the spread and impact of the disease.

As of May 2020, we have to the best of our knowledge not experienced any material impact on our business, financial performance or our customers' ability to pay, however, Management acknowledges increased uncertainty related to the future and are taking measures to safeguard the company's financial position.

Expected development in 2020

The financial expectations for 2020 is a net turnover and profit for the year, in all material respect, on a similar financial level as the figures realised in 2019.

The Corona virus (COVID-19) and the effects since end of February 2020 may have a negative impact on the expectations to the 2020 result. It is not possible for the time being to estimate the full year financial impact of above.



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. Referring to section 98b (3) of the Danish Financial Statements Act, the Company has not shown the remuneration to executive board and board of Directors.

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 EUR (euro) 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.

Production costs

Production costs comprise costs relating to the Company's general production and logistics activities, including salaries and depreciation. Production costs furthermore include contribution to the group research and development activities.

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

Goodwill

Goodwill is measured at cost less accumulated amortisation and write-downs. Goodwill is amortised by the straight-line method using the estimated useful life of the asset, which is up to five years.

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.

Accounting policies

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

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

Other intangible fixed assets

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

Other intangible fixed assets	3 – 5 years
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Other intangible fixed assets are written down to the lower of recoverable amount and carrying amount.

Tangible fixed assets

Tangible fixed assets and assets in progress are measured at cost less accumulated amortisation and write-downs. 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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Technical installations and machinery and other installations are written down to the lower of recoverable amount and carrying amount. The residual value is revised annually.

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.

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Accounting policies

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

Prepayments

Prepayments recognised under assets 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.

Accounting policies

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 is measured at cost.

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Profit and loss statement for 2019

	Note	2019 1/1 - 31/12 EUR '000	2018 1/1 - 31/12 EUR '000
Net turnover	1.2	1,851,110	1,814,428
Production costs	2.3.4	-1,732,191	-1,694,693
Gross profit		118,919	119,735
Distribution costs	3	-77,116	-77,112
Administrative costs	3	-4,781	-6,334
Operating profit (EBIT)		37,022	36,289
Financial income	5	4,233	4,039
Financial costs	6	-7,368	-9,485
Profit before tax		33,887	30,843
Tax on profit for the year	7	-7,513	-6,794
Profit for the year	8	26,374	24,049

Balance sheet at 31.12.2019

	Note	2019 EUR '000	2018 EUR '000
Goodwill		0	0
Development projects		2,139	3,431
Intangible fixed assets	9	2,139	3,431
Technical installations and machinery		13,464	9,863
Tangible fixed assets in progress		4,526	4,000
Tangible fixed assets	10	17,990	13,863
Total fixed assets		20,129	17,294
Inventories	11	261,446	295,438
Trade debtors		52,099	47,957
Accounts receivable from affiliated companies		323,922	316,070
Deferred tax asset	12	2,578	3,611
Company tax receivable		427	1,699
Other accounts receivable		36,236	38,663
Prepayments		48	87
Accounts receivables		415,310	408,087
Cash at bank and in hand		670	1,291
Total current assets		677,426	704,816
Total assets		697,555	722,110

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Balance sheet at 31.12.2019

	Note	2019 EUR '000	2018 EUR '000
Share capital	13	1,001	1,001
Reserve for development projects		588	813
Retained profit		232,491	200,926
Equity		234,080	202,740
Liabilities under guarantee and other provisions	14	1,122	1,153
Provisions		1,122	1,153
Loans from affiliated companies	15	0	200,000
Other liabilities	16	528	0
Long term liabilities		528	200,000
Trade creditors		85,044	90,078
Debt to affiliated companies	15	352,323	204,077
Other liabilities		24,458	24,062
Short term liabilities		461,825	318,217
Total liabilities		462,353	518,217
Total equity, provisions and liabilities		697,555	722,110
Securities, contingent liabilities, etc.	17		
Related parties and shareholder	18-19		
Financial instruments	20		
Events after the balance sheet date	21		

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Statement of changes in equity

	Share Capital EUR '000	Reserve for development projects EUR '000	Retained profit EUR '000	Total EUR '000
Equity 01.01.2018	1,001	1,038	197,206	199,245
Profit for the year		-225	24,274	24,049
Net adjustment after tax hedging instruments			-20,554	-20,554
Equity 31.12.2018	1,001	813	200,926	202,740
Profit for the year		-225	26,599	26,374
Net adjustment after tax hedging instruments			4,966	4,966
Equity 31.12.2019	1,001	588	232,491	234,080

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Notes

	2019 1/1 - 31/12 EUR '000	2018 1/1 - 31/12 EUR '000
1. Net turnover		
Inter-company turnover	1,596,964	1,543,927
External turnover	254,146	270,501
	1,851,110	1,814,428
<p>Grundfos Operations A/S has only activities within the segment sale and service of pumps. That is the reason for showing the net turnover on customers (inter-company and external) and not also on activities.</p>		
2. Result from hedging instruments recognised in profit and loss account		
Foreign currency contracts loss recognised in net turnover	27,043	2,238
Foreign currency contracts loss recognised in cost of goods sold	1,292	2,528
Raw material contracts loss/gain recognised in cost of goods sold	4,747	-1,882
3. Staff costs		
Salaries and wages	16,436	15,588
Pensions	1,174	883
Social contributions	179	119
	17,789	16,590
<p>Staff costs are incorporated as shown below in the profit and loss statement:</p>		
Production costs	14,711	13,719
Distribution costs	810	755
Administrative costs	2,269	2,116
	17,789	16,590
Average number of full time employees	159	142
Number of full time employees at year end	158	173
4. Depreciation		
Development projects	1,292	2,106
Technical installations and machinery	3,747	2,427
	5,039	4,533
<p>Depreciation is included in the profit and loss statement as follows:</p>		
Production costs	5,039	4,533
	5,039	4,533

Notes**5. Financial income**

Interest income from affiliated companies
Interest income from bank
Currency adjustments

	2019	2018
	1/1 - 31/12	1/1 - 31/12
	EUR '000	EUR '000
	108	94
	96	70
	4,029	3,875
	4,233	4,039

6. Financial costs

Financial costs to affiliated companies
Financial costs to bank
Currency adjustments

	4,004	4,728
	0	12
	3,364	4,745
	7,368	9,485

7. Tax on profit for the year

Current tax
Change in deferred tax
Adjustment to deferred tax, prior years
Adjustment of company tax, prior years
Tax on profit for the year

	8,723	2,328
	-1,216	4,462
	848	-801
	-842	805
	7,513	6,794

Tax on profit for the year can be explained as:

Profit before tax

	33,887	30,843
	33,887	30,843

Tax calculated hereof

	7,455	6,785
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Tax effect of:

Adjustment of company tax, prior years
Effect from permanent differences, net

	-842	805
	900	-796
	7,513	6,794

Tax on profit for the year

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
Retained profit

	-225	-225
	26,599	24,274
	26,374	24,049

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Notes

	Goodwill EUR '000	Development projects EUR '000
9. Intangible fixed assets		
Cost 01.01.2019	1,248	10,506
Disposals of the year	0	-6,080
Cost 31.12.2019	1,248	4,426
Depreciation 31.12.2019	1,248	7,075
Depreciation for the year	0	1,292
Disposals of the year	0	-6,080
Depreciation 31.12.2019	1,248	2,287
Accounting value 31.12.2019	0	2,139
Accounting value 31.12.2018	0	3,431

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 01.01.2019	14,522	4,000
Additions of the year	7,348	3,552
Disposals of the year	0	-3,026
Cost 31.12.2019	21,870	4,526
Depreciation 01.01.2019	4,659	0
Depreciation for the year	3,747	0
Disposals of the year	0	0
Depreciation 31.12.2019	8,406	0
Accounting value 31.12.2019	13,464	4,526
Accounting value 31.12.2018	9,863	4,000

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Notes

	2019 EUR '000	2018 EUR '000
11. Inventories		
Raw materials and consumables	77,902	89,127
Work in progress	80,999	95,540
Manufactured goods and goods for resale	102,545	110,771
	261,446	295,438
12. Deferred tax		
Deferred tax 01.01	3,611	1,474
Deferred tax recognized in profit and loss account	1,216	-4,462
Deferred tax recognized in equity	-1,401	5,798
Adjustment to deferred tax previous years	-848	801
Deferred tax 31.12	2,578	3,611

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

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 to Grundfos Operations A/S.

	2019 EUR '000	2018 EUR '000
14. Liabilities under guarantee and other provisions		
Liabilities under guarantee and other provisions 01.01.	1,153	1,261
Provision for the period	484	0
Provision reversed	-515	-108
Liabilities under guarantee and other provisions 31.12.	1,122	1,153

Other provisions include jubilee provision and product guarentees.

15. Debt to and loans from affiliated companies

A separate loan amounting to 200,000 EUR is included as a designated group internal EUR loan.

Repayment of the loan is scheduled to December 2020. Postponement, if needed at that time, is confirmed.

No liabilities are due after more than 5 years.

16. Other liabilities

Other liabilities 01.01.	0	0
Additions for the period	528	0
Other liabilities 31.12.	528	0

Other liabilities is relating to long term holiday pay.

Notes

17. Pledge of assets, guarantees 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 1,684 kEUR as of 31 December 2019.

The company have the following rental and lease commitments:

	<u>End of contract</u>	<u>Total obligation EUR '000</u>
Cars	2020-2023	235
Total		<u>235</u>

There is no court case or alike which according to management can have significant impact on the company's 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.

18. Related parties

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

The company's parent foundation, the Poul Due Jensens Fond, the parent Grundfos Holding A/S, the Board of Directors and the registered Management.

Grundfos Operations A/S are included in the consolidated financial statements for Grundfos Holding A/S, 8850 Bjerringbro. The consolidated financial statements for Grundfos Holding A/S, 8850 Bjerringbro is available at Erhvervsstyrelsen (Register of Commerce) under CVR no. 31 85 83 56.

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.

19. Shareholder

The following shareholder is registered 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.

Grundfos Operations A/S and affiliated companies are included in the consolidated financial statements for Grundfos Holding A/S, 8850 Bjerringbro.

The consolidated financial statements for Grundfos Holding A/S are available to the public at the offices of the Danish Business Authority under CVR no. 31 85 83 56.

Notes

20. 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 other accounts receivables or other liabilities. The deferred profit or loss after deduction of deferred tax is recorded on equity.

At 31 December 2019 there was a net currency forward contract loss amounting to 9,060 kEUR (against a net loss amounting to 10,085 kEUR at 31 December 2018). These net losses ultimo 2018 and 2019 are included in other payables and are due within the next 12 months.

Grundfos Operations A/S is no longer hedging the raw material price risks.

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 deferred tax.

At 31 December 2019 there was no longer raw material contracts (against a net loss amounting to 5,351 kEUR at 31 December 2018). These 2018 net losses were included in other payables and were due within the next 12 months.

21. Events after the balance sheet date

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

Management monitors the development of the current COVID-19 health situation closely and the impact on our business and employees. We seek to adhere with applicable legislation related to COVID-19 and adjusting our daily work and routines accordingly to minimize the spread and impact of the disease.

As of May 2020, we have to the best of our knowledge not experienced any material impact on our business, financial performance or our customers' ability to pay, however, Management acknowledges increased uncertainty related to the future and are taking measures to safeguard the company's financial position.

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