

Poul Due Jensens Fond
Poul Due Jensens Vej 7
DK-8850 Bjerringbro
Central Business Registration
No 83648813

Annual report 2017

The Annual Meeting adopted the annual report on 07.03.2018

Chairman of the Board of Directors

Name: Niels Due Jensen

Contents

	<u>Page</u>
Entity details	1
Statement by Management on the annual report	2
Independent auditor's report	3
Management commentary	6
Consolidated income statement for 2017	16
Consolidated balance sheet at 31.12.2017	17
Consolidated statement of changes in equity for 2017	19
Consolidated cash flow statement for 2017	20
Notes to consolidated financial statements	21
Parent income statement for 2017	33
Parent balance sheet at 31.12.2017	34
Parent statement of changes in equity for 2017	36
Notes to parent financial statements	37
Accounting policies	41

Entity details

Entity

Poul Due Jensens Fond
Poul Due Jensens Vej 7
DK-8850 Bjerringbro

Central Business Registration No: 83648813
Registered in: Bjerringbro
Financial year: 01.01.2017 - 31.12.2017

Board of Directors

Niels Due Jensen, Chairman
Ingelise Mose Bogason, Vice Chairman
Anne-Birgitte Albrechtsen, Member of the Board
Jens Bager, Member of the Board
Poul Due Jensen, Member of the Board
Ingermarie Due Nielsen, Member of the Board
Jens Winther Moberg, Member of the Board
Estrid Due Hesselholt, Member of the Board
Torben Ømark Lind, Member of the Board, Elected by employees
Jens Erik Bjørklund Lysdahl, Member of the Board, Elected by employees
Rudolf Martini, Member of the Board, Elected by employees
Zsuzsanna Tóth, Member of the Board, Elected by employees

Executive Board

Christian Hartvig, Executive Director

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Poul Due Jensens Fond for the financial year 01.01.2017 - 31.12.2017.

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

In our opinion, the consolidated financial statements and the Foundation's financial statements give a true and fair view of the Group's and the Foundation's assets, liabilities and financial position as at 31.12.2017 and of their financial performance and cash flows for the financial year 01.01.2017 - 31.12.2017.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

Bjerringbro, 07.03.2018

Executive Board

Christian Hartvig
Executive Director

Board of Directors

Niels Due Jensen
Chairman

Ingelise Mose Bogason
Vice Chairman

Anne-Birgitte Albrechtsen
Member of the Board

Jens Bager
Member of the Board

Poul Due Jensen
Member of the Board

Ingermarie Due Nielsen
Member of the Board

Jens Winther Moberg
Member of the Board

Estrid Due Hesselholt
Member of the Board

Torben Ømark Lind
Member of the Board, Elected
by employees

Jens Erik Bjørklund Lysdahl
Member of the Board, Elected
by employees

Rudolf Martini
Member of the Board, Elected
by employees

Zsuzsanna Tóth
Member of the Board, Elected
by employees

Independent auditor's report

To the Board of Directors of Poul Due Jensens Fond

Opinion

We have audited the consolidated financial statements and the parent financial statements of Poul Due Jensens Fond for the financial year 01.01.2017 - 31.12.2017, 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 Foundation, 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 Foundation's financial position at 31.12.2017, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2017 - 31.12.2017 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 these 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 Foundation'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 Foundation 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

Independent auditor's report

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 decisions of users taken on the basis of these consolidated financial statements and 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 Foundation'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 Foundation'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 Foundation 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 financial statements of the Foundation 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.

Independent auditor's report

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 consolidated financial statements and the parent 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 consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent 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 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 commentary.

Aarhus, 07.03.2018

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Thomas Rosquist Andersen
State Authorised Public Accountant
Identification number (MNE) mne31482

Martin Norin Faarborg
State Authorised Public Accountant
Identification number (MNE) mne29395

Management commentary

	2017 DKK'm	2016 DKK'm	2015 DKK'm	2014 DKK'm	2013 DKK'm
Financial highlights					
Key figures					
Revenue	25.634	24.677	24.800	23.618	23.254
Gross profit/loss	10.023	9.550	8.938	8.566	8.756
Operating profit/loss	2.274	2.233	1.925	860	1.403
Net financials	75	37	3	21	72
Profit/loss for the year	1.690	1.676	1.473	503	1.049
Total assets	26.122	24.778	22.780	21.367	21.410
Investments in property, plant and equipment	768	942	954	1.126	1.496
Equity incl minority interests	18.658	17.397	15.903	14.550	14.347
Interest bearing receivable, net	8.381	6.201	4.153	2.653	2.849
Donations awarded	96	64	15	18	15
Dividend from subsidiary	724	639	220	460	586
Available capital (including proposed distributions)	3.840	3.265	2.682	2.483	2.061
Ratios					
Gross margin (%)	39,1	38,7	36,0	36,3	37,7
Net margin (%)	6,6	6,8	5,9	2,1	4,5
Return on equity (%)	9,4	10,1	9,7	3,5	7,5
Equity ratio (%)	71,4	70,2	69,8	68,1	67,0

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Ratios
Gross margin (%)		The entity's operating gearing.
Net margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity incl minority interests}}$ $\frac{\text{Equity incl minority interests} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

Poul Due Jensens Fond (Grundfos Fonden or the Foundation) was established in 1975 by the founder of Grundfos, Poul Due Jensen, with the aim of ensuring a financially sound and sustainable development of Grundfos and its affiliated companies.

The Foundation owns 88 % of Grundfos Holding A/S being the supreme holding company of all other Grundfos companies worldwide. As the majority owner of Grundfos, the Foundation is therefore destined and committed to continue to own, protect and develop Grundfos. Active ownership of Grundfos is the Foundations answer to this obligation. Besides the active ownership, the Foundation is also obliged and committed to distribute funds for philanthropic activities for the common good. Distributions for philanthropic activities are secondary to the active ownership of Grundfos Holding A/S and can hence fluctuate if the dividends from Grundfos Holding A/S becomes insufficient to support both, and the Grundfos Holding A/S Group would need an increased economical commitment from the Foundation.

Development in activities and finances of the Foundation

This year's profit in the Foundation amounts to DKK 1,503 million in 2017, compared to a profit of DKK 1,497 million in 2016.

The Foundation made donations recognised in equity of DKK 96 million in 2017, compared to DKK 64 million in 2016 cf. below for more information.

Foundation Governance

The Board of Directors of the Foundation consists of 12 members, of whom the Grundfos Group's EU-based employees elect four. Of the remaining eight, four are descendants of the Founder and four are external members elected by the Board itself.

Today, the group of descendants and external board members consist of four men and four women. The gender balance is hence 50% of each sex among the board members who are externally and descendant elected.

Already in 2015, the Foundation Board decided to aim for compliance with the recommendation on double seats and board independence as described in Recommendations on Foundation Governance 2.3.5 and 2.4.1. We reached that goal in 2017.

New board members secured compliance

In March 2017, former CEO of ALK-Abello A/S and now professional Chairman serving on several boards, Mr. Jens Bager, and Plan International CEO, Ms. Anne-Birgitte Albrechtsen replaced Mr. Jens Maaløe, CEO of Terma, and Mr. Bo Risberg, former CEO of the Hilti Corporation as members of the Foundation Board and as neither Jens Bager nor Anne-Birgitte Albrechtsen have been elected for the Grundfos Holding A/S board of

Management commentary

directors, this change brought Poul Due Jensen Foundation into compliance with the targeted 14 out of 16 recommendations, as is tackled both the double seat challenge and the independence issue.

The Comply or Explain reports covering 2017 and previously are available at www.pdjf.dk/governance, www.grundfosfoundation.com/governance and www.poulduejensensfond.dk/governance.

Active ownership of Grundfos

The Foundation primary asset is the 88% shareholding in Grundfos Holding A/S. The Foundation is exercising the controlling ownership hereof through the election of not only the board member of Grundfos Holding A/S, but also via direct election of the chairman and the vice-chairman of the Board of Directors of Grundfos Holding A/S, as they according to the Articles of Association are elected by the Annual Meeting of Shareholders directly. On the top hereof the Foundation have an ongoing dialogue with the Grundfos Holding A/S Board of Directors and Executive Management on development of Grundfos in general, but especially on long term ambitions in respect of (1) Annual organic growth in turnover, (2) Annual pre-tax profit, (3) A capital structure based on a high equity interest, (4) Return on equity, (5) Best in the market development, manufacturing, sale and service of highly innovative products (5) A socially responsible company believing that there are obligations that go beyond those derived from legislation and tax payments (7) Sustainability in products, production processes and other activities and (8) Adherence to the Founders' six values.

This year's profit in Grundfos amounts to DKK 1,755 million in 2017, compared to a profit of DKK 1,680 million in 2016, of which 50% is expected to be distributed to the shareholder including the Foundation.

Detailed information on the performance and development of the Grundfos Holding A/S Group, can be found in the Annual Accounts of Grundfos Holding A/S to be published on www.grundfos.com, whereas the consolidated result of the Foundation and the Poul Due Jensen Fond Group can be found in this report.

Philanthropy

The Foundations activities around philanthropy are based on the 2016 donations strategy on safe water to the world's poorest, developing use-inspired basic research environment within engineering and natural science and finally on labour market inclusion in Central Jutland. The Foundation committed DKK 96 million to philanthropic projects within the strategic areas of focus in 2017 and continued the growth donations compared to previous years.

Safe water for the world's poorest

Safe water for the world's poorest and the world's forgotten refugee camps addresses directly UN Sustainable Development Goal 6.1 "Universal and equitable access to safe and affordable drinking water for all". Safe water also addresses other important goals; Goal 1 on "End poverty in all its forms everywhere", Goal 2 on "End hunger...", Goal 3 on "Ensure healthy lives...", Goal 4 on "Ensure inclusive and quality education for all..."

Management commentary

and Goal 5 on "Achieve gender equality and empower all women and girls". Safe water has that rippling effect on people's life.

The Foundation focus on rural communities in the developing world, which according to the WHO and UNICEFs Joint Monitoring Programme (JMP) on Progress on drinking water, sanitation and hygiene newly defined water service ladder are drinking water directly from a river, dam, lake, pond, stream, canal or irrigation canal (surface water), are drinking water from an unprotected dug well or unprotected spring (unimproved water service), or which are drinking water from an improved source for which collection time exceeds 30 minutes for a roundtrip including queuing (limited water service). Our objective is bringing our beneficiaries to drinking water from an improved source, provided collection time is not more than 30 minutes for a roundtrip including queuing (Basic water service).

In 2017, the Foundation continued supporting safe water around the world in Peru, Togo, Tanzania, India, Nepal, Bangladesh and Indonesia, acting in disaster responses, refugee crises, refugee host communities and long-term development poor rural communities. DKK 25 million from the Foundation were donated to provide 135.864 beneficiaries with safe water in 2017 and the years to come.

Developing use-inspired basic research environment within engineering and natural science

The funding environment for research in Denmark is to a high extent focusing on application oriented research having creation of new jobs in the not too far future as one of the key performance indicators. Appreciating that such focus is important, the Foundation do however believe that valuable application oriented research need to be part of a solid basic research environment to go beyond just incremental innovations. The Foundation has hence strategically decided to focus on what is defined as use-inspired basic research. We focus on developing research environments with world-class potential or maintaining existing world-class research environment.

In 2017, the Foundation has focused on (1) Computer Science at Aalborg University, (2) the interdisciplinary strategic research centre WATEC at Aarhus University and (3) the smart water infrastructure research at Aalborg University. DKK 63 million from the Foundation were donated to six different initiatives plus the 2017 Grundfos Prize and DKK 0.4 million for scholarships and innovation awards for Grundfos employees.

One of the recurring Foundations lighthouses are the annual Grundfos Prize. The 2017 prize was awarded to Professor PhD Irimi Angelidaki, from DTU Environment in Denmark for her important research in biomass conversion to bioenergy, biofuels and bioproducts and in particular for her special attention to sustainability and the technologies using waste, and agricultural residues for production of bioenergy.

Labour market inclusion in Central Jutland

The founder of the Foundation Mr. Poul Due Jensen and his descendants including the chairman of the Foundation Mr. Niels Due Jensen have always been deeply devoted to integration of vulnerable people into the labour market. Poul Due Jensen and Niels Due Jensen brought that devotion into Grundfos and labour market

Management commentary

inclusion is hence a vital part of the DNA of not only Grundfos, but also of the Foundation. The 2017 labour market inclusion initiatives in the Foundation were in respect of amounts donated lower than the safe water and research areas, as only DKK 7 million was donated in 2017. Besides the traditional Christmas Donations and the new Social Responsibility Award, where Grundfos employees nominate social responsibility projects in the neighbourhood of Grundfos companies, the donations were split on three initiatives related to refugee language training, access to sport for vulnerable people and special training for school kids with special needs.

The primary labour market inclusion initiatives have hence been focused on analysing the actual state of labour market inclusion in Central Jutland and identifying the more specific areas of need. Based on the analysis, the Foundation decided to focus on five areas of engagement, which also address the UN Sustainable Development Goal 4 on education and Goal 8 on decent work for all. Focusing on (1) development of vocational, personal and social skills to prepare vulnerable children for completing primary school, (2) transition from school to education, (3) completion of education or training, (4) transition from education or unemployment to job, and finally (5) maintaining employment for vulnerable people when in job, the Foundation ambition is to contribute to a decrease in the number of individuals on passive public benefits in Central Jutland.

The Foundation has in order to be able to develop holistic approaches across the five areas of engagement approached the Municipal Directors in some of the municipalities with labour market inclusion challenges. This Municipal Directors approach has been well received and started up well and 2018 will show whether we can develop more holistic projects with a higher impact via this path.

Donations 2017

Safe water

Organisation	Project number and name	Country	Amount (1,000 DKK)	Period
BØRNEfonden	2017-002 Phase 1 extension	Togo	562	2017
BØRNEfonden	2017-010 Togo Phase 2	Togo	3,000	2017-2019
Practical Action	2017-005 Practical Action Peru Flooding Disaster Relief	Peru	1,000	2017
Oxfam	2017-018 Oxfam Rohingya Crises Bangladesh	Bangladesh	1,000	2017
Oxfam	2017-012 Oxfam Nepal Safe Water	Nepal	8,822	2017-2020
Water Mission	2017-013 Water Mission Tanzania Host	Tanzania	5,854	2018-2019
Water Mission	2017-014 2018 SE Asia Clean Water Initiative	Indonesia	4,784	2018-2019
Sunlit Future	2017-017 Sunlit Future 100-100 Phase 4	India	474	2017-2018
TOTAL			25,496	27%

Management commentary

Research

Organisation	Project name	Country	Amount (1,000 DKK)	Period
Aalborg University	2017-008 Infrastructure Laboratory Smart Water Infrastructure	Denmark	5,000	2017-2019
Aalborg University	2017-023 Professorships in computer science	Denmark	17,000	2018
Aarhus University WATEC	2017-024 Professorship in water treatment	Denmark	11,000	2018-2023
Aarhus University WATEC	2017-025 Sensor laboratory and professorship in water quality sensors	Denmark	16,189	2018-2023
Aarhus University WATEC	2017-026 Sensor laboratory post-docs	Denmark	6,000	2018-2022
Aarhus University WATEC	2017-027 Free postdocs	Denmark	7,000	2018-2022
DTU Miljø – Institut for Vand og Miljøteknologi	Grundfos Prize – research grant	Denmark	750	2017
Irini Angelidaki	2017 Grundfos Prize Winner	Denmark	250	2017
Various Grundfos Employees	2017 Poul Due Jensen Innovation Awards and Scholarships	Several countries	397	2017
TOTAL			63,586	66%

Labour market inclusion

Organisation	Project name	Country	Amount (1,000 DKK)	Period
Randers gymnastiske Forening	2016-129 Inclusion through sports clubs / associations	Denmark	1,925	2017-2021
Underværket	2016-157 "Strictly Come Danish"	Denmark	800	2018-2019
DGI	2017-009 Sports for children/young people under 25	Denmark	3,000	2018-2021
Mødrehjælpen	2017-019 Christmas Donation	Denmark	200	2017
Frelsens Hær	2017-020 Christmas Donation	Denmark	200	2017
Børnehjælpsdagen	2017-021 Christmas Donation	Denmark	200	2017
Dansk Folkehjælp	2017-022 Christmas Donation	Denmark	200	2017
Justice for San Luis Potosi	Winner of Social Responsibility Award 2017	Mexico	149	2017
TOTAL			6.674	7%

Grand total

95,756

Development in activities and finances

Management commentary

Statement on sustainability

It is an important part of the Foundation's values to act in a socially responsible and sustainable way. These values are shared across the Group. The Foundation has not developed a specific policy for sustainability, but has instead integrated sustainability and focus on resilience in the philanthropic strategies as well as in the processes for developing philanthropic projects. As described above, the philanthropic strategies are focussed on creating a positive impact in a number of areas, including in relation to social and human rights matters, as well as environmental and climate protection. We believe that our donations in 2017 will result in creating that impact through the specific projects over time.

Besides these integrations of sustainability in the Foundation's own activities, sustainability and how the Grundfos Holding A/S Group addresses these issues in not only policies but also in operation is an integrated part of the ongoing dialogue and follow-up towards the Grundfos Holding A/S Board of Directors and Executive Management team cf. above under Active Ownership. The Board of Directors of Grundfos Holding A/S has laid down specific CSR policies and processes, including for human rights, environmental and climate protection, relevant for the company and its subsidiaries.

Further description of Grundfos Holding A/S Group's CSR policy and the 2017 activities and performance, can be found in Grundfos Holding A/S' annual report.

Besides working directly with UN Sustainable Development Goal 4 on education for all, Goal 6 on universal and equitable access to safe and affordable drinking water for all, and Goal 8 on decent work for all in the philanthropic activities, the Foundation is also indirectly working with UN Sustainable Development Goal 1 on ending poverty in all its forms everywhere, Goal 2 on ending hunger, Goal 3 on healthy lives, and Goal 5 on gender equality and empowerment all women and girls.

Sustainability and resilience of the supported initiatives are also - in its core meaning - direct and strict requirements and measures of success in all philanthropic projects as defined in the strategy document. All projects are designed to ensure sustainability and resilience after the Foundation engagement when the project terminate, and the process of ensuring sustainability and resilience has its own dedicated phase in the project development model applied by the Foundation.

Having the focus on sustainability in the active ownership and the integration in the philanthropic activities as the first and second phase in the Foundation activities directed toward sustainability, the Foundation started in 2017 focusing on sustainability in the daily operation. The first step in this direction has been to engage with the cradle to cradle certified printing company for delivery of printed material to the Foundation.

Management commentary

Statement regarding the underrepresented gender

It is the policy of the Foundation to support diversity and gender equality, also in its own operations.

As mentioned above, there is an equal gender representation in the Foundation’s Board. Since the Foundation itself has less than 50 employees, it has not chosen not to have a specific policy for the underrepresented gender in management.

The Foundation has not set a target for the underrepresented gender in the Boards of Directors at Group level, or laid down a Group policy for the underrepresented gender in management, but has ensured that Grundfos Holding A/S has set its own target and policies, and that Grundfos Holding A/S is working towards fulfilling it.

Please, refer to the annual report of Grundfos Holding A/S to read the statement on Board target figure and policies for the underrepresented gender in the management.

Group structure



Management commentary

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 S.A.
 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 Pumpen Deutschland 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
 Ghana, Grundfos Pumps Ghana Ltd.
 Greece, Grundfos Hellas 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 Kerjasama International Perdagangan Dan Logistik
 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
 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, Biral Pompen B.V.
 Netherlands, DAB Pumps B.V.
 Netherlands, Grundfos Distribution Service B.V.
 Netherlands, Grundfos Nederland B.V.
 New Zealand, Grundfos Pumps NZ Ltd.
 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, DWT Pumps Motors and Electronics Ltd.
 South Africa, Grundfos (Pty) Ltd.
 Spain, Bombas Grundfos España S.A.
 Spain, DAB Pumps Iberica S.L.
 Sweden, Grundfos AB
 Switzerland, Grundfos Arnold AG
 Switzerland, Biral AG
 Switzerland, Grundfos Corporate Purchase AG
 Switzerland, Grundfos Holding AG
 Switzerland, Grundfos Handels AG
 Switzerland, Grundfos Insurance Management 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 Service 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 LLC (USA)
 (DBA Peerless Pump Company)
 USA, DAB Pumps Inc.
 USA, SFS (USA) Holding Inc.
 USA, Grundfos Water Utility Inc.
 Vietnam, Grundfos Vietnam Company Ltd.

Management commentary

Ownership

Poul Due Jensens Fond, based in Bjerringbro, Denmark, is the parent company of the Grundfos Holding A/S Group. Poul Due Jensens Fond owns 87.6 % of the share capital in Grundfos Holding A/S, while the founder's family owns 10.6% and the employees own 1.8%.

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:

Bjerringbro Savværk Holding A/S, Denmark – 20%

Better Home ApS, Denmark – 25%

KnowHowZ A/S, Denmark – 21%

Outlook

For 2018, we forecast continued sales growth (measured in local currencies) in the range 3-5%. Based on this we expect an increase in operating profit in the range of 10-20%. As a globally operating group, we see a number of financial risks including restricting on free trade and unfavourable currency developments.

Consolidated income statement for 2017

	<u>Notes</u>	<u>2017 DKK'm</u>	<u>2016 DKK'm</u>
Revenue	2	25.634	24.677
Production costs	3, 5	(15.611)	(15.127)
Gross profit/loss		10.023	9.550
Research and development costs	5	(1.324)	(1.263)
Distribution costs	5	(4.132)	(3.943)
Administrative costs	4, 5	(2.244)	(2.107)
Other operating expenses		(49)	(4)
Operating profit/loss		2.274	2.233
Income from investments in associates		(5)	(3)
Income from other fixed assets investments		25	23
Other financial income	7	234	124
Other financial expenses	8	(179)	(107)
Profit/loss before tax		2.349	2.270
Tax on profit/loss for the year	9	(659)	(594)
Profit/loss for the year	10	1.690	1.676

Consolidated balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'm</u>	<u>2016 DKK'm</u>
Completed development projects		337	443
Acquired intangible assets		182	215
Goodwill		201	274
Development projects in progress		23	79
Intangible assets	11	743	1.011
Land and buildings		2.816	2.980
Plant and machinery		2.422	2.859
Other fixtures and fittings, tools and equipment		463	258
Property, plant and equipment in progress		528	658
Property, plant and equipment	12	6.229	6.755
Investments in associates		0	5
Other investments		931	1.042
Other receivables		60	60
Deferred tax	14	445	690
Fixed asset investments	13	1.436	1.797
Fixed assets		8.408	9.563
Raw materials and consumables		1.731	1.650
Work in progress		1.295	979
Manufactured goods and goods for resale		1.079	1.032
Inventories	15	4.105	3.661
Trade receivables		4.728	4.860
Other receivables		1.221	1.130
Prepayments		164	235
Receivables		6.113	6.225
Other investments		4.304	1.881
Other investments		4.304	1.881
Cash		3.192	3.448
Current assets		17.714	15.215
Assets		26.122	24.778

Consolidated balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'm</u>	<u>2016 DKK'm</u>
Contributed capital		505	505
Provision for distributions		150	30
Retained earnings		16.384	15.306
Equity attributable to the Parent's owners		17.039	15.841
Share of equity attributable to minority interests		1.619	1.556
Equity		18.658	17.397
Provisions for pension liabilities etc.		462	613
Deferred tax	14	128	150
Other provisions	16	1.189	975
Provisions		1.779	1.738
Mortgage debts		0	72
Bank loans		14	42
Debt to other credit institutions		6	12
Non-current liabilities other than provisions	17	20	126
Current portion of long-term liabilities other than provisions	17	13	24
Bank loans		13	20
Trade payables		2.553	2.549
Income tax payable		315	378
Other payables		2.576	2.376
Deferred income		195	170
Current liabilities other than provisions		5.665	5.517
Liabilities other than provisions		5.685	5.643
Equity and liabilities		26.122	24.778
Events after the balance sheet date	1		
Financial instruments	19		
Mortgages and securities	20		

Consolidated statement of changes in equity for 2017

	Contributed capital DKK'm	Provision for distributions DKK'm	Retained earnings DKK'm	Share of equity attributable to minority interests DKK'm
Equity beginning of year	505	30	15.306	1.556
Ordinary dividend paid	0	0	(13)	(87)
Ordinary distributions	0	(96)	0	0
Exchange rate adjustments	0	0	(386)	(46)
Value adjustments	0	0	78	9
Other equity postings	0	0	108	0
Tax of equity postings	0	0	3	1
Profit/loss for the year	0	216	1.288	186
Equity end of year	505	150	16.384	1.619
				Total DKK'm
Equity beginning of year				17.397
Ordinary dividend paid				(100)
Ordinary distributions				(96)
Exchange rate adjustments				(432)
Value adjustments				87
Other equity postings				108
Tax of equity postings				4
Profit/loss for the year				1.690
Equity end of year				18.658

Consolidated cash flow statement for 2017

	<u>Notes</u>	<u>2017 DKK'm</u>	<u>2016 DKK'm</u>
Operating profit/loss		2.274	2.233
Amortisation, depreciation and impairment losses		1.527	1.594
Other provisions		161	89
Working capital changes	18	(142)	10
Other adjustments		26	7
Cash flow from ordinary operating activities		3.846	3.933
Financial income received		148	146
Financial income paid		(179)	(107)
Income taxes refunded/(paid)		(646)	(720)
Cash flows from operating activities		3.169	3.252
Acquisition etc of intangible assets		(143)	(139)
Acquisition etc of property, plant and equipment		(768)	(942)
Sale of property, plant and equipment		76	42
Purchase and sale of securities		(2.313)	(1.441)
Cash flows from investing activities		(3.148)	(2.480)
Instalments on loans etc		(125)	(15)
Dividend paid		(100)	(88)
Distributions		(96)	(64)
Divestment of minority interests		0	16
Acquisition of minority interests		0	(36)
Cash flows from financing activities		(321)	(187)
Increase/decrease in cash and cash equivalents		(300)	585
Cash and cash equivalents beginning of year		3.448	2.866
Currency translation adjustments of cash and cash equivalents		44	(3)
Cash and cash equivalents end of year		3.192	3.448

Notes to consolidated financial statements

1. Events after the balance sheet date

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

	2017 DKK'm	2016 DKK'm
2. Revenue		
Europe (including Russia)	13.969	13.723
North and South America	4.098	4.022
Asia	6.187	5.664
The Middle East/Africa	1.380	1.268
	25.634	24.677

The Grundfos Holding A/S Group's activities lie solely within the segment of the manufacture and sale of pumps. Therefore, revenue has only been divided according to geographical markets.

3. Production costs

Result from hedging instruments recognised in profit and loss account

	2017 DKK'm	2016 DKK'm
Foreign exchange rate contracts recognised in net turnover	53	21
Foreign exchange rate contracts recognised in production costs	(9)	(6)
Raw material contracts recognised in production costs	54	(102)
Foreign exchange rate contracts recognised in financial costs	0	(5)
	98	(92)

4. Administrative costs

	2017 DKK'm	2016 DKK'm
Auditors' remuneration		
Fee to Deloitte for statutory auditing	12	12
Fee to Deloitte for other assurance engagements	0	1
Fee to Deloitte for tax advisory services	8	11
Fee to Deloitte for other services	5	6
	25	30

Notes to consolidated financial statements

	2017 DKK'm	2016 DKK'm
5. Staff costs		
Wages and salaries	5.867	5.691
Pension costs	400	419
Other social security costs	596	708
	6.863	6.818
Number of employees at balance sheet date	18.601	17.779
Average number of employees	18.246	17.803

In addition, the Foundation itself incurred staff costs of DKK 8m (DKK 7m in wages and salaries and DKK 1m in pension costs) in 2017, which is included in the specification below in administrative costs.

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 boards of Poul Due Jensens Fond and Grundfos Holding A/S do not participate in the LTI programme, unless a board member is part of senior management.

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

Staff costs are recognised as follows:	2017 DKK'm	2016 DKK'm
Production costs	2.999	3.042
Research and development costs	717	650
Sales and distribution costs	2.093	2.072
Administrative costs	1.062	1.054
	6.871	6.818

The staff costs of the year include fees to the Executive Director and members of the Board of Directors of the Foundation and other Group units of DKK 9m (2016: DKK 11m).

Notes to consolidated financial statements

6. Depreciation, amortisation and impairment losses

Recognised in the income statement under the following items	2017 DKK'm	2016 DKK'm
Production costs	922	1.005
Research and development costs	296	306
Sales and distribution costs	92	108
Administrative costs	99	100
Group goodwill	72	75
	1.481	1.594

The amounts for research and development costs include write-downs of DKK 53m (2016: DKK 14m)

7. Other financial income	2017 DKK'm	2016 DKK'm
Interest income	24	8
Fair value adjustments	111	28
Other financial income	99	88
	234	124

8. Other financial expenses	2017 DKK'm	2016 DKK'm
Other financial expenses	179	107
	179	107

9. Tax on profit/loss for the year	2017 DKK'm	2016 DKK'm
Tax on current year taxable income	545	686
Change in deferred tax for the year	121	(68)
Adjustment concerning previous years	(69)	(22)
Effect of changed tax rates	62	(2)
	659	594

Notes to consolidated financial statements

Restatement of rate of taxation for the year:

Danish rate of taxation	22%	22%
Deviations in tax in foreign companies in relation to Danish tax rate	0%	1%
Non-deductible amortisation/write-downs on goodwill	0%	1%
Non-deductible withholding taxes	1%	1%
Other, including adjustments regarding previous years	1%	1%
Changes in tax rates	3%	0%
Rate of taxation for the year	27%	26%

	2017	2016
	DKK'm	DKK'm
10. Proposed distribution of profit/loss		
Provision for distributions	216	69
Retained earnings	1.288	1.429
Minority interests' share of profit/loss	186	178
	1.690	1.676

Notes to consolidated financial statements

	Completed develop- ment projects DKK'm	Acquired intangible assets DKK'm	Goodwill DKK'm	Develop- ment projects in progress DKK'm
11. Intangible assets				
Cost beginning of year	1.075	923	1.161	93
Exchange rate adjustments	0	(17)	(2)	0
Transfers	88	10	0	(88)
Additions	0	106	0	37
Disposals	(405)	(274)	(340)	(19)
Cost end of year	758	748	819	23
Amortisation and impairment losses beginning of year	(632)	(708)	(887)	(14)
Exchange rate adjustments	0	14	1	0
Transfers	0	(6)	0	0
Impairment losses for the year	(17)	1	(32)	(5)
Amortisation for the year	(177)	(142)	(40)	0
Reversal regarding disposals	405	275	340	19
Amortisation and impairment losses end of year	(421)	(566)	(618)	0
Carrying amount end of year	337	182	201	23

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 an indication of impairment. If this is the case, a more thorough impairment test is carried out for such projects. In case of impairment, the project in question is written down to its recoverable amount.

Notes to consolidated financial statements

	Land and buildings DKK'm	Plant and machinery DKK'm	Other fixtures and fittings, tools and equipment DKK'm	Property, plant and equipment in progress DKK'm
12. Property, plant and equipment				
Cost beginning of year	5.744	12.006	1.379	658
Exchange rate adjustments	(177)	(154)	(45)	(10)
Transfers	184	70	(8)	(257)
Additions	51	228	349	140
Disposals	(12)	(240)	(110)	(3)
Cost end of year	5.790	11.910	1.565	528
Depreciation and impairment losses beginning of the year	(2.764)	(9.147)	(1.121)	0
Exchange rate adjustments	80	156	38	0
Transfers	(80)	72	15	0
Depreciation for the year	(210)	(776)	(129)	0
Reversal regarding disposals	0	207	95	0
Depreciation and impairment losses end of the year	(2.974)	(9.488)	(1.102)	0
Carrying amount end of year	2.816	2.422	463	528

Accounting value of financially leased facilities as at 31.12.2017 amounts to DKK 9m (2016: DKK 13m).

Notes to consolidated financial statements

	Investments in associates DKK'm	Other investments DKK'm	Other receivables DKK'm	Deferred tax DKK'm
13. Fixed asset investments				
Cost beginning of year	20	1.031	71	690
Exchange rate adjustments	0	(5)	(5)	(26)
Additions	0	8	7	65
Disposals	0	(101)	0	(284)
Cost end of year	20	933	73	445
Revaluations for the year	0	0	(5)	0
Revaluations end of year	0	0	(5)	0
Impairment losses beginning of year	(15)	11	(11)	0
Impairment losses for the year	(5)	(13)	3	0
Impairment losses end of year	(20)	(2)	(8)	0
Carrying amount end of year	0	931	60	445

The market value of securities as at 31.12.2017 amounts to DKK 964m (2016: DKK 1,063m).

	2017 DKK'm
14. Deferred tax	
Changes during the year	
Beginning of year	540
Recognised in the income statement	(214)
Recognised directly in equity	(9)
End of year	317
Deferred tax broken down:	
Fixed assets	(70)
Current assets	234
Provisions	(41)
Liabilities	168
Deficit	26
	317

Notes to consolidated financial statements

The above has been recognised in the balance sheet as:

Deferred tax assets	445
Deferred tax liabilities	<u>(128)</u>
	<u>317</u>

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 offset 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 revenue and EBIT development considering the 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 2017 DKK 26m (2016: DKK 5m). Tax assets related to carry-forward losses are only recognised if they are expected to be utilised within three years. Unrecognised tax assets related to tax losses carry-forward amounts to approx DKK 110m (2016: DKK 150m).

15. Inventories

	2017	2016
	DKK'm	DKK'm
Raw materials and consumables	1.731	1.650
Work in progress	1.295	979
Manufactured goods and goods for resale	<u>1.079</u>	<u>1.032</u>
	<u>4.105</u>	<u>3.661</u>

16. Other provisions

	Liabilities guarantee	Buy-back obligation relating to employee shares	Pension liabilities	Other provisions
	DKK'm	DKK'm	DKK'm	DKK'm
01.01.2017	196	424	613	355
Exchange rate adjustments	(10)		(36)	(14)
Provisions spent during the year	(93)	(39)	(44)	(81)
Provisions reversed	(6)		(108)	(11)
Provisions of the year	<u>78</u>	<u>149</u>	<u>37</u>	<u>241</u>
Provisions end of year	<u>165</u>	<u>534</u>	<u>462</u>	<u>490</u>

Liabilities under guarantee

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

Notes to consolidated financial statements

Other provisions

Other provisions include DKK 31m (2016: DKK 29m) according to a long-term incentive (LTI) programme for senior management in the Group.

	Instalments within 12 months 2017 DKK'm	Instalments within 12 months 2016 DKK'm	Instalments beyond 12 months 2017 DKK'm
17. Liabilities other than provisions			
Mortgage debts	13	24	0
Bank loans	0	0	14
Debt to other credit institutions	0	0	6
	13	24	20

No debt falling due after more than five years.

Distribution of currencies and interest as at 31.12.2017:

<u>Currency</u>	<u>2017</u>	<u>Average in- terest rate</u>
EUR	6	4,9%
GBP	7	5,9%
Other	7	8,0%
Total	20	

18. Change in working capital

	<u>2017 DKK'm</u>	<u>2016 DKK'm</u>
Increase/decrease in inventories	(444)	95
Increase/decrease in receivables	209	(230)
Increase/decrease in trade payables etc	150	222
Other changes	(57)	(77)
	(142)	10

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:

Notes to consolidated financial statements

	Volume 2017	Deferred recognition in the income statement be- fore tax 2017 DKK'm	Volume 2016	Deferred recognition in the income statement be- fore tax 2016 DKK'm
Currency contracts EUR	4.025	52	1,647	(14)
Currency contracts USD	916	(24)	113	8
Currency contracts SGD	490	1	261	(4)
Currency contracts AUD	341	2	89	(1)
Currency contracts, other	145	2	125	5
Interest rate swaps	8	(2)	107	(3)
Raw material contracts (DKK'm)	416	59	366	28
Electricity contracts (MWh)	170	13	260	5
Gas contracts (m3)	311.000	0	311,000	0
Total		103		24

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 operative companies are covered centrally, where interest and liquidity risks are also controlled, as well as a significant part of the external covering 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, these items may be calculated as follows:

	2017 DKK'm	2016 DKK'm
Cash at bank and in hand	3.192	3.448
Securities, current assets	4.304	1.881
Securities, fixed assets	931	1.042
	8.427	6.371
The securities portfolio consists of:		
Bonds	4.166	2.305
Shares	1.069	618
Total	5.235	2.923

Notes to consolidated financial statements

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 4.166m (2016: DKK 2.305m) when expressed by an increase of the interest rate by 1 percentage point – is approx. DKK 105m (2016: approx. DKK 66m). The Group's total borrowing was reduced by DKK 125m in 2017 (2016: DKK 21m).

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 totaled DKK 8m (2016: DKK 107m).

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 120m (2016: DKK 175m).

The Group's policy is to secure the currency exchange rates for the most essential flow of goods. The most important currencies are the euro, the US dollar and the Australian dollar. At the end of 2017, currency contracts to reduce the foreign exchange risk in connection with the flow of goods amount to DKK 6.318m (2016: DKK 2.370m). Of this, a contract volume of DKK 401m has been recognised for the hedging of balance sheet items as at the balance sheet date (2016: DKK 135m).

Raw material risk

The Group's policy is to fix prices for the manufacturing companies' use of the most important industrial metals. At the end of 2017, raw material futures contracts to reduce the raw material risk amount to DKK 416m (2016: DKK 366m).

Credit risk

The maximum credit risk includes the 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.

Notes to consolidated financial statements

20. Mortgages and securities

	2017	2016
	DKK'm	DKK'm
Operational leasing contracts and lease obligations for the coming years amounts to	703	781

No legal proceedings are in progress, nor have any other claims been filed against the Group, which, in the Group Management's opinion, may have any particular influence on the Group's financial position.

The Group has issued performance and payment guarantees of DKK 109m (2016: DKK 94m).

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

Parent income statement for 2017

	<u>Notes</u>	<u>2017 DKK'm</u>	<u>2016 DKK'm</u>
Administrative costs	2	(17)	(19)
Other operating income		0	12
Other operating expenses		(49)	0
Operating profit/loss		(66)	(7)
Income from investments in group enterprises		1.557	1.490
Other financial income	4	11	14
Profit/loss before tax		1.502	1.497
Tax on profit/loss for the year	5	1	0
Profit/loss for the year	6	1.503	1.497

Parent income statement for 2017

	<u>Notes</u>	<u>2017 DKK'm</u>	<u>2016 DKK'm</u>
Investments in group enterprises		13.697	13.072
Fixed asset investments	7	13.697	13.072
Fixed assets		13.697	13.072
Receivables from group enterprises		3.986	3.244
Receivables		3.986	3.244
Cash		8	7
Current assets		3.994	3.251
Assets		17.691	16.323

Parent balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'm</u>	<u>2016 DKK'm</u>
Contributed capital		505	505
Reserve for net revaluation according to the equity method		12.694	12.071
Provision for distributions	8	150	30
Retained earnings		3.690	3.236
Equity		<u>17.039</u>	<u>15.842</u>
Other provisions	9	534	424
Provisions		<u>534</u>	<u>424</u>
Income tax payable		0	1
Other payables		118	56
Current liabilities other than provisions		<u>118</u>	<u>57</u>
Liabilities other than provisions		<u>118</u>	<u>57</u>
Equity and liabilities		<u>17.691</u>	<u>16.323</u>
Events after the balance sheet date	1		
Staff costs	3		
Related parties of commercial foundations	10		

Parent statement of changes in equity for 2017

	Contributed capital DKK'm	Reserve for net revaluation according to the equity method DKK'm	Provision for distributions DKK'm	Retained earnings DKK'm
Equity beginning of year	505	12.071	30	3.235
Ordinary distributions	0	0	(96)	0
Exchange rate adjustments	0	(386)	0	0
Dissolution of revaluations	0	78	0	0
Other equity postings	0	95	0	0
Tax of equity postings	0	3	0	0
Dividends from group enterprises	0	(724)	0	724
Profit/loss for the year	0	1.557	216	(269)
Equity end of year	505	12.694	150	3.690
				Total DKK'm
Equity beginning of year				15.841
Ordinary distributions				(96)
Exchange rate adjustments				(386)
Dissolution of revaluations				78
Other equity postings				95
Tax of equity postings				3
Dividends from group enterprises				0
Profit/loss for the year				1.504
Equity end of year				17.039

Retained earnings is that part of the equity in the Foundation which can be paid out in accordance with the relevant provisions in the charter of the Foundation.

Notes to parent financial statements

1. Events after the balance sheet date

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

2. Administrative costs

	2017 DKK'm	2016 DKK'm
Including:		
Remuneration to the Executive Director and members of the Board of Foundation for directorships in the Foundation	5	5

3. Staff costs

	2017	2016
Number of employees at balance sheet date	5	3
Average number of employees	5	2

4. Other financial income

	2017 DKK'm	2016 DKK'm
Financial income arising from group enterprises	11	14
	11	14

5. Tax on profit/loss for the year

	2017 DKK'm	2016 DKK'm
Change in deferred tax for the year	(1)	(1)
Adjustment concerning previous years	0	1
	(1)	0

6. Proposed distribution of profit/loss

	2017 DKK'm	2016 DKK'm
Transferred to reserve for net revaluation according to the equity method	1.557	1.490
Provision for distributions	216	69
Retained earnings	(270)	(62)
	1.503	1.497

Notes to parent financial statements

	Investment s in group enterprises DKK'm
7. Fixed asset investments	
Cost beginning of year	906
Cost end of year	906
Revaluations beginning of year	13.079
Share of profit/loss for the year	1.557
Revaluations end of year	14.636
Impairment losses beginning of year	(911)
Exchange rate adjustments	(386)
Dividend	(724)
Other adjustments	176
Impairment losses end of year	(1.845)
Carrying amount end of year	13.697

The accounting value of investments in group enterprises includes goodwill amounting to DKK 115m (2016: DKK 128m). Please see management commentary for a list of subsidiaries.

8. Provision for distributions

Poul Due Jensens Fund's philanthropic activities are divided into three areas of support: Safe Water, Research & Learning and Social Inclusion. Please see management commentary for further regarding the Foundation's Distribution Policy.

9. Other provisions

	2017 DKK'm	2016 DKK'm
Provisions beginning of year	424	330
Provisions spent during the year	(39)	(16)
Provisions of the year	149	110
Provisions end of year	534	424

Buy-back obligation relating to employee shares

The buy-back obligation relating to employee shares will essentially only arise once the settlement period for the shares in question expires.

Notes to parent financial statements

The settlement periods expire as follows:

	2017	2016
	DKK'm	DKK'm
Released	272	199
2022	130	109
2023	132	116
	534	424

The buy-back obligation calculated at market value amounts to DKK 619m (2016: DKK 445m).

10. Related parties of commercial foundations

Related parties of Poul Due Jensens Fond comprise key management personnel, including the Executive Board and the Board of Directors of Poul Due Jensens Fond, as well as the Executive Board and the Board of Directors of Grundfos Holding A/S.

In addition, related parties comprise subsidiaries, including Grundfos Holding A/S, and enterprises in which the above persons have a controlling interest.

Subsidiaries

Poul Due Jensens Fond holds 87.6% (2016: 87.8%) of the share capital and voting rights in Grundfos Holding A/S, and thus exercises a controlling interest.

The Foundation has received DKK 724m (2016: DKK 639m) in dividends from Grundfos Holding A/S in 2017.

In 2017, the Foundation has received DKK 11m (2016: DKK 14m) in interest income from a loan to Grundfos Holding A/S. The loan amounted to DKK 3,985m at the end of 2017 (2016: DKK 3,244m).

In the financial year, the Foundation has purchased services from the Group amounting to DKK 3m (2016: DKK 3m).

In the financial year, the Foundation has sold shares for DKK 108m (2016: DKK 122m) in Grundfos Holding A/S back to Grundfos Holding A/S. The shares have been transferred to employees according to various share programmes.

Transactions with subsidiaries are eliminated in the consolidated financial statements.

Notes to parent financial statements

Key management personnel

In 2017, the key management personnel have received salaries and remuneration etc. totaling DKK 74m (2016: DKK 59m), of which DKK 5m (2016: DKK 5m) has been paid from Poul Due Jensens Fond. Payable remuneration at 31 December 2017 amounts to DKK 31m (2016: DKK 21m).

In 2017, key management personnel have received DKK 86m (2016: DKK 75m) in dividends from Grundfos Holding A/S.

Moreover, no transactions have been carried out with the key management personnel apart from transactions resulting from the employment except for the following:

To enterprises in which key management personnel Poul Due Jensens Fond exercise a controlling interest, the Group has sold goods and services for DKK 6m (2016: DKK 7m) and the Group has purchased goods and services for DKK 14m in 2017 (2016: DKK 9m). At 31 December 2017, the Group has receivables of DKK 1m (2016: DKK 5m) from these enterprises and payables of DKK 4m (2016: DKK 1m) to these enterprises.

All transactions have been carried out on an arm's length basis.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting large class C enterprises.

The accounting policies for the consolidated and parent financial statements remain unchanged in comparison with last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

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.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement 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 income statement, are recognised.

Consolidated financial statements

The consolidated financial statements comprise Poul Due Jensens Fond (Parent) and the group enterprises (subsidiaries), where the Parent directly or indirectly owns more than 50% of the voting rights or in another way has a dominant participation. Enterprises in which the Group owns between 20 and 50% of the voting rights and has a significant position are considered associated companies.

Basis of consolidation

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

Accounting policies

Newly acquired subsidiaries are recognised in the income statement 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 revenue.

When subsidiaries are sold, they cease to be recognised in the income statement at the time of transfer, and earnings or losses at the time of sale are recognised in the income statement. 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 financial statements. 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 income statement.

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 income statement.

The income statement 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 income statement 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.

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 income statement 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 income statement at market value.

Public grants

R&D grants are recognised as revenue in the income statement 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.

Income statement

Revenue

Revenue is recognised in the income statement, 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. Revenue is measured exclusive of VAT, duties, returns and discounts that are directly connected with the sale.

Contracted work-in-progress is entered under revenue subject to the percentage-of-completion method so that the revenue 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 revenue 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 income statement in the year they are incurred. Development costs incurred for the maintenance and optimisation of existing products or production processes are recognised

Accounting policies

in the income statement. Costs for the development of new products are recognised in the income statement, unless the criteria for recognition in the balance sheet are met for the individual development project.

Amortisation of group goodwill will be distributed to research and development costs in the income statement.

Distribution costs

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 and depreciation.

Staff costs

Staff costs include 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, including the regulation of provisions for coverage of the Foundation's obligation to buy back shares from employees.

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 expenses

Other operating expenses comprise expenses of a secondary nature as viewed in relation to the Entity's primary activities. Other operating expenses also include gains from the sale of shares and provisions regarding the buy-back obligation relating to employee shares in the Parent financial statement.

Income from investments in group enterprises

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 Parent income statement.

Income from investments in associates

The Groups share of profits after tax in associated companies is recognised in the income statement by the equity method.

Income from other fixed asset investments

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

Accounting policies

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

The anticipated tax on the taxable income of the year in the individual companies is charged to the income statement, 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.

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 dividend from foreign subsidiaries are charged as expenditure in the year in which the dividend is generated.

Changes in deferred tax as a consequence of changed tax rates are recognised in the income statement except for items recognised directly in equity.

Balance sheet

Goodwill

Goodwill is the positive difference between cost and value in use of assets and liabilities taken over as part of the acquisition. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. The amortisation period for Group goodwill is up to 20 years.

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Accounting policies

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 income statement as incurred.

Intellectual property rights acquired are measured at cost less accumulated amortisation.

Cost 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. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, but over no more than 5 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

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 interests are included in the cost. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Indirect production costs in the form of indirect attributable staff costs and amortisation of intangible assets and depreciation of property, plant and equipment used in the development process are recognised in cost based on time spent on each asset.

The basis of depreciation is cost less estimated residual value after the end of useful life. The useful life of large assets is determined individually, whereas the useful life of other assets is determined for groups of similar assets. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Buildings	20-40 years
Plant and machinery	3-10 years
Other fixtures and fittings, tools and equipment	3-10 years

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

Accounting policies

Estimated useful lives and residual values are reassessed annually. 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.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to 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.

Investments in associates

Investments in associates are recognised and measured according to the equity method in the balance sheet at the pro rata share of the companies' equity with the addition of goodwill.

Receivables

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.

Other investments

Other investments comprise listed securities. Listed bonds are measured at amortised cost, as the intention is to keep them until maturity. Listed shares are measured at market value at the balance sheet date.

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.

Accounting policies

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.

Prepayments

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

Other investments

Securities recognised under current assets comprise listed securities measured at fair value (market price) at the balance sheet date. Realised and unrealised capital losses and realised and unrealised capital gains are included in the income statement under other financial income/expenses.

Cash

Cash comprises cash in hand and bank deposits.

Distributions

Distributions from the parent are shown as an equity adjustment in the parent financial statement.

Distributions are considered equity movements and are recognised as a liability at the time when the distribution has been authorised by the Board of Directors and announced to the recipient. Authorised distributions not yet disbursed are recognised in non-current or current liabilities, respectively.

Provision for distribution

In accordance with the Danish Act for Industrial Foundations, a provision for distributions has been set up in order for the Board of Directors to be able to donate distributions during the financial year. The provision does not have to be used, but is continuously reduced with donated distributions. Every year the Annual Meeting the Board of Directors will re-evaluate the size of the provision.

Accounting policies

Provisions for pension liabilities etc

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 income statement.

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 liabilities under guarantee, buy-back obligation relating to employee shares and other obligations, including anniversary lump sums, legal disputes, unhedged insurance risks, etc.

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.

Buy-back obligation relating to employee shares

Provisions are made to cover the obligation that rests with the Group regarding the buy-back of employee shares. The provision made is measured on the basis of future expectations to share prices, considering the long-term development of Group profits, the topicality of the obligation and the market value of the shares.

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at

Accounting policies

amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Other financial liabilities

Other financial liabilities, including trade creditors, other debts etc., are measured at amortised cost, which usually corresponds to nominal value.

Income tax receivable or payable

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Deferred income

Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.