

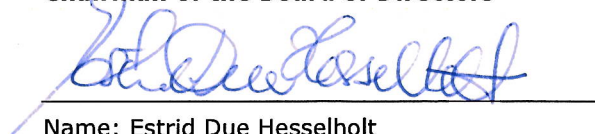
Poul Due Jensens Fond

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

Annual report 2018

The Annual General Meeting adopted the annual report on 06.03.2019

Chairman of the Board of Directors



Name: Estrid Due Hesselholt

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Entity details

Entity

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

Central Business Registration No (CVR): 83648813

Registered in: Bjerringbro

Financial year: 01.01.2018 - 31.12.2018

Board of Directors

Estrid Due Hesselholt, Chairman
Jens Winther Moberg, Vice Chairman
Christian Schønau, Member of the Board
Elsebeth Nielsen, Member of the Board
Annette Due Jensen, Member of the Board
Poul Due Jensen, Member of the Board
Jens Maaløe, Member of the Board
Ingermarie Due Nielsen, Member of the Board
Jens Erik Bjørklund Lysdahl, Member of the Board, Elected by employees
Zsuzsanna Tóth, Member of the Board, Elected by employees
Torben Ømark Lind, Member of the Board, Elected by employees
Rudolf Martini, Member of the Board, Elected by employees

Executive Board

Kim Nøhr Skibsted

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 01.01.2018 - 31.12.2018.

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

In our opinion, the consolidated financial statements give a true and fair view of the Group's and the Foundation's assets, liabilities and financial position at 31.12.2018 and of their financial performance and cash flows for the financial year 01.01.2018 - 31.12.2018.

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

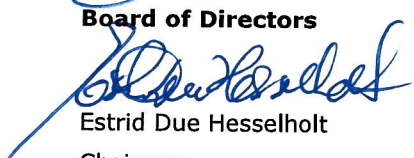
Bjerringbro, 06.03.2019

Executive Board

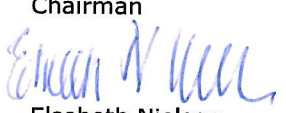


Kim Nørh Skibsted

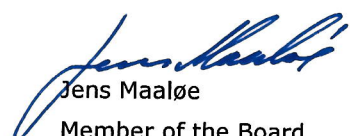
Board of Directors




Estrid Due Hesselholt
Chairman



Elsebeth Nielsen
Member of the Board



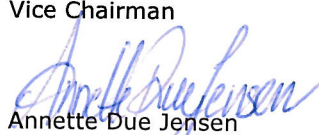
Jens Maaøe
Member of the Board



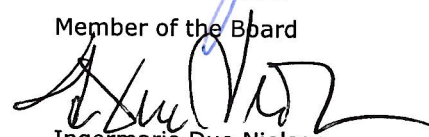
Zsuzsanna Tóth
Member of the Board, Elected
by employees



Jens Winther Moberg
Vice Chairman




Annette Due Jensen
Member of the Board



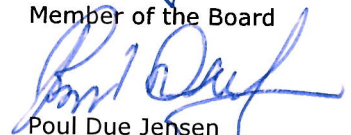
Ingermarie Due Nielsen
Member of the Board




Torben Ømark Lind
Member of the Board, Elected by
employees




Christian Schønau
Member of the Board



Poul Due Jensen
Member of the Board



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



Rudolf Martini
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 01.01.2018 - 31.12.2018, 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 31.12.2018, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the consolidated financial statements and the parent financial statements

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

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the 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 these parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the 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, 06.03.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Thomas Rosquist Andersen
State Authorised Public Accountant
Identification No (MNE) mne31482


Martin Norin Faarborg
State Authorised Public Accountant
Identification No (MNE) mne29395



Management commentary

	2018 DKK'm	2017 DKK'm	2016 DKK'm	2015 DKK'm	2014 DKK'm
Financial highlights					
Key figures					
Revenue	26.721	25.634	24.677	24.800	23.618
Gross profit/loss	10.163	10.023	9.550	8.938	8.566
Operating profit/loss	2.283	2.274	2.233	1.925	860
Net financials	(72)	75	37	3	21
Profit/loss for the year	1.645	1.690	1.676	1.473	503
Total assets	27.803	26.122	24.778	22.780	21.367
Investments in property, plant and equipment	1.010	768	942	954	1.126
Equity	19.860	18.658	17.397	15.903	14.550
Net interest-bearing debt	9.400	8.381	6.201	4.153	2.653
Donations awarded	95	96	64	15	18
Dividend from subsidiary	766	724	639	229	460
Available capital (including proposed distributions)	4.410	3.840	3.265	2.682	2.483
Ratios					
Gross margin (%)	38,0	39,1	38,7	36,0	36,3
Net margin (%)	6,2	6,6	6,8	5,9	2,1
Return on equity (%)	8,5	9,4	10,1	9,7	3,5
Equity ratio (%)	71,4	71,4	70,2	69,8	68,1

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

Ratios	Calculation formula	Calculation formula reflects
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity incl minority interests}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity incl minority interests} \times 100}{\text{Total assets}}$	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 87.8% 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 Foundation's answer to this obligation.

Besides the active ownership, the Foundation also distributes 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 become insufficient to support both, and the Grundfos Holding A/S Group would need an increased economical commitment from the Foundation.

Please refer to the section on Sustainability further down for more detailed information on the sustainability of the business.

Development in activities and finances

This year's profit in the Foundation amounts to DKK 1,465 million in 2018, compared to a profit of DKK 1,504 million in 2017.

The Foundation made donations recognised in equity of DKK 94.9 million in 2018, compared to DKK 95.8 million in 2017 cf. below for more information.

Statutory report on 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 Grundfos' 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 descendants and the external members.

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.

The Foundation's compliance target is 14 out of 16 recommendations. The Comply or Explain reports covering 2018 and previous years are available at www.pdf.dk/governance.

Management commentary

Changes in the Board of Directors

In March 2018, Mr. Niels Due Jensen retired from the Board of Directors. Former CEO and professional Chairman, Mr. Jens Bager, replaced Niels Due Jensen as Chairman of the Foundation Board. Ms. Annette Due Jensen was elected to fill out the vacant descendant seat on the Board of Directors.

In October 2018, Mr. Jens Bager (Chairman), Ms. Ingelise Bogason (Vice-Chairman) and Ms. Anne-Birgitte Albrechtsen stepped down from the Board of Directors. The Board of Directors elected Ms. Estrid Due Hesselholt as new Chairman and Mr. Jens Moberg as new Vice-Chairman.

Mr. Jens Maaløe, President & CEO of Terma A/S, was elected to the Board of Directors as an external member at the end of October. In the beginning of December, two additional external members were elected: Ms. Elsebeth Nielsen, rector of Design School Kolding, and Mr. Christian Schønau, Chief of Court of TRH The Crown Prince and The Crown Princess, Chamberlain.

CVs for all Board members and employee representatives are available at <https://www.pdjf.dk/fondsbestyrelse/>

Changes in the Management

In November 2018, Mr. Kim Nøhr Skibsted was appointed new Executive Director of the Poul Due Jensen Foundation. Kim Nøhr Skibsted replaced Mr. Christian Hartvig, who resigned from the post by mutual agreement.

Active ownership of Grundfos

The Foundation's primary asset is the 87.8% shareholding in Grundfos Holding A/S. The Foundation exercises its controlling ownership through election of not only the board members 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. According to the Articles of Association, they are elected by the Annual Meeting of Shareholders directly. Besides, the Foundation has 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

- Annual organic growth in turnover,
- Annual pre-tax profit,
- A capital structure based on a high equity interest,
- Return on equity,
- Best-in-market development, manufacturing, sale and service of highly innovative products
- A socially responsible company believing that there are obligations that go beyond those derived from legislation and tax payments
- Sustainability in products, production processes and other activities and

Management commentary

- Adherence to the Founders' six values (cf. section on Sustainability below)

This year's profit in Grundfos amounts to DKK 1,762 million, compared to a profit of DKK 1,755 million in 2017, of which 50% is expected to be distributed to the shareholders: The Foundation, the Founder's descendants and the employee shareholders.

Detailed information about the performance and development of the Grundfos Holding A/S Group is available in the Annual Report of Grundfos Holding A/S to be published on www.grundfos.com. The consolidated result of the Foundation and the Grundfos Group can be found in this report.

Philanthropic activities

The Foundation's philanthropic activities are based on the 2016 Donations Strategy, covering three main areas:

- Access to **safe water** for the world's poorest in rural communities and forgotten refugee camps,
- Strengthening use-inspired basic **research** environments within engineering and natural science
- Improving labour market **inclusion** in the Central Denmark Region

In 2018, the Foundation committed DKK 94.9 million to philanthropic projects within the strategic focus areas and remained on the same level as in 2017.

Safe water changes lives and communities

Providing safe water for the world's poorest in rural communities and forgotten refugee camps directly addresses UN Sustainable Development Goal 6.1 "Universal and equitable access to safe and affordable drinking water for all".

Indirectly, safe water also contributes to reaching other important goals: Goal 1 (End poverty in all its forms everywhere), Goal 2 (End hunger), Goal 3 (Ensure healthy lives), Goal 4 (Ensure inclusive and quality education for all) and Goal 5 (Achieve gender equality and empower all women and girls). Access to safe water improves the possibilities for parents to spend more time securing income and feeding their families. Water-borne diseases no longer prevent children from attending school, and women and girls must no longer spend hours fetching water instead of working or studying.

In 2018, the Foundation continued supporting safe water around the world; in Togo, Tanzania, Kenya, India, Nepal, Indonesia, acting in disaster responses, refugee crises, refugee host communities and in long-term development projects in poor rural communities. DKK 32.6 million from the Foundation were committed to revisit and future-proof water projects delivering safe water to 79,000 beneficiaries and to provide 78,000-82,000 new beneficiaries with access to safe water in 2018 and the years to come.

Management commentary

Use-inspired basic research in engineering and natural science

The Foundation believes that valuable application-oriented research needs to be part of a solid basic research environment to move beyond incremental innovations. Our donations aim to develop research environments with world-class potential or maintaining and future-proofing existing world-class research environments.

In 2018, the Foundation supported the Department of Computer Science, the Department of Electronic Systems and the Department of Chemistry and Bioscience at Aalborg University, the Department of Engineering and the Department of Physics and Astronomy at Aarhus University, the Department of Mechanical Engineering and the Department of Energy at the Technical University of Denmark. In partnership with ASTRA and Naturvidenskabernes Hus, the Foundation has created a new national youth science competition sending Danish candidates to participate in the Stockholm Junior Water Prize in 2019-2021.

As of 2018, the scope of the Grundfos Prize has changed in order to support younger research talents under the theme The Stars of Tomorrow. The 2018 Grundfos Prize was awarded to Professor Jacob Friis Sherson from Aarhus University's Department of Physics and Astronomy for his work moving the limits of experimental quantum mechanics while at the same time incorporating human intuition in scientific research, helping break down the walls between researchers and the wider society.

In total, the Foundation committed DKK 48.7 million to research and learning initiatives in 2018, including the 2018 Grundfos Prize, Poul Due Jensen Scholarships and Poul Due Jensen Innovation Awards for Grundfos employees.

Labour market inclusion in Central Jutland

The founder of Grundfos, Poul Due Jensen, and his descendants including the chairman of the Foundation, Estrid Due Hesselholt, have always been deeply devoted to integration of vulnerable people within the labour market. Poul Due Jensen and his son Niels Due Jensen brought that devotion into Grundfos, and labour market inclusion is a vital part of the DNA of not only Grundfos, but also of the Foundation.

The Foundation's strategy for labour market inclusion in Central Jutland is based in UN Sustainable Development Goals 4 (quality education) and 8 (decent work and economic growth). Goal 8 is the guiding star, but goal 4 is our tool to get there through five main areas of intervention:

1. Helping vulnerable children obtain basic skills and competences,
2. Easing difficult transition from school to education or job,
3. Improve retention of vulnerable youth in education or training,
4. Easing transition from education or unemployment to labour market
5. Strengthening vulnerable job-takers' ability to remain in employment

Management commentary

Besides the traditional Christmas Donations and the Social Responsibility Award, where Grundfos employees nominate social responsibility projects in the neighbourhood of Grundfos companies, the Foundation made commitments to support labour market inclusion projects in the municipalities of Randers, Skive, Syddjurs and Norddjurs. The Foundation has continued its dialogue with Municipal Directors several municipalities with labour market inclusion challenges in order to design holistic projects with higher impact.

The 2018 labour market inclusion initiatives in the Foundation almost doubled from DKK 7 million in 2017 to DKK 13.7 million in 2018, including the Poul Due Jensen Social Responsibility Award which was won by Grundfos' IT Support Center in Manila, Philippines, for their CSR project with the Stairway Foundation.

Donations 2018

Safe Water

Organisation	Project number and name	Country	Amount DKK ('000)	Period
Water Mission	2018-005 Kenya 23 - Next level	Kenya	12,787	2018-2020
PlanBørnefonden	2018-007 Togo - Phase III	Togo	10,000	2018-2021
Sunlit Future	2018-008 100-100 - Revisit and Repair	India	486	2018-2019
Sunlit Future	2018-009 Odisha - 75 communities	India	3,026	2018-2019
Sunlit Future	2018-010 Spiti Valley - 4 communities	India	411	2018-2019
Sunlit Future	2018-011 Pragati - 10 communities	India	1,569	2018-2019
Jysk Landsbyudvikling	2018-031 Nepal "Fixit"	India	300	2018-2019
PlanBørnefonden	2018-028 Togo - Battery project	Togo	1,500	2018-2019
Water Mission	2018-006 Water for Zeze community	Tanzania	498	2018-2018
Water Mission	2018-045 Disaster relief - Indonesia Earthquake and Tsunami	Indonesia	2,023	2018-2019
Total				DKK 32,600

Research

Organisation	Project number and name	Country	Amount DKK ('000)	Period
AU - Engineering	2018-001 PhD in wireless transceivers	Denmark	870	2018-2021
DTU - Energy	2018-016 Brown's Paradox in Permanent Magnets	Denmark	3,559	2019-2022
DTU - Mechanical Engineering	2018-017 Open Additive Production	Denmark	17,896	2019-2023
AAU - Chemistry & Bioscience	2018-018 Microflora Danica I	Denmark	18,922	2019-2022

Management commentary

AAU – Electronic Systems	2018-034 Smart Water Lab - additional grant	Denmark	2,475	2018-2019
Naturvidenskabernes Hus and ASTRA	2018-043 Stockholm Junior Water Prize - Denmark	Denmark	3,538	2019-2021
AU – Physics and Astronomy	2018 Grundfos Prize - research grant	Denmark	750	2018
Jacob F. Sherson	2018 Grundfos Prize personal award	Denmark	250	2018
8 Grundfos Employees	Poul Due Jensens Innovation Award and Scholarships 2018	Various countries	400	2018
Total				DKK 48,660

Inclusion

Organisation	Project number and name	Country	Amount DKK ('000)	Period
Mødrehjælpen	2018-047 Christmas donation	Denmark	500	2018
Frelsens Hær	2018-048 Christmas donation	Denmark	500	2018
Dansk Folkehjælp	2018-049 Christmas donation	Denmark	500	2018
Børnehjælpsdagen	2018-050 Christmas donation	Denmark	500	2018
Den Sociale Udviklingsfond, Randers og Syddjurs Jobcenter	2018-026 Social Job Match	Denmark	1,299	2018-2020
Skive Kommune	2018-002 Ready for education	Denmark	2,051	2019-2022
Norrdjurs Kommune	2018-004 Recruiting for the harbour	Denmark	270	2019
Syddjurs	2018-012 A healthy working life	Denmark	1,000	2019
Randers og Norrdjurs Kommune	2018-03 RUN	Denmark	6,968	2018-2020
Stairway Foundation	Poul Due Jensen Social Responsibility Award 2017	Philippines	149	2018
Total				13,737
Total distributions				DKK 94,997

Returned donations

Organisation	Project number and name	Country	Amount (DKK '000)	Period
Aalborg University	2014-4 Tanggaard Creativity	Denmark	-30	2014-
DGI	2015-240 Inclusion through sports	Denmark	-84	2015-
Total returned				-114
Grand total				DKK 94,883

Management commentary

Sustainability in the Foundation

Sustainability is a key value of the Foundation (cf. Primary Activities and Business Model above). Furthermore, it is an important part of the Foundation's and the Grundfos Group's values to act in a socially responsible and sustainable way. The six values of the Founder define the way Grundfos and the Foundation operate:

Sustainable: Grundfos runs its business in a responsible and ever more sustainable way. We make products and solutions that help our customers save natural resources and reduce climate impact. We take an active role in the society around us. Grundfos is a socially responsible company. We take care of our people - also those with special needs.

Open and trustworthy: In Grundfos we do what we say, and we say what we do. Our communication is open and honest among ourselves and with the world around us. We put the facts on the table - also when it is not pleasant.

- **Focused on people:** Grundfos is our people. We develop the individual. Everyone in Grundfos has passion and potential. Everyone has the power to influence. Everyone must feel respected and valued.
- **Independent:** The main shareholder of Grundfos - now and in the future - is the Poul Due Jensen Foundation. Profit is a means to growth - not a goal in itself. We ensure a healthy financial foundation at all times.
- **Partnership:** Grundfos creates value through close relations with customers, suppliers and other stakeholders. We are a global company building on local entrepreneurship. We believe that diversity drives innovation and growth.
- **Relentlessly ambitious:** In Grundfos we never stop challenging ourselves to create better solutions faster. We take pride in delivering premium quality in everything we do. We show leadership and innovate the future.

Policies and risk management in the ownership and support of Grundfos

Grundfos is a large industrial conglomerate with over 19,000 employees worldwide. The global presence and number of people makes it necessary to consider how the company's activities impact both its employees and the surrounding world, e.g.:

- Regarding **human rights**, Grundfos must consider whether its suppliers and partners adhere to its high standards and whether the products are used in an ethically responsible way.
- Regarding **environment and climate protection**, Grundfos must consider how its global environmental footprint affects the world, both in terms of the industrial activities and the impact the products have with regards to energy consumption and climate impact.
- Regarding **social and employee matters**, Grundfos must consider how its activities directly impact the lives of its employees both physically and psychologically. Indirectly, Grundfos companies have a duty to be a driver for positive change in their local community.
- Regarding **bribery and anti-corruption**, Grundfos must consider how to continuously nourish a business environment where integrity and high ethical standards are valued and rewarded.

Management commentary

The Foundation has not developed specific policies for Grundfos to manage and mitigate above risks. The Board of Directors of Grundfos Holding A/S has laid down their own CSR policies and processes for the company and its subsidiaries, including human rights, environment and climate protection, social and employee matters and anti-corruption.

How the Grundfos Group addresses these issues, not only in policies but also in its operations, is an integrated part of the ongoing dialogue and follow-up between the Foundation and the Grundfos Holding A/S Board of Directors and Executive Management team (cf. Active Ownership above). An important part of this dialogue is a presentation and discussion of the annual Risk Management Profile.

Further descriptions of the Grundfos Group's CSR policy and the 2018 activities and performance can be found in Grundfos Holding A/S' annual report and CSR report.

Principles, policies and risk management in the daily and philanthropic activities

The Foundation's philanthropic activities directly affect the lives of thousands of beneficiaries, while the daily activities affect its own employees as well as employees of its partners and suppliers. Hence, we are very aware of our positive, as well as potential risk of negative impact on society and employees.

- Regarding **human rights**, the Foundation must consider whether its suppliers and partners adhere to its high standards and whether the activities and projects contribute to improving the lives and opportunities of the beneficiaries
- Regarding **environment and climate protection**, the Foundation must consider how the environmental footprint of its activities and philanthropic projects affects the world,
- Regarding **social and employee matters**, the Foundation must consider how its activities impact the lives of its employees both physically and psychologically. The same goes for the partners and suppliers of the Foundation and the communities that are at the receiving end of the Foundation's philanthropic projects.
- Regarding **bribery and anti-corruption**, the Foundation must consider how to continuously nourish a collaboration environment where integrity and high ethical standards are valued and rewarded, both internally and with its partners and suppliers.

The Foundation's offices are located in buildings owned and serviced by Grundfos in accordance with ambitious principles and policies. Besides, the Foundation began focusing on sustainability in its own daily operations in 2017. The first step in this direction was to engage a cradle to cradle certified printing company for delivery of printed material to the Foundation. This work continued in 2018.

Management commentary

Besides working directly with UN Sustainable Development Goal 4 (education for all), Goal 6 (universal and equitable access to safe and affordable drinking water for all), and Goal 8 (decent work for all) in the philanthropic activities, the Foundation indirectly works with UN Sustainable Development Goal 1 (ending poverty), Goal 2 (ending hunger), Goal 3 (healthy lives), Goal 5 (gender equality and empowerment of women and girls) and Goal 13 (climate change).

The Foundation has integrated sustainability and focus on resilience in the philanthropic strategies as well as in the processes for developing philanthropic projects.

The philanthropic strategies are focused on creating a positive impact in a number of areas, including social and human rights matters as well as environment and climate protection. Sustainability and resilience of the supported initiatives is also - in its core meaning - direct and strict requirements and measures of success in all philanthropic projects as defined in the strategy document. The processes of ensuring sustainability and resilience after the Foundation engagement with the project has ended has its own dedicated phase in the project development model applied by the Foundation.

The Foundation runs a lean organisation and partnering is therefore key to reaching our philanthropic goals. We evaluate our partners carefully to ensure that values and goals are aligned, and that the partner organisation has the necessary resources to execute the projects in line with the ambitions of the Foundation. To ensure that philanthropic donations are not misused, and partners behave with the same high ethical level as we expect from ourselves, the Foundation has made a framework for a partnership agreement including a description of our ways of working, ethics and integrity and a common communications strategy.

All seven water partners will sign a How We Work agreement in 2019. Furthermore, we have the ambition to launch a similar process for all long-term project partners in Denmark being primarily Danish universities and municipalities in the Central Denmark region. PDJF and all partners meet at least once annually at executive level to discuss results, strategic opportunities and challenges of the partnership.

As a result of this, we believe that the Foundation has strengthened its sustainable profile and business conduct in its philanthropic donations as well as its daily operations in 2018.

Management commentary

Statement regarding the underrepresented gender

The Foundation employs less than 50 people and has opted not to have a specific policy for the underrepresented gender in management. Nonetheless, it is the policy of the Foundation to support diversity and gender equality in its philanthropic work as well as its own operations and in the Grundfos Group.

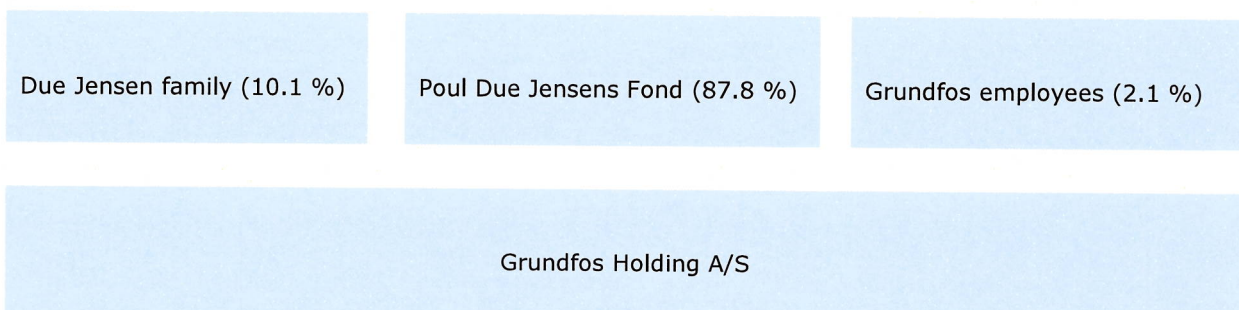
In December 2013, the Board of Directors agreed on a gender equality policy and set minimum targets for female representation:

Family members		Externally elected members	
<i>The descendants will promote gender equality when electing new family members to the Board (if deemed appropriate and in the best interest of the Foundation at the time of the election).</i>		<i>The Board will promote gender equality when electing new external members (if deemed appropriate and in the best interest of the Foundation at the time of the election).</i>	
2014	2 females out of 4 members	2014	1 females out of 4 members
2017	2 females out of 4 members	2017	1 female out of 4 members
2025	2 females out of 4 members	2025	2 females out of 4 members

Today, there is an equal gender representation in the Foundation Board and the Foundation has fulfilled the targets.

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. Instead, it has ensured that Grundfos Holding A/S sets its own targets and policies, and that Grundfos Holding A/S is working towards fulfilling it. Please refer to Grundfos Holding A/S' annual report and CSR report to read the statement on target figures and policies for the underrepresented gender in the Grundfos Group.

Group Structure



Management commentary

Other Group companies:

Argentina, Bombas Grundfos de Argentina S.A.	Kenya, Grundfos Kenya Ltd.
Austria, Grundfos Pumpen Vertrieb G.m.b.H.	Korea, Grundfos Pumps Korea Ltd.
Australia, BKB Aqua Engineering Pty. Ltd.	Latvia, GRUNDFOS Pumps Baltic SIA
Australia, BKB Building Solutions Pty. Ltd.	Malaysia, Grundfos Pumps SDN. BHD
Australia, DAB Pumps Oceania Pty. Ltd.	Mexico, Bombas Grundfos de Mexico Manufacturing S.A. de C.V.
Australia, Grundfos Australia Holding Pty. Ltd.	Mexico, Bombas Grundfos de Mexico S.A. de C.V.
Australia, Grundfos Pumps Pty. Ltd.	Mexico, DAB Pumps de Mexico S.A. de C.V.
Belgium, Grundfos Bellux S.A.	Mexico, Grundfos Mexico Servicios S.A. de C.V.
Brazil, Bombas Grundfos do Brasil Ltda.	Mexico, Peerless Pump Mexico S.A. de C.V.
Bulgaria, Grundfos Bulgaria EOOD	Netherlands, DAB Pumps B.V.
Canada, Grundfos Canada Inc.	Netherlands, Grundfos Distribution Service B.V.
Chile, Bombas Grundfos Chile SpA	Netherlands, Grundfos Nederland B.V.
China, DAB Pumps (Qingdao) Co. Ltd.	New Zealand, Grundfos Pumps NZ Ltd.
China, Grundfos (China) Holding Co. Ltd.	Norway, Grundfos Norge AS
China, Grundfos Pumps (Chongqing) Co. Ltd.	Peru, Grundfos de Peru S.A.C.
China, Grundfos Pumps (Hong Kong) Ltd.	Philippines, Grundfos IS Support & Operations Centre Philippines Inc.
China, Grundfos Pumps (Shanghai) Co. Ltd.	Philippines, Grundfos Pumps (Philippines) Inc.
China, Grundfos Pumps (Suzhou) Ltd.	Poland, DAB Pumps Poland Sp.Z.o.o.
China, Grundfos Pumps (Wuxi) Ltd.	Poland, Grundfos Pompy Sp.Z.o.o.
Columbia, Grundfos Columbia S.A.S.	Portugal, Bombas Grundfos (Portugal) S.A.
Croatia, Grundfos Sales Croatia d.o.o.	Romania, SC Grundfos Pompe Romania SRL
Czech Republic, Grundfos Sales Czechia and Slovakia s.r.o.	Russia, OOO Grundfos Istra
Denmark, Grundfos A/S	Russia, OOO DWT Group
Denmark, Grundfos BioBooster A/S	Russia, OOO Grundfos
Denmark, Grundfos DK A/S	Saudi Arabia, Grundfos Saudi Arabia Company Limited
Denmark, Grundfos Finance A/S	Serbia, Grundfos Srbija d.o.o.
Denmark, Grundfos LIFELINK A/S	Singapore, Grundfos (Singapore) Pte. Ltd.
Denmark, Grundfos Operations A/S	Slovenia, Grundfos Ljubljana d.o.o.
Denmark, Grundfos US ApS	South Africa, Alldos (Pty) Ltd.
Denmark, Sintex A/S	South Africa, DAB Pumps South Africa (Pty) Ltd.
Egypt, Grundfos Holding Egypt LLC	South Africa, Grundfos (Pty) Ltd.
Egypt, Grundfos Egypt LLC	Spain, Bombas Grundfos España S.A.
Egypt, Grundfos Service Egypt LLC	Spain, DAB Pumps Iberica S.L.
Finland, OY Grundfos Environment Finland AB	Sweden, Grundfos AB
Finland, OY Grundfos Pumput AB	Switzerland, Biral AG
France, Pompes Grundfos Distribution S.A.S.	Switzerland, Grundfos Holding AG
France, Pompes Grundfos S.A.S.	Switzerland, Grundfos Handels AG
Germany, Biral GmbH	Switzerland, Grundfos Insurance Management AG
Germany, DAB Pumpen Deutschland GmbH	Switzerland, Grundfos Pumpen AG
Germany, Deutsche Vortex GmbH & Co. KG	Taiwan, Grundfos Pumps (Taiwan) Ltd.
Germany, Europump GmbH	Thailand, Grundfos (Thailand) Ltd.
Germany, Grundfos GmbH	Turkey, Grundfos Pompa Sanayi ve Ticaret Ltd. Sti.
Germany, Grundfos Pumpenfabrik GmbH	Ukraine, TOV Grundfos Ukraine
Germany, Grundfos Verwaltung GmbH	United Arab Emirates, Grundfos Gulf Distribution FZE
Germany, Grundfos Water Treatment GmbH	United Kingdom, DAB Pumps Ltd.
Ghana, Grundfos Pumps Ghana Ltd.	United Kingdom, Grundfos Manufacturing Ltd.
Greece, Grundfos Hellas A.E.B.E.	United Kingdom, Grundfos Pumps Ltd.
Hungary, DAB Pumps Hungary Kft.	United Kingdom, Grundfos Watermill Ltd.
Hungary, Grundfos Shared Services Kft.	USA, Enaqua
Hungary, Grundfos Hungary Manufacturing Ltd.	USA, Grundfos CBS Inc.
Hungary, Grundfos South East Europe Kft.	USA, Grundfos Americas Corporation
India, Grundfos Pumps India Private Ltd.	USA, Grundfos Pumps Corporation
Indonesia, PT Grundfos Pompa	USA, Grundfos Pumps Manufacturing Corporation
Indonesia, PT Grundfos Trading Indonesia	USA, Grundfos US Holding Corporation
Ireland, Grundfos (Ireland) Ltd.	USA, Sterling Fluid Systems LLC (USA)
Italy, DAB Pumps S.p.A.	(DBA Peerless Pump Company)
Italy, DWT Holding S.p.A.	USA, DAB Pumps Inc.
Italy, Grundfos Pompe Italia S.r.l.	USA, SFS (USA) Holding Inc.
Italy, Isia S.p.A.	USA, Grundfos Water Utility Inc.
Japan, Grundfos Pumps K.K.	Vietnam, Grundfos Vietnam Company Ltd.
Kazakhstan, Grundfos Kazakhstan LLP	

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 87.8 % of the share capital in Grundfos Holding A/S, while the Founder's family owns 10.1% and the employees own 2.1%.

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 – 34%

KnowHowZ A/S, Denmark – 21%

Tange Sø Golf A/S – 49%

Outlook

We forecast sales growth measured in local currencies in the range of 3-5%, and a growth in operating profit in the range of 5-15%. We see an increasing uncertainty in the global economy, fuelled among others by political uncertainties around trade agreements, Brexit etc., which may negatively impact the overall business climate leading among others to reduced investment levels.

Statutory report on distribution policy

Statutory report on corporate social responsibility

Statutory report on the underrepresented gender

Consolidated income statement for 2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Revenue	2	26.721	25.634
Production costs	3, 5	(16.558)	(15.611)
Gross profit/loss		10.163	10.023
Research and development costs	5	(1.289)	(1.324)
Distribution costs	5	(4.269)	(4.132)
Administrative expenses	4, 5	(2.243)	(2.244)
Other operating expenses		(79)	(49)
Operating profit/loss		2.283	2.274
Income from investments in associates		(5)	(5)
Income from other fixed asset investments		18	25
Other financial income	7	115	234
Other financial expenses	8	(200)	(179)
Profit/loss before tax		2.211	2.349
Tax on profit/loss for the year	9	(566)	(659)
Profit/loss for the year	10	1.645	1.690

Consolidated balance sheet at 31.12.2018

	Notes	2018 DKK'm	2017 DKK'm
Completed development projects		255	337
Acquired intangible assets		206	182
Goodwill		171	201
Development projects in progress		6	23
Intangible assets	11	638	743
Land and buildings		2.769	2.816
Plant and machinery		2.340	2.422
Other fixtures and fittings, tools and equipment		442	463
Property, plant and equipment in progress		548	528
Property, plant and equipment	12	6.099	6.229
Investments in associates		0	0
Other investments		634	931
Other receivables		66	60
Deferred tax	14	477	445
Fixed asset investments	13	1.177	1.436
Fixed assets		7.914	8.408
Raw materials and consumables		1.758	1.731
Work in progress		1.473	1.295
Manufactured goods and goods for resale		1.265	1.079
Inventories	15	4.496	4.105
Trade receivables		4.815	4.728
Other receivables		1.513	1.221
Prepayments		185	164
Receivables		6.513	6.113
Other investments		4.706	4.304
Other investments		4.706	4.304
Cash		4.174	3.192
Current assets		19.889	17.714
Assets		27.803	26.122

Consolidated balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Contributed capital		505	505
Provision for distributions		120	150
Retained earnings		17.612	16.384
Equity attributable to the Parent's owners		18.237	17.039
Share of equity attributable to minority interests		1.623	1.619
Equity		19.860	18.658
Provisions for pension liabilities etc		370	462
Deferred tax	14	74	128
Other provisions	16	1.299	1.189
Provisions		1.743	1.779
Bank loans		12	14
Debt to other credit institutions		9	6
Non-current liabilities other than provisions	17	21	20
Current portion of long-term liabilities other than provisions	17	15	13
Bank loans		79	13
Trade payables		2.367	2.553
Income tax payable		491	315
Other payables		3.038	2.576
Deferred income		189	195
Current liabilities other than provisions		6.179	5.665
Liabilities other than provisions		6.200	5.685
Equity and liabilities		27.803	26.122
Events after the balance sheet date	1		
Financial instruments	19		
Unrecognised rental and lease commitments	20		
Contingent liabilities	21		

Consolidated statement of changes in equity for 2018

	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	150	16.384	1.619
Effect of mergers and business combinations	0	0	(125)	(79)
Ordinary dividend paid	0	0	(16)	(93)
Ordinary distributions	0	(95)	0	0
Exchange rate adjustments	0	4	48	1
Value adjustments	0	0	(186)	(16)
Other entries on equity	0	0	96	11
Tax of entries on equity	0	0	7	0
Profit/loss for the year	0	61	1.404	180
Equity end of year	505	120	17.612	1.623

	Total DKK'm
Equity beginning of year	18.658
Effect of mergers and business combinations	(204)
Ordinary dividend paid	(109)
Ordinary distributions	(95)
Exchange rate adjustments	53
Value adjustments	(202)
Other entries on equity	107
Tax of entries on equity	7
Profit/loss for the year	1.645
Equity end of year	19.860

Consolidated cash flow statement for 2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Operating profit/loss		2.283	2.274
Amortisation, depreciation and impairment losses		1.317	1.527
Other provisions		8	161
Working capital changes	18	(542)	(142)
Other adjustments		(4)	26
Cash flow from ordinary operating activities		3.062	3.846
Financial income received		134	148
Financial expenses paid		0	(179)
Income taxes refunded/(paid)		(530)	(646)
Cash flows from operating activities		2.666	3.169
Acquisition etc of intangible assets		(132)	(143)
Acquisition etc of property, plant and equipment		(1.010)	(768)
Sale of property, plant and equipment		51	76
Sale of fixed asset investments		(304)	(2.313)
Cash flows from investing activities		(1.395)	(3.148)
Loans raised		0	(125)
Repayments of loans etc		71	0
Dividend paid		(109)	(100)
Distributions		(66)	(96)
Acquisition of minority interest		(204)	0
Cash flows from financing activities		(308)	(321)
Increase/decrease in cash and cash equivalents		963	(300)
Cash and cash equivalents beginning of year		3.192	3.448
Currency translation adjustments of cash and cash equivalents		19	44
Cash and cash equivalents end of year		4.174	3.192

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.

	2018 DKK'm	2017 DKK'm
2. Revenue		
Europa (including Russia)	14.627	13.969
North and South America	4.235	4.098
Asia	6.512	6.187
The Middel East/Africa	1.347	1.380
	26.721	25.634

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

	2018 DKK'm	2017 DKK'm
Foreign exchange rate contracts recognised in net turnover	(26)	53
Foreign exchange rate contracts recognised in production costs	(18)	(9)
Raw material contracts recognised in production costs	64	54
Foreign exchange rate contracts recognised in financial costs	(4)	0
	16	98

4. Administrative expenses

Auditors' remuneration	2018 DKK'm	2017 DKK'm
Fee to Deloitte for statutory auditing	14	12
Fee to Deloitte for other assurance engagements	0	0
Fee to Deloitte for tax advisory services	10	8
Fee to Deloitte for other services	9	5
	33	25

Notes to consolidated financial statements

	2018 DKK'm	2017 DKK'm
5. Staff costs		
Wages and salaries	6.197	5.867
Pension costs	409	400
Other social security costs	604	596
	7.210	6.863
Number of employees at balance sheet date	19.022	18.601
Average number of employees	18.895	18.246

	Remunera- tion of manage- ment 2018 DKK'm	Remunera- tion of manage- ment 2017 DKK'm
Total amount for management categories	12	9
	12	9

The amount for remuneration of management for the year include fees to the Executive Directors, including severance pay, and members of the Board of Directors of the Foundation and other Group units of DKK 12m (2017: DKK 9m).

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:	2018 DKK'm	2017 DKK'm
Production costs	3.185	2.999
Research and development costs	793	717
Sales and distribution costs	2.127	2.093
Administrative costs	1.119	1.062
	7.224	6.871

Notes to consolidated financial statements

6. Depreciation, amortisation and impairment losses

Recognised in the income statement under the following items	2018 DKK'm	2017 DKK'm
Production costs	886	922
Research and development costs	208	296
Sales and distribution costs	88	92
Administrative costs	95	99
Group goodwill	30	72
	1.307	1.481

The amounts for research and development costs include write-downs of DKK 0m (2017: DKK 53 m)

	2018 DKK'm	2017 DKK'm
7. Other financial income		
Other interest income	41	24
Fair value adjustments	0	111
Other financial income	74	99
	115	234

	2018 DKK'm	2017 DKK'm
8. Other financial expenses		
Other financial expenses	200	179
	200	179

Notes to consolidated financial statements

	2018 DKK'm	2017 DKK'm
9. Tax on profit/loss for the year		
Current tax	677	545
Change in deferred tax	(54)	121
Adjustment concerning previous years	(51)	(69)
Effect of changed tax rates	(6)	62
	566	659

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	1%	0%
Non-deductible amortisation/write-downs on goodwill	1%	0%
Non-deductible withholding taxes	2%	1%
Other, including adjustments regarding previous years	-2%	1%
Changes in tax rates	0%	3%
Rate of taxation for the year	24%	27%

	2018 DKK'm	2017 DKK'm
10. Proposed distribution of profit/loss		
Provision for distributions	61	216
Retained earnings	1.404	1.288
Minority interests' share of profit/loss	180	186
	1.645	1.690

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	758	748	819	23
Transfers	29	20	0	(29)
Additions	0	119	0	12
Disposals	(280)	(141)	(90)	0
Cost end of year	507	746	729	6
Amortisation and impairment losses beginning of year	(421)	(566)	(618)	0
Transfers	(1)	(5)	0	0
Amortisation for the year	(111)	(110)	(30)	0
Reversal regarding disposals	281	141	90	0
Amortisation and impairment losses end of year	(252)	(540)	(558)	0
Carrying amount end of year	255	206	171	6

Development projects

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	5.790	11.910	1.565	528
Exchange rate adjustments	6	5	(1)	(2)
Transfers	76	203	7	(306)
Additions	85	484	105	336
Disposals	(40)	(161)	(63)	(8)
Cost end of year	5.917	12.441	1.613	548
Depreciation and impairment losses beginning of year	(2.974)	(9.488)	(1.102)	0
Exchange rate adjustments	(11)	(11)	(1)	0
Transfers	0	1	5	0
Depreciation for the year	(190)	(750)	(126)	0
Reversal regarding disposals	27	147	53	0
Depreciation and impairment losses end of year	(3.148)	(10.101)	(1.171)	0
Carrying amount end of year	2.769	2.340	442	548

Accounting value of financially leased facilities as at 31.12.2018 amounts to DKK 15m (2017: DKK 9m).

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	933	73	445
Exchange rate adjustments	0	2	2	5
Additions	4	5	4	100
Disposals	0	(304)	(2)	(73)
Cost end of year	24	636	77	477
Impairment losses beginning of year	(20)	(2)	(13)	0
Impairment losses for the year	(4)	0	2	0
Impairment losses end of year	(24)	(2)	(11)	0
Carrying amount end of year	0	634	66	477

The market value of securities as at 31.12.2018 amounts to DKK 652m (2017: DKK 964m).

	2018 DKK'm	2017 DKK'm
14. Deferred tax		
Property, plant and equipment	(57)	(70)
Inventories	408	234
Provisions	(85)	(41)
Liabilities other than provisions	134	168
Tax losses carried forward	3	26
	403	317
Changes during the year		
Beginning of year	317	
Recognised in the income statement	55	
Recognised directly in equity	21	
Other changes	10	
End of year	403	

The above has been recognised in the balance sheet as:

Deferred tax assets	477
Deferred tax liabilities	(74)
	403

Notes to consolidated financial statements

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 2018 DKK 3m (2017: DKK 26m). 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 117m (2017: DKK 110m).

15. Inventories

	2018 DKK'm	2017 DKK'm
Raw materials and consumables	1.758	1.731
Work in progress	1.473	1.295
Manufactured goods and goods for resale	1.265	1.079
	4.496	4.105

16. Other provisions

	Liabilities guarantee DKK'm	Buy-back obligation relating to employee shares DKK'm	Pension liabilities DKK'm	Other provisions DKK'm
01.01.2018	165	534	462	490
Exchange rate adjustments	1		8	(1)
Provisions spent during the year	(10)	(25)	(68)	(86)
Provisions reversed	(4)		(99)	(55)
Provisions of the year	37	208	67	45
Provisions end of year	189	717	370	393

Liabilities under guarantee

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

Other provisions

Other provisions include DKK 52m (2017: DKK 52m) according to a long-term incentive (LTI) programme for senior management in the Group.

Notes to consolidated financial statements

	Due within 12 months 2018 DKK'm	Due within 12 months 2017 DKK'm	Due after more than 12 months 2018 DKK'm
17. Liabilities other than provisions			
Mortgage debt	15	13	0
Bank loans	0	0	12
Debt to other credit institutions	0	0	9
	15	13	21

No debt falling due after more than five years.

Distribution of currencies and interest as at 31.12.2018:

Currency	2018	Average in- terest rate
DKK	4	0,0%
EUR	5	5,2%
GBP	6	5,9%
Other	6	8,0%
Total	21	

	2018 DKK'm	2017 DKK'm
18. Change in working capital		
Increase/decrease in inventories	(391)	(444)
Increase/decrease in receivables	(320)	209
Increase/decrease in trade payables etc	214	150
Other changes	(45)	(57)
	(542)	(142)

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	Deferred recognition in the income statement be- fore tax 2018	Volume	Deferred recognition in the income statement be- fore tax 2017
	2018	DKK'm	2017	DKK'm
Currency contracts EUR	4.025	(73)	4.207	56
Currency contracts USD	1.427	13	916	(24)
Currency contracts SGD	423	(6)	490	1
Currency contracts, other	285	(4)	304	0
Interest rate swaps	8	(1)	8	(2)
Raw material contracts (DKK'm)	209	(45)	416	59
Electricity contracts (MWh)	79	20	170	13
Gas contracts (m3)	435.000	0	311.000	0
Total		(96)		103

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:

	2018	2017
	DKK'm	DKK'm
Cash at bank and in hand	4.174	3.192
Securities, current assets	4.706	4.304
Securities, fixed assets	634	931
	9.514	8.427
The securities portfolio consists of:		
Bonds	4.420	4.166
Shares	920	1.069
Total	5.340	5.235

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 4.420m (2017: DKK 4.166m) when expressed by an increase of the interest rate by 1 percentage point – is approx. DKK 112m (2017: approx. DKK 105m). The Group's total borrowing was increased by DKK 69m in 2018 (2017: DKK -125m).

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 (2017: DKK 8m).

Foreign exchange risk

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

Forward exchange contracts used in connection with foreign exchange swaps amount to DKK 778m (2017: DKK 120m).

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 and US dollar. At the end of 2018, currency contracts to reduce the foreign exchange risk in connection with the flow of goods amounted to DKK 6.556m (2017: DKK 6.318m). Of this, a contract volume of DKK 396m has been recognised for the hedging of balance sheet items as at the balance sheet date (2017: DKK 401m).

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 2018, raw material futures contracts to reduce the raw material risk amount to DKK 209m (2017: DKK 416m). During 2018, it was decided to cease heading raw materials as it is only possible to hedge a very small part of the types of raw materials used by the Group. Thus, hedging expires mid-2019.

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

	2018 DKK'm	2017 DKK'm
20. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	735	703

21. Contingent liabilities

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 140m (2017: DKK 109m).

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

Parent income statement for 2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Administrative expenses	2, 3	(31)	(16)
Other operating expenses		(79)	(49)
Operating profit/loss		(110)	(65)
Income from investments in group enterprises		1.570	1.557
Other financial income	4	7	11
Profit/loss before tax		1.467	1.503
Tax on profit/loss for the year	5	(2)	1
Profit/loss for the year	6	1.465	1.504

Parent balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Investments in group enterprises		14.529	13.697
Fixed asset investments	7	14.529	13.697
Fixed assets		14.529	13.697
Receivables from group enterprises		4.577	3.986
Receivables		4.577	3.986
Cash		6	8
Current assets		4.583	3.994
Assets		19.112	17.691

Parent balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'm</u>	<u>2017 DKK'm</u>
Contributed capital		505	505
Reserve for net revaluation according to the equity method		13.322	12.694
Provision for distributions	8	120	150
Retained earnings		4.290	3.690
Equity		18.237	17.039
Other provisions	9	717	534
Provisions		717	534
Other payables		158	118
Current liabilities other than provisions		158	118
Liabilities other than provisions		158	118
Equity and liabilities		19.112	17.691
Events after the balance sheet date	1		
Related parties of commercial foundations	10		

Parent statement of changes in equity for 2018

	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	12.694	150	3.690
Ordinary distributions	0	0	(95)	0
Exchange rate adjustments	0	48	4	0
Dissolution of revaluations	0	(186)	0	0
Other entries on equity	0	(45)	0	0
Tax of entries on equity	0	7	0	0
Dividends from group enterprises	0	(766)	0	766
Profit/loss for the year	0	1.570	61	(166)
Equity end of year	505	13.322	120	4.290
				Total DKK'm
Equity beginning of year				17.039
Ordinary distributions				(95)
Exchange rate adjustments				52
Dissolution of revaluations				(186)
Other entries on equity				(45)
Tax of entries on equity				7
Dividends from group enterprises				0
Profit/loss for the year				1.465
Equity end of year				18.237

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 expenses

The administrative cost include remuneration to the Executive Director and members of the Board of Foundation for directorships in the Foundation.

	2018 DKK'm	2017 DKK'm
3. Staff costs		
Wages and salaries	14	8
	14	8
Number of employees at balance sheet date	8	5
Average number of employees	7	5
	Remunera- tion of manage- ment 2018 DKK'm	Remunera- tion of manage- ment 2017 DKK'm
Total amount for management categories	9	5
	9	5

The amount for remuneration of management for the year include fees to the Executive Directors, including severance pay, and members of the Board of Directors of the Foundation for directorship in the Foundation of DKK 9m (2017: DKK 5m).

	2018 DKK'm	2017 DKK'm
4. Other financial income		
Financial income arising from group enterprises	7	11
	7	11
	2018 DKK'm	2017 DKK'm
5. Tax on profit/loss for the year		
Change in deferred tax	2	(1)
	2	(1)

Notes to parent financial statements

	2018 DKK'm	2017 DKK'm
6. Proposed distribution of profit/loss		
Transferred to reserve for net revaluation according to the equity method	1.570	1.557
Provision for distributions	61	216
Retained earnings	(166)	(269)
	1.465	1.504
		Invest- ments in group enterprises DKK'm
7. Fixed asset investments		
Cost beginning of year		906
Additions		204
Cost end of year		1.110
Revaluations beginning of year		14.636
Share of profit/loss for the year		1.570
Revaluations end of year		16.206
Impairment losses beginning of year		(1.845)
Exchange rate adjustments		48
Dividend		(766)
Other adjustments		(224)
Impairment losses end of year		(2.787)
Carrying amount end of year		14.529

The accounting value of investments in group enterprises includes goodwill amounting to DKK 103m (2017: DKK 115 m). Please see management commentary for a list of subsidiaries.

A specification of investments in subsidiaries is evident from the notes to the consolidated financial statements.

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.

Notes to parent financial statements

9. Other provisions

	2018	2017
	DKK'm	DKK'm
Provisions beginning of year	534	424
Provisions spent during the year	(25)	(39)
Provisions of the year	208	149
Provisions end of year	717	534

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.

The settlement periods expire as follows:

	2018	2017
	DKK'm	DKK'm
Released	385	272
2021	96	0
2022	143	130
2023	93	132
	717	534

The buy-back obligation calculated at market value amounts to DKK 822m (2017: DKK 619m)

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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 87.8% (2017: 87.6%) of the share capital and voting rights in Grundfos Holding A/S, and thus exercises a controlling interest.

The Foundation has received DKK 766m (2017: DKK 724m) in dividends from Grundfos Holding A/S in 2018.

Notes to parent financial statements

In 2018, the Foundation has received DKK 7m (2017: DKK 11m) in interest income from a loan to Grundfos Holding A/S. The loan amounted to DKK 4.577m at the end of 2018 (2017: DKK 3.985m).

In the financial year, the Foundation has purchased services from the Group amounting to DKK 4m (2017: DKK 3m).

In the financial year, the Foundation has sold shares for DKK 137m (2017: DKK 108m) 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.

Key management personnel

In 2018, the key management personnel have received salaries and remuneration etc. totaling DKK 71m (2017: DKK 74m), of which DKK 8m (2017: DKK 5m) has been paid from Poul Due Jensens Fond. Payable remuneration at 31 December 2018 amounts to DKK 29m (2017: DKK 31m).

In 2018, key management personnel have received DKK 93m (2017: DKK 86m) in dividends from Grundfos Holding A/S.

In 2018, key management personnel have sold shares for DKK 204m (2017: 0m) in Grundfos Holding A/S back to the Foundation.

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 2m (2017: DKK 6m) and the Group has purchased goods and services for DKK 9m in 2018 (2017: DKK 14m).

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 class C enterprises (large).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied 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 fair value. Derivative financial instruments are recognised under other receivables or other payables.

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 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.

Accounting policies

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 expenses

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.

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.

Accounting policies

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.

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.

Accounting policies

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.

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.

Accounting policies

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.

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

Accounting policies

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.

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.

Accounting policies

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 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

Accounting policies

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.