

Poul Due Jensens Fond

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

Annual report 2019

The Board meeting adopted the annual report on 11.03.2020

Chairman of the Board of Directors



Name: Jens Maaløe

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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: 01.01.2019 - 31.12.2019

Board of Directors

Jens Maaløe, Chairman
Poul Due Jensen, Vice Chairman
Estrid Due Hesselholt
Ingermarie Due Nielsen
Annette Due Jensen
Jens Winther Moberg
Elsebeth Nielsen
Flemming Konradsen
Jens Erik Bjørklund Lysdahl
Torben Ømark
Zsuzsanna Tóth
Rudolf Martini

Executive Board

Kim Nøhr Skibsted

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
DK-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 01.01.2019 - 31.12.2019.

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 31.12.2019 and of their financial performance and cash flows for the financial year 01.01.2019 - 31.12.2019.

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

Bjerringbro, 11.03.2020

Executive Board

Kim Nøhr Skibsted

Board of Directors

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Chairman

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Kim Nør Skibsted

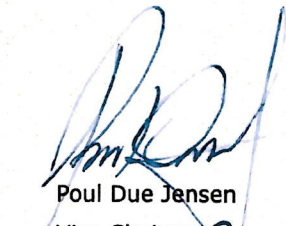
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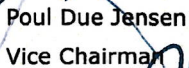
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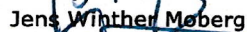

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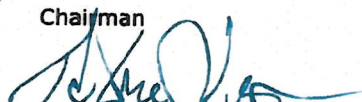
Bjerringbro, 11.03.2020

Executive Board

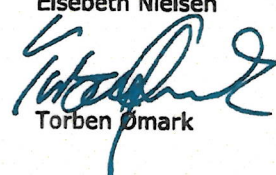
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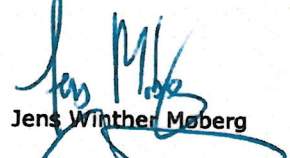

Poul Due Jensen
Vice Chairman

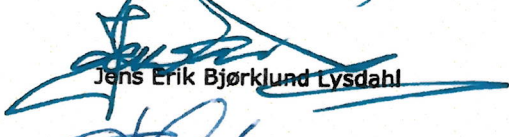

Annette Due Jensen

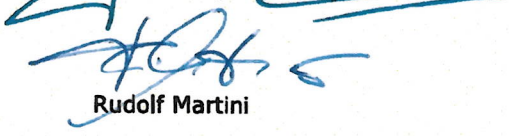

Flemming Konradsen

Zsuzsanna Tóth


Estrid Due Hesselholt


Jens Winther Moberg


Jens Erik Bjørklund Lysdahl


Rudolf Martini

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 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, 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 31.12.2019, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

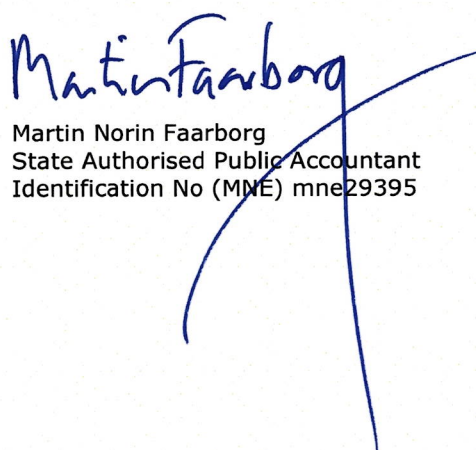
Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material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

Aarhus, 11.03.2020

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

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Aarhus, 11.03.2020

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Management commentary

	2019 DKK'm	2018 DKK'm	2017 DKK'm	2016 DKK'm	2015 DKK'm
Financial highlights					
Key figures					
Revenue	27.518	26.721	25.634	24.677	24.800
Gross profit/loss	10.586	10.163	10.023	9.550	8.938
Operating profit/loss	2.634	2.283	2.274	2.233	1.925
Net financials	229	(72)	75	37	3
Profit/loss for the year	2.110	1.645	1.690	1.676	1.473
Total assets	30.642	27.815	26.122	24.778	22.780
Investments in property, plant and equipment	981	1.010	768	942	954
Equity	21.524	19.860	18.658	17.397	15.903
Interest-bearing net accounts receivable	11.779	9.400	8.381	6.201	4.153
Donations awarded net	115	95	96	64	15
Dividend from subsidiary	769	766	724	639	229
Available capital (including proposed distributions)	4.971	4.410	3.840	3.265	2.682
Ratios					
Gross margin (%)	38,5	38,0	39,1	38,7	36,0
Net margin (%)	7,7	6,2	6,6	6,8	5,9
Return on equity (%)	10,2	8,5	9,4	10,1	9,7
Equity ratio (%)	70,2	71,4	71,4	70,2	69,8

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 87.6% 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 1.884 million in 2019 compared to a profit of DKK 1.465 million in 2018.

The Foundation made donations recognised in equity of DKK 115,4 million in 2019 compared to DKK 94,9 million in 2018 cf. below for more information.

On 31 October 2019, Grundfos Holding A/S repaid the loan, which had been lent out from the Foundation on arm's length conditions. Therefore, the Foundation now manages its own capital resources. To this purpose, the Board of Directors of the Foundation has approved an investment policy, which also supports the United Nations' Global Compact principles, and has also decided to outsource the administration of the investments to Grundfos Holding A/S.

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

Management commentary

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 2019 and previous years are available at www.pdjf.dk/governance.

Changes in the Board of Directors

In March 2019, Mr. Christian Schønau replaced Ms. Estrid Due Hesselholt as Chairman but stepped down from the Board of Directors in April 2019. Mr. Jens Maaløe replaced Mr. Christian Schønau as Chairman for the Board of Directors of the Foundation. In March 2019, Mr. Poul Due Jensen replaced Mr. Jens Moberg as Vice-Chairman.

Professor Flemming Konradsen from the University of Copenhagen was elected to the Board of Directors of the Foundation as an external member in September 2019.

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

Active ownership of Grundfos

The Foundation's primary asset is the 87.6% 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
- Adherence to the Founders' six values (cf. section on Sustainability below)

This year's profit in Grundfos amounts to DKK 2,208 million, compared to a profit of DKK 1,762 million in 2018, of which 50% is expected to be distributed to the shareholders: The Foundation, the Founder's descendants and the employee shareholders.

Management commentary

Detailed information about the performance and development of the entire 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 2019, we have expanded our activities with a general focus on being a community-engaged foundation. We want to be a visible and truly engaged participant in society, supporting our existing agenda and promoting our values.

In 2019, the Foundation committed donations for DKK 116,9 million to philanthropic projects within the strategic focus areas and increased the level compared to DKK 95,0 million in 2018. After deducting the returned donations from unrealised projects, the total amount of donations in 2019 was DKK 115,4 million (2018: DKK 94,9 million).

Community engagement

As a foundation, we are both obliged and committed to be a visible part of the community. This means that our role as a responsible foundation will be more visible and outspoken in the future. We will support and donate to activities that benefit society and reinforce our tradition as an engaged corporate citizen and thereby create respect and recognition among our peers.

The Foundation's employee awards are considered an important part of this agenda, promoting our values among the Grundfos Group's employees and companies.

In total, the Foundation committed DKK 8,1 million to community engagement, including the Poul Due Jensen Innovation Award, the Poul Due Jensen Scholarship and the Social Responsibility Award.

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 (Clean water and sanitation).

Indirectly, safe water also contributes to reaching other important goals: Goal 1 (No poverty), Goal 2 (Zero hunger), Goal 3 (Good health and well-being), Goal 4 (Quality education) and Goal 5 (Gender equality). 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

Management commentary

must no longer spend hours fetching water instead of working or studying.

From 2019 and onwards, we will support UNICEF's emergency relief fund to address some of the most need-ing areas in the world. This could be due to natural disasters, war and other conflicts. UNICEF will be able to respond quicker due to our and others support. The world's biggest cities will face some of the most significant consequences of climate change. They will be the providers of new solutions to adapt climate change and new technologies. From 2019, we support the C40 organization to find new ways of handling water stress and scarcity. We hope to find new partners and new solutions through this.

DKK 47,9 million from the Foundation were committed to revisit and future-proof water projects delivering safe water to 145.000 to 193.000 new beneficiaries with access to safe water in 2019 and the years to come.

Research and learning within engineering and natural science

The Foundation's contributions within this area contributes directly to UN Sustainable Development Goal 4 (Quality education), Goal 6 (Clean water and sanitation), and Goal 9 (Industry, innovation and infrastruc-ture). 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 en-vironments with world-class potential or maintaining and future-proofing existing world-class research envi-ronments.

In 2019, the Foundation supported the Department of Chemistry and Bioscience and the Department of Electronic Systems at Aalborg University, the Department of Engineering, the Department of Bioscience and the Department of Geoscience at Aarhus University, the Department of Mechanical Engineering and Depart-ment of Aquatic Resources at the Technical University of Denmark and the Department of Biology at Univer-sity of Southern Denmark. Furthermore, the Foundation has supported the publication of a new edition of a classic textbook on wastewater treatment.

To increase the number of students within technology and natural science in Denmark, the Foundation col-laborates with ASTRA, Naturvidenskabernes Hus and Bjerringbro Gymnasium on various initiatives aimed at primary and secondary school students. Finally, the Foundation has supported establishment of a professional engineering training facility in Viborg (Viborg Maskinmesterskole).

The 2019 Grundfos Prize was awarded to Professor Morten M. Smedskjær from Aalborg University's Depart-ment of Chemistry and Bioscience for his work on materials especially oxide glasses.

In total, the Foundation committed DKK 54,4 million to research and learning initiatives in 2019, including the 2019 Grundfos Prize.

Management commentary

Labour market inclusion in Central Jutland

The Founder, Poul Due Jensen, and his descendants are and always were 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 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. The Foundation engages in communities surrounding Grundfos' headquarters, just as Poul Due Jensen used to give back to Bjerringbro. For that reason, the Foundation focuses on the Central Jutland Region.

Besides the traditional Christmas Donations, the Foundation made commitments to support labour market inclusion project in the municipality of Norddjurs, to support DISCUS' research on the possibilities for creating so called climate jobs in small and medium sized enterprises, and to have the NGO MH24 - Mikkelt mod mobning (Mikkelt against bullying) preventing bullying in children's handball in several handball clubs in the Region.

The 2019 labour market inclusion initiatives in the Foundation ended at DKK 6,6 million.

Donations 2019

Community Engagement

Organisation		Country	Amount (DKK '000)	Period
Bjerringbro Church	2019-013 Fountain	Denmark	3.500	2019
Viborg Private Realskole	2019-012 VpR International	Denmark	3.000	2019-2021
Aarhus Municipality	2019-049 HM the Queen 80 years	Denmark	1.000	2020
13 Grundfos-employees	Poul Due Jensen Innovation Award & Scholarship 2019	Global	429	2019
Rotary Club Madras	Poul Due Jensen Social Responsibility Award 2019	India	151	2019
Total			8.080	

Management commentary

Water

Organisation		Country	Amount (DKK '000)	Period
Norwegian Church Aid	2018-029 Burundi Phase II	Burundi	7.641	2019-2021
Practical Action	2018-033 Turkana	Kenya	14.309	2019-2021
Sunlit Future	2018-041 Indian Schools	India	261	2019
Water Mission	2019-002 Tanzania Host Phase II	Tanzania	8.650	2019-2020
Water Mission	2019-005 Disaster Relief Malawi	Malawi	1.016	2019
PlanBørnefonden	2019-006 Disaster Relief Mozambique	Mozambique	1.000	2019
Water Mission	2019-010 Indonesia from disaster relief to sustainability	Indonesia	607	2019
Water Mission	2019-029 Disaster Relief Bahamas	The Bahamas	250	2019
Jysk landsbyudvikling i Nepal	2019-018 Nepal Fixit	Nepal	5.999	2019-2020
Water Mission	2019-019 Turbine pump for rural mountain villages	Indonesia	1.067	2020-2021
UNICEF	2019-047 Emergencies 365 Fund	Global	3.300	2020-2022
C40 Cities	2019-050 Water-Safe Cities of the Future	Global	3.800	2020
Total			47.900	

Research

Organisation	Project number and name	Country	Amount (DKK '000)	Period
Aarhus University – Engineering	2018-019 The Digital Twin	Denmark	12.070	2019-2022
Aalborg University – Chemistry & Bioscience	2018-046 Microflora Danica II	Denmark	9.439	2019-2022
Technical University of Denmark - Mechanics	2018-039 Turbulence Centre of Excellence	Denmark	12.905	2019-2023
Aarhus University – Geoscience	2019-001 Si-TEM	Denmark	3.467	2019
Aarhus University - Bioscience	2019-004 WETPOL conference	Denmark	120	2019
ASTRA	2019-014 Science Festival	Denmark	500	2019
Polyteknisk Boghandel og Forlag, DTU	2019-016 Wastewater Treatment textbook republication	Denmark	300	2019
Aalborg University – Electronic Systems	2019-007 Smart water infrastructure lab III	Denmark	3.072	2019-2022
Aarhus Maskinmester-skole & MERCANTEC	2019-015 Viborg Maskinmesterskole	Denmark	3.000	2021
House of Natural Science	2019-017 School visits II	Denmark	1.000	2020
Aalborg University – Chemistry & Bioscience	2019 Grundfos Prize - research grant	Denmark	750	2019
Professor MSO Morten M. Smedskjær	2019 Grundfos Prize - personal reward	Denmark	250	2019
Aarhus University – Geoscience	2019-040 Si-TEM add-on	Denmark	1.486	2020
Bjerringbro High School	2019-041 BeScience	Denmark	2.993	2020-2023
ASTRA	2019-042 Big Bang Conference	Denmark	500	2020
University of Southern Denmark etc.	2019-043 Pre-project: Lake Cleanup	Denmark	2.500	2020
Total			54.352	

Management commentary

Inclusion

Organisation		Country	Amount (DKK '000)	Period
Dansk Folkehjælp	2019-020 Christmas donation	Denmark	500	2019
Salvation Army Denmark	2019-021 Christmas donation	Denmark	500	2019
Mødrehjælpen	2019-022 Christmas donation	Denmark	500	2019
Red Cross Denmark	2019-030 Christmas donation	Denmark	500	2019
MH24 Foreningen Mikkell mod Mobning	2019-003 Antibulli Handball, Central Denmark	Denmark	1.500	2019-2020
Discus	2019-026 Pre-project: Climate jobs in SMEs	Denmark	180	2019
Norddjurs Municipality	2019-024 Recruitment for Grenaa Port II	Denmark	2.350	2020-2021
Discus	2019-027 Pre-project: Jobs in social housing	Denmark	585	2020
Total			6.615	
Total distributions			116.947	

Returned donations

Organisation		Country	Amount (DKK '000)	Period
Jysk landsbyudvikling i Nepal	2018-031 Nepal Fixit	Nepal	-17	2018-2019
Syddjurs Municipality	2018-012 A healthy working life	Denmark	-1.000	2019-
Underværket	2016-157 "Strictly Come Danish"	Denmark	-400	2018-2019
DGI Inclusion ambassadors	2016-070 Ambassadors for inclusion	Denmark	-137	2016-
Total returned			-1.554	
Grand total			115.393	

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.

Management commentary

- **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 approximately 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.

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 2019 activities and performance can be found in Grundfos Holding A/S' annual report and CSR report.

Management commentary

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. This is also the case for our financial activities.

- Regarding **human rights**, the Foundation must consider whether its suppliers and partners adhere to its high standards and whether (financial) activities and projects contribute to improve the lives and opportunities of the people affected.
- Regarding **environment and climate protection**, the Foundation must consider how the environmental footprint of its (financial) activities and philanthropic projects affects the world.
- Regarding **social and employee matters**, the Foundation must consider how its (financial) activities impact the lives of 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 manage its liquid reserves responsibly and 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 2019, as the Foundation's newly adopted investment policy adheres to the United Nations' Global Compact principles.

Besides working directly with UN Sustainable Development Goal 4 (Quality education), Goal 6 (Clean water and sanitation), Goal 7 (Affordable and clean energy), Goal 8 (Decent work and economic growth) and Goal 9 (Industry, innovation and infrastructure) in the philanthropic activities, the Foundation indirectly works with UN Sustainable Development Goal 1 (No poverty), Goal 2 (Zero hunger), Goal 3 (Good health and well-being), Goal 5 (Gender equality) and Goal 13 (Climate action). Our investment policy follows UN Global Compact principles.

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 are also - in their 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.

Management commentary

The Foundation runs a lean organization 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 organization 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 communication strategy.

All partners will in principle sign a How We Work agreement. The Foundation 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 2019.

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.

Management commentary

Group Structure

Due Jensen family (10.1 %)

Poul Due Jensens Fond (87.6 %)

Grundfos employees (2.3 %)

Grundfos Holding A/S

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, Solvermedia 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.	Nigeria, Grundfos Water Solutions NGA Limited
China, Grundfos Pumps (Chongqing) Co. Ltd.	Norway, Grundfos Norge AS
China, Grundfos Pumps (Hong Kong) Ltd.	Peru, Grundfos de Peru S.A.C.
China, Grundfos Pumps (Shanghai) Co. Ltd.	Philippines, Grundfos IS Support & Operations Centre Philippines Inc.
China, Grundfos Pumps (Suzhou) Ltd.	Philippines, Grundfos Pumps (Philippines) Inc.
China, Grundfos Pumps (Wuxi) Ltd.	Poland, DAB Pumps Poland Sp.Z.o.o.
Columbia, Grundfos Columbia S.A.S.	Poland, Grundfos Pompy Sp.Z.o.o.
Croatia, Grundfos Sales Croatia d.o.o.	Portugal, Bombas Grundfos (Portugal) S.A.
Czech Republic, Grundfos Sales Czechia and Slovakia s.r.o.	Romania, SC Grundfos Pompe Romania SRL
Denmark, Grundfos A/S	Russia, OOO Grundfos Istra
Denmark, Grundfos BioBooster A/S	Russia, OOO DWT Group
Denmark, Grundfos DK A/S	Russia, OOO Grundfos
Denmark, Grundfos Finance A/S	Saudi Arabia, Grundfos Saudi Arabia Company Limited
Denmark, Grundfos Lifelink A/S	Serbia, Grundfos Srbija d.o.o.
Denmark, Grundfos Operations A/S	Singapore, Grundfos (Singapore) Pte. Ltd.
Denmark, Grundfos US ApS	Slovenia, Grundfos Ljubljana d.o.o.
Denmark, Sintex A/S	South Africa, Alldos (Pty) Ltd.
Egypt, Grundfos Holding Egypt LLC	South Africa, DAB Pumps South Africa (Pty) Ltd.
Egypt, Grundfos Egypt LLC	South Africa, Grundfos (Pty) Ltd.
Egypt, Grundfos Service Egypt LLC	Spain, Bombas Grundfos España S.A.
Finland, OY Grundfos Environment Finland AB	Spain, DAB Pumps Iberica S.L.
Finland, OY Grundfos Pumput AB	Sweden, Grundfos AB
France, Pompes Grundfos Distribution S.A.S.	Switzerland, Biral AG
France, Pompes Grundfos S.A.S.	Switzerland, Grundfos Holding AG
Germany, Biral GmbH	Switzerland, Grundfos Handels AG
Germany, DAB Pumps 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.
Germany, Solver Deutschland GmbH	United Kingdom, Grundfos Manufacturing Ltd.

Management commentary

Ghana, Grundfos Pumps Ghana Ltd.	United Kingdom, Grundfos Pumps Ltd.
Greece, Grundfos Hellas Single-Member A.E.B.E.	United Kingdom, Grundfos Watermill Ltd.
Hungary, DAB Pumps Hungary Kft.	USA, Enaqua
Hungary, Grundfos Shared Services Kft.	USA, Grundfos CBS Inc.
Hungary, Grundfos Hungary Manufacturing Ltd.	USA, Grundfos Americas Corporation
Hungary, Grundfos South East Europe Kft.	USA, Grundfos Pumps Corporation
India, Grundfos Pumps India Private Ltd.	USA, Grundfos Pumps Manufacturing Corporation
Indonesia, PT Grundfos Pompa	USA, Grundfos US Holding Corporation
Indonesia, PT Grundfos Trading Indonesia	USA, Sterling Fluid Systems LLC (USA)
Ireland, Grundfos (Ireland) Ltd.	(DBA Peerless Pump Company)
Italy, DAB Pumps S.p.A.	USA, DAB Pumps Inc.
Italy, DWT Holding S.p.A.	USA, SFS (USA) Holding Inc.
Italy, Grundfos Pompe Italia S.r.l.	USA, Grundfos Water Utility Inc.
Italy, Isia S.p.A.	Vietnam, Grundfos Vietnam Company Ltd.
Japan, Grundfos Pumps K.K.	
Kazakhstan, Grundfos Kazakhstan LLP	

Ownership

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

Grundfos Holding A/S directly or indirectly owns the entire share capital in all subsidiaries, except for the following: Grundfos Pumps Services Company Limited, Saudi Arabia – 75%

Associated companies:

Better Home ApS, Denmark – 34%

KnowHowZ A/S, Denmark – 21%

Tange Sø Golf A/S, Denmark – 49%

Outlook for 2020

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

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

In 2020, the Foundation will increase the provision for distribution to DKK 200 million, including an extraordinary distribution of DKK 75 million due to the Group's 75 years anniversary.

Consolidated income statement for 2019

	<u>Notes</u>	<u>2019 DKK'm</u>	<u>2018 DKK'm</u>
Revenue	2	27.518	26.721
Production costs	3, 5	<u>(16.932)</u>	<u>(16.558)</u>
Gross profit/loss		10.586	10.163
Research and development costs	5	(1.175)	(1.289)
Distribution costs	5	(4.421)	(4.269)
Administrative expenses	4, 5	(2.232)	(2.243)
Other operating expenses		<u>(124)</u>	<u>(79)</u>
Operating profit/loss		2.634	2.283
Income from investments in associates		0	(5)
Income from other fixed asset investments		24	18
Other financial income	7	373	115
Other financial expenses	8	<u>(168)</u>	<u>(200)</u>
Profit/loss before tax		2.863	2.211
Tax on profit/loss for the year	9	<u>(753)</u>	<u>(566)</u>
Profit/loss for the year	10	<u>2.110</u>	<u>1.645</u>

Consolidated balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'm</u>	<u>2018 DKK'm</u>
Completed development projects		167	255
Acquired intangible assets		338	206
Goodwill		148	171
Development projects in progress		27	6
Intangible assets	11	680	638
Land and buildings		2.812	2.769
Plant and machinery		2.156	2.340
Other fixtures and fittings, tools and equipment		408	442
Property, plant and equipment in progress		644	548
Property, plant and equipment	12	6.020	6.099
Investments in associates		5	5
Other investments		66	634
Other receivables		65	61
Deferred tax	14	682	477
Fixed asset investments	13	818	1.177
Fixed assets		7.518	7.914
Raw materials and consumables		1.579	1.758
Work in progress		1.353	1.473
Manufactured goods and goods for resale		1.226	1.265
Inventories	15	4.158	4.496
Trade receivables		5.008	4.815
Contract work in progress	16	29	50
Other receivables		939	909
Income tax receivable		689	566
Prepayments		179	185
Receivables		6.844	6.525
Other investments		6.145	4.706
Other investments		6.145	4.706

Consolidated balance sheet at 31.12.2019

Cash	<u>5.977</u>	<u>4.174</u>
Current assets	<u>23.124</u>	<u>19.901</u>
Assets	<u>30.642</u>	<u>27.815</u>

Consolidated balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'm</u>	<u>2018 DKK'm</u>
Contributed capital		505	505
Provision for distributions		200	120
Retained earnings		19.093	17.612
Equity attributable to the Parent's owners		19.798	18.237
Share of equity attributable to minority interests		1.726	1.623
Equity		21.524	19.860
Provisions for pension liabilities etc		578	370
Deferred tax	14	40	74
Other provisions	17	1.532	1.299
Provisions		2.150	1.743
Bank loans		39	12
Debt to other credit institutions		89	9
Non-current liabilities other than provisions	18	128	21
Current portion of long-term liabilities other than provisions	18	10	15
Bank loans		17	79
Contract work in progress	16	14	12
Trade payables		2.376	2.367
Income tax payable		1.075	491
Other payables		3.175	3.038
Deferred income		173	189
Current liabilities other than provisions		6.840	6.191
Liabilities other than provisions		6.968	6.212
Equity and liabilities		30.642	27.815
Events after the balance sheet date	1		
Financial instruments	20		
Unrecognised rental and lease commitments	21		
Contingent liabilities	22		

Consolidated statement of changes in equity for 2019

	Contributed capital DKK'm	Provision for distributions DKK'm	Retained earnings DKK'm
Equity beginning of year	505	120	17.612
Changes in accounting policies	0	0	(164)
Adjusted equity, beginning of year	505	120	17.448
Ordinary dividend paid	0	0	(18)
Ordinary distributions	0	(115)	0
Exchange rate adjustments	0	(1)	116
Value adjustments	0	0	19
Other entries on equity	0	0	(190)
Tax of entries on equity	0	0	30
Profit/loss for the year	0	196	1.688
Equity end of year	505	200	19.093

	Share of equity attributable to minority interests DKK'm	Total DKK'm
Equity beginning of year	1.623	19.860
Changes in accounting policies	(18)	(182)
Adjusted equity, beginning of year	1.605	19.678
Ordinary dividend paid	(88)	(106)
Ordinary distributions	0	(115)
Exchange rate adjustments	13	128
Value adjustments	3	22
Other entries on equity	(36)	(226)
Tax of entries on equity	3	33
Profit/loss for the year	226	2.110
Equity end of year	1.726	21.524

Consolidated cash flow statement for 2019

	<u>Notes</u>	<u>2019 DKK'm</u>	<u>2018 DKK'm</u>
Operating profit/loss		2.634	2.283
Amortisation, depreciation and impairment losses		1.314	1.317
Other provisions		431	8
Working capital changes	19	102	(542)
Other adjustments		32	(4)
Cash flow from ordinary operating activities		4.513	3.062
Financial income received		315	134
Financial expenses paid		(157)	0
Income taxes refunded/(paid)		(674)	(530)
Cash flows from operating activities		3.997	2.666
Acquisition etc of intangible assets		(259)	(132)
Acquisition etc of property, plant and equipment		(983)	(1.010)
Sale of property, plant and equipment		6	51
Purchase and sale of securities		(841)	(304)
Cash flows from investing activities		(2.077)	(1.395)
Repayments of loans etc		41	71
Dividend paid		(106)	(109)
Distributions		(99)	(66)
Acquisition of minority interest		0	(204)
Cash flows from financing activities		(164)	(308)
Increase/decrease in cash and cash equivalents		1.756	963
Cash and cash equivalents beginning of year		4.174	3.192
Currency translation adjustments of cash and cash equivalents		47	19
Cash and cash equivalents end of year		5.977	4.174

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.

	2019 DKK'm	2018 DKK'm
2. Revenue		
Europa (including Russia)	14.912	14.627
North and South America	4.500	4.235
Asia	6.713	6.512
The Middel East/Africa	1.393	1.347
	27.518	26.721

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

3. Production costs

Result from hedging instruments recognised in profit and loss account

	2019 DKK'm	2018 DKK'm
Foreign exchange rate contracts recognised in revenue	(229)	(26)
Foreign exchange rate contracts recognised in production costs	7	(18)
Raw material contracts recognised in production costs	(50)	64
Foreign exchange rate contracts recognised in financial costs	(15)	(4)
	(287)	16

4. Administrative expenses

	2019 DKK'm	2018 DKK'm
Auditors' remuneration		
Fee to Deloitte for statutory auditing	14	14
Fee to Deloitte for other assurance engagements	0	0
Fee to Deloitte for tax advisory services	9	10
Fee to Deloitte for other services	5	9
	28	33

Notes to consolidated financial statements

	2019 DKK'm	2018 DKK'm
5. Staff costs		
Wages and salaries	6.549	6.197
Pension costs	476	409
Other social security costs	599	604
	7.624	7.210
Number of employees at balance sheet date	19.066	19.022
Average number of employees	19.025	18.895

	Remuneration of management 2019 DKK'm	Remuneration of management 2018 DKK'm
Total amount for management categories	12	12
	12	12

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 (2018: DKK 12m).

The Group continued the long-term incentive (LTI) programme targeted at Group Management and other members of senior management that was implemented in 2015. Members of the board of Poul Due Jensens Fond and members of the board of 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.

In addition to staff costs of DKK 7.624m (2018: DKK 7.210m) in Grundfos Holding A/S, the Foundation incurred staff costs of DKK 12m (2018: DKK 14m) bringing the total staff costs for 2019 to DKK 7.636m (2018: DKK 7.224m).

Staff costs are recognised as follows:	2019 DKK'm	2018 DKK'm
Production costs	3.496	3.185
Research and development costs	771	793
Sales and distribution costs	2.189	2.127
Administrative costs	1.180	1.119
	7.636	7.224

Notes to consolidated financial statements

6. Depreciation, amortisation and impairment losses

	2019	2018
Recognised in the income statement under the following items	DKK'm	DKK'm
Production costs	915	886
Research and development costs	202	208
Sales and distribution costs	92	88
Administrative costs	98	95
Group goodwill	25	30
	1.332	1.307

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

	2019	2018
	DKK'm	DKK'm
7. Other financial income		
Other interest income	43	41
Fair value adjustments	235	0
Other financial income	95	74
	373	115
	2019	2018
	DKK'm	DKK'm
8. Other financial expenses		
Fair value adjustments	49	136
Other financial expenses	119	64
	168	200

Notes to consolidated financial statements

	2019 DKK'm	2018 DKK'm
9. Tax on profit/loss for the year		
Current tax	739	677
Change in deferred tax	(194)	(54)
Adjustment concerning previous years	209	(51)
Effect of changed tax rates	(1)	(6)
	753	566
 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%	1%
Non-deductible amortisation/write-downs on goodwill	0%	1%
Non-deductible withholding taxes	2%	2%
Other, including adjustments regarding previous years	(1%)	(2%)
Changes in tax rates	1%	0%
Rate of taxation for the year	25%	24%
	2019 DKK'm	2018 DKK'm
10. Proposed distribution of profit/loss		
Provision for distributions	196	61
Retained earnings	1.688	1.404
Minority interests' share of profit/loss	226	180
	2.110	1.645

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	507	746	729	6
Exchange rate adjustments	0	4	1	0
Transfers	3	18	0	(3)
Additions	5	229	1	24
Disposals	(45)	(46)	(79)	0
Cost end of year	470	951	652	27
Amortisation and impairment losses beginning of year	(252)	(540)	(558)	0
Exchange rate adjustments	0	(4)	0	0
Amortisation for the year	(96)	(115)	(25)	0
Reversal regarding disposals	45	46	79	0
Amortisation and impairment losses end of year	(303)	(613)	(504)	0
Carrying amount end of year	167	338	148	27

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	5.917	12.441	1.613	548
Exchange rate adjustments	78	27	16	3
Transfers	109	265	33	(425)
Additions	76	301	74	530
Disposals	(24)	(186)	(62)	(12)
Cost end of year	6.156	12.848	1.674	644
Depreciation and impairment losses beginning of year	(3.148)	(10.101)	(1.171)	0
Exchange rate adjustments	(26)	(24)	(21)	0
Transfers	0	2	0	0
Depreciation for the year	(192)	(748)	(138)	0
Reversal regarding disposals	22	179	64	0
Depreciation and impairment losses end of year	(3.344)	(10.692)	(1.266)	0
Carrying amount end of year	2.812	2.156	408	644

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

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	29	636	72	477
Changes in accounting policies	0	0	0	4
Exchange rate adjustments	0	3	1	10
Additions	0	26	10	237
Disposals	(24)	(597)	(6)	(46)
Cost end of year	5	68	77	682
Impairment losses beginning of year	(24)	(2)	(11)	0
Impairment losses for the year	0	0	(1)	0
Reversal regarding disposals	24	0	0	0
Impairment losses end of year	0	(2)	(12)	0
Carrying amount end of year	5	66	65	682

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

Notes to consolidated financial statements

	2019 DKK'm	2018 DKK'm
14. Deferred tax		
Property, plant and equipment	(66)	(57)
Inventories	414	408
Provisions	188	(85)
Liabilities other than provisions	102	134
Tax losses carried forward	4	3
	642	403

Changes during the year

Beginning of year	403
Recognised in the income statement	194
Recognised directly in equity	38
Other changes	7
End of year	642

The above has been recognised in the balance sheet as:

Deferred tax assets	682
Deferred tax liabilities	(40)
	642

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 2019 DKK 4m (2018: DKK 3m). Unrecognised tax assets related to tax losses carry-forward amounts to approx. DKK 110m (2018: DKK 117m). Tax assets related to carry-forward losses are only recognised if they are expected to be utilised within three years.

15. Inventories

	2019 DKK'm	2018 DKK'm
Raw materials and consumables	1.579	1.758
Work in progress	1.353	1.473
Manufactured goods and goods for resale	1.226	1.265
	4.158	4.496

Notes to consolidated financial statements

	2019 DKK'm	2018 DKK'm
16. Contract work in progress		
Contract work in progress	29	50
	29	50
	2019 DKK'm	2018 DKK'm
Selling price of project contracts	220	226
Progress billings	(205)	(188)
	15	38
Recognised as follows:		
Receivables	29	50
Current liabilities	(14)	(12)
	15	38

17. Other provisions

	Liabilities guarantee DKK'm	Buy-back obligation relating to employee shares DKK'm	Pension liabilities DKK'm	Other provisions DKK'm
01.01.2019	189	717	370	393
Exchange rate adjustments	3		5	2
Provisions spent during the year	(19)	(87)	(45)	(71)
Provisions reversed	0		(20)	(18)
Provisions of the year	40	256	268	127
Provisions end of year	213	886	578	433

Liabilities under guarantee

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

Other provisions

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

Notes to consolidated financial statements

	Due within 12 months 2019 DKK'm	Due within 12 months 2018 DKK'm	Due after more than 12 months 2019 DKK'm
18. Liabilities other than provisions			
Mortgage debt	10	15	0
Bank loans	0	0	39
Debt to other credit institutions	0	0	89
	10	15	128

No debt falling due after more than five years.

Distribution of currencies and interest as at 31.12.2019:

<u>Currency</u>	2019 DKK'm	Average in- terest rate
DKK	78	0,0%
EUR	11	3,5%
GBP	6	5,9%
Other	33	7,2%
Total	128	

	2019 DKK'm	2018 DKK'm
19. Change in working capital		
Increase/decrease in inventories	338	(391)
Increase/decrease in receivables	(321)	(320)
Increase/decrease in trade payables etc	93	214
Other changes	(8)	(45)
	102	(542)

20. 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 2019	Volume	Deferred recognition in the income statement be- fore tax 2018
	2019	DKK'm	2018	DKK'm
Currency contracts EUR	4.059	(55)	4.025	(73)
Currency contracts USD	1.119	(13)	1.427	13
Currency contracts SGD	396	(5)	423	(6)
Currency contracts, other	263	3	285	(4)
Interest rate swaps	8	(1)	8	(1)
Raw material contracts (DKKm)	0	0	209	(45)
Electricity contracts (MWh)	75	1	79	20
Gas contracts (m3)	422.000	0	435.000	0
Total		(70)		(96)

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:

	2019 DKK'm	2018 DKK'm
Cash at bank and in hand	5.977	4.174
Securities, current assets	6.145	4.706
Securities, fixed assets	66	634
	12.188	9.514
The securities portfolio consists of:		
Bonds	5.056	4.420
Shares	1.155	920
Total	6.211	5.340

Interest rate risk

The Group's interest rate risk is primarily related to bank deposits, bonds and loans. Bank deposits have a short investment horizon, whereas the exposure of the bond portfolio – amounting to a total of DKK 5.056m (2018: DKK 4.420m) when expressed by an increase of the interest rate by 1 percentage point – is approx.

Notes to consolidated financial statements

DKK 191m (2018: approx. DKK 112m). The Group's total borrowing was increased by DKK 40m in 2019 (2018: DKK 69m).

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

Foreign exchange risk

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

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

The Group's policy is to secure the currency exchange rates for the most essential flow of goods. The most important currencies are the Euro and US dollar. At the end of 2019, currency contracts to reduce the foreign exchange risk in connection with the flow of goods amounted to DKK 6.294m (2018: DKK 6.556m). Of this, a contract volume of DKK 457m has been recognised for the hedging of balance sheet items as at the balance sheet date (2018: DKK 396m).

Raw material risk

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

Credit risk

The maximum credit risk includes 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.

	2019 DKK'm	2018 DKK'm
21. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	658	735

Notes to consolidated financial statements

22. Contingent liabilities

No legal proceedings are in progress, nor have any other claim been filled 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 136m (2018: DKK 140m).

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

Parent income statement for 2019

	<u>Notes</u>	<u>2019 DKK'm</u>	<u>2018 DKK'm</u>
Administrative expenses	2, 3	(21)	(31)
Other operating expenses		<u>(124)</u>	<u>(79)</u>
Operating profit/loss		(145)	(110)
Income from investments in group enterprises		1.970	1.570
Other financial income	4	72	7
Other financial expenses	5	<u>(11)</u>	<u>0</u>
Profit/loss before tax		1.886	1.467
Tax on profit/loss for the year	6	<u>(2)</u>	<u>(2)</u>
Profit/loss for the year	7	<u>1.884</u>	<u>1.465</u>

Parent balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'm</u>	<u>2018 DKK'm</u>
Investments in group enterprises		15.522	14.529
Fixed asset investments	8	15.522	14.529
Fixed assets		15.522	14.529
Receivables from group enterprises		0	4.577
Other receivables		14	0
Receivables		14	4.577
Other investments		5.310	0
Other investments		5.310	0
Cash		13	6
Current assets		5.337	4.583
Assets		20.859	19.112

Parent balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'm</u>	<u>2018 DKK'm</u>
Contributed capital		505	505
Reserve for net revaluation according to the equity method		14.322	13.322
Provision for distributions	9	200	120
Retained earnings		4.771	4.290
Equity		19.798	18.237
Other provisions	10	886	717
Provisions		886	717
Income tax payable		1	0
Other payables		174	158
Current liabilities other than provisions		175	158
Liabilities other than provisions		175	158
Equity and liabilities		20.859	19.112
Events after the balance sheet date	1		
Related parties of commercial foundations	11		

Parent statement of changes in equity for 2019

	Contributed capital DKK'm	Reserve for net revaluation according to the equity method DKK'm	Provision for distributions DKK'm
Equity beginning of year	505	13.322	120
Changes in accounting policies	0	(164)	0
Adjusted equity, beginning of year	505	13.158	120
Ordinary distributions	0	0	(115)
Exchange rate adjustments	0	116	(1)
Dissolution of revaluations	0	25	0
Other entries on equity	0	(208)	0
Tax of entries on equity	0	30	0
Dividends from group enterprises	0	(769)	0
Profit/loss for the year	0	1.970	196
Equity end of year	505	14.322	200

	Retained earnings DKK'm	Total DKK'm
Equity beginning of year	4.290	18.237
Changes in accounting policies	0	(164)
Adjusted equity, beginning of year	4.290	18.073
Ordinary distributions	0	(115)
Exchange rate adjustments	0	115
Dissolution of revaluations	0	25
Other entries on equity	(6)	(214)
Tax of entries on equity	0	30
Dividends from group enterprises	769	0
Profit/loss for the year	(282)	1.884
Equity end of year	4.771	19.798

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 the Foundation for directorships in the Foundation.

	2019 DKK'm	2018 DKK'm
3. Staff costs		
Wages and salaries	12	14
	12	14
Number of employees at balance sheet date	6	8
Average number of employees	6	7
	Remunera- tion of manage- ment 2019 DKK'm	Remunera- tion of manage- ment 2018 DKK'm
Total amount for management categories	9	9
	9	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 for directorship in the Foundation of DKK 9m (2018: DKK 9m).

Notes to parent financial statements

	2019 DKK'm	2018 DKK'm
4. Other financial income		
Financial income arising from group enterprises	4	7
Other interest income	6	0
Fair value adjustments	62	0
	72	7
	2019 DKK'm	2018 DKK'm
5. Other financial expenses		
Fair value adjustments	11	0
	11	0
	2019 DKK'm	2018 DKK'm
6. Tax on profit/loss for the year		
Current tax	2	0
Change in deferred tax	0	2
	2	2
	2019 DKK'm	2018 DKK'm
7. Proposed distribution of profit/loss		
Transferred to reserve for net revaluation according to the equity method	1.970	1.570
Provision for distributions	196	61
Retained earnings	(282)	(166)
	1.884	1.465

Notes to parent financial statements

	Invest- ments in group enterprises DKK'm
8. Fixed asset investments	
Cost beginning of year	1.110
Cost end of year	1.110
Revaluations beginning of year	16.206
Share of profit/loss for the year	1.970
Revaluations end of year	18.176
Impairment losses beginning of year	(2.787)
Changes in accounting policies	(164)
Exchange rate adjustments	116
Dividend	(769)
Other adjustments	(160)
Impairment losses end of year	(3.764)
Carrying amount end of year	15.522

The accounting value of investments in group enterprises includes goodwill amounting to DKK 91m (2018: DKK 103m). 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.

9. Provision for distributions

Poul Due Jensens Fond's philanthropic activities are divided into three areas of support: Water, Research and Inclusion. Furthermore, the Foundation engages in local communities. Please see management commentary for further regarding the Foundation's Distribution Policy.

Notes to parent financial statements

10. Other provisions

	2019	2018
	DKK'm	DKK'm
Provisions beginning of year	717	534
Provisions spent during the year	(87)	(25)
Provisions of the year	256	208
Provisions end of year	886	717

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:

	2019	2018
	DKK'm	DKK'm
Released	373	385
2021	110	96
2022	296	143
2023	107	93
	886	717

The buy-back obligation calculated at market value amounts to DKK 741m (2018: DKK 822m)

11. Related parties of commercial foundations

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

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

Subsidiaries

Poul Due Jensens Fond holds 87.6% (2018: 87.8%) of the share capital and voting rights in Grundfos Holding A/S, and thus exercises a controlling interest.

The Foundation has received DKK 769m (2018: DKK 766m) in dividends from Grundfos Holding A/S in 2019.

Notes to parent financial statements

In 2019, the Foundation has received DKK 4m (2018: DKK 7m) in interest income from a loan to Grundfos Holding A/S. The loan which amounted to DKK 4.577m at the end of 2018 was repaid during 2019.

In the financial year, the Foundation has purchased services from the Group amounting to DKK 2m (2018: DKK 4m).

In the financial year, the Foundation has sold shares for DKK 142m (2018: DKK 137m) 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 2019, the key management personnel have received salaries and remuneration etc. totalling DKK 53m (2018: DKK 71m), of which DKK 9m (2018: DKK 9m) has been paid from Poul Due Jensens Fond. Payable remuneration at 31 December 2019 amounts to DKK 19m (2018: DKK 29m).

In 2019, key management personnel have received DKK 63m (2018: DKK 93m) in dividends from Grundfos Holding A/S.

In 2019, key management personnel have sold shares for DKK 0m (2018: DKK 204m) 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 in Poul Due Jensens Fond exercise a controlling interest, the Group has sold goods and services for DKK 0m (2018: DKK 2m) and the Group has purchased goods and services for DKK 0m in 2019 (2018: DKK 9m).

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

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.

Accounting policies

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.

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.

Accounting policies

Foreign exchange rate adjustments of balances, which are considered part of the total investment in companies with a different functional currency than Danish kroner, are recognised directly in the equity.

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

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at 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 net revenue subject to the percentage-of-completion method so that the net 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.

Accounting policies

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.

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 Group's 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

Accounting policies

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

Other financial expenses

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

Tax on profit/loss for the year

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

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

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

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

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.

Capitalised development projects are measured at cost less accumulated amortisation or at the recoverable

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amount, whichever is lower.

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

Cost includes wages, salaries, services and amortisation that are directly and indirectly attributable to the company's development activities.

After completion of the development work, capitalised development projects are amortised by the straight-line method over the anticipated economic life of the asset. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, but over no more than 5 years.

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

Property, plant and equipment

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

The cost price comprises the purchase price, expenses directly connected to the acquisition and expenses for the preparation of the asset until the time when the asset is ready for use. Tangible fixed assets produced in-house are recorded at initial cost, including a proportion of the indirect production costs. No interests are included in the cost. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

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

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

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

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

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

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price and the capital price, whichever is higher.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method at the pro rata owned share of the companies' equity. This means that investments are measured at the pro rata share of the enterprises' equity plus unamortised goodwill and plus or less unrealised intra-group profits or losses.

Net revaluation of investments in affiliated companies is brought forward under the equity to the revaluation reserve by the equity method to the extent that the accounting value exceeds the original cost.

Investments in associates

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

Receivables

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

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

Other investments

Other investments (non-current) 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,

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consumables and direct wages as well as indirect production costs.

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

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

Contract work in progress

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

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.

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

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

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

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

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

Other provisions

These provisions include liabilities under guarantee, buy-back obligation relating to employee shares and other obligations, including anniversary lump sums, legal disputes, unhedged insurance risks, share-based long-term incentive programme etc. Obligations related to the share-based long-term incentive programme are measured according to the graded vesting principle.

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.

Financial liabilities

Mortgage debt and debt owed to banks, etc. is valued at the time of borrowing at the received net yield less borrowing costs. In subsequent periods, the financial liabilities are recognised at amortised cost.

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

Once it is probable that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

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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 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.