

Group Annual Report 2002



The Grundfos Group and the Poul Due Jensen Foundation

BE > THINK > INNOVATE >

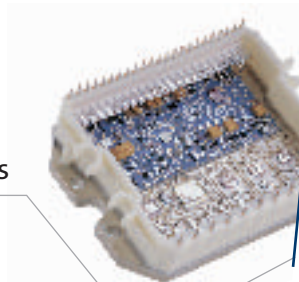
GRUNDFOS® 

➤ Leadership and involvement



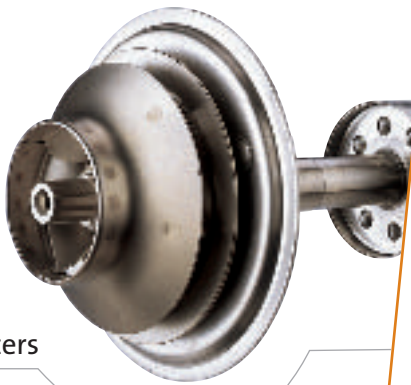
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► The Group President's Statement

One of the Grundfos Group's objectives is to make a difference with our products and our values – and sustainability is one of our basic values. To Grundfos, sustainability not only implies responsibility in relation to the external and internal environment, but also responsibility from a social and financial perspective.

In 2002, it was therefore natural for Grundfos to adopt a Group policy of Corporate Social Responsibility for social responsibility in the traditional sense, but which is also far more wideranging as it covers social and ethical aspects too.

As a global company, Grundfos must conduct within an international framework of understanding, and the Group's accession to the UN Global Compact Initiative reflects this attitude. This implies, among other things, that Grundfos backs up efforts made in relation to human rights, acceptable working conditions and environmental protection, and also undertakes to fight discrimination, child labour and forced labour. This spirit will influence the decisions that we will make in the future.

Financially, 2002 was a relatively good year for Grundfos, in spite of general uncertainty regarding the world economy combined with difficult conditions in most of our markets. The sales growth figure reached 5 per cent while pre-tax profits rose by some DKK 100m to DKK 726m, corresponding to an impressive 17 per cent increase in earnings. However, we did not quite manage to meet the original 2002 budget figures for sales and profit.

For the first time, in 2002, the Poul Due Jensen Foundation granted the Grundfos Award of DKK 1m. Professor Ole Sigmund from the Technical University of Denmark was granted the award for his ground-breaking research into topology optimisation of mechanical systems. With this award, Grundfos emphasises the necessity of increasing

research efforts that will benefit both the corporate sector and society at large.

The Grundfos Group is ready to meet future challenges and strengthen our position in the pump market, and – provided that the world economy is not affected by new disasters – the Group remains optimistic regarding the prospects for 2003 and beyond. Earnings will be given increased focus, and that is reflected in the 2003 budget, where the objective is for a pre-tax earnings growth of 20 per cent. This will take the Group one step closer to reaching our earnings objective of 10 per cent before tax.

The growth in earnings figure is vital for Grundfos' future plans of self-financing our ambitious investments in trend-setting product development and continuing the penetration into new markets such as India, China and South America, thus developing our position in the pump market.

In the years to come, Grundfos will commit itself to the development of our employees to ensure that they are able to meet future challenges. In this context, the Poul Due Jensen Academy will play a strategically important role. Similarly, fighting prolonged stress in employees will be a topic of increased focus in future in order to ensure a continued high level of welfare and efficiency in the organisation.

Engaging into a partnership with our interested parties – the most important ones being our employees, customers and suppliers – is another main element of Grundfos' values. By virtue of strong partnerships we managed to pull through the year with a positive result and I would like to take this opportunity to thank our business partners and our employees for their great loyalty that is reflected in the 2002 result.



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➤ Leadership and Involvement

Grundfos is a dynamic company characterised by continuous development and innovation. Our basic values, however, remain unchanged. In its shortest form, Grundfos expresses these values using the words “Be–Think– Innovate” or Be responsible, Think ahead and Innovate.

Every day, these values are translated into the efforts made by the management and employees throughout the Group for the purpose of achieving the results described in this Annual Report.

In order to achieve good results, everybody must be involved in these efforts and dedicate himself or herself to observing

these values. With a view to promoting this corporate culture, the management delegates responsibility and powers to the individual employee and the various teams that the employees form part of – within their own functions and across the organisation.

Good results require planning and realisation of targeted efforts, and these efforts must be continuously evaluated against the results. This process is supported by Business Excellence, which in Grundfos covers the philosophies of Total Quality Management and the Learning Organisation.





➤ Group Management Report

Although the world economy was characterised by uncertainty and poor conditions in most markets, 2002 was a satisfactory year for Grundfos. The sales growth figure reached 5 per cent while pre-tax profits rose by some DKK 100m to DKK 726m – a 17 per cent increase in earnings. However, sales and profit figures are slightly below the original 2002 budget.

At the beginning of the year, in particular, sales growth was sluggish, showing only 1 per cent increase in the first quarter. The Group Management therefore implemented the alternative action plans that were incorporated into the 2002 budgets, leading to a significant reduction in the growth of costs, and totalling only 4 per cent for the entire 2002. Tight cost control, combined with continued rationalisation efforts undertaken in all Group factories, is the primary reason for the satisfactory growth in earnings.

Group net turnover amounts to DKK 10,703m against DKK 10,214m in 2001, corresponding to a 5 per cent sales increase. Of this, organic growth makes up 4 per cent, and two minor acquisitions have contributed with 1 per cent. In order to strengthen Grundfos' position in South Korea (and the Far East in general) in the heating and boiler market, Grundfos took over Chung Suk Co. Ltd. on 1 January 2002. On the same date, Grundfos acquired the Swiss company Arnold AG, which manufactures equipment for wastewater purification plants, and the Group now has a full product range within this area.

The Danish krone grew stronger during 2002 in relation to the basket of currencies, in which the Group conducts trade,

meaning that sales growth amounted to 7 per cent, calculated at the same rate of exchange as in 2001. Real organic growth for 2002 was thus 6 per cent, compared to 8 per cent in 2001.

All the Group's Business Areas have realised sales growth in 2002. The Building Services Business Area achieved a growth of 5 per cent against 3 per cent in 2001, passing an important milestone with sales of just above DKK 4b. The Industry Business Area was most significantly affected by the poor trade conditions, and only realised a growth figure of 2 per cent against 7 per cent the previous year. The water supply and wastewater area achieved a total growth figure of 5 per cent against 12 per cent in 2001. It must be emphasised that our relatively new Wastewater Business Area saw an impressive 30 per cent growth in 2001. All acquired companies realised growth figures of 5 per cent in 2002.

Although the 5 per cent sales growth is marginally below average levels during the past years, the Group Management still considers this figure satisfactory in the light of the current market. We are certain that, this year too, we have taken global market shares.

Grundfos Management A/S' Group Management



Executive Vice President
Jens Jørgen Madsen



Vice Group President Poul Vesterbæk



Group President Niels Due Jensen



Executive Vice President Carsten Bjerg



Executive Vice President Carlo Prola

Group Management is satisfied with the pre-tax profit of DKK 726m, corresponding to 6.8 per cent of the turnover. This is a marked increase in relation to the 6.1 per cent in 2001, and a significant step towards the Group's pre-tax earnings objective of 10 per cent in 2005. Increased earnings, combined with a significant reduction of stocks and reasonable developments in the Group's working capital, has led to a highly satisfactory development in the Group's cash flow, where net interest-bearing debt has been reduced by DKK 263m.

Capital investments in buildings, land and productive equipment, etc., constituted DKK 798m, DKK 72m less than the 2001 record, yet still on a relatively high level, which confirms the continued long-term commitment to trend-setting product development and globalisation of Group production. The high investment level is self-financed via cash flow from operations.

A crucial element of Grundfos' long-term strategy is to maintain and develop our position as the world's most innovative pump company. Only by continuously developing and marketing new trend-setting products can we effectively protect ourselves against the increased occurrence of product imitations that we have so far experienced. The Group has therefore decided that, general short-term developments notwithstanding, we must strive to maintain considerable research and development efforts, corresponding to an average of 4 per cent of the Group turnover. As a consequence of the new Danish Financial Statements Act of 1 January 2002, the Group has initiated cautious capitalisation of developments costs. The annual capitalised costs amount to DKK 13m, an amount that is exceptionally low for the first year of applying this practice. In the years to come, the amount will be somewhat higher. Total development costs including capitalised costs amounted to DKK 454m, corresponding to 4.2 per cent of the turnover, against last year's extraordinarily high research

and development costs of DKK 458m, corresponding to 4.5 per cent of the turnover.

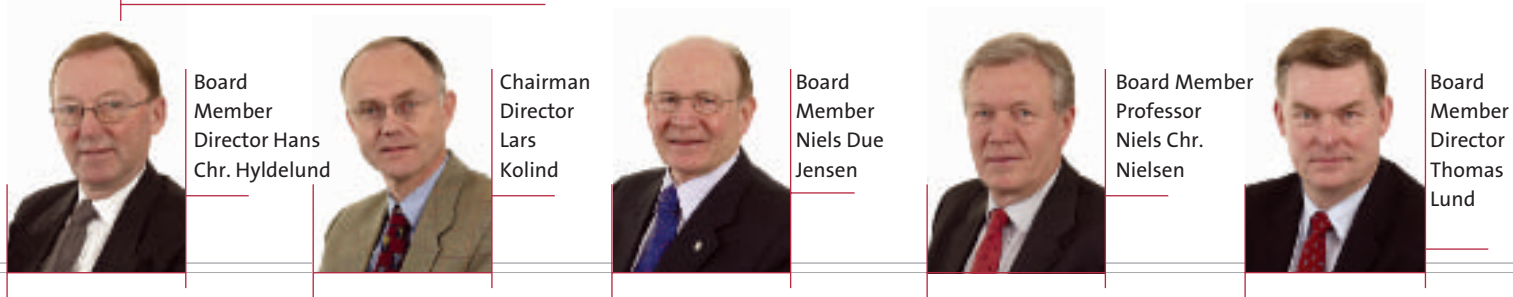
Developments in the Sales Regions

Grundfos must, yet again, note that a significant part of the Group's turnover derives from countries that have been and continue to be affected by the economic crisis. This is particularly true for Germany and Japan, which once again in 2002 saw significant problems in their economies. Grundfos takes some 15 per cent of the Group turnover from these two markets, and significant sales growth figures must be realised in other countries to counterbalance the lacking growth in these two important countries. In that connection, the Group strategy of aiming intensely at the new markets in Eastern Europe and the Far East has been successful, and the significant growth rates seen in these new markets have taken the Group's total sales growth to an acceptable level. As previously, 2002 presents a varied picture of turnover developments in the Group's sales regions.

The North European region, including the Scandinavian countries, the UK, Ireland, the Netherlands and the Baltic states, has – as a region – had a difficult year with a growth in turnover of only 1 per cent. Here too, there are considerable differences from one country to the other, and we are pleased to note that one of our major and most important markets, the UK, realised a 7 per cent growth rate, in GBP (sterling).

This year too, the very important German market was characterised by recession, both in general and in the market that Grundfos operates in. There is a significant excess capacity of public and private developments in Germany, and in 2002 this led to negative growth figures in this sector. At the same time, the wholesale market in general reported yet another difficult year with negative growth rates for turnover. With that in mind, Grundfos is satisfied with the developments in turnover for the German market, which is 1 per cent up on 2001.

Grundfos Management A/S' Board of Directors



The remaining Western European markets experienced acceptable developments in 2002 with a total sales growth of 7 per cent against 5 per cent last year. In particular the South European markets – France, Italy and Greece – achieved impressive growth rates.

This year too, the American region – comprising the USA, Canada and Mexico – was hit hard by the economic slump, primarily in the USA. Total growth in the USD region was 5 per cent, lower than budgeted and at the same level as in 2001. The two small companies in the region, Canada and Mexico, once again realised double-digit growth rates in 2002.

In recent years, Grundfos has focused intensely on obtaining part of the strong growth seen in the new markets in Eastern Europe and the Far East. Once again, this strategy has borne fruit, and has to some extent been able to compensate for the low growth in the big markets of Germany, Japan and the USA. Approximately 40 per cent of the Group's growth in sales in 2002 was generated in these new markets.

The Eastern European region – with its headquarters in Austria and comprising the Grundfos companies in Poland, the Czech Republic, Slovakia, Hungary, Turkey and Russia and all the export markets in the former Soviet Union and Eastern Europe – had a sales growth of 16 per cent. This year too, with some 40 per cent, Russia is the market to have generated the highest sales growth. As a result, Russia is now a very important market to Grundfos, and this market is considered to have major growth potential in years to come. This holds true for the entire region, and a significant part of our sales and marketing investments will be placed in this region.

The Far East saw generally good developments in 2002. As already mentioned, the development in Japan was marked by the country's general economic situation, however, we

have seen significantly better developments in most other markets of this region. Overall, the Far East, excluding Japan, has seen a sales growth figure of 13 per cent in SGD, slightly lower than 2001. This region too, and China in particular, will be focused upon in our efforts to increase growth rates in the years to come.

Management and Organisation

In terms of management, 2002 was characterised by Group President Niels Due Jensen's announcement that – in accordance with Grundfos' rules regarding retirement age for the members of the Group Management Team – he and Vice Group President Poul Vesterbæk would leave their positions at the end of the year, and the Board of Directors had decided to appoint Executive Vice President Jens Jørgen Madsen as the new Group President. Thus, at the turn of the New Year, the new Group Management comprises Group President Jens Jørgen Madsen, Vice Group President Carsten Bjerg, Executive Vice President Carlo Prola and Executive Vice President Søren Ø. Sørensen.

The annual employee satisfaction measurement was conducted in all companies, and in 2002, the 13 Group questions gave an average level of satisfaction of 4.0 at a scale of 1-5, with 5 being the highest. The average response rate was 93. A new concept for measuring employee satisfaction was prepared in 2002, and was initially used for the Danish companies. The new concept includes a number of questions relating to Grundfos' values and the responses are intended to uncover the employees' evaluation of Grundfos' ability and willingness to observe the values in practice.

In 2002 our newly established cooperation with Swiss IMD got off the ground, and feedback from managers, who have spent 2-10 weeks in Lausanne, confirms that IMD ranks among the elite of business schools worldwide. In 2002, Grundfos' own The Poul Due Jensen Academy was visited by some 900 course participants who were following sales



training courses in particular. Also, the first class completed the newly-established three-module sales manager training course.

In 2002, Grundfos joined the UN's "Global Compact Initiative", and a steering committee consisting of directors from the Sales, Purchases, Production, Communications and HRM Departments was set up to ensure that we comply with the fundamental principles of the "Global Compact Initiative", both internally and externally. These principles concern observance of human rights, a ban on child labour, elimination of discrimination and the promotion of environmental responsibility.

The Group also adopted a policy for "Corporate Social Responsibility", and in the course of 2002, 5 European production companies have implemented the concept. One of the policy objectives is for 3 per cent of the workplaces in factories to be reserved for employees with reduced working capacity due to physical, psychological and/or social factors.

Grundfos entered the Danish part of the international competition "Great Places to Work". As a result, Grundfos was granted the Danish award for "Best Diversity Management", and the American "Fortune Magazine" subsequently proclaimed Grundfos – the only Danish company – as being among the best 10 European workplaces.

Production

As a result of the moderate growth figures generated in the second half of 2001 and continuing through 2002, the production management has focused on tightened cost control and rationalisation, whereby the factories' earnings capacity was significantly improved. The completion of several major investments in new production lines have contributed to this end, and at the same time, the declared improvement in delivery flexibility was achieved.

As a result of continued strong focus in all production companies on greater delivery flexibility and stock reductions, a reduction of total stocks by 8 per cent has been achieved. At the same time, sales have increased by 5 per cent.

The production companies' implementation of Business Excellence creates the framework that makes these improvements possible in the individual factories and across them. As part of this process, the so-called cross-company assessments have been completed. The individual production company's results and processes are evaluated by assessors from other Group companies, including colleagues from the Group's sales companies.

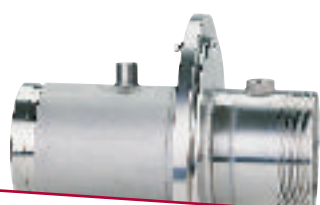
In 2002, the transfer of the Group's production of standard motors from Denmark to the new production company in Hungary was followed by a further expansion of the Hungarian production activities. With the decision to move the production of motor stators used in submersible pumps to Hungary by the middle of 2003, the full capacity of first factory has now been met, and the production of cast iron pumps has been initiated in factory number two. At the end of 2002, the Hungarian production company employed a staff of approximately 400, and following Group policy, the factory was certified in accordance with the ISO 9001 standard.

In China, Grundfos has acquired the factory situated next to the existing factory in Suzhou west of Shanghai to continue the development of local production to the Chinese market. At the end of the year, the Suzhou factory had 250 employees.

As one of the very first Danish companies, Grundfos' Danish production company, Grundfos A/S was certified for its working environment. To achieve such certification the company is required to work actively with a working environment policy and the company's working environment must be documented in a working environment report. Other important factors include the tolerant labour market and health promotion.

Research and Development

Grundfos' researchers and experts are devoted to identifying and developing materials, production processes and other technologies that ensure low environmental strain as a result of the manufacture and use of the product, while at the same time ensuring the lowest possible total costs during the lifetime of the pump.



Customer advantages may be immediate, for example the possibility for automatic pump performance control, noiselessness, user-friendliness and a wide spectrum of possibilities within communication and connection to networks. In many instances, the research efforts are not apparent to the user, yet they bring notable advantages, for example in the form of low energy consumption.

As a result of extensive research, Grundfos' classic characteristic – stainless steel pumps – has been supplemented by new materials that have so far been reserved to very expensive products within aviation and space travel, such as titanium and advanced ceramics.

During the past years, our researchers have rendered possible the manufacture of environmentally friendly pump polymers, characterised by great strength as a result of the introduction of unbroken glass or carbon fibres. By incorporating the fibres according to a precalculated pattern, the material can be made with the strength properties required for a given application, while at the same time achieving great resistance to aggressive media.

A not immediately visible, yet highly customer-relevant, research area is the possibility of simulating and optimising the design of electromotors and pump parts that are in contact with the pumped liquid. Following long-term cooperation with a number of universities and industrial partners, Grundfos today has methods that makes it possible to perform detailed analyses of flow and electromagnetic pump conditions, while also making it possible to specify a desired state for the physical parameters within the pump, and have the simulation programmes design constructive solutions that live up to these requirements. Thus, it becomes possible to get even closer to the physical limits for energy efficiency, and the computer models significantly reduce the total time consumption connected with developing new products.

Environmental Issues

Once again, Grundfos won recognition for its environmental efforts and reporting in 2002.

Grundfos was granted the European Commission's Danish environmental improvement award in the category "Good Environmental Management" for "an extensive and thoroughly prepared implementation of life-cycle based environmental management within the Grundfos Group, and for the company's systematic environmental considerations for product development". The justification primarily emphasised the considerable savings in resources that the company's environmental control and product development entail. This is, for example, the case in the reduction of our products' power consumption and the minimisation of resource application during production.

Such recognition, together with the numerous results achieved within the field of the environment, is a great encouragement to future efforts ensuring Grundfos' contribution to sustainable development.

In addition, the Institute of State Authorised Public Accountants and the business daily Dagbladet Børsen have awarded Grundfos the diploma for Best Environmental Reporting in 2002. The report is commended for, in a simple and clear manner, reporting environmental results made within the company as a result of environmental activities with customers and employees, as well as for social and financial issues.

Globally, the greatest environmental strain is the amount of energy consumed by our products. Therefore, special focus is attached to this important area, and a good example of this is that newly-developed products use up to 25 per cent less electricity than the products they replace, and the consumption of materials has been reduced by up to 19 per cent.



One of the ways to achieve and maintain the greatest possible focus on environmental efforts is the environmental certification of the development functions and all Grundfos' production companies. With the newest factory in Hungary being the only exception, all Group production companies are now certified in accordance with the international environmental standard, ISO 14001. The Hungarian factory is scheduled for certification in 2004.

As ISO 14001 does not set any specific requirements on the working environment, year 2000 saw the implementation of yet another process, namely a certification in accordance with the recognised working environment standard, OHSAS 18001. At present, three Group companies have achieved this certification.

The numerous environmental results will be presented separately in the Group Environmental Report.

IT

In all parts of the Group, focus is on the optimisation and market-orientation of business procedures, and the development of IT solutions is closely related to these activities. The Group's centrally-placed SAP system – which at the end of 2002 is being used by 30 companies – plays a significant role in this development. The objective is for all Grundfos companies to share this ERP system in order to ensure consistency and a high level of service in global business procedures. Based on improvement initiatives launched in the spring of 2002, Grundfos A/S, the Group's major production company, will start transferring all its factories to this shared ERP system in 2003.

To ensure the high level of reliability that is required in the running of the central SAP system, 2002 saw the investment in yet another operations centre which – in close cooperation with the existing one – will ensure that online backup is taken continuously of all data.

Within eBusiness, completely new electronic product catalogues have been developed, and these are now being made available to our customers in a number of versions. Thus, some of our wholesale customers now offer links from their own websites directly to Grundfos' electronic catalogues. This way, the wholesalers can offer their customers the most recent and updated Grundfos product data online and with considerably less effort.

Financial Issues

The financial management in 2002 focused on hedging of the production companies' future currency flows as well as managing the Group's cash reserves, borrowing and insurance matters.

At the same time, the financial resources – consisting primarily of Danish bonds and shares – remained unchanged in relation to last year, and in order to ensure a stable cash flow, the most important foreign currency payments have been hedged for periods of 1-2 years in keeping with Group policy. Financial interest rate instruments have been applied to reduce interest and currency risks in connection with Group borrowing.

In 2002, risk management surveys have been made of all important production facilities, and central coordination has been made of the Group's global insurance programmes through Grundfos' own insurance company.

The Future

At the beginning of 2002, the situation was marked by general uncertainty regarding world stability and global economic developments. Unfortunately, this situation has not really changed during the past year, and once again we must note that uncertainty and sudden changes have become a part of the world in which we are running our company. Economic forecasts for 2003 are generally cautious, and (at the time of writing) a war in Iraq is probably imminent – and no one can tell the consequences of such a development.



This generally unstable situation has also influenced Grundfos' plans for 2003. Once again, we have prepared flexible budgets containing alternative action plans that may be implemented if the developments take a more positive or negative turn than we have expected in our sales budgets. The 2003 Group budget stipulates a sales growth figure of 5 per cent and continued tight cost control, enabling us to maintain the growth in total costs at a significantly lower level than sales growth.

As previously mentioned, 2003 will also be characterised by a major commitment to develop our position in the new markets in Eastern Europe and the Far East, and once again, we expect a significant part of the Group's total sales growth to be generated in these markets.

The 2003 Group budget contains a record investment budget of DKK 950m. A large part of this investment budget will be spent on a number of new products that will be ready for production and market introduction in 2003, while another major part will be spent on expanding our factories in Hungary and China, while also establishing the first stage of a production plant in Russia.

Given the uncertain situation that the world is facing, we hold back on the implementation of new major and costly activities that will require substantial investment. During the first months of the year we will follow the development

in sales closely, and – based on this development and the situation in Iraq – we will determine when is the right time to launch further initiatives or whether we should continue to hold back.

If new disasters in the general world economy are avoided, the Group management takes an optimistic view on 2003 and the years to come. The Grundfos Group is in a strong position to take on future challenges and strengthen our position in the pump market. We have decided to prioritise earnings in the years to come, which is also apparent from the 2003 budget, where pre-tax earnings have been budgeted with a 20 per cent increase, which will take us even closer to our 10 per cent pre-tax earnings objective.

The two major objectives for the coming 5 years is to achieve pre-tax profits of 10 per cent in 2005 and a sales figure of EUR 2b in 2007. The sales growth figure is the most important prerequisite for the Group's continued self-financing of our ambitious investment plans in trendsetting product development and aggressive marketing, thus ensuring the Group long-term profitable growth.

Management Structure

Group Management

Jens Jørgen Madsen Niels Due Jensen Poul Vesterbæk Carsten Bjerg Carlo Prola

Group Support Functions

Human Resources	Communications	New Business
Controlling/Finance	Branding	Legal Department
Treasury	Logistics	eBusiness
Purchasing	IT	The Poul Due Jensen Academy
		Quality

Business Development Centre

Sales Regions

Group Production

Business Area	North Europe	Denmark
Building Services	Germany	Finland
	Eastern Europe	United Kingdom
Business Area	Southern Europe	Germany
Industry	North America	Hungary
	South America	France
Business Area	Australia and New Zealand	Italy
Water Supply and	Asia and the Pacific Rim	USA
Wastewater	Japan	China
		Taiwan
Business Area		
Digital Dosing		
Development and Technology		
R&T		

Grundfos Management A/S' Group Management

Grundfos Management A/S' Board of Directors

Niels Due Jensen, Group President	Lars Kolind, Chairman
Poul Vesterbæk, Vice Group President, Managing Director of Grundfos A/S	Niels Due Jensen, Group President
Jens Jørgen Madsen, Executive Vice President	Niels Christian Nielsen, Professor at the Copenhagen Business School
Carsten Bjerg, Executive Vice President	Thomas Lund, Managing Director of Dansk Teknologi Udviklingsaktieselskab
Carlo Prola, Executive Vice President	Hans Christian Hyldelund, Director

Key Figures for the Grundfos Group

Amounts in DKKm

	2002	2001	2000	1999	1998
Consolidated Profit and Loss Statement					
Net Turnover	10,703	10,214	9,522	8,145	7,520
Operating Profit	913	814	886	606	578
Cost of financing Net	(177)	(177)	(126)	(103)	(88)
Profit before Tax	726	618	739	476	495
Consolidated Profit after Tax	441	388	522	291	315
Profit for the Year	373	336	447	247	268
(Excluding Minorities)					
Consolidated Balance Sheet					
Assets					
Intangible Fixed Assets	554	496	431	397	285
Tangible Fixed Assets	3,792	3,711	3,406	3,188	2,993
Fixed Asset Investments	534	518	641	633	651
Current Assets	5,292	5,374	5,196	4,577	4,113
Total Assets	10,172	10,099	9,674	8,795	8,042
Liabilities					
Equity Capital	4,205	3,935	3,573	3,033	2,732
Minority Interests	612	597	597	509	463
Provisions	595	542	482	505	520
Long-term Liabilities	1,640	1,772	1,495	1,691	1,374
Short-term Liabilities	3,120	3,253	3,527	3,057	2,953
Total Liabilities	10,172	10,099	9,674	8,795	8,042
Number of Employees					
at Year-End	11,383	10,985	10,773	9,591	9,305
Capital Investments,					
Tangible	798	870	725	655	524
R&D Costs,					
incl. Activated	454	458	380	336	324
Interest-Bearing Debt, Net	1,732	1,995	1,603	1,337	1,425
Result before Tax in per cent					
of Net Turnover	6.8%	6.1%	7.8%	5.8%	6.6%
Return on Equity	9.4%	8.9%	13.5%	8.6%	10.3%
Equity Ratio	47.4%	44.9%	43.1%	40.3%	39.7%

As of 2002 development projects will be included in the Consolidated Balance Sheet. No restatement of comparatives has been made in this respect. The amount included for 2002 totals DKK 13m.

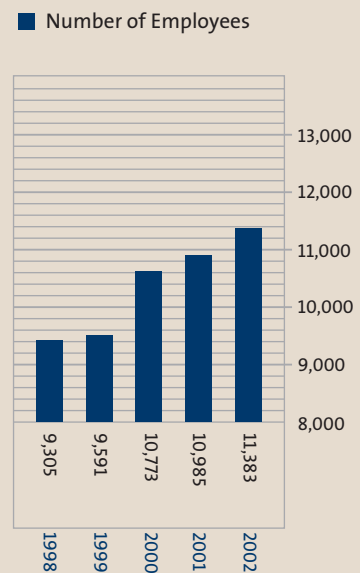
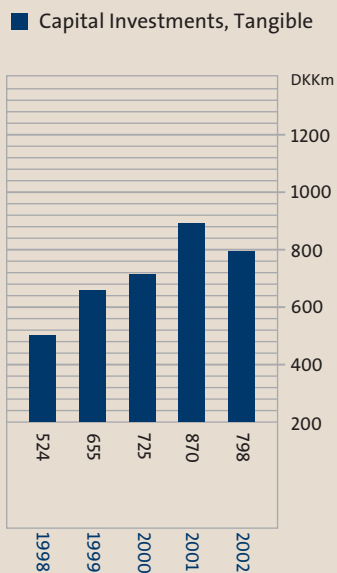
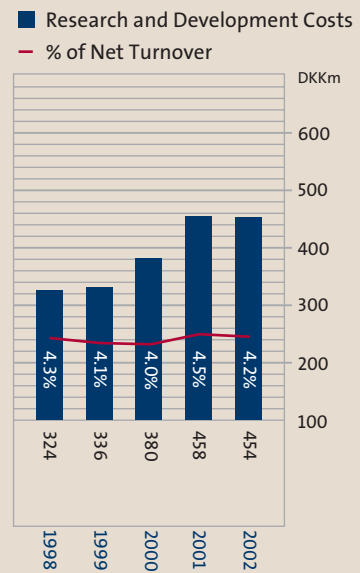
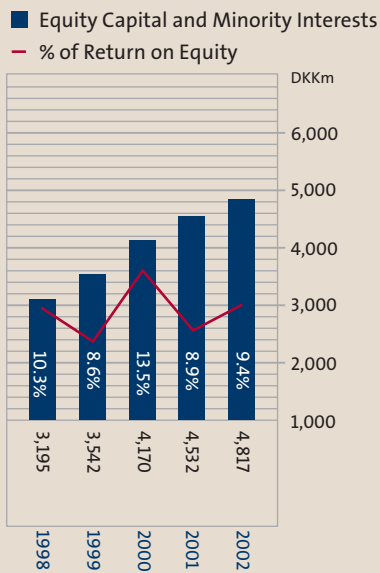
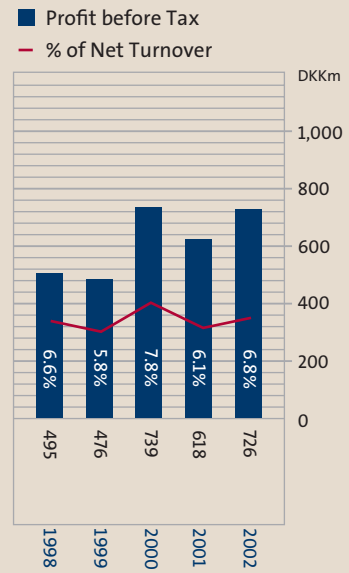
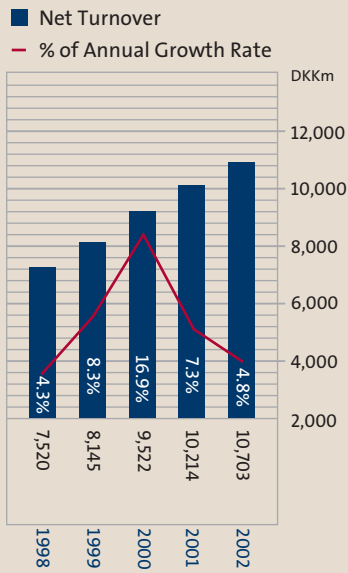
Definition of Ratios:

Return on Equity:

Consolidated profit in per cent of the average equity capital inclusive of minority interests.

Equity Ratio:

Equity capital inclusive of minority interests at year-end in per cent of total assets.



➤ Products and Markets


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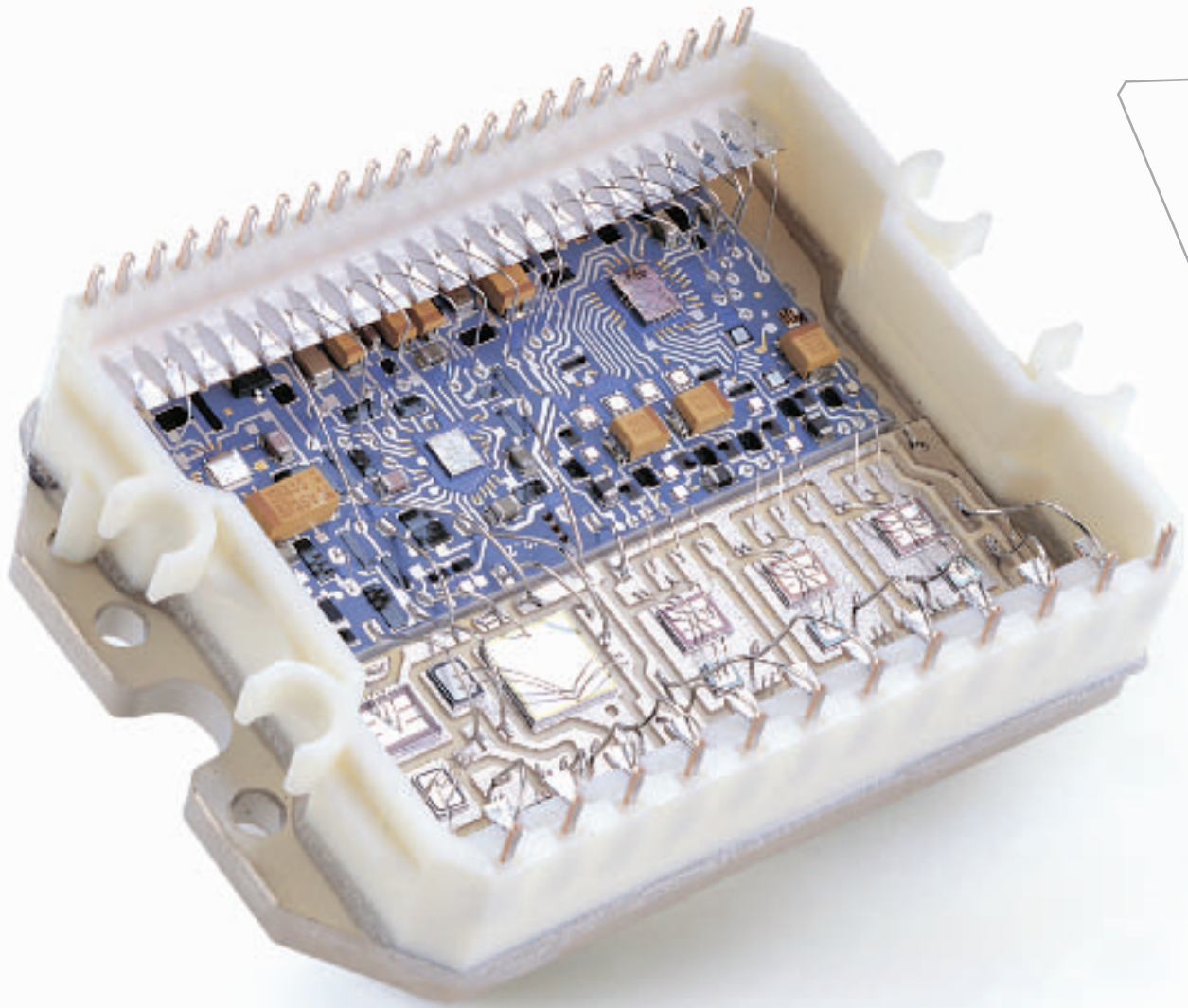
With an annual production of approximately 10 million units, Grundfos is the world's leading full-line pump supplier, and – with production and sales companies in all continents – also the most global.

Grundfos pumps cover four main fields of activity: heating, ventilation and air conditioning in the Building Services Business Area. In addition to this are pumps used within the manufacturing industry for a wide range of very specific purposes in production plants and processes, which in the Grundfos Group is dealt with within the Industry Business Area. The third Business Area covers pumps and sys-

tems for water supply and wastewater treatment, while the fourth – and most recent – Business Area is digital dosing pumps.

Grundfos pumps are developed in close cooperation with our customers and their specific wishes and requirements. We would like to be as close as possible to our customers, no matter where they are, and as a result, Grundfos today has sales companies in 43 countries, in addition to a large number of suppliers and local distributors who represent Grundfos in more than 100 countries across the world.

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Business Area Building Services

With a growth figure of 5 per cent and following a further strengthening of our market position, Grundfos' expectations for the Building Services Business Area for 2002 were met.

Markets like Russia and Eastern Europe showed positive developments, and the sale of circulator pumps rose in the United Kingdom, one of Grundfos' most important markets.

This progress can largely be attributed to the sale of our large, energy-saving electronically regulated pumps, Magna and OEM.

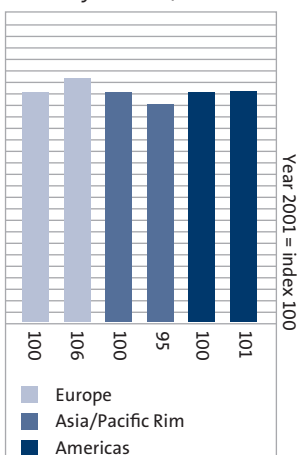
Be responsible

Pumps are responsible for almost 20 per cent of the world's total energy consumption, and as a result, there is a growing awareness that significant energy savings may be made by optimising the choice of pumps. Calculations show that savings of between 30 and 50 per cent can be made in the energy used for the running of pumps.

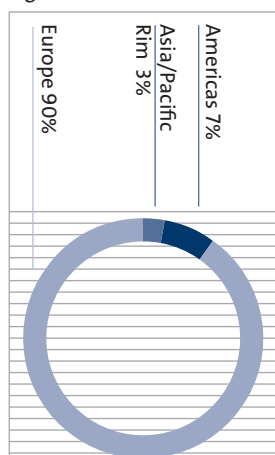
Building Services has introduced the Life Cycle Cost analysis, which allows for comparisons to be made between various pumping solutions and various pump technology suppliers, and we have many concrete examples of how customers use this tool as an aid to select the right pump type with a view to minimising their energy consumption.

We take the customer's situation as our starting point, explaining the numerous advantages of using high-efficiency pumps. For the customers, the issue is not only about saving energy, and thereby taking care of the environment, but also about saving money. The Life Cycle Cost analysis takes into account precisely this.

Growth year 2001/2002



Regional distribution of sales 2002



› Think ahead

The Building Services Business Area has strengthened its dialogue with its business partners, focusing on overall solutions and with Grundfos being a supplier to all systems and application fields in buildings. With regard to the Alpha and Magna circulator pumps in particular, we place emphasis on communicating the advantages of these pumps to installers and consulting engineers.

With the Flow Thinking campaign Grundfos has spent the past year approaching consulting engineers and contractors, spreading the message that Grundfos is a competent partner and total supplier. Customer feedback is positive as demonstrated by a wish to enter into closer relations with Grundfos.

Following the acquisition of the Danish company Svanehøj's product range as of 1 November 2002, Grundfos is now capable of manufacturing in-line pumps with a capacity of up to 4,000 cbm per hour and with motors of up to 600 kW. This product line will be integrated with the newly developed TP in-line range, allowing Grundfos to offer the world's largest range of in-line pumps to the potentially large district heating sectors in Eastern Europe and China.

The acquisition of the Korean pump factory Chung Suk as of 1 January 2002 enabled Grundfos to manufacture small dry-runner pumps, which are the preferred type of circulator pumps in the Asian markets.



› Innovate

Grundfos continues to win recognition with its customers for its innovative, electronically regulated circulator pumps. Not only because they are energy saving and environmentally friendly, but also because their high level of quality and reliability has been well documented.

The ground-breaking permanent-magnet motor in Magna opens up the prospect of large energy savings. The range of new large circulator pumps was introduced at the end of 2001. Experience from the first whole year in the market shows that Magna has met expectations – and in some areas even surpassed them.

Based on customer requirements, the OEM division has established a partnership centre that, among other things, houses an advanced laboratory. Here, the customers' development teams may work closely with Grundfos' development staff on finding new solutions, such as for example Integrated Water Circuits (IWCs), i.e. turnkey hydraulics modules for oil and gas boilers in central heating systems.

With its innovative solutions, the OEM division meets boiler manufacturers' requirements for optimised functioning and the ability to adapt its products and production.



Business Area Industry

2002 presented many challenges to the Industry Business Area. Nevertheless, we managed to win new market shares and generate growth despite general stagnation. The Business Area achieved a total growth rate of 2 per cent in relation to the previous year. Markets like Russia, Eastern Europe, South Korea and China developed very positively.

The disappointing market developments were particularly outspoken in traditional industrial markets like Germany, Japan and the USA. This is not least due to the fact that the end-user market was characterised by reluctance to invest. Despite this, satisfactory growth figures were achieved within this area, as Grundfos continued to focus our sales activities on specific business sectors in a number of countries, which thus compensated for the negative development.

A large proportion of OEM customers experienced significant reductions in the demand for their systems and solutions, and that was reflected in the sale to this group of customers. Especially the machine tool industry, however also fields such as water treatment, boilers, cleaning and temperature control systems, have seen a fall in the influx of orders. However, Grundfos' market position has been consolidated during 2002 as a result of close cooperation with existing customers and an influx of new customers.

Be responsible

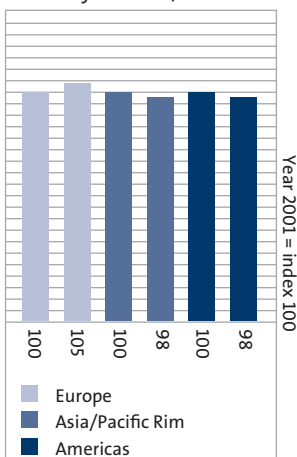
The launch of the most recent CR line, completed in 2002, comprised a wide range of campaign activities in Europe, ending in the USA and Asia where the concept was given a generous reception.

This line contains new models and sizes, and attracted a great deal of attention thanks to the many unique and robust industrial solutions, and – not least – the highest efficiency in the market.

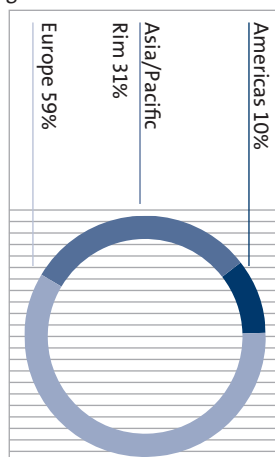
The combination of being able to choose a pump that provides the correct industrial solution while also providing robustness, resulting in a long life and high efficiency with the lowest possible energy consumption, becomes evident to customers in the Life Cycle Cost analyses: it is possible to save money while also taking the environment into consideration.

Generally, the year was characterised by a marked focus on the CR concept solutions and the possibilities within process applications in the industrial end-user market, as well as new OEM applications.

Growth year 2001/2002



Regional distribution of sales 2002



› Think ahead

Grundfos also successfully implemented an upgrade of the single-phased frequency controlled solutions for booster systems and more specific applications of E-pump solutions within the Industry and Building Services. At the same time, the output range for E solutions was expanded with models within the 11-22 kW area. Thus, Grundfos is now in a position to offer its customers an optimised, uniform functionality and user interface for all E solutions.

A new booster line, Hydro Multi-E, which is solely based on E-pump plants used for minor water supply services, offer customers a significantly improved cost-optimised solution compared with earlier models.

In 2002, Grundfos introduced a new market communication concept primarily aimed at the industrial end-user market. The concept focuses on Grundfos' industrial solutions, yet it also comprises sales and training tools for our own sales force, and not least support for our industrial distributors and business partners. The concept was launched in a number of focus countries in 2002 and will be extended.



› Innovate

Industrial customers require a wide – almost indefinite – spectrum of pump variants to solve their specific pump jobs. With our well-known tools, such as WinCaps and the Pump Liquid Guide, part of this requirement is met. To make it even easier to find the best solutions, Grundfos has developed and implemented a product configuration concept, which will initially be used for some of our industrial products.

This concept has been integrated with our ERP and MRP systems, allowing the salesperson to configure the exact product required by the customer, and place an order whereby the complete set of data for the production, logistics, invoicing etc. is generated in one run. This results in significantly more efficient customer service, a high degree of data security while at the same time reducing the process time from the time at which the order is placed until the customer receives the product. This concept will be developed during the next period to cover more product lines and will, in time, be integrated with eBusiness solutions in order to optimise business processes with our customers.



➤ Business Area Water Supply and Wastewater

The Water Supply and Wastewater Business Area also experienced a difficult 2002. Despite this, however, growth in this Business Area was 5 per cent up on the previous year, and 2002 was a good year for the Wastewater Area in particular – seeing double-digit growth figures.

The progress was most significant for the user-friendly multistage horizontal MQ pump, introduced last year and primarily used in single-family houses. The sale of small submersible pumps set new records too, proving that the commitment made in developing the new SQ and the constant pressure version SQE/CU301 as the new standard was correct and forward-looking.

The recession seen in several key markets proved to be more persistent than originally expected, and resulted among other things in the postponement of infrastructure projects and new investments in the industry and building sectors. The Eastern European and Asian markets, however, continued to show positive developments in 2002.

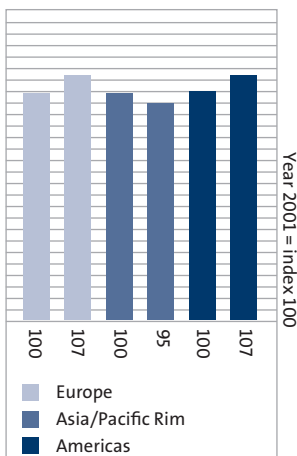
➤ Be responsible

Sustainability was documented with the launch of last year's major product news, the SQFlex submersible pump – driven by renewable energy sources such as the sun and the wind, and thereby causing no ill effects on the environment.

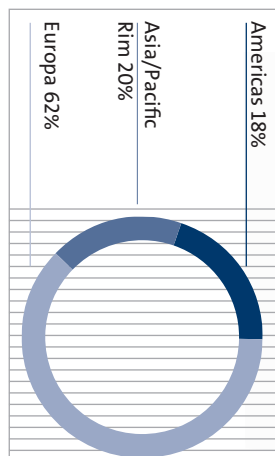
While showing great consideration to the environment and operating economy, the new submersible pump concept is also fit for use in remote and isolated areas with no electricity, where reliability of operation is paramount due to the difficulty of getting spare parts and expertise for repairs.

All relaunched products are characterised by special focus being placed on the optimisation of energy consumption in the development phase.

Growth year 2001/2002



Regional distribution of sales 2002



› Think ahead

Grundfos wishes to become even better in assisting our customers in the planning and implementation of wastewater projects all over the world. Therefore, the previous year saw the establishment of a cross-functional organisation that – in close cooperation with local sales organisations – is working on effectively meeting the requirements made by consultants, contractors and end-users.

The establishment of this new project organisation is just one example of the way in which Grundfos strives to manifest itself in the Wastewater market as one of the most competent suppliers. This fact is also supported by a number of other initiatives undertaken by this Business Area in the previous year, e.g. the acquisition of Arnold AG, Swiss manufacturer of mixers and flowmakers.

We are happy to note that customers – including the large water supply companies – are increasingly including concepts such as “Life Cycle Cost” and “Cost of Ownership” when making decisions on the purchase of new equipment. “Life Cycle Cost” focuses on the operational costs of pump systems, where the energy consumption alone makes up 85 per cent of the total costs during the lifetime of the product, while “Cost of Ownership” takes it even further by also including general transaction and cooperation costs.

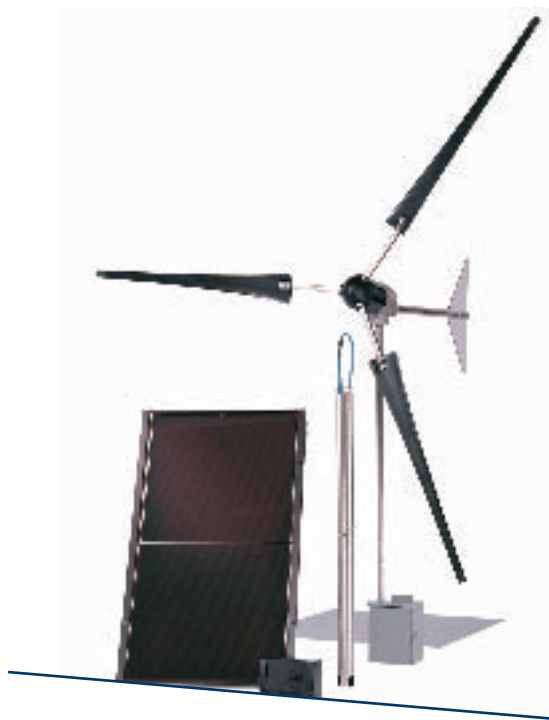


› Innovate

Grundfos is constantly striving to expand and optimise our product portfolio, which in 2002 led to the introduction of:

- An extended submersible motor range for groundwater pumps.
- A flexible and highly reliable “Multi-lift” range for the handling of large amounts of wastewater from residential and business properties.
- A complete SEN range of wastewater pumps for aggressive liquids. The pumps are produced in various versions where the entire pump or pump part is made from stainless steel. Operational reliability is high and energy consumption is low.
- Reliable and service-friendly mixers and flowmakers with low energy consumption for treatment plants, industry and agriculture.

Finally, a range of so-called Grinder Pumps (SEG) have been constructed for the purpose of pumping untreated wastewater through pressure pipes that are thinner than normal without the risk of blocking.



► Business Area Digital Dosing

In 2002, dosing was established as Grundfos' fourth independent Business Area as an indication of the high priority this Business Area is given in the Group. Even during the first year, this step led to very strong growth – a development that is expected to continue in the new year.

This progress is primarily a result of the synergy found with Grundfos' other activities within water treatment and water supply/wastewater, as many customers prefer to deal with one pump supplier only. In combination with continued development of the product range and a number of planned marketing initiatives, this provides great scope for growth.

Strategic cooperation with Haldor Topsøe regarding the use of dosing pumps in diesel catalytic converters opens up new business opportunities. While Haldor Topsøe holds the technical expertise within flue gas cleaning and catalytic converters, Grundfos contributes with our expertise within the development and production of pump electronics and mechanics.

► Be responsible

Developments in the field of water treatment mean that the use of highly concentrated and very active chemicals is ever increasing, however, in order to avoid imposing unnecessary strain on the environment it is important that only the precise amount of required chemicals is added. Grundfos' digital dosing pumps are capable of ensuring this by dosing precisely and accurately thus ensuring a stable consumption of chemicals, even after prolonged use.

Within the field of air pollution – a field that is new to Grundfos – the digital dosing pump may contribute to increased sustainable development. For the first time ever, Grundfos has developed a pump for use in a vehicle. Integrated into a newly-developed diesel catalytic converter, this pump will assist in future purification of exhaust from diesel engines making it completely odourless while at the same time reducing fuel consumption by 8 per cent. As a result, the repayment period for the catalytic converter will be as low as 2 to 4 years.

The effect of the diesel catalytic converter is remarkable. The nitric oxide content, which contributes to the formation of greenhouse gasses and acid rain, is reduced by 90 per cent. Hydrocarbons, which produce obnoxious smells and increase risks of cancer, are also reduced by 90 per cent. Exhaust particles, especially the minute nanoparticles that are considered the most damaging as regards the risk of cancer and respiratory problems, are reduced by 50 per cent. Unfortunately, the levels of carbon monoxide are slightly increased, but remain, however, far below hazardous levels.



› Think ahead

New environmental legislation aimed at reducing pollution from large diesel engines is on the way for Europe, the USA and parts of Asia. This legislation will come into force in 2008, however, with the continued development of the dosing pump, Grundfos is already contributing to finding a solution to this problem.

Prototype tests show that a modified version of the digital dosing pump in combination with the catalytic converter is capable of purifying diesel exhaust fumes so efficiently that the future strict requirements can easily be met.

In just seven years' time, when the exhaust fumes of all new diesel engines must be completely clean, the market potential will be approximately 1 million units a year. In addition, this system may also be installed with similar advantages in trucks, trains, contractors' machines and ships that have been produced within the last 10 years.

› Innovate

Grundfos has developed a digital dosing pump whose unique calibration routines and step motor drive provide great accuracy and an ease of use that has been so far unseen. The pump indicates both the actual flow and total amount in a digital display, making it easy for the user to regulate and optimise consumption. A very wide field of application provides unique possibilities for customers to re-organise processes without having to invest in new pumps.

The dosing pump has been further developed to match the special requirements that the diesel catalytic converter makes to the injection of urea in very accurate amounts. This special version has been made more dynamic to ensure that the urea will always be dosed in amounts that are adapted precisely to the engine's current revolutions per minute and load.

The pump's quick reaction provides the diesel engine with a higher efficiency and it is this that accounts for the notable fuel savings and significant reductions of hazardous exhaust substances.



➤ Financial Matters

The Poul Due Jensen Foundation is the principal shareholder in the Grundfos Group, and the Foundation's primary object is to expand the Group on a sound financial basis by primarily reinvesting own funds from the pump activities, thus maintaining the Group as an independent company in compliance with the founder's wish.

Grundfos has therefore always sought to ensure profitable growth, and this has been achieved to a high degree. With the 2002 Group Annual Accounts, as described on the fol-

lowing pages, we are happy to note that Group earnings saw a market increase in 2002.

In the coming years, more focus will be attached to earnings, as increased earnings are a prerequisite for ensuring future growth in the Group. At the same time, increased earnings are a good way of demonstrating social responsibility—in relation to present and future employees, and to society at large.



➤ Financial Review

Profit and Loss Account

The Group's profit before tax is DKK 726m compared to DKK 618m in 2001, an increase of 17 per cent.

This increase has been made through an increase in the net turnover of 5 per cent, while total costs have increased by only 4 per cent. The major costs within the fields of production, sale and distribution, however, have increased by 5 per cent, while costs for administration, research and development have been reduced by 2 per cent and 4 per cent, respectively.

Developments costs, which make up DKK 442m in 2002 (2001: DKK 458m), have been affected as a result of the Group's decision to initiate cautious capitalisation of development projects following the introduction of the new Danish Financial Statements Act. The capitalisation, amounting to DKK 13m in 2002, thus reduces development costs by the said amount. No restatement of comparatives has been made for previous years in this respect. The Group result has not been otherwise affected by the changes made in the new Danish Financial Statements Act.

Net financing costs total DKK 177m, and are on a par with the 2001 figure. This includes unrealised investment losses on shares, amounting to DKK 60m (2001: DKK 49m), thus reducing other financing costs by DKK 11m, which is partly a result of the interest-bearing net liabilities being reduced by DKK 263m, and partly a result of a lower level of interest in 2002 than in 2001.

The Group's profit before tax is DKK 441m compared to DKK 388m in 2001, an increase of 14 per cent.

Balance Sheet

The 2002 balance sheet total increased by 1 per cent, amounting to DKK 10,172m at year end, which – compared to the 5 per cent increase in turnover – is a satisfactory development.

The most notable contribution to the reduction of the balance sheet total is a fall in inventories by DKK 163m, while accounts receivable from sales show an increase of DKK 33m, corresponding to 2 per cent. Fixed assets have increased by DKK 154m, of which DKK 81m arise from tangible fixed assets while intangible fixed assets have seen an increase in Group goodwill of DKK 65m.

The solvency ratio, incl. minority interests, has increased from 44.9 per cent to 47.4 per cent. Like previous years, the solvency ratio has been affected by the decision made in

accordance with Group policies to maintain available funds and securities, which, at the balance sheet date, amount to just below DKK 1.2b against DKK 1.3b in 2001. Had these funds been used to reduce debts, the solvency ratio would have been 53.9 per cent against 51.4 per cent last year.

Cash Flow Analysis

The cash flow analysis shows an increase in liquid funds from operations of DKK 1,181m against DKK 644m in 2001. The DKK 537m increase is partly a result of increased profits, partly of considerable improvements being made in the developments of operating capital.

In 2002, DKK 798m (2001: DKK 870m) has been used on acquiring tangible fixed assets. This amount is lower than in 2001, when the Group's investment level was historically high.

In 2002, the Group principle of self-financing the year's capital investments by means of the liquidity generated from operations has once again been adhered to, as self-financing accounts for DKK 1,181m, of which DKK 894m has been used for investment activities.

Excess liquidity has primarily been used to reduce interest-bearing debt.

The Annual Accounts for the Poul Due Jensen Foundation

As a consequence of the new Danish Financial Statements Act, the Foundation's accounting policies have been changed, meaning that income from investments in Grundfos Holding AG will be recognised under the equity method. The profit and loss account thus includes the Foundation's share of the consolidated profits of Grundfos Holding AG, corresponding to Group profits after separation of minority interests. Previously, only profits received were recognised in the Foundation's profit and loss account. For 2002, this change results in an increase of the Foundation's profit before tax of DKK 670,5m.

Following implementation of the new accounting policies, profit for the year for the Poul Due Jensen Foundation totals DKK 373,857 thousand against DKK 335,527 thousand in 2001.

As regards the balance sheet, the changes in the accounting policies have meant that capital investments in Grundfos Holding AG will be recognised including the Foundation's part of the accounting equity value, which for 2002 means an increase of this item, balance sheet total and equity capital in the amount of DKK 3,741m.

➤ Financial Matters

As a result of the Grundfos Group's international activities, the Group result and equity capital are influenced by a number of financial risks. The Group's liquidity and interest rate risks are controlled centrally in the Group's finance company, while foreign exchange risks are covered by the operative companies via the finance company, which is in charge of the external covering of Group positions.

The use of financial instruments in the Group is controlled via instructions made by the Board of Directors and the Management. These instructions set the risk limits for the finance company and stipulate the type of financial instruments in which trading may be conducted and which parties trade may be conducted with.

Liquidity Risk

At the end of 2002, the Group's liquid assets included cash reserves of DKK 330m (2001: DKK 418m), securities of DKK 906m (2001: DKK 870m), and unexploited borrowing facilities in banks. The securities portfolio was made up of DKK 689m worth of bonds (2001: DKK 657m) and DKK 217m worth of securities (2001: DKK 213m).

The Group's net interest-bearing debt was reduced by DKK 263m to DKK 1,732m in 2002. The reduction is primarily due to a significant increase in cash flow from operations.

Total interest-bearing debt amounts to DKK 2,968m at the end of 2002, of which 55 per cent is long-term debt (2001: 54 per cent).

Interest Rate Risk

The Group's exposure to fluctuating interest rates is partly related to bonds, partly to loans. The exposure of the bond portfolio, amounting to a total of DKK 689m – when expressed by an increase of the interest rate by 1 percentage point – is approx. DKK 7m. The Group's total borrowing consists of 28 per cent fixed-rate loans.

To reduce the Group's interest rate exposure, a set of general guidelines has been adopted for the Group's borrowing and use of interest rate instruments. In pursuance of these guidelines, major fixed assets should primarily be financed by fixed-rate loans. Furthermore, a 2 per cent increase in interest rates on the floating-rate loans of the Group companies must only have a potential maximum negative effect of 10 per cent on the company's budgeted result for the coming year. Derivative financial instruments

for reducing the interest rate risk totalled DKK 834m on the balance sheet date.

Foreign Exchange Risk

It is Group policy that Group production companies mainly raise loans in their local currencies. This ensures that the currency exposure in the consolidated 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.

As at 31 December 2002, the Group's loans are composed of the following currencies:

	2002	2001
EUR.....	40%	40%
DKK.....	34%	24%
USD.....	4%	10%
GBP.....	4%	6%
Other.....	18%	20%

Currency hedging of the Group's budgeted flow of goods is chiefly concerned with the Group's production companies. The most important currencies are the American dollar, the British pound sterling and the Japanese yen. Forward exchange contracts etc. to reduce the currency exposure in connection with the flow of goods amount to DKK 1,732m on the balance sheet date. Of this, a contract volume of DKK 281m has been recognised for hedging of balance sheet items as at 31 December 2002. Group policy only allows for insignificant annual speculation losses in relation to the Group result and balance sheet.

Credit Risk

The primary financial instruments include trade debtors, bank deposits and securities. The amounts stated for each balance sheet item in the accounts are identical to the maximum credit risk.

The Group's trade debtors comprise a large number of customers, and the Group's risk in that connection is not unusually high.

The credit risk on cash reserves deposited in banks, forward exchange contracts and other derivative financial instruments are diminished by spreading them between several financial institutions, all with high credit-ratings.

Accounting Policies

The Grundfos Group

The Annual Report and the Group Annual Report are presented according to the provisions for large C class companies and Danish accounting standards.

Changes in Accounting Policies

As a consequence of the new Danish Financial Statements Act, the Accounting Policies have been changed as follows:

- Development costs paid from 2002 and onward will be recognised – provided certain criteria are met – under intangible fixed assets and measured at cost less accumulated depreciation. So far, all development costs have been continuously recognised in the profit and loss account. In 2002 the change led to increased pre-tax profits of DKK 12.5m and increased equity capital as at 31 December 2002 of DKK 8.8m.
- Derivative financial instruments are measured at market value and recognised under other accounts receivable/other liabilities. Where the instruments have been applied for hedging of future assets and liabilities, any changes in value will be recognised directly in the equity. As at 31 December 2002 the change leads to an equity increase of DKK 84.0m (2001: DKK 14.1m) and an increase in other accounts receivable of DKK 136.6m (2001: DKK 23.1m)
- The proposed dividend to minority shareholders is recognised under minority interests on the liabilities side of the balance sheet. This item was previously recognised as short-term liabilities. The change has no effect on the result for the year or equity.

Comparatives and key financial data for 1998-2001 have been adjusted to the above-mentioned changes. However, in accordance with the commencement provisions of the new Financial Statements Act, no restatement of comparatives has been made regarding recognition of development costs.

Other than the above-mentioned, the Annual Report and Group Annual Report have been presented in accordance with the same accounting principles as last year.

General about Recognition and Measurement

Assets are recognised on the balance sheet when the Group is likely to capitalise on them in the future and when the asset value can be measured reliably.

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

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

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 less any instalments and addition/deduction of the accumulated amortisation of the difference between cost and nominal amount.

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

Income is recognised in the profit and loss account as they are realised, including revaluation of fixed asset investments and liabilities, which are measured at market value or amortised cost. In addition, costs incurred in order to achieve the earnings for the year, including depreciation, write-downs, provisions and reversals following accounting estimates of amounts, which have previously been recognised in the profit and loss account.

Consolidation

The Group Annual Report comprises the Poul Due Jensen Foundation (Parent Company) and the companies (subsidiaries), where the Parent Company directly or indirectly owns more than 50 per cent of the voting shares or in another way has a dominant participation. Companies in which the Group owns between 20 per cent and 50 per cent of the voting shares without having a dominant position are considered associated companies.

The Group Annual Report is prepared as a summary of the audited annual reports of the Parent Company and the subsidiaries, which have all been presented in accordance with the accounting policies set out below. In the consolidation, adjustments are made for inter-company revenue and expenditure, shareholdings, current accounts and dividends, as well as unrealised internal income and loss.

Newly acquired companies are recognised in the profit and loss account as at the time 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 time of acquisition. Provisions are made for planned and published reorganisation in the acquired company as part of the acquisition. Positive balances are recognised as Group goodwill in the year of acquisition. Any negative balances (negative goodwill) are entered under provisions and are systematically booked as income for a number of years, however, a maximum of 20 years.

Minority Interests

The items of subsidiaries are fully recognised in the Group Annual Report. The minority interests' prorated share of the profit and equity of the subsidiaries are adjusted annually, and recorded as separate items in the profit and loss account, and balance sheet.

Foreign Currency Translation

Transactions in foreign currency are translated at first recognition at the exchange rate of the transaction date. Exchange rate differences arising between the transaction date and the exchange rate at the date of payment are recognised in the profit and loss account.

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

The profit and loss accounts for 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 have been entered directly in the equity capital. This also applies to exchange rate differences following the translation of the profit and loss account of each month at the average exchange rate to the exchange rate of the balance sheet date.

Subsidiaries in countries affected by high inflation rates have been regulated to eliminate the effects of inflation.

Derivative Financial Instruments

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

Changes in the market value of derivative financial instruments, which secure the market value of booked assets or liabilities, are recognised in the profit and loss account in the same entry 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 capital. Income and costs regarding such hedging transactions are transferred from the equity capital at the realisation of the hedged items and are recognised in the same entry as the hedged item.

As regards other derivative financial instruments, which do not comply with the terms that apply to hedging instruments, changes are continuously recognised in the profit and loss account at market value.

State Grants

Research and development grants are recognised as revenue in the profit and loss account under development costs, thus offsetting the costs they compensate.

Grants for the purchase of assets and capitalised development projects are offset in the cost of the assets to which the grants are given.

Profit and Loss Account

Net Turnover

Net turnover is recognised in the profit and loss account, 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. Net turnover is measured exclusive of VAT, duties, returns and discounts that are directly connected with the sale.

Current projects on external accounts are entered under net turnover subject to the percentage-of-completion method.

Production Costs

Production costs comprise costs, including depreciation, wages and salaries paid to realise the net turnover of the year.

Research and Development Costs

Research and development costs are costs, including salaries and depreciation, which relate to the Group's research and development activities.

Research costs are recognised in the profit and loss account in the year they are incurred.

Development costs incurred for the maintenance and optimisation of existing products or production processes are charged to revenue. Costs for the development of new products are recognised in the profit and loss account, unless the criteria for entry in the balance sheet are met for the individual development project.

Sales and Distribution Costs

Sales and distribution costs include costs relating to the sale and distribution of the Group's products, including salaries for sales staff, advertising and exhibition expenses, depreciation, etc.

Administrative Costs

Administrative costs comprise costs for the administrative staff, management, Group costs, etc., including salaries and depreciation.

Other Operating Expenses

Other operating expenses comprise revenue and costs of a secondary nature in relation to Group activities, e.g. results of derivative financial instruments, which have not been concluded for the purpose of hedging, as well as buy-back obligations relating to employee shares.

Share of Profit, Associated Companies

The Group's share of post-tax profits in associated companies is recognised in the profit and loss account under the equity method.

Income from Financial Fixed Assets

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

Cost of Financing

This item comprises interest received and interest paid, realised and unrealised exchange rate losses, and exchange rate gains on securities, and exchange rate adjustments of financial items in foreign currency.

Tax on Profit for the Year

The anticipated tax on the taxable income for the year in the individual companies is charged to the profit and loss account, adjustment being made for timing differences in relation to the provided deferred tax. The part of the tax expense that can be charged to items directly in the equity capital, however, are recognised in the equity capital.

Dividend tax received from foreign subsidiaries is charged as expenditure in the year in which the dividend is generated.

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

Balance Sheet

Intangible Fixed Assets

Development Projects, Patents and Licences

Development costs include costs, wages, salaries and depreciation that are directly and indirectly attributable to the company's development activities and meet the criteria for recognition on the balance sheet. Up until and including 2001 all development costs incurred have been charged to revenue.

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

Capitalised development costs are depreciated according to the straight-line method upon completion of the development work over the anticipated useful life of the asset. The depreciation period is normally 5-10 years.

Other Intangible Fixed Assets

Other intangible fixed assets are measured at initial cost less accumulated depreciation and write-downs or at the recoverable amount, whichever is lower.

Depreciation on intangible fixed assets are made according to the straight-line method over the anticipated useful life of the asset, which - based on individual assessments - are as follows:

Group goodwill up to 20 years
Other intangible fixed assets up to 5 years

Tangible Fixed Assets

Land and buildings are measured at initial cost with the addition of write-ups and after deduction of accumulated depreciation and write-downs. The most recent revaluation of buildings in Denmark was on 1 April 1982. In addition, a site in the USA has been revalued.

Technical installations and machinery, and other facilities, are measured at initial cost less accumulated depreciation and write-downs. Tangible fixed assets produced in-house are recorded at initial cost, including a proportion of the indirect production costs.

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

Buildings 20-40 years
Technical installations and machinery 3-10 years
Other facilities 3-10 years

Where the value of the expected future earnings capacity of the asset is lower in use than the book value, the asset is written down to the recoverable amount.

Minor acquisitions and assets with a short useful life are charged to the profit and loss account in the year of acquisition.

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

Fixed Asset Investments

Investments in associated companies are valued in the balance sheet under the equity method at the prorated share of the companies' equity with the addition of goodwill.

Listed bonds are measured at amortised cost.

Listed shares are measured at market value. Non-listed shares are measured at the estimated market value, and where such value does not exist, at cost.

Inventories

Inventories are measured at initial cost or cost price in accordance with the FIFO principle or net realisable value, whichever is lower. The cost price includes direct wages, cost of goods sold and indirect production costs.

Obsolete goods, including slow-moving goods, are written down.

Accounts Receivable

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

Current projects on external accounts are entered in the balance sheet at the proportional sales value as per the balance sheet date.

Securities Stated as Current Assets

Securities include bonds and shares measured at market value.

Realised and unrealised capital losses and realised and unrealised gains are included in the profit and loss account as net interest and similar income and expenditure.

Concluded REPO transactions are entered as loans with security in the bond portfolio.

Dividends

The proposed dividend to minority shareholders, which is expected to be paid out for the year, is recognised under minority interests on the liability side of the balance sheet.

Deferred Tax

Deferred tax is measured in accordance with the liability method of all timing differences between the fiscal and financial values of assets and liabilities. For consolidation purposes, deferred tax is calculated on the eliminated unrealised internal profit margins.

Deferred tax is 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 – according to current legislation on the balance sheet date – will be in force when the deferred tax is converted into current tax.

Other Provisions

Provisions are made during the employment period to cover retirement benefit obligations resting with the Group.

Provisions made to cover liabilities under guarantee are recognised on the basis of previous years' experience concerning claims raised within the guarantee period.

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

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

Other liabilities, including trade creditors, other debt, etc. are valued at amortised cost.

Cash Flow Analysis

The cash flow analysis is prepared according to the indirect method based on profit for the year, and shows cash flow from operations, investments and financing, as well as the Group's opening and closing liquidity reserves.

Cash flow from operations is specified as the profit for the year, adjusted for non-cash operational items, changes in the working capital and corporation tax paid.

Cash flow from investments includes the purchase and sale of intangible and tangible fixed assets, and fixed asset investments, including the purchase and sale of subsidiaries.

Cash flow from financing includes the raising and repaying of long-term debt, short-term debt owed to banks and the payment of dividends.

Available funds include liquidity reserves and securities with only negligible currency risks.

Parent Company

Changes in Accounting Policies

As a consequence of the new Danish Financial Statements Act, the Accounting Policies for the parent company have changed as follows:

- Income from investments in the profit and loss account and the value of capital investments of investments in subsidiaries in the balance sheet are recognised under the equity method. Previously, the profit and loss account only included dividends received, while capital investments in the balance sheet were measured at initial cost. In 2002, the change results in an increase in the pre-tax profit of DKK 670.5m (2001: DKK 438.2m), while the equity capital as at 31 December 2002 is increased by DKK 3,741.1m (2001: DKK 3,407.0m).

Income from Investments in Subsidiaries

The prorated share of the associated companies' profit after tax and following elimination of internal margins is recognised in the parent company's profit and loss account.

Other Operating Expenses

Other operating expenses comprise revenue and expenditure of a secondary nature, including trade profits from the sale of shares and provisions regarding the buy-back obligation of employee shares.

Investment in Associated Companies

Investments in associated companies are valued under the equity method at the prorated owned share of the companies' equity.

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

➤ Management Statement

The Board of Directors has reviewed and approved the 2002 Annual Report for the Poul Due Jensen Foundation

The Annual Report has been presented in accordance with the Danish Financial Statements Act and Danish accounting standards. In our opinion, the appropriate accounting policies have been applied, and the Annual Report gives a true and fair view of the Group's and Parent Company's assets, liabilities, financial position, result and cash flow.

Bjerringbro, 11 April 2003

Board of Directors
The Poul Due Jensen Foundation

Niels Due Jensen
Chairman

Ingermarie Due Nielsen

Estrid Due Hesselholt

Niels Christian Nielsen

Lars Kolind

Poul Due Jensen

Thomas Lund

Hans Christian Hyldelund

➤ Auditors' Report

To The Poul Due Jensen Foundation

We have audited the Annual Report of The Poul Due Jensen Foundation for the financial year 2002.

The Annual Report is the responsibility of the Foundation's Management. Our responsibility is to express an opinion on the Annual Report based on our audit.

Basis of opinion

We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual Report. An audit also includes assessing the accounting policies used and significant estimates made by the Management, as well as

evaluating the overall presentation of the Annual Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Foundation's financial position at 31 December 2002 and of the results of their operations as well as of the consolidated cash flows for the financial year 2002 in accordance with the Danish Financial Statements Act and Danish Accounting Standards.

Århus, 11 April 2003

DELOITTE & TOUCHE
Statsautoriseret Revisionsaktieselskab

H.P. Møller Christiansen,
State Authorised Public Accountant

Jesper Meto,
State Authorised Public Accountant

Consolidated Profit and Loss Statement

➤ 1 January - 31 December 2002

Amounts in DKK 1,000

	Note	2002	2001
Net Turnover	1	10,702,999	10,214,175
Production Costs	2, 3	(6,657,185)	(6,325,513)
Research and Development Costs	2, 3	(441,578)	(458,243)
Gross Profit		3,604,236	3,430,419
Sales and Distribution Costs	2, 3	(1,883,604)	(1,798,943)
Administrative Costs	2, 3	(773,090)	(786,396)
Amortisation of Group Goodwill		(34,227)	(30,614)
Operating Profit		913,315	814,466
Other Operating Items		(549)	(15,236)
Share of Profit Associated Companies		(9,721)	(4,666)
Income from Financial Fixed Assets		31,085	34,456
Cost of Financing, Net	4	(207,955)	(211,119)
Profit before Tax		726,175	617,901
Tax on Profit for the Year	5	(284,825)	(229,599)
Consolidated Profit after Tax		441,350	388,302
Minority Shareholders' Share of Profits in Subsidiaries		(68,593)	(52,775)
Profit for the Year		372,757	335,527

Consolidated Balance Sheet

➤ As per 31 December 2002

Amounts in DKK 1,000

Assets

Fixed Assets	Note	2002	2001
Intangible Fixed Assets			
Group Goodwill		495,452	429,971
Other Intangible Fixed Assets		46,360	65,788
Development Projects in Progress		12,500	0
	6	554,312	495,759
Tangible Fixed Assets			
Land and Buildings		1,906,335	1,833,188
Technical Equipment and Machinery		1,307,130	1,220,509
Other Technical Installations		379,793	398,145
Tangible Fixed Assets in Progress		198,720	259,583
	7	3,791,978	3,711,425
Fixed Asset Investments			
Investments in Associated Companies		0	1,334
Securities		501,262	474,942
Other Accounts Receivable		32,139	41,807
	7	533,401	518,083
Total Fixed Assets		4,879,691	4,725,267
Current Assets			
Inventories	8	1,893,230	2,056,209
Accounts Receivable			
Trade Debtors and B/E Debtors		2,147,954	2,115,344
Deferred Tax Assets	9	29,534	33,216
Other Accounts Receivable		398,215	269,603
Prepayments and Accrued Income		88,862	86,769
		2,664,565	2,504,932
Securities		404,253	395,089
Cash at Bank and in Hand		329,915	417,690
Total Current Assets		5,291,963	5,373,920
Total Assets		10,171,654	10,099,187

Amounts in DKK 1,000

Liabilities

Equity Capital	Note	2002	2001
Registered Capital		505,000	505,000
Revaluation Reserve		6,422	40,240
Retained Earnings		3,693,220	3,389,344
Equity Capital		4,204,642	3,934,584
Minority Interests		612,076	597,475
(mainly the Founder's Family)			
Provisions			
Liabilities under Guarantee	10	90,269	80,459
Buy-Back Obligation of Employee Shares	10	123,564	121,026
Pension Liabilities and Other Provisions	10	218,835	172,770
Deferred Tax	9	162,898	167,416
		595,566	541,671
Long-term Liabilities			
Mortgage Debt		706,919	659,379
Bank Loans		848,750	1,020,353
Other Monetary Creditors		83,989	87,638
Corporation Tax		0	4,603
	11	1,639,658	1,771,973
Short-term Liabilities			
Bank Overdrafts and Loans		1,328,244	1,515,442
Trade Creditors		827,115	812,552
Debts to Associated Companies		671	3,123
Corporation Tax		89,864	42,353
Other Liabilities		859,647	865,535
Accrued Expenses and Deferred Income		14,171	14,479
		3,119,712	3,253,484
Total Liabilities		10,171,654	10,099,187
Financial Instruments	12		
Auditors' Remuneration	13		
Related Parties	14		
Securities, Contingent Liabilities, etc.	15		

Equity Capital

➤ 1 January - 31 December 2002

Amounts in DKK 1,000

	Registered Capital	Revaluation Reserve	Retained Earnings	Total Equity Capital
Equity Capital, Opening 2001	390,000	37,914	3,149,118	3,577,032
Changes in Accounting Policies			(4,203)	(4,203)
Corrected Opening	390,000	37,914	3,144,915	3,572,829
Profit for the Year	115,000		220,527	335,527
Exch. Rate Adjust., Sub. Companies		2,326	7,479	9,805
Revaluation of Hedging Instruments, Opening			4,203	4,203
Changes in Minority Interests			(1,844)	(1,844)
Revaluation of Hedging, Instruments, Closing			20,091	20,091
Tax on Equity Items			(6,027)	(6,027)
Equity Capital, Closing 2001	505,000	40,240	3,389,344	3,934,584
Profit for the Year			372,757	372,757
Exchange Rate Adjustments, Subsidiary Companies, etc.		(6,304)	(130,284)	(136,588)
Reversal of Revaluations		(27,514)	2,678	(24,836)
Adjustments to Changes to Acc. Principles made in 2001			(14,273)	(14,273)
Revaluation of Hedging			(20,091)	(20,091)
Changes in Minority Interests			3,018	3,018
Revaluation of Hedging Instruments, Closing			120,063	120,063
Tax on Equity Items			(29,992)	(29,992)
Equity Capital, Closing 2002	505,000	6,422	3,693,220	4,204,642

Cash Flow Analysis

➤ 1 January - 31 December 2002

Amounts in DKK 1,000

	Note	2002	2001
Consolidated Profit after Tax		441,350	388,302
Reversal of Entries with no Liquidity Effect	16	1,178,050	1,067,426
Changes in Working Capital	17	2,903	(370,215)
Operational Cash Flow before Interests, Net		1,622,303	1,085,513
Income from Financial Fixed Assets		31,085	34,456
Cost of Financing, Net		(207,955)	(211,119)
Cash flow from Ordinary Activities		1,445,433	908,850
Corporation Tax Paid		(263,979)	(264,642)
Cash Flow from Operations		1,181,454	644,208
Acquisition of Companies	18	(90,565)	(41,160)
Investment in Tangible Fixed Assets		(798,109)	(870,038)
Disposal of Tangible Fixed Assets		30,193	41,039
Investment in Intangible Fixed Assets		(17,697)	(29,611)
Purchase and Sale of Securities		(17,748)	120,111
Cash Flow from Investment Activities		(893,926)	(779,659)
Change in Long-Term Loans		(141,865)	277,086
Change in Short-Term Loans		(257,731)	(164,212)
Distribution of Dividend		(5,350)	(21,335)
Acquisition of Minority Interests		(72,264)	(92,747)
Unrealised Exchange Rate Adjustments		113,009	(28,340)
Cash Flow from Financial Activities		(364,201)	(29,548)
Change in Liquid Funds		(76,673)	(164,999)
Available Fund Including Securities, Opening	19	810,841	977,778
Available Fund Including Securities Stated as Current Assets, Closing	20	734,168	812,779

Notes to the Consolidated Accounts

Amounts in DKK 1,000

Note 1

Net Turnover	2002	2001
Europe	7,491,324	7,006,677
North and South America	1,165,276	1,205,798
East Asia	1,661,134	1,542,517
Middle East/Africa	385,265	459,183
Net Turnover	10,702,999	10,214,175

With reference to the interim provisions of the new Danish Financial Statements Act, no further information will be given regarding geographical markets.

Note 2

Staff Costs

Total Group Payments to Employees and Board	2,787,446	2,770,878
Retirement Benefit Obligation	152,759	110,971
Social Contributions	330,410	341,367
Total	3,270,615	3,223,216

Staff Costs are recognised as follows:

Production Costs	1,757,427	1,731,127
Research and Development Costs	312,278	311,440
Sales and Distribution Costs	816,045	782,414
Administrative Costs	384,865	398,235
	3,270,615	3,223,216

The staff costs for the year under review include

Directors' fees to the Board of the Foundation totalling	1,012	947
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Average Number of Full-Time Employees	11,372	11,194
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Number of Employees, Closing	11,383	10,985
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Note 3

Depreciation and Write-Downs

Depreciation, Intangible Fixed Assets	56,061	56,087
Depreciation, Tangible Fixed Assets	583,713	553,342
	639,774	609,429

Depreciation and write-downs are recognised as follows:

Production Costs	487,380	464,263
Research and Development Costs	51,502	49,059
Sales and Distribution Costs	48,751	46,439
Administrative Costs	52,141	49,668
	639,774	609,429

Amounts in DKK 1,000

Note 4

Cost of Financing, Net	2002	2001
Financing Costs	(191,393)	(217,618)
Value Adjustment, etc. from Securities	(60,375)	(48,763)
Total Financing Costs	(251,768)	(266,381)
Interest Income from Bonds	13,798	14,769
Other Interest Income	30,015	40,493
Total Financing income	43,813	55,262
Cost of Financing, Net	(207,955)	(211,119)

Note 5

Tax on Profit for the Year		
Current Tax	291,699	223,241
Deferred Tax	(8,435)	355
Adjustment re Previous Years	1,561	6,003
Tax on Profit for the Year	284,825	229,599

Restatement of Rate of Taxation for the Year:

Danish Rate of Taxation	30%	30%
Deviations in Tax in Foreign Companies in relation to Danish Rate of Taxation	2%	3%
Non-Taxable Income and Non-Deductable Expenses	3%	3%
Value of Non-Capitalised Tax Assets	1%	1%
Non-Deductible Write-Downs on Goodwill	1%	1%
Other, Including Adjustments re Previous Years	2%	(1%)
Rate of Taxation for the Year	39%	37%

Amounts in DKK 1,000

Note 6

Intangible Fixed Assets

	Group Goodwill	Other Intang. Fixed Assets	Devel- opment Projects in Progress
Initial Cost			
Opening	543,058	144,356	0
Aqc./Sale of Activities		254	
Exchange Rate Adjustments	(1,418)	(4,241)	
Additions for the Year	101,005	5,197	12,500
Disposals at Initial Cost		(65)	
Closing	642,645	145,501	12,500
Acc. Depreciation			
Opening	113,087	78,568	0
Aqc./Sale of Activities			
Exchange Rate Adjustments	(121)	(1,196)	
Deprec./Wr-Downs for the Year	34,227	21,834	
Deprec. Install. Sold		(65)	
Closing	147,193	99,141	0
Book Value 31 Dec. 2002	495,452	46,360	12,500
Book Value 31 Dec. 2001	429,971	65,788	0

Note 7

Tangible Fixed Assets and Fixed Asset Investments

	Land and Buildings	Tech. Equip. and Mach.	Other Plants	Tang. Fixed Assets in. Progress	Assoc. Cos.	Secur- ities	Other Receiv.
Initial Cost							
Opening	2,588,017	4,401,520	1,041,311	259,583	6,000	473,763	47,419
Aqc./Sale of Activities	26,515	15,512	3,997				
Exchange Rate Adjustments	(105,161)	(82,642)	(47,502)	(517)		(707)	(1,677)
Additions for the Year	285,857	446,702	125,896	156,282	3,000	151,506	4,420
Disposals at Initial Cost	(19,559)	(73,116)	(55,683)	(216,628)		(123,220)	(19,498)
Closing	2,775,669	4,707,976	1,068,019	198,720	9,000	501,342	30,664
Revaluations							
Opening	67,301					1,179	0
Exch. Rate Adjustments, etc.	(7,174)					(46)	
Changes for the Year						(441)	6,344
Reval. Sold Assets	(31,519)					(772)	(3,088)
Closing	28,608					(80)	3,256

Amounts in DKK 1,000

Note 7

Tangible Fixed Assets and Fixed Asset Investments

Acc. Depreciation

Opening	822,130	3,181,011	643,166		4,666	5,612
Aqc./Sale of Activities	859	9,073	2,259			
Exchange Rate Adjustments	(19,417)	(54,879)	(31,217)			
Deprec./Wr-Downs for the Year	94,996	364,632	124,085		9,720	436
Deprec. Install. Sold	(626)	(98,991)	(50,067)			(4,267)
Disposals at Initial Cost						
Transf. to provisions					(5,386)	
Closing	897,942	3,400,846	688,226		9,000	1,781

Book Value 31 Dec. 2002	1,906,335	1,307,130	379,793	198,720	0	501,262	32,139
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Book Value 31 Dec. 2001	1,833,188	1,220,509	398,145	259,583	1,334	474,942	41,807
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The cash value for land and buildings in Denmark at the latest tax assessment of real property amounts to DKK 825m (book value: DKK 646m), Additions since the latest assessment amount to DKK 121m .

The book value of capitalised leased facilities as at 31 December 2002 amounts to DKK 21m.

The market value of securities as at 31 December 2002 amounts to DKK 518m.

Note 8

Inventories

	2002	2001
Raw Materials and Consumables	829,313	856,095
Work in Progress	389,149	455,672
Manufactured Goods and Goods for Resale	674,768	744,442
Inventories	1,893,230	2,056,209

Note 9

Deferred Tax/Deferred Tax Assets

Deferred tax broken down:

Fixed Assets	164,915	160,718
Current Assets	5,874	(27,136)
Provisions	(28,664)	12,299
Creditors	2,764	(1,822)
Deficit	(11,525)	(9,859)
	133,364	134,200

which have been recognised in the balance sheet as:

Deferred Tax Assets	29,534	33,216
Deferred Tax (Liability)	162,898	167,416

Amounts in DKK 1,000

Note 10
Other Provisions

	Liab. under Guarantee	Buy-Back Obl. Employee Shares	Retirement Benefit and Other Oblig.
Opening 2002	80,459	121,026	172,770
Provisions Spent during the Year	0	(2,206)	(3,451)
Provisions Carried Back	0	(2,683)	(8,100)
Provisions for the Year	9,810	7,427	57,616
Closing 2002	90,269	123,564	218,835

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

The buy-back obligation regarding employee shares will in all essentials only arise once the settlement periods for the securities in question expire. The settlement periods expire as follows:

2006	20,201
2007	55,135
2008 and later	48,228

The buy-back obligation calculated at market value amounts to DKK 99m.

Note 11
Long-term Liabilities

	2002	2001
Debt falling due after more than 1 year but less than 5 years:		
Mortgage Debt	101,836	118,365
Bank Loans	636,415	786,532
Other Monetary Creditors	83,989	86,261
Corporation Tax	0	4,603
Debt falling due after more than 5 years:		
Mortgage Debt	605,083	541,014
Bank Loans	212,335	233,821
Other Monetary Creditors	0	1,377

Amounts in DKK 1,000

Note 11

Long-term Liabilities

Distribution of Foreign Exchange and Interest as at 31 December 2002:

Foreign Exchange	Interest	Amounts in DKKm
EUR	3.9%	695
DKK	5.1%	642
USD	6.1%	84
HUF	10.6%	102
Other currencies	4.9%	117
Total		1,640

Note 12

Financial Instruments

The Group has entered into foreign exchange and option contracts for hedging purposes, which on the balance sheet date can be broken down into the following principal items (DKKm):

	Volume	Deferred entering
EUR	214	8
USD	799	85
GBP	336	15
JPY	76	8
Other currencies	26	(1)
Total	1,451	115

As at 31 December 2002, the hedging horizon for the individual currencies is between 12 and 24 months. Interest Rate Swaps entered into for hedging purposes at a volume of DKK 834m shows a loss of DKK 15m.

Note 13

Auditors' Remuneration

	2002	2001
Fees to Deloitte & Touche for auditing	9,701	9,429
Fees to Deloitte & Touche for other services	6,551	7,123

Note 14

Related Parties

Related parties include the Board of Directors in the Poul Due Jensen Foundation and companies in which these persons have a controlling interest.

In 2002, the Group acquired the property Martin Bachs Vej 3-5, DK-Bjerringbro, from System B8 Møbler A/S, in which Chairman Niels Due Jensen has a controlling interest. The transfer sum amounted to DKK 67m. In addition, the Group has conducted business with System B8 Møbler A/S on an arm's length basis.

The Group has also acquired shares amounting to DKK 72m from the minority shareholders (the Founder's family) in Grundfos Holding AG.

Apart from this, there have been no transactions between the minority shareholders and the Grundfos Group, except distribution of dividend and payment of salaries and Board fees.

Amounts in DKK 1,000

Note 15

Securities, Contingent Liabilities, etc.

The Group has mortgaged property at a book value of DKK 614m and machinery and equipment at a book value of DKK 697m, a total of DKK 1,311m as security for loans, which on the balance sheet date show outstanding debts of DKK 685m.

	2002	2001
Operational Leasing Contracts and Lease Obligations for the Coming Years amount to a Total	226,352	196,911

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

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

Note 16

Reversal of Entries with no Liquidity Effect

Depreciation	639,774	610,025
Liabilities under Guarantee and Other Provisions	66,860	46,473
Share of Profit, Associated Companies	9,721	4,666
Income from Financial Fixed Assets	(31,085)	(34,456)
Financing Costs, Net	207,955	211,119
Tax on Profit for the Year	284,825	229,599
Reversal of Entries with no Liquidity Effect	1,178,050	1,067,426

Note 17

Changes in Working Capital

Changes in Inventories	182,477	(98,130)
Changes in Accounts Receivable	(58,003)	(211,095)
Changes in Suppliers, etc.	36,341	(68,360)
Unrealised Exchange Rate Adjustments	(157,912)	7,370
Changes in Working Capital	2,903	(370,215)

Amounts in DKK 1,000

Note 18

Acquisition of Companies

Acquisitions made in 2002 include Chung Suk Co, Ltd, in Korea (60%), Arnold AG in Switzerland (100%), Grundfos Engineering India (90%) and parts of activities from Svanebjerg in Denmark.

	2002	2001
Fixed Assets	(34,085)	(1,606)
Inventories	(19,498)	0
Accounts Receivable	(24,826)	(1,785)
Cash at Bank and in Hand	(23,910)	(8,432)
Provisions	5,486	3,725
Long-term Debt	9,550	0
Short-term Liabilities	41,260	417
Net Assets	(46,023)	(7,681)
Group Goodwill	(68,452)	(41,911)
Acquisition Price	(114,475)	(49,592)
Of this, Cash at Bank and in Hand	23,910	8,432
Cash Acquisition Price	(90,565)	(41,160)

Note 19

Cash at Bank and in Hand, Opening

Cash at Bank and in Hand	812,779	962,136
Unrealised Exchange Rate Adjustments	(1,938)	15,642
Cash at Bank and in Hand, Opening	810,841	977,778

Note 20

Cash at Bank and in Hand, Closing

Securities	404,253	395,089
Cash at Bank and in Hand	329,915	417,690
Cash at Bank and in Hand, Closing	734,168	812,779

Profit and Loss Account for the Poul Due Jensen Foundation

➤ 1 January - 31 December 2002

Amounts in DKK 1,000	Note	2002	2001
Administrative Costs	1	(355)	(282)
Income from Investments in			
Associated Company before Tax		694,755	556,637
Premium from Sale of Shares		0	13,331
Provision for Buy-Back of Employee Shares		(81,134)	(36,911)
Interest Income	2	6,450	15,671
Financing Costs	3	(5,300)	(14,525)
Profit before Tax		614,416	533,921
Tax on Profit for the Year	4	(240,559)	(198,394)
Profit for the Year		373,857	335,527
Proposed Profit Appropriation			
Distribution		1,100	0
Brought Forward to Registered Capital		0	115,000
Brought Forward to Revaluation Reserve under the Equity Method		355,713	220,848
Retained Earnings		17,044	(321)
		373,857	335,527

Balance Sheet for the Poul Due Jensen Foundation

Amounts in DKK 1,000

	Note	2002	2001
Assets			
Fixed Assets			
Investment in Associated Company		4,305,141	3,897,011
Accounts Receivable from Associated Company		74,231	77,400
Securities		70	70
Total Fixed Assets	5	4,379,442	3,974,481
Current Assets			
Accounts Receivable			
Accounts Receivable from Associated Companies		24,531	83,884
Prepayments and Accrued Income		0	172
		24,531	84,056
Cash at Bank and in Hand			
		9	3
Total Current Assets		24,540	84,059
Total Assets		4,403,982	4,058,540
Liabilities			
Equity Capital			
Registered Capital		505,000	505,000
Revaluation Reserve under the Equity Method		3,680,073	3,427,059
Capital Available		19,569	2,525
Total Equity Capital		4,204,642	3,934,584
Provisions			
Deferred Tax	4	2,915	4,916
Buy-Back Obligation of Employee Shares		118,045	36,911
		120,960	41,827
Long-term Liabilities			
Mortgage Debt	6	74,231	77,400
		74,231	77,400
Short-term Liabilities			
Bank Overdrafts and Loans		3,169	2,983
Debts to Associated Company		0	51
Corporation Tax		719	1,455
Other Liabilities		261	240
		4,149	4,729
Total Liabilities		4,403,982	4,058,540

Equity Capital for the Poul Due Jensen Foundation

➤ 1 January - 31 December 2002

Amounts in DKK 1,000

	Registered Capital	Revaluation Reserve	Reserve Equity Method	Capital Avail- able	Total Equity Capital
Equity Capital, Opening 2001	390,000	20,077	0	2,846	412,923
Changes in Accounting Policies		(20,077)	3,179,983		3,159,906
Corrected Opening	390,000	0	3,179,983	2,846	3,572,829
Profit for the Year	115,000		220,848	(321)	335,527
Exchange Rate Adjustments, Subsidiary Companies, etc.			9,805		9,805
Revaluation of Hedging Instruments, Opening			4,203		4,203
Changes in Minority Interests			(1,844)		(1,844)
Revaluation of Hedging Instruments, Closing			20,091		20,091
Tax on Equity Items			(6,027)		(6,027)
Equity Capital, Closing 2001	505,000	0	3,427,059	2,525	3,934,584
Profit for the Year			355,713	17,044	372,757
Exchange Rate Adjustments, Subsidiary Companies, etc.			(136,588)		(136,588)
Reversal of Revaluations			(24,836)		(24,836)
Adjustments to Changes to Acc. Principles made in 2001			(14,273)		(14,273)
Revaluation of Hedging Instruments, Opening			(20,091)		(20,091)
Changes in Minority Interests			3,018		3,018
Revaluation of Hedging Instruments, Closing			120,063		120,063
Tax on Equity Items			(29,992)		(29,992)
Equity Capital, Closing 2002	505,000	0	3,680,073	19,569	4,204,642

Registered capital for the 3 previous years has been increased when brought forward from retained earnings:

	Opening, year	Increase	New balance
2000	370,000	20,000	390,000
1999	355,000	15,000	370,000
1998	330,000	25,000	355,000

Notes to the Accounts of the Poul Due Jensen Foundation

Amounts in DKK 1,000

Note 1

Administrative Costs

Including:	2002	2001
Board Fees	105	102
Fees to Deloitte & Touche for auditing	31	30
Fees to Deloitte & Touche for other services	100	109

Note 2

Interest Income

Including interest income from associated companies totalling DKK 6,450 thousand against DKK 15,643 thousand in 2001.

Note 3

Financing Costs

Including interest costs from associated companies totalling DKK 131 thousand against DKK 0 in 2001.

Note 4

Tax on Profit for the Year

Tax in Associated Companies	233,691	195,231
Current Tax	8,932	1,924
Deferred Tax	(2,001)	1,239
Adjustment re Previous Years	(63)	0
Tax on Profit for the Year	240,559	198,394

Deferred tax relates to provisions.

Amounts in DKK 1,000

Note 5

Fixed Asset Investments

	Investment in Associated Company	Accounts Receiv- able from Assoc. Company	Secur- ities
Initial Cost			
Opening	469,952	77,400	70
Additions for the Year	73,982	0	0
Disposals at Initial Cost	0	(3,169)	0
Closing	543,934	74,231	70
Revaluations			
Opening	20,077	0	0
Changes in Accounting Policies	3,406,982	0	0
Corrected Opening	3,427,059	0	0
Profit for the Year	461,064	-	-
Dividend received	(24,217)	-	-
Exchange Rate Adjustments	(136,588)	-	-
Other Adjustments	33,889	-	-
Closing	3,761,207	0	0
Book Value 31 Dec. 2002	4,305,141	74,231	70
Book Value 31 Dec. 2001	3,897,011	77,400	70

The book value of investment in associated company includes goodwill amounting to DKK 83,933 thousand against DKK 55,586 thousand in 2001.

Note 6

Long-Term Liabilities

Amounts falling due after 5 years:

Mortgage Debt	59,459	63,493
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Consolidated Profit and Loss Statement in Euros

➤ 1 January - 31 December 2002

Amounts in Euro 1,000

	2002	2001
Net Turnover	1,440,473	1,370,930
Production Costs	(895,963)	(849,000)
Research and Development Costs	(59,430)	(61,505)
Gross Profit	485,080	460,425
Sales and Distribution Costs	(253,507)	(241,451)
Administrative Costs	(104,047)	(105,549)
Amortisation of Group Goodwill	(4,606)	(4,109)
Operating Profit	122,920	109,316
Other Operating Items	(74)	(2,045)
Share of Profit Associated Companies	(1,308)	(626)
Income from Financial Fixed Assets	4,184	4,625
Financing Costs, Net	(27,988)	(28,336)
Profit before Tax	97,734	82,934
Tax on Profit for the Year	(38,333)	(30,817)
Consolidated Profit after Tax	59,401	52,117
Minority Shareholders' Share of Profits in Subsidiaries	(9,232)	(7,083)
Profit for the Year	50,169	45,034

➤ Group Structure

Overview of Grundfos' sales companies, production companies and acquired companies across the world.

➤ Ownership

The Poul Due Jensen Foundation, based in Bjerringbro, Denmark, is the parent company of the Grundfos Group. The Poul Due Jensen Foundation owns 86.4% of the share capital in Grundfos Holding AG, Switzerland, while the founder's family owns 12.1%, and employees own 1.5%.

Grundfos Holding AG, Switzerland, directly or indirectly owns the entire share capital in all subsidiaries, except for the following:

Grundfos A/S, Denmark - 99.6%
Grundfos Pumps Pty. Ltd., Australia - 70%
PT Grundfos Pompa, Indonesia - 98%
Grundfos (Thailand) Ltd., Thailand - 74%
Grundfos Engineering India Private Limited - 90%
Chung Suk Co. Ltd., Korea - 60%

Branches

In addition to the companies mentioned above, the Group has operating branches in South Africa, Estonia, Latvia and Lithuania.

Associated Company:

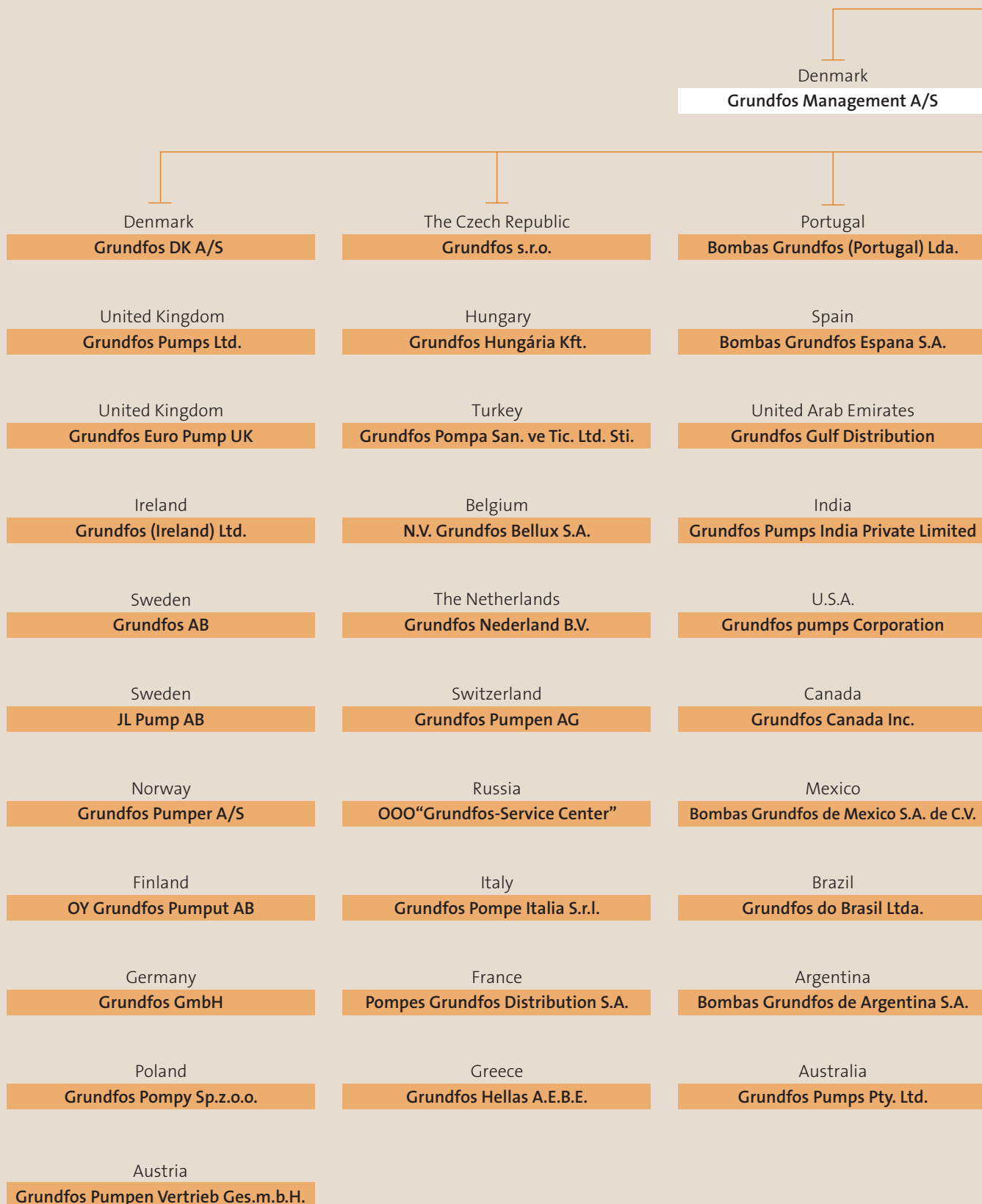
System B8 Holding, Denmark - 30%

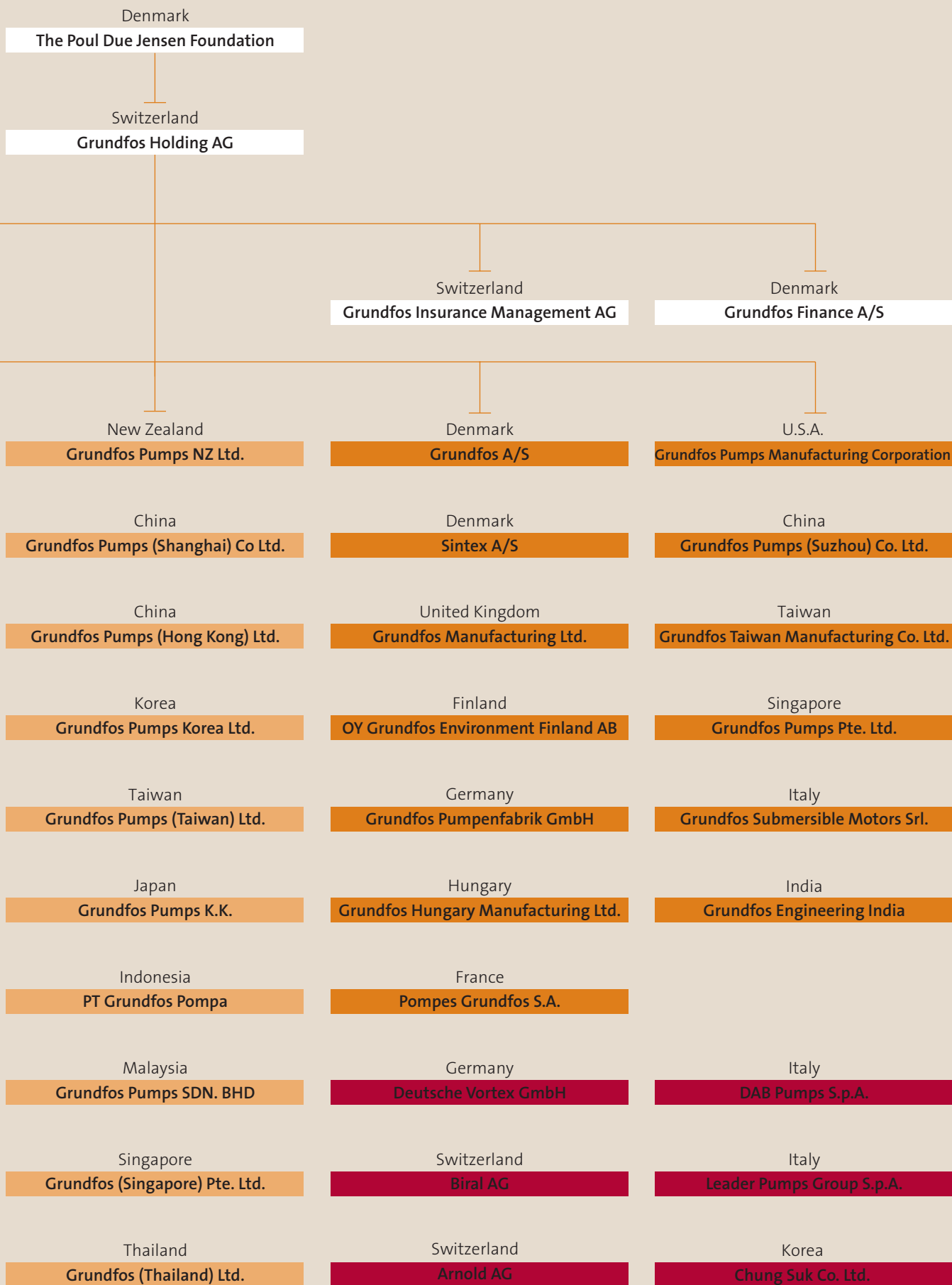




Group Structure

- Management Companies
- Sales Companies
- Production Companies
- Acquired Companies







➤ Grundfos in Brief

The Grundfos Group is a private company owned by the Poul Due Jensen Foundation. The foundation's main purpose is to expand and develop the Group, primarily by reinvesting own, realised funds and maintaining the Grundfos Group as an independent company in accordance with the founder's wish.

Every day, Grundfos pumps perform the tasks of providing water to the world in an efficient and reliable manner – whether the water is used directly by people or to water animals and irrigate fields, for industrial processes, to heat or cool buildings, or to handle wastewater.

Grundfos strives to be the world's leading and most innovative company in the pump business. The Group is dedicated to research in new materials and processes in order to be able to introduce new, ground-breaking pumps and pump systems that satisfy market requirements to efficient, reliable and energy-efficient plants.

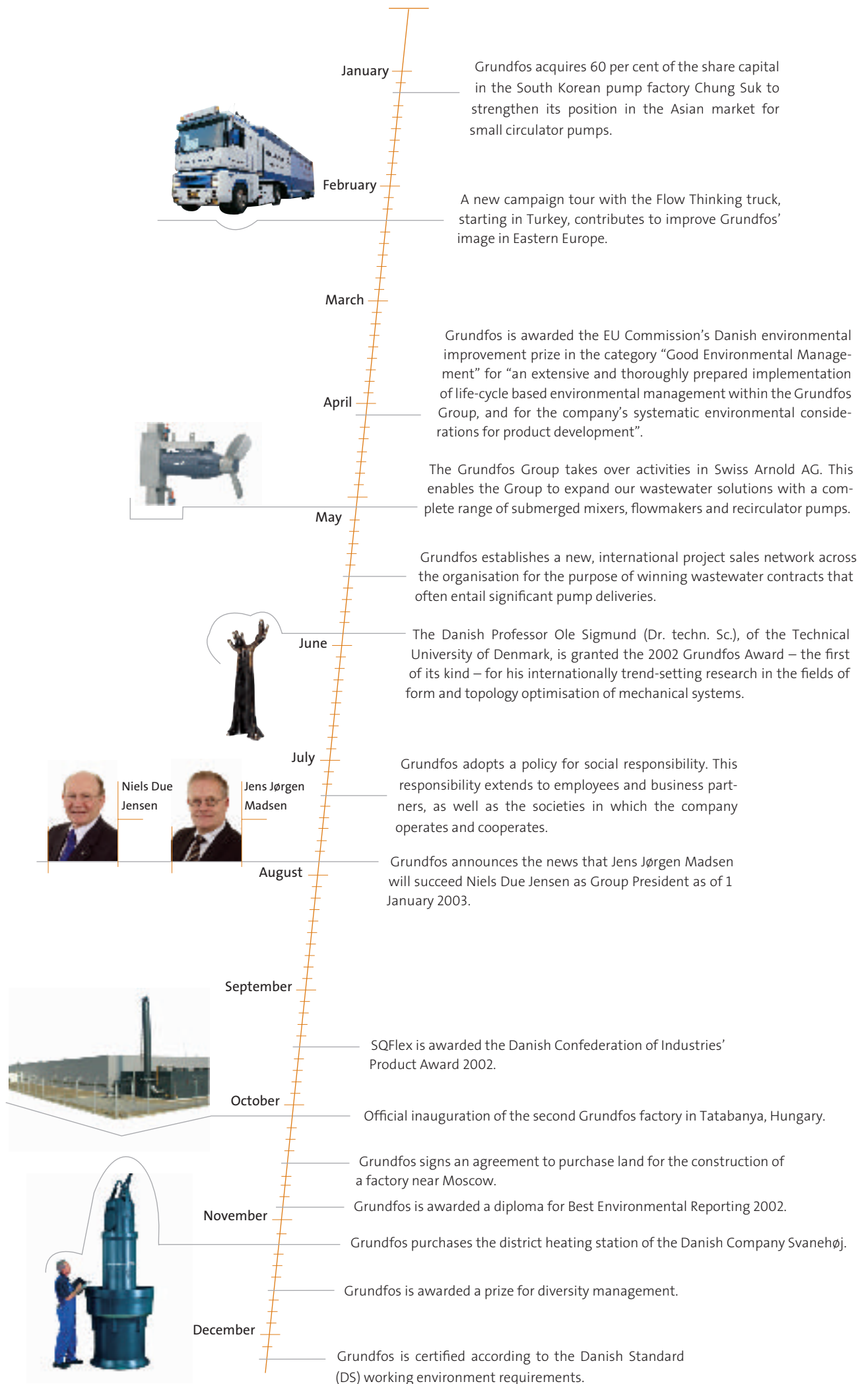
Quality is key in all Grundfos products. This compels us to focus on construction, design and the selection of materials,

production processes, the pumps' energy-consumption and environmental strain during the life of the pumps. Grundfos undertakes a high degree of own production with high productivity, a healthy working environment and consideration to the external environment.

Grundfos' products are primarily sold through Grundfos' own national companies, ensuring an insight into local market conditions and providing the optimum service for customers. Regional production must also ensure a high reliability of delivery for customers, and customised solutions.

The most important resource in the Grundfos Group are the employees, their knowledge and commitment. Therefore, the Group aims to provide the employees with further training and create an inspiring environment that promotes the development and production of new products with an increased utility value and high quality for customers.

Milestones 2002



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