

Group Annual Report 2004



The Grundfos Group and the Poul Due Jensen Foundation

Key Figures for the Grundfos Group

Amounts in DKKm

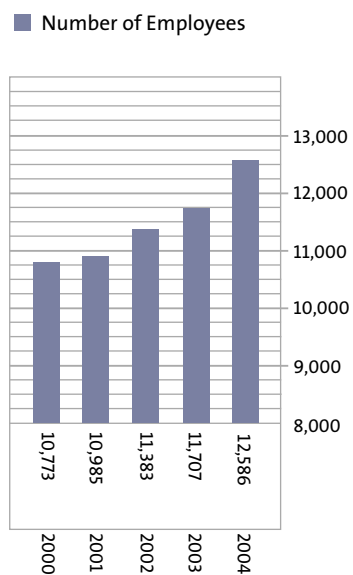
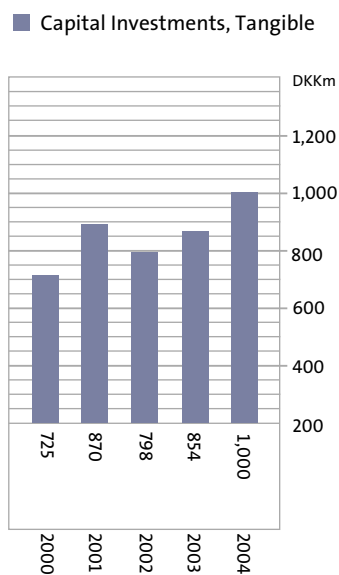
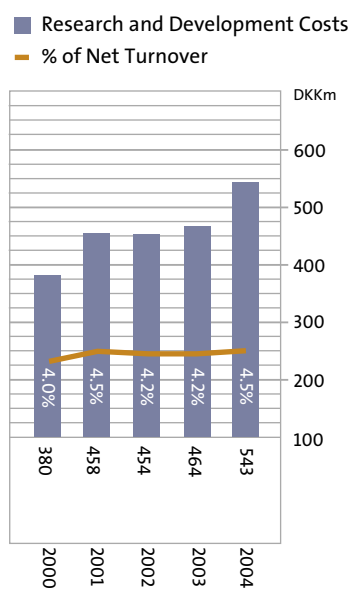
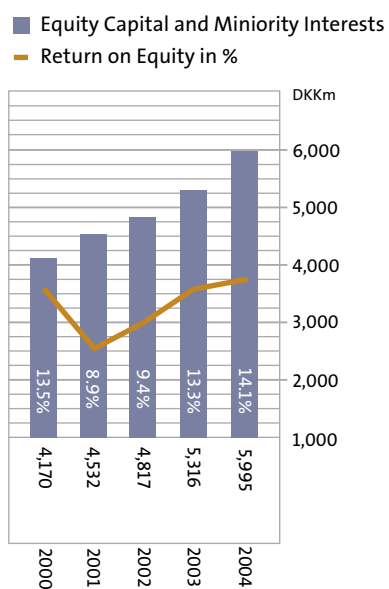
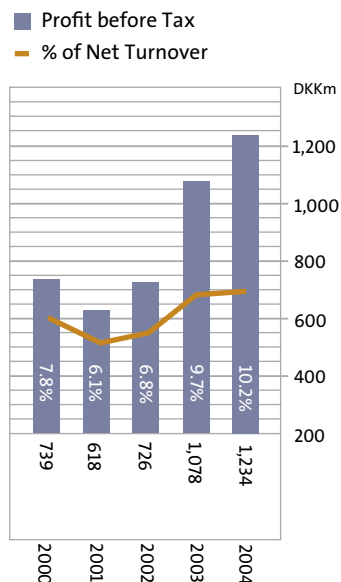
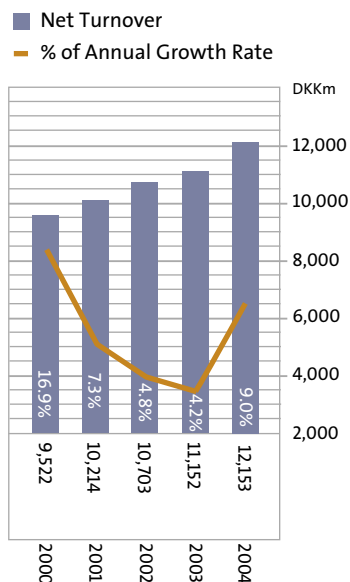
	2004	2003	2002	2001	2000
Consolidated Profit and Loss Statement					
Net Turnover	12,153	11,152	10,703	10,214	9,522
Operating Profit	1,330	1,154	913	814	886
Earnings Before Interest and Tax (EBIT)	1,283	1,087	903	795	865
Cost of Financing	(49)	(9)	(177)	(177)	(126)
Profit before Tax	1,234	1,078	726	618	739
Consolidated Profit after Tax	796	673	441	388	522
Profit for the Year (Excluding Minorities)	691	579	373	336	447
Consolidated Balance Sheet					
Assets					
Intangible Fixed Assets *)	676	586	554	496	431
Tangible Fixed Assets	4,347	3,887	3,792	3,711	3,406
Fixed Asset Investments	590	567	534	518	641
Current Assets	6,185	5,753	5,292	5,374	5,196
Total Assets	11,798	10,793	10,172	10,099	9,674
Liabilities					
Equity Capital	5,247	4,637	4,205	3,935	3,573
Minority Interests	748	679	612	597	597
Provisions	801	701	595	542	482
Long-term Liabilities	1,665	1,799	1,640	1,772	1,495
Short-term Liabilities	3,337	2,977	3,120	3,253	3,527
Total Liabilities	11,798	10,793	10,172	10,099	9,674
Number of Employees at Year-End	12,586	11,707	11,383	10,985	10,773
Capital Investments, Tangible	1,000	854	798	870	725
R&D Costs, incl. Capitalised	543	464	454	458	380
Interest-Bearing Debt, Net	1,015	881	1,732	1,995	1,603
Result before Tax in Per Cent					
on Net Turnover	10.2%	9.7%	6.8%	6.1%	7.8%
Return on Equity	14.1%	13.3%	9.4%	8.9%	13.5%
Equity Ratio	50.8%	49.3%	47.4%	44.9%	43.1%

*) As of 2002, development projects are included in the Consolidated Balance Sheet. No restatement of comparatives has been made in this respect. The amount included for 2002 totals DKK 13m, for 2003 DKK 52m and for 2004 DKK 108m .

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.

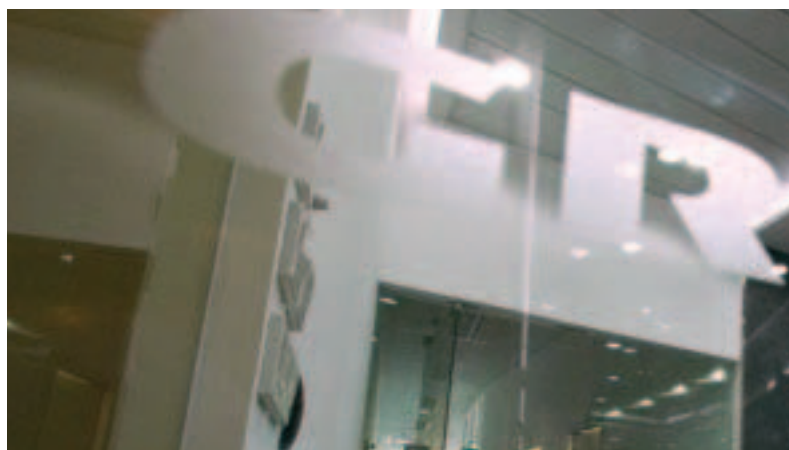


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To everybody who takes an interest in the company



Niels Due Jensen, Group Chairman



The financial year of 2004 will be remembered as the year when the Grundfos group achieved its long-term earnings goal of 10 per cent profit before tax. For a long time, this has been our declared objective, and at the beginning of 2003 it was formulated as a precise target to be reached in 2005. It is highly satisfactory that throughout 2004, we were able to build on the notable increase in earnings of 2003, so that this target could be reached one year ahead of schedule, despite adversity in terms of unfavourable currency rates and unusually high prices on materials.

The growth in earnings in 2003 was first and foremost the result of a generally improved efficiency in the company, which led to a historically low increase in costs. In 2004, the increase in earnings stemmed from a continued accelerated growth in sales, which rose by DKK 1b to exceed DKK 12b. This corresponds to a growth of 9 per cent.

The primary objective behind the increased earnings in the Grundfos group is to strengthen long-term growth by starting even more long-term initiatives. Consequently, this has also been of high priority in 2004. Through our persistent focusing on research and product development, we were able to spend DKK 543m on these objectives in 2004, which is the biggest amount so far. Our total investment programme also reached a record-breaking DKK 1,000m, a substantial part of which was used for market introduction

of new products and a continued globalisation of the group's production facilities. In 2004 we were again able to self-finance these long-term initiatives.

Grundfos emerges stronger from 2004. Not least because of the realised growth in the new Eastern Europe and Far East markets. This is the result of a targeted investment in globalisation of both our sales effort and our production activities. We are keeping this as a focus area for the group and are currently investing more than ever, in particular, globalisation of our production activities.

In 2004, globalisation has made the agenda for real. Contrary to a lot of other companies, Grundfos does not regard the international division of labour as a threat, but as a positive opportunity, which we have actually profited from for many years. Continuously establishing new sales and production companies gives us several competitive advantages: We get closer to our customers so as to offer them a quicker and better service. And we are able to locate the simplest work processes where the costs are lowest.

When production is moved from one country to another it greatly affects everybody involved that Grundfos, even in this situation, can live up to its status as a socially responsible company. Therefore, we give high priority to the moral and ethical aspects and make a serious and wholehearted



Jens Jørgen Madsen, Group President

effort to help employees who may have lost out in this development, to get a new job.

Grundfos will continue to be a frontrunner in a globalised world and to fulfil that ambition, innovation in all areas is a necessity. Consequently, we are strengthening our already significant effort to create new products that are more suitable, less resource-consuming, less environmentally harmful and more intelligent. Even in 2004, we were able to extend our market-leading role in terms of products. Not least through the introduction of Grundfos' new range of high-tech wastewater pumps.

The claim for leadership with regard to innovation is, however, not limited to our technologies and products. We are also getting increasingly devoted to innovation when developing our business processes. That way, we can continuously improve both our internal processes and our services so they meet both our own expectations and those of our customers.

One of the most important values among the group's company values is responsibility, both in relation to business and the society of which we are a part. Therefore, it is only natural that Grundfos is now actively contributing in rebuilding the communities in Southeast Asia that were so tragically struck by a terrible natural disaster at the end of

the year. Grundfos is working in this part of the world, and as a natural consequence of this, we help in the affected areas.

Responsibility also manifests itself in our companies where a healthy and safe working environment is of the highest priority. Therefore, we are very pleased to see how our continued focus in this area has led to new improvements. An important example of this is a 35 per cent reduction in industrial accidents since 2000.

We would like to take this opportunity to thank all of the group's customers and other partners for good co-operation throughout 2004 and all of our 12,586 employees for their hard and dedicated work towards achieving the fine result.

Niels Due Jensen
Group Chairman

Jens Jørgen Madsen
Group President



GROUP MANAGEMENT REPORT 2004



Earnings goal achieved earlier than planned



2004 became the year when the Grundfos group achieved its strategic goal of a profit before tax of 10 per cent on turnover. Rising prices on raw materials and the weakening of a number of important currencies was countered by improved processes and an organic sales growth of 7 per cent.

The development in the world economy was more positive in 2004 compared to 2003. This general economic trend, combined with a number of domestic measures, had a positive impact on the development in the group's results in 2004 where both turnover and profits were significantly better than budgeted.

In the light of this satisfactory financial development, the group launched, early in the year, a series of acceleration plans in terms of increased product development measures and focused market development. This meant that the increase in the group's costs were almost parallel to the growth in turnover. We intend to continue and even accelerate further these costly activities in 2005.

Group net turnover amounts to DKK 12,153m against DKK 11,152m in 2003. This corresponds to a growth of 9 per

cent which, however, was influenced negatively by the weakening of, in particular, the US dollar and dollar-related currencies.

In local currencies, turnover rose by 11 per cent, which is an improvement over 2003. The positive sales figures in the US, Russia and China had the greatest impact, but also considerable double-digit rises in Eastern Europe and the Far East contributed to the satisfactory increase.

Where the 2003 turnover was only marginally influenced by the effect from bought companies – less than one per cent – the acquisition of the German pump group Hilge as of 1 January 2004, had a two-per cent impact on the rise in 2004.



Profit before tax was DKK 1,234m against DKK 1,078m last year. The rise of 14 per cent is attributed to improved efficiency in production, high utilisation of production capacity and an effective, globalised business concept for production, purchase, distribution and sales.

While Group Accounts Receivable from customers has shown a sound development corresponding to turnover, stocks have risen relatively more. The rise is due to, i.a. the build-up of strategic stocks for some of the group's main products and the build-up of stocks prior to the market introduction of new products.

In 2003 the group almost halved its net interest-bearing debt. In 2004, the group was again able to self-finance a considerable build-up of the working capital, primarily in

the form of increased stocks, record-high capital investments in a wide range of countries and the acquisition of Hilge. This acquisition has, however, meant an increase in the group's net interest-bearing debt of DKK 134m - from DKK 881 to DKK 1,015.

The group's financial department is continuously carrying out systematic internal audits of the business procedures and commercial measures in the many different cultures that are represented in the group's 62 operational companies. This is done in co-operation with other group-management functions and our external auditors, and the effort will be enhanced further in 2005.

New markets, especially, generate growth



In 2004, Grundfos was again able to win market shares and thus strengthen its position as one of the world's leading pump manufacturers.

The 2004 sales have gone up in practically all regions. With a 9 per cent growth in DKK on a global market where overall growth amounts to 4-5 per cent, Grundfos was again able to win market shares. This very positive development shows the group's ability to realise strategies and goals – and to strengthen its position as one of the leading pump manufacturers in the world.

During 2004, the Grundfos group has intensified its effort on the large growth markets like China and Russia, where internal sales competencies and targeted external sales and distribution channels have been built up to ensure a professional service of the customers. The outcome is growth rates of 40 per cent in Russia and 50 per cent in China.

To support the growth efforts with the optimum ability to supply, Grundfos is investing heavily in production facilities in the growth markets, and the number of on-going constructions of factories was higher than ever in 2004. A total of 55,000 m² is under construction: 30,000 m² in China, 10,000 m² in Russia, 10,000 m² in Hungary and 5,000 m² in India.

But Grundfos' success in 2004 is not limited to the new eastern markets. In Japan, traditionally an important market to the group and with a demanding and discerning industrial segment, we were able to realise an 18 per cent growth in sales.

An increased effort with US wholesalers contributed to a noticeable growth on the American market. Sales went up 17 per cent, and it is expected that this giant market will represent a significantly higher share of group sales in the years to come.

On the large and well-established markets in Western Europe, realised growth amounts to a satisfactory six to seven per cent. The group has strengthened its position as market leader by focusing even stronger on partnerships with key customers among wholesalers, installers and consulting engineers.

Efficiency in the sales and marketing effort has been improved through targeted campaigns, follow-ups, discipline and trimming of the structure and processes. This has made

way for a marked improvement in earnings in practically all sales regions during 2004.

All of the group's global business areas have shown a positive development in 2004.

The business area Building Services: growth of 7 per cent

Through the years, Grundfos has established itself on the European market as the preferred supplier in the field of Building Services. A position we have managed to strengthen in 2004. Through close partnerships with wholesalers and boiler manufacturers and an understanding of customer needs, we have established a foundation for the creation of innovative products and system solutions.

A large part of our resources have been invested in offering our customers these new business opportunities and creating new markets in Russia, Asia and the US by establishing distribution channels, sales and marketing competencies through our own sales staff and training/education of installers and consultants.

Customers with activities outside their domestic market are able to draw on Grundfos' global nature to an ever-increasing extent. Thus, the European manufacturers of gas boilers with whom Grundfos has strong partnerships, have become more active outside Western Europe.

Sales of energy-saving regulated pumps showed a very positive development with a growth of no less than 40 per cent, i.e. to customers in the boiler industry where the pumps are part of for example integrated solutions for gas boilers.

It is still our goal to realise a growing market share for energy-saving regulated pumps, and Grundfos is working actively towards increasing consumer awareness of energy consumption and environmental issues.

Business area Industry - growth of 13 per cent

Trends in Grundfos' industrial markets continued to show a high level of investments in new production equipment and industrial construction. Throughout the year, this has supported the positive trend in sales for industrial customers and end users. We would like to draw particular attention to sales in Asia, Japan and the North American market, and to the new market in Eastern Europe where we were able to consolidate our position through double-digit growth rates.

In our efforts to become an all-round supplier of pumps for the water treatment industry, we have launched new products for this area in 2004. This applies, among other things, to the so-called BMEX plants which offer large capacities for reverse osmosis for water treatment, and which shows an even lower energy consumption per produced cubic metre of pure water.

During the year, the direct market communication with business-area partners in the industry has been renewed and improved by a mobile and flexible, modular concept for exhibitions and events. In 2004, this has been the framework for approximately 120 events in which more than 6,000 industrial customers took part.

The take-over of the pump group Hilge in 2004 created a strong platform for increasing activities in relation to the process industry. Particularly in the food and medicine industry.

Business area Water treatment and wastewater - growth of 6 per cent

In the new markets in Asia and Eastern Europe, increased investments in plants for water supply and wastewater contributed to a positive development in 2004, and in Western Europe, legislation had a positive impact on the project market for wastewater. We have strengthened our competencies and our involvement in projects, and we have won important projects in the wastewater area, which grew with a total of 17 per cent in 2004.

As regards water supply, the focus has been on increasing marketing of Grundfos solutions for water supply from borings: the SQE groundwater pump for constant pressure and the SQFlex as the most environmentally friendly and maintenance-free water supply system for remote areas with no electricity supply.

Business area Dosing - growth of 37 per cent

Grundfos is still gaining ground in the market with its Digital Dosing concept, which makes dosing simpler, safer and more precise. The continuous strengthening of the Digital Dosing programme and the takeover of the well-established and renowned dosing pump group Alldos at the turn of the year 2004/2005 paves the way for further business opportunities.

Innovation sets new standards



Meeting customer expectations now and in the future is the objective of Grundfos' record-large investment in research and product development.

Once again, the innovative effort has led to the invention of trend-setting technologies and products that set new standards for sturdiness, business economy, user-friendliness and environmental considerations.

Wastewater pumps are used under conditions where they are required to function for a long time without service. And when they finally need maintenance or repair, this must be fast and simple. Grundfos has taken these conditions into account in the major product novelty of the year: the advanced SEV and SE1 pump series with power ratings from 1.1 to 11 kW.

In the autumn of 2004, Grundfos won the Danish Design Award for the pumps that are developed for easy handling of wastewater and process water, i.e. in public plants and industry. The first double so-called cartridge sealing on the market is instrumental in making the sturdy pumps extremely service-friendly.

Computer-optimised impellers set a new standard for efficiency - and thus for energy-saving - for this pump type. At the same time they allow passage of solid matter with a diameter of up to 100 mm which significantly reduces the risk of clogging.

Traditionally, Grundfos has supplied circulator pumps to the world that many regard as revolutionary - i.e. because of the possibility of regulating pump performance through built-in frequency converters.

This tradition is carried forward in a new generation of large circulator pumps for heating systems in major residential and industrial construction. The trend-setting application of permanent-magnet motors contributes to lowering energy consumption in the new Grundfos Magna pumps with up to 78 per cent, compared to conventional circulator pumps without regulation, and with up to 16 per cent, compared to the former Magna generation.



We have succeeded in developing a pump that, despite its simple design, contains very advanced solutions. The sturdy design, which ensures optimum reliability and durability, is based on thorough and comprehensive analyses of i.a. materials.

A growing number of Grundfos customers prefer not only Magna, but also other models of Grundfos' electronically regulated circulator pumps - e.g. Alpha+ for heating systems in small buildings. Sales of this pump type to OEM customers rose by 50 per cent in 2004.

The Grundfos novelties of the year on the OEM market are UPS circulator pumps with 20-30 per cent reduction in energy consumption and a range of customised products and system solutions.

The compact hydraulic system solutions are developed both as finished solutions for small boiler customers and

as customised solutions. The newest and most innovative IWCs (Integrated Water Circuit) will be introduced at the year's largest exhibition of the industry - the ISH fair in Frankfurt in March 2005.

As trendsetter in the market, Grundfos continues to extend its range of digital dosing pumps. The year's novelty in the DME series brings capacity to 150 l per hour and marks yet another milestone in the Grundfos concept that makes dosing of chemicals for water treatment simpler, safer and more precise.

As it will appear, there is great activity at the Research and Technology centre at the group headquarters in Bjerringbro. In order to keep its leading position on a long-term basis, Grundfos took the first tentative steps towards building a small research facility in China. So far, the plan is to employ four researchers who will be stationed at the Chinese production company in Suzhou, west of Shanghai.

Action behind the words in the company values



Grundfos' core values, Be responsible – Think Ahead – Innovate, translate into action through an intensified effort as regards the product sustainability, environmental impact of production and a safe and sound working environment.

This means that we incorporate sustainability in all our processes from idea to new product - right from the development, production and distribution to the use phase and the eventual removal.

Products

We feel particularly responsible for working actively towards a better utilisation of the world's limited energy resources, and we know that pumps stand for approximately 20 per cent of the total electricity consumption in the world. Therefore, it makes a difference when our customers install energy-saving regulated pumps.

Through the energy-saving products the group sold in 2004, our customers achieved savings corresponding to more than the annual energy consumption of 120,000 average households. These savings must be seen in relation to the energy consumption of unregulated pumps.

In connection with product development, we focus on the use of scarce resources, both in terms of energy consumption and materials. The result of our objective to reduce the energy consumption of the products is that 75 per cent of all new products use at least 5 per cent less energy than the previous model.

As an example of how this focus leads to results, we can mention that Grundfos - in order to reduce the current consumption of the pumps - has introduced permanent-magnet motor technology in several products. Through the introduction of this technology we were able to save close 93.8 tonnes of copper wire in 2004 compared to similar pumps with traditional motor technology.

And it is with great pleasure that we can register how a growing number of customers focus on installing the most energy-saving products. For individual product areas, figures have tripled compared to 2003.



Production

In our production, we focus mainly on reducing:

- energy consumption in general, i.a. through the use of cleaner technology
- the use of ancillary materials, e.g. oil and chemicals
- the number of industrial accidents

Furthermore, Grundfos can pride itself on a workforce who, through suggestions for environmental improvements, are getting ever more directly involved in the environmental effort, knowing that good results do not come easily.

At group level, we saw a far more than 56 per cent rise in the number of environmental proposals in 2004, compared to 2003. The number of proposals was 5,268 in 2004.

The number of industrial accidents is also showing a very positive trend. The increased focus on industrial accidents has meant that our employees have been more able to avoid dangerous situations, and at the same time they feel responsible for making sure that nothing happens to their co-workers either.

If an employee observes conditions relating to the company that might cause an accident, this is registered and the conditions are changed immediately.

This proactive thinking is one of the efficient means that are used to reduce the number of accidents.

Environmental certification

According to Grundfos' environmental policy all Grundfos' manufacturing companies must be certified in accordance with the international ISO 14001 standard. All companies now meet these requirements, as our newest company in Hungary was certified in 2004. New or acquired companies are given a three-year deadline to implement the system.

Furthermore, three of the companies have been certified according to the recognised working-environment standard OHSAS 18001, and several will achieve the same in the coming year.

External approval and commitment

In 2004, Grundfos again received the Danish diploma for best corporate environmental reporting and has been nominated for the European Environmental Reporting Award.

We view these recognitions a motivation to continue to display the greatest possible responsibility in all our processes.

Environmental objectives

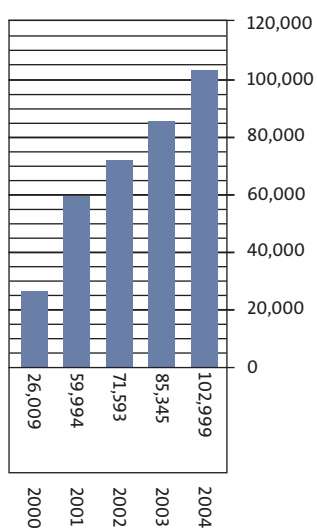
Area	Objective*	Term
■ Electricity	20% reduction of indexed electricity consumption compared to 2000	31-12-2005
■ Water	10% reduction of indexed water consumption compared to 2000	31-12-2005
■ Chemical waste	20% reduction of indexed chemical waste compared to 2000	31-12-2005
■ Number of chemicals	Reduction of the number of red chemicals** from 99 in 2003 to 70.	31-12-2005
■ Accident frequency	Lowering of the accident frequency to max. 17 accidents per 1m working hours.	31-12-2005
■ Accident-related absence	Reduction of accident-related absence to max. 2.0 hours of absence per 1,000 working hours	31-12-2005
■ Electricity consumption, products	At least 80% of new products developed during the period till 2007, must as a minimum have a 5% lower electricity consumption compared to the previous model.	31-12-2006
■ Material consumption, products	The consumption of resources for all new products developed during the period till 2006 must be lower than for the previous model.	31-12-2006

* The environmental objectives of the Grundfos group are revised every year and described in detail in the annual Environmental Report.

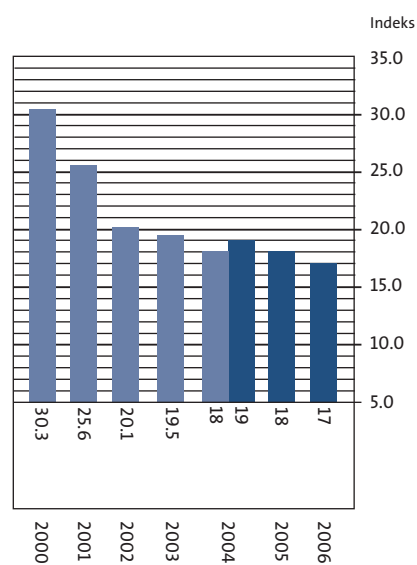
** At Grundfos, chemicals are classified as red, yellow or green, where red indicates particularly hazardous chemicals.



■ **Energy savings on products**
expressed as the annual energy consumption
of an equivalent number of households



■ **Accident frequency**
■ **Objective**



Focus on change, innovation and global responsibility



Under the slogan “Make a strong company stronger”, the organisation has improved its ability to concentrate the forces on what is important.

In 2004, we have described global competencies within a number of subject areas, and this means that we are focusing sharply on intensive supplementary training, especially for sales, service and marketing employees, at The Poul Due Jensen Academy. Besides this, the academy is focusing on training and education within the groups’ product and application areas. A further initiative in 2004 was the training and education of a number of key customers at the Academy. Everybody has given a positive feedback and we intend to intensify these training offers in the years to come.

In 2004, we carried out pilot courses for a new programme for managerial development within three subjects: HRM, business development and change management. Furthermore, the Academy has carried out some more skill-orientated training programmes for the group’s sales, service and production managers.

The first phase of a Talent Management Programme has been completed. It is a pilot project with 16 participants

from ten companies, and we expect these talents to find a managerial position no later than 24 months after the completion of the programme.

Finally, we have evaluated the first SCOP project, Sales Career and Opportunity Programme in 2004. In 2004, 20 new graduates were employed in 11 Grundfos companies as external sales trainees. Each new employee was given an experienced coach. Five courses were held at The Poul Due Jensen Academy together with national education and traineeships. 17 out of the 20 completed the programme and are today working successfully as external sales persons in our companies.

Corporate Social Responsibility

All companies in the group are working purposefully towards practising Corporate Social Responsibility (CSR) before the end of 2006, and we are witnessing widespread social responsibility in all places of the world where Grundfos is present.



By the end of 2004, 277 people whose work capacity is reduced were employed on special terms in the group's companies. This corresponds to 2.2 per cent of all employees, but a considerably higher number of people are covered by various initiatives pertaining to the practising of social responsibility. We are well on our way to achieving our objective of 3 per cent of the group's work places being reserved for employees with reduced work capacity.

Among the other examples of social responsibility, we would like to mention that Grundfos' sales company in England is offering work for the rehabilitation of juvenile delinquents and previously convicted offenders, and that Grundfos in South Africa is offering basic training in electricity, hydraulics and pump understanding to young socially disadvantaged engineers. Grundfos in Turkey is working with employing and integrating long-term unemployed people and members of the Kurdish minority, and Grundfos in China is arranging special days for children where pupils from a school for blind and deaf children are

invited. Furthermore, Grundfos in China guarantees fresh milk for these pupils everyday.

The summary of these and all the other marks of social responsibility provide us with educational insight in various cultural patterns, but it is safe to say that all activities have one thing in common: They are all living proof of the Grundfos group's company values.

In 2002, Grundfos adopted the UN charter on Global Compact and therefore, we intend to make sure that our suppliers observe the leading principles in this charter. The group purchasing department has worked out all supplier contracts so that each supplier is bound by the ten UN principles. Furthermore, Grundfos will perform audits at the suppliers so as to continuously make sure that procedures are observed.

Targets and focus areas in 2005



The beginning of 2005 was heavily influenced by the terrible disaster which struck Southeast Asia. For a while, it overshadowed all other topics, and luckily there is a strong global focus on helping the victims of the disaster.

The tsunami that struck Southeast Asia on the day after Christmas is the greatest natural disaster of our time. Thus, it is quite natural that Grundfos, being a responsible company with a global presence and with companies and employees in all of the affected countries, is doing its utmost to help. Therefore, Grundfos is donating DKK 5m to help in the region, out of which DKK 1m goes to the Danish Red Cross. Furthermore, the employees in all of the group's companies are contributing through local collections.

The disaster has again reminded us that not everything can be planned, and it is with some uncertainty that we enter the financial year 2005. The general global economic growth is declining, material prices are unusually high, and the dollar has reached its lowest for many years and is without any predictable trend. These factors will undoubtedly affect Grundfos' business.

Yet, we are optimistic going into 2005. In our plans and budgets, we anticipate that we will be able to continue the growth in sales that we realised in 2004, whereas we cannot expect to maintain the level of earnings unless the dollar shows signs of a marked improvement in 2005. Fluctuations of 10 per cent in this currency and in the currencies related to the US dollar will, *ceteris paribus*, have

an impact on the group profit before tax of approx. DKK 100 m. Neither can nor will we compensate the weakening of these currencies by a matching rise in prices on the affected markets as this would damage our long-term ability to compete. On the short-term, we will therefore have to accept a somewhat lower profit before tax and at the same time work long-term with making the group less dependent on fluctuations in currency rates.

In 2005, our focus will again be on the new and strongly-emerging markets in Eastern Europe and the Far East, where Russia and China respectively are contributing with a marked growth in sales. At the same time, we will implement the first elements of an acceleration strategy for the US. The objective of this is to ensure a long-term and stable double-digit growth rate on the world's largest market for pumps.

The group's high level of ambition concerning the product development and research has been maintained at a record-high level – more than four per cent of the group's total turnover. This is twice as much as Grundfos' main competitors are spending, and it is supposed to maintain Grundfos' position as the trendsetter in the pump market.



An important element in our product development is focused on saving energy for our customers and thus take care of the environment. We all share the communicative task of drawing the customers' attention to our serious work with making the products as environmentally friendly as possible. To help our customers in the market for circulator pumps to greater transparency in this area, Grundfos has, together with a number of our competitors in the EU, created an energy labelling system as is known in the field of domestic appliances. In the years to come, we will focus heavily on both developing pumps that meet the highest standard and communicating this to the customers.

The globalisation of Grundfos' production facilities will continue at full speed in 2005. In the course of the year, new factories in China, Hungary, Russia and India with a total area of 55,000 m² will be opened at the same time as the initial steps to establishing a major dollar-based production facility in Mexico are taken. This is one of the long-term measures that will reduce the group's dependency on the fluctuating dollar.

The Grundfos group is growing primarily as a result of organic growth, but as a supplement to organic growth, we have in recent years acquired a couple of small well-run pump companies with a positive brand with the market segment that Grundfos wishes will grow faster. At the beginning of 2004 we bought the German company Hilge who supply pumps for breweries, dairies and the food

industry, and at the beginning of 2005, we have acquired the German dosing pump group Alldos and the Italian manufacturer of submersible motors, Tesla.

Apart from the continued development of the existing pump business, Grundfos is investing in the further development of new business areas outside the pump market. These opportunities often spring from the group's research and technological development, but even business ideas that are created outside Grundfos are being developed further as part of Grundfos' New Business development.

We currently have three large New Business projects underway and have great hopes for the future of those. All three projects are opening new business areas for Grundfos and have significant business potential.

In 2004, Grundfos has strengthened its organisational set up for New Business in order to ensure a greater focus on and effort in the development of such new business areas, and in 2005 we have allocated DKK 100m for New Business development.

Group earnings for 2005 will be somewhat under pressure, partly due to long-term activities and partly due to the marked drop in the US dollar. Still, our budget for 2005 predicts a profit before tax of more than DKK 1b, and we are still on course to achieve our turnover target for 2007 of EUR 2b - equivalent of approx. DKK 15b.

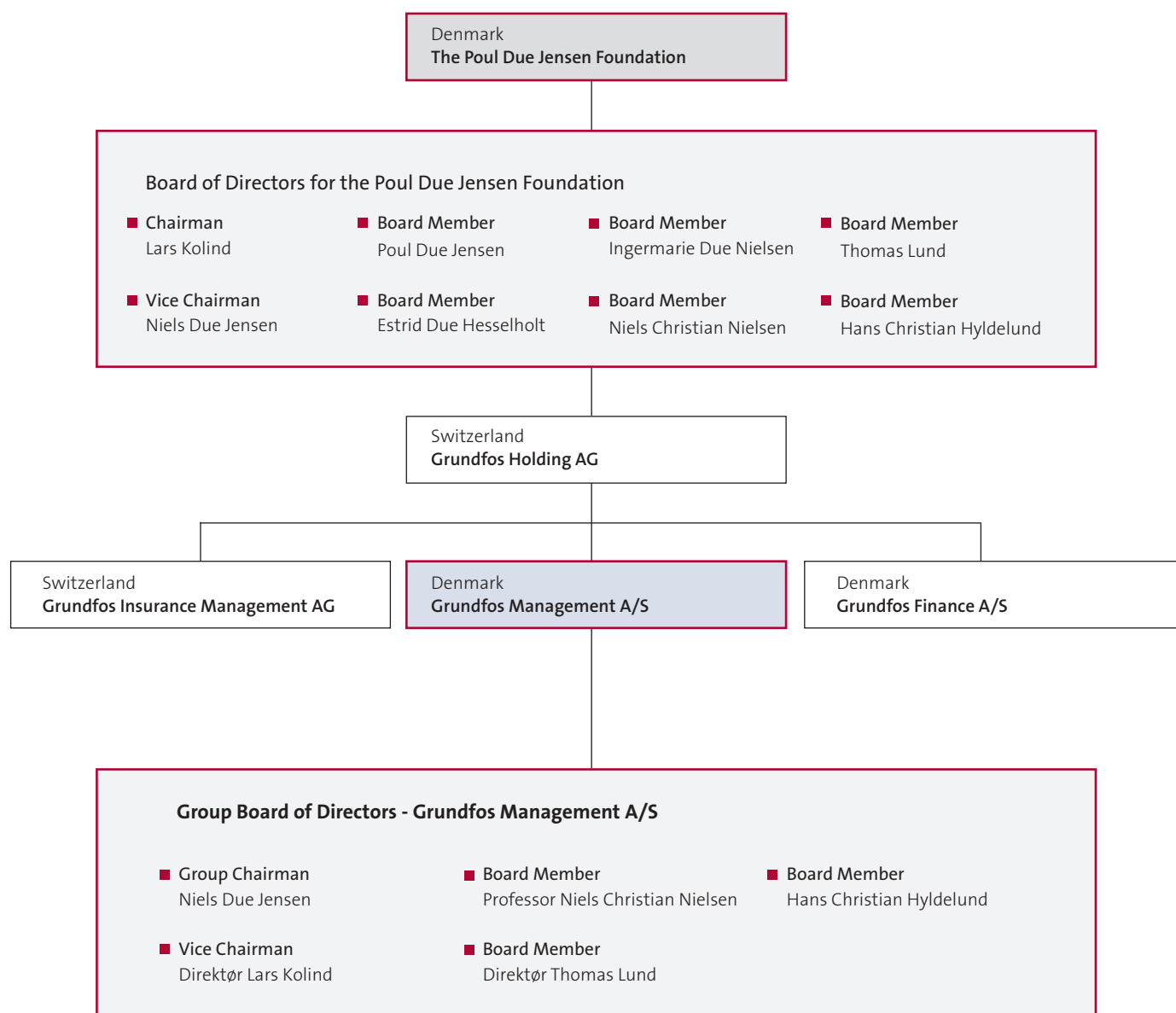


Management Structure

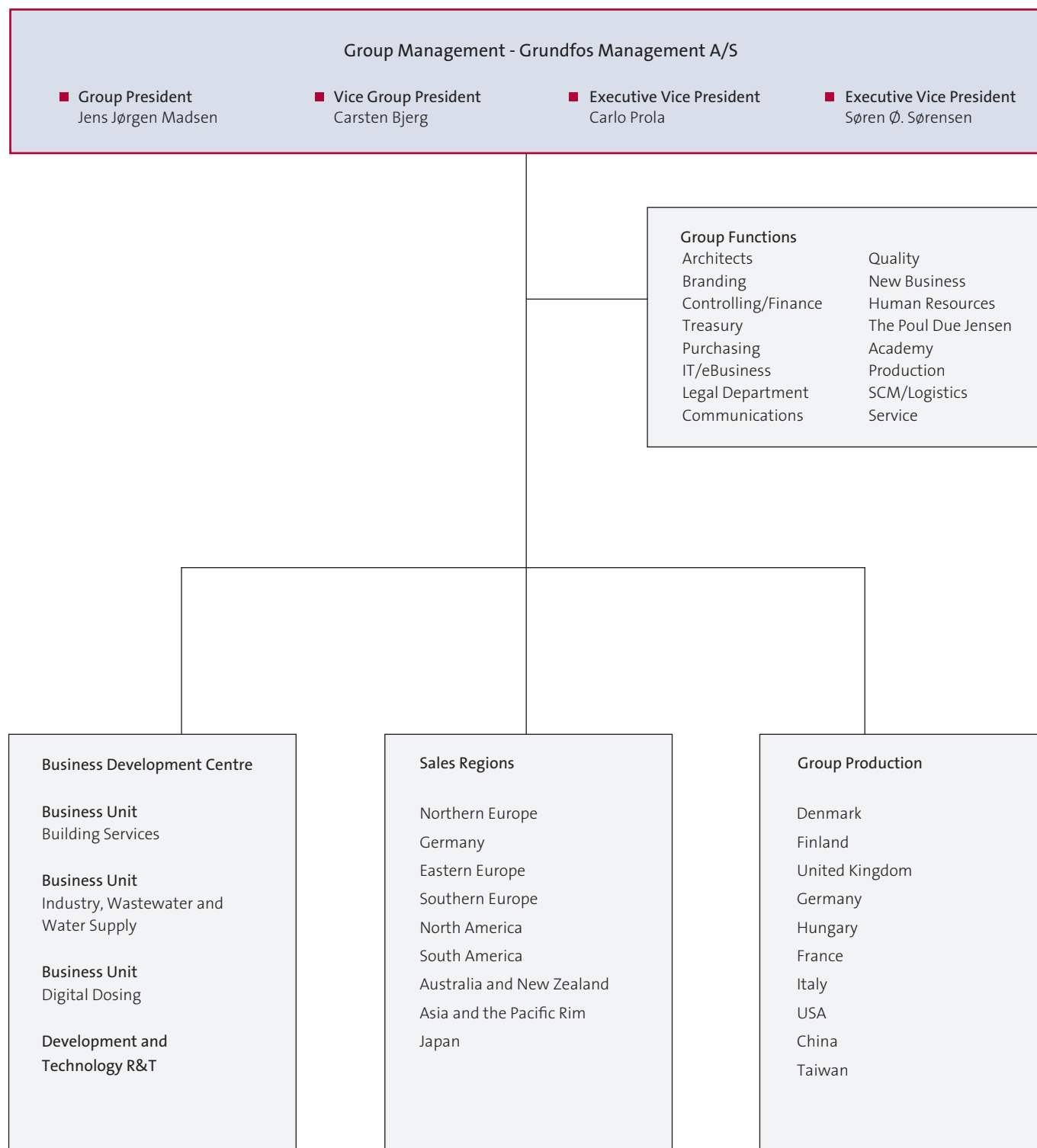


From the left: Group Chairman Niels Due Jensen, Director Lars Kolind, Group President Jens Jørgen Madsen, Board Member Hans Christian Hyldebrandt, Executive Vice President Søren Ø. Sørensen, Vice Group President Carsten Bjerg, Director Thomas Lund, Executive Vice President Carlo Prola og Professor Niels Christian Nielsen.

Management Structure



Group Structure





GROWTH AND GLOBALISATION



The potential is huge - and Grundfos is ready

The global need for pumps is colossal, but demand varies with the economic trends and activity within housing, public works and industry. When demand goes up, you have to be well and truly prepared to meet it.



Grundfos is prepared. As well as we know that a global company has to be run centrally, local presence and detailed knowledge of local conditions are essential to achieving success.

Therefore, we have set up local sales companies and regional production sites in most parts of the world over the years, and we are still expanding. This strategy is particularly valuable when the demand for pumps increases. It means that we are on location and are able to both meet the demand and offer advice and service that is adapted to local conditions.

Establishing local companies ensures quick and reliable delivery. But it takes more than that if you wish to get really close to the customers and satisfy their individual needs. Therefore, we are entering into partnerships with the key customers that are the link between

Grundfos' own organisation and the end users. When we make alliances with wholesalers, distributors, consultant engineers and OEM customers, we can work closely with them towards a much better fulfilment of theirs as well as their customers' needs.

The installations in which the pumps are supposed to work, vary from one continent to the next, and a standard pump is not always the ideal solution. If the market is large enough, Grundfos is capable of developing entirely new pump solutions or special versions of standard pumps that are modified to meet certain market needs. Product development has so far been concentrated in the central research and development department, but a smaller research unit is underway in both the Chinese and the American sales company.

In countries where geographical distances are great, we make deals with local service companies, whom we equip with the expertise and tools necessary to perform service tasks just as well as our own customer service technicians.

China and the US are examples of pump markets with enormous growth potential to Grundfos because of the economic progress there, and because Grundfos is prepared to meet a growing demand. The two markets are very different, and even if this difference is reflected in the way Grundfos serve them, it is still with the same basic intention: to comply with the customer's individual needs in the most efficient way possible. That should appear from the reports on the following pages.



■ Facts about China and The United States



China



The United States

■ Total area ¹	9.6m sq. kilometres	9.6m sq. kilometres
■ Population ¹	1,287m (2003)	281m (2003)
■ GDP per capita ¹	USD 5,000	USD 37,800
■ Growth in GDP ¹	9.1%	3.1%
■ Daily water consumption per capita in 2004 ²	1,131 liter	4,950 liter
■ Total pump market in 2004 ³	USD 1,174m	USD 5,100m
■ Grundfos' market share in 2004 ³	approx. 5%	2.5%
■ Increase in Grundfos' pump sales in 2004 ³	45%	17.1%

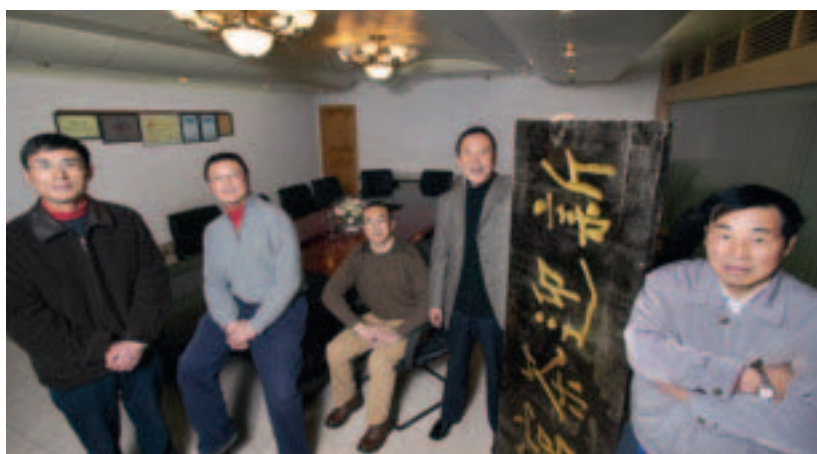
¹The World Fact Book

²USA: US Census Bureau, China: China Statistical Yearbook 2004

³Grundfos' own accounts

New times at the tea house

China is on the move in every area these days, and the pump market is no exception. Grundfos has been part of it and expanded its activities continuously for almost ten years, and still the growth potential seems endless.



"Wei?" – Sun Ming picks up his mobile phone to say hello for the 17th time while steering his white Toyota Land-cruiser through the rush-hour traffic of Kunming. The humming of the V8 and the subdued Chinese pop music are as soft as the leather upholstery and are accompanied by the aggressive honking, bicycle bells and whistling policemen outside the toned windows. Sun is enjoying life as the hard working businessman. He is successful.

It all began with a tea house

Only eight years ago he and his four friends sold their first Grundfos pump. It was to an old acquaintance way out in the Southern Yunnan province, and they suffered a solid loss. Not least because they had to rent a car to deliver the CR pump on location 120 km from the provincial capital of Kunming, and bicycles were the only means of transportation they owned. But it was the first order for the company Fossun, and it was thoroughly celebrated. Just a couple years before, the friends had opened a tea house in the modest Xin Yin Street in what was then the outskirts of Kunming. New times had

arrived in China, and there was money to be made. Now, the tea house was the venue for a celebration between themselves and their families. It was the beginning of an era, and they were proud to be appointed Grundfos distributors.

Committing to new entrepreneurs

Shanghai. From his new office on the 51st and top floor of the Raffles City Office Building, Jerry Tan can see the city skyline change for every passing day. He is managing director of Grundfos' Chinese sales company and has been part of it from the beginning in 1995.

It was Jerry Tan who gave the enthusiastic people of Kunming the nod as authorised distributors in the summer of 1996, and he has tied several other distributors to Grundfos based on the same motto: It is good personal relations and people's attitude that count.

You can always learn what you need to know about pumps, and Grundfos are doing a good job of training their distributors. They are regarded as partners, maybe even spouses, and

they are part of the family and loyal supporters of Grundfos' core values. They make them their own.

"Getting married is easy enough, but for a marriage to bear fruit it has to last for many years. We follow the long-term strategy of showing them that we are here to stay, and that they can safely base their business on us", says Jerry Tan. Grundfos encourages its partners to build their own distinctive profiles in the market, and it is important that they make money, but it does not have to be solely on pumps.

From the modest beginning to big business

And Fossun is making money. Little did the four young people and the older pump engineer, with whom they made an alliance in 1996, know that Fossun's turnover would reach 83m yuan (DKK 56m) in 2004, and that the provincial government would be among the key customers. The tea house has been sold long ago, the building restored beyond recognition, and back in Fossun's new, streamlined offices there is only a dusty, wooden sign with the text "Xin Yin Tea House". A memory of their first

- Little did the four young people and the older engineer, with whom they made an alliance in 1996, know that Fossun's turnover would reach 83m yuan in 2004.
- As most other Grundfos distributors around China, Fossun went all-out - and won.
- Everything is changing very quickly in China, and we have to react swiftly to market needs.



entrepreneurial project from a distant past.

On our tour of Kunming, Sun points out one large project after another of which Fossun have been one-stop supplier. As early as 1998, the young company won the main contract on the supply of pumps for World Horticulture EXPO 99 - a standing exhibition of gardens from all over the world and the Chinese provinces. Several government buildings are equipped solely with Grundfos pumps, and the same applies to sports facilities, shopping malls and large highway projects, even in the most remote corners of the province, far from Kunming. "There, the roads are very poor, which is why I bought this Landcruiser", Sun says modestly.

He drives up in front of the brand new Lakeview Golf Club where his partner Li Heng is waiting. Li is responsible for the pump and piping system for the entire golf facility: water supply, irrigation, wastewater, heating and ventilation. The temperature is only a little above freezing point, and still the golf clubs are being swung eagerly. Clearly,

the players are not Tiger Woods-material yet, but even here the Chinese are extremely diligent. Li shows us the beautiful course, the almost finished clubhouse, a great, two-storey driving range and dozens of luxurious homes connected to the facility. This project alone brings Fossun a turnover of 30m yuan and will involve more than 500 Grundfos pumps

How big is "big"?

As most other Grundfos distributors around China, Fossun went all-out - and won. In that respect, Grundfos' own effort in China may appear conservative by comparison. Apart from the dashing offices in Shanghai where 150 employees run all sales and marketing operations for the whole country, Grundfos are ready to expand production capacity in the industrial centre of Souzhou, 80 km away. The existing factory of 14,000 m² has been sold, and an entirely new factory of twice the production area is being constructed on the open field.

To the distributors, this is good news, but they would like more. It is es-

sential to projects like Fossun's that the products can be picked off the shelves in Souzhou and will not have to be transported all the way from Europe. But Sun Ming would also like to see Grundfos develop new products in China so that the pump solutions could be more easily adapted specially for the Chinese market.

"Everything is changing very quickly in China, and we have to react swiftly to market needs. Otherwise, others will, and we are out!" His point is that although only ten per cent of China is running in top gear now, it still corresponds to the entire Western European market.

They are not unfamiliar with that concept in Souzhou and Shanghai. They agree that the market is big. Only, no one knows how big. But Grundfos has 100,000 m² to work within the new industrial area, where the asphalt of the four-track roads is hardly dry and thousands of five-metre high roadside trees are being planted to make everything look finished when the construction work is done - in a minute. So the message is as clear as it is brief: "We're ready!"

New thinking leads to growth

Pumps sales are doing well in North America. The reason is economic optimism coupled with new thinking and a long-term, focused effort from Grundfos' American subsidiary.



Dick Hatten is in luck. The snowstorm has been delayed.

He is on the southern track of US Route 1 that runs along the American east coast. He is in Maine and headed for Boston. As the person in charge of the north-east corner of the US, he marks today's meeting with customers down as successful.

Focused all the way

The light snow has made way for heavier flakes. Today's schedule and weather have both worked out in Dick Hatten's favour. He made the right decision by starting out furthest to the north.

Similar deliberate choices have characterised Grundfos' efforts in the US in recent years. The focus has been on regions, customer relations and key products. Thanks to a strategic move of headquarters from California to Kansas, a restructuring of the management team and a well-trained and dedicated team of sales persons, both sales and the brand have been lifted. Together, these are contributing factors to the

mild winds the company is experiencing.

The distributor that Dick Hatten has been seeing is one the leading lights that Grundfos is seeking. The distributor has a comprehensive network of shops with contacts to thousands of certified plumbers.

"We should go with partners who conduct their business the same way we do ours. Fixed, long-term alliances are essential", Dick Hatten explains.

A strategy that works

According to customers, the Grundfos technology is years ahead of the competition. Through targeted campaigns, Dick Hatten and his colleagues have done well in terms of pushing both the products and the business model out into the field.

"The strategy has been created through synergy between Bjerringbro and the management in the US. Sales figures confirm that local forces and Danish innovation have brought out the sun. It is about presence, about getting out into the light", says Dick Hatten.

This view is shared by Larry Wimmer, who is director of Grundfos USA. Since 2001, Kansas has been the home base for sales activities in the entire region, whereas production is handled at the state-of-art facilities in California.

"The strategy is spreading from the North East to all other areas. We need more people out in the field. Ideally, we want all customers for pumps to think Grundfos. In recent years, we have focused on star products, among other things, for circulation and water supply. We intend to stick to that strategy. We will maintain growth by focusing on profitability and personal development in relation to our employees. It is a challenge to stand like a rock in the storm, even when the storm is a tail wind", Larry Wimmer concludes.

During the last couple of years, the company has been contacted by other companies, wholesalers and distributors who wish to market Grundfos' products.

"It can be attributed to increased awareness of the Grundfos name, recognition

- We will maintain growth by focusing on profitability and personal development in relation to our employees. It is a challenge to stand like a rock in the storm, even when the storm is a tail wind", says Larry Wimmer who is director of Grundfos USA.



of our logistics and improved knowledge of our trend-setting technology. But we have also been successful in introducing products especially for the North American market. One example is our "Comfort system". A solution that provides hot tap water in seconds. In many areas of the US, this is an unknown phenomenon. That is why we developed a system that offers the easy and inexpensive solution to the problem. Products developed locally and especially for North America are one of the corner stones of our continued success. Right now, we are working on setting up our own development centre", Larry Wimmer tells us.

Close ties

When Dick Hatten spends three to four days of a working week on the road, it is to build up the knowledge about the needs and wishes among the people who are in direct contact with the end user.

As he steers the car into a windswept filling station, where three petrol pumps are keeping a wooden shed company, he finishes a call to the service centre

back at the head quarters. He smiles as he informs us that a technical problem with a submersible pump has been solved to everyone's satisfaction.

"As we speak, we are training dozens of plumbers, engineers and wholesalers. They have been introduced to our products and have "felt" the technology with their own hands. At the same time, the organisation has made the effort of explaining that a Grundfos partnership not only means access to world-class products, but also to service and professional sparring. It is clear to me that these initiatives have borne fruit. When we train our customers, either at the training centre in Kansas City or in the field, it is a great way of using the knowledge I get from my visits to customers", Dick Hatten tells us.

In the mean time, the car has been filled up and is ready for the last part of the three-hour drive to Boston.

"It is not, however, our strategy to send people out on the road with a trunkload of Grundfos products. They have to bring the history along. We must tell

them why a partnership with us makes a difference", Dick Hatten emphasises.

The traffic is getting heavier. The four tracks of US Route 1 are heading south. Especially the number of heavily loaded lorries are signs of a society of growth. "The shock of 9/11 has subsided. The paralysis is gone, confidence and optimism have returned. But it has not been easy to get in on the growth. Things do not come about by themselves. You still have to convince the customer that you have what it takes to make a difference to him. As one customer told me the other day: "You have the greatest pumps in the world, but unfortunately not everybody in pump market knows that". A statement that underlines both the enormous potential we still have in the US and the magnitude of the task ahead of us", Dick Hatten concludes.

In last glimmerings of daylight, he reaches one of the approach roads to Boston. He makes one brief stop to check tomorrow's appointments, before the flow of traffic carries his car towards the final destination of the day.



FINANCIAL MATTERS



Financial Review

Consolidated Profit and Loss Statement

The Group's profit before tax amounts to DKK 1,234m compared to DKK 1,078m in 2003, an increase of 14 per cent.

This increase has been realised through an increase in the net turnover of 9 per cent, while costs for the fields of production, research and development, sale and distribution, and administration have only risen by 8 per cent. Net turnover and costs are affected negatively by 2 per cent as most foreign currencies fell in relation to the Danish krone in 2004. By virtue of foreign currency hedging, the falling exchange rates have only a limited negative effect on the Group result.

In addition to the development costs amounting to DKK 484m (2003: DKK 424m), charged to the profit and loss account, DKK 59m (2003: DKK 40m) have been activated in connection with development projects in progress.

Total financing items amount to a net cost of only DKK 49m as against DKK 9m in 2003. The financing items of the year include a positive return on the Group's shareholding of DKK 52m (2003: DKK 61m). Moreover, financing costs of the year have risen due to a rise in the Group's net interest-bearing debt in 2004 to DKK 1,015m (2003: DKK 881m).

Group profit (after tax) is DKK 796m compared to DKK 673m in 2003, an increase of 18 per cent. The effective tax rate, which in 2004 amounts to 36 per cent, has been reduced by just over 2 percentage points compared to 2003.

Consolidated Balance Sheet

The Group's balance sheet total for 2004 has increased by 9 per cent, and by the end of the year it amounts to DKK 11,798m (2003: DKK 10,793m). The increase corresponds to the rise in net turnover. Fixed assets have increased by DKK 573m (11 per cent) as a result of the highest investment level in the Group's history.

Inventories and accounts receivable have risen by DKK 438m (24 per cent) and DKK 90m (3 per cent) respectively. If viewed separately, the rise in inventories is unsatisfactory. However, it must be viewed in light of the considerable in-

ventory reductions of the previous two years. Cash at Bank and in Hand and Securities, have been reduced by DKK 96m (8 per cent).

The solvency ratio, including minority interest, has increased from 49.3 per cent to 50.8 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 approximately DKK 1.7b (2003: DKK 1.8b). Had these funds been used to reduce debts, the solvency ratio would have been 59.3 per cent against 58.8 per cent last year.

Cash Flow Analysis

The cash flow analysis shows an increase in liquid funds from operations of DKK 1,208m against DKK 1,743m in 2003. The reduction of DKK 535m is primarily due to an increase in the funds tied up in assets by DKK 359m in 2004, whereas these were reduced by DKK 233m in 2003.

In 2004, DKK 1,297m (2003: DKK 854m) have been spent on investments, DKK 1,000m of which was spent on the acquisition of tangible fixed assets (2003: DKK 854m), and DKK 237m (2003: DKK 28m) on acquisition of companies.

Furthermore, the Group has managed to maintain its practice of self-financing fixed assets in 2004, as the acquisition of companies is not expected to be self-financed. By deduction of acquisition of companies, the total amount spent on tangible and intangible fixed assets is reduced to DKK 1,060m, which is DKK 148m less than the liquidity generated by the year's operations.

The Annual Accounts for the Poul Due Jensen Foundation

Like the 2003 accounts, the Foundation's 2004 accounts recognise share of profit, and value of the shareholding in Grundfos Holding AG under the equity method shows a profit of DKK 692m as against DKK 580m in 2003.

By the end of the year, the Foundation's equity capital amounts to DKK 5,247m as against DKK 4,637m by the end of 2003.

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 financial risks are controlled centrally at the Group's finance company. Foreign exchange risks in the operative companies are usually covered by the finance company, which also controls interest and liquidity risks, as well as a significant part of the external covering of the Group's financial positions.

The use of financial instruments is established by instructions laid down by the Board of Directors and the Management.

Liquidity Risk

At the end of 2004, the Group's liquid assets included cash reserves of DKK 637m (2003: DKK 777m), securities of DKK 1,049m (2003: DKK 978m), and unexploited borrowing facilities in banks. The securities portfolio was made up of DKK 761m worth of bonds (2003: DKK 690m) and DKK 288m worth of securities (2003: DKK 288m).

The Group's net interest-bearing debt rose in 2004 by DKK 134m to DKK 1,015m, which can be attributed to acquisitions of companies and an increase in the operating capital.

Total interest-bearing debt amounts to DKK 2,702m at year-end (2003: DKK 2,636m), of which 63 per cent is long-term debt (2003: 68 per cent).

Interest Rate Risk

The Group's exposure to fluctuating interest rates is primarily related to bonds and loans. The exposure of the bond portfolio, amounting to a total of DKK 761m – when expressed by an increase of the interest rate by 1 percentage point – is approx. DKK 0.3m. The Group's total borrowing consists of 62 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 of 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 applied to reduce the interest rate risk totalled DKK 2,069m (2003: DKK 2,129m) on the balance sheet date.

Foreign Exchange Risk

It is Group policy that Group manufacturing 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.

Forward exchange contracts used in connection with foreign exchange swaps amount to DKK 365m at the balance sheet date (2003: DKK 418m).

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

	2004	2003
EUR	47%	45%
DKK	35%	30%
USD	1%	3%
GBP	3%	4%
Others	14%	18%

Currency hedging of the Group's budgeted flow of goods is chiefly concerned with the Group's manufacturing companies. The most important currencies are the Euro, the American Dollar, the British Pound sterling and the Japanese Yen. Forward exchange contracts and currency options used to reduce the currency in connection with the flow of goods amount to DKK 2,244m by the end of 2004 (2003: DKK 1,785m). Of this, a contract volume of DKK 172m (2003: DKK 168m) has been recognised for hedging of balance sheet items as at the balance sheet date. Group policy only allows for maximum annual speculation losses that are insignificant in relation to the Group result and balance sheet.

Credit Risk

The primary credit risk includes the balance sheet items regarding the Group's trade debtors, securities and bank deposits. The Group's trade debtors comprise a large number of customers, and the Group's risk in that connection is not considered unusually high.

The credit risk is reduced on cash reserves in financial institutions and forward exchange contracts and other derivative financial instruments by selecting financial business partners with a high credit rating.

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. The accounting policies remain unchanged in comparison with 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 for the individual items as described 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, are also recognised.

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 consolidation 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. 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 debts 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, is 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 value of assets and liabilities. For consolidation

purposes, deferred tax is calculated on the eliminated unrealised internal profit margins.

Deferred tax assets are recognised in the balance sheet provided that they are likely to reduce tax payments within a short period of time.

Deferred tax is measured on the basis of tax rules and tax rates that – based on current legislation on the balance sheet date – will be in force when the deferred tax is 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

Income from Investments in Subsidiaries

The prorated share of the associated companies' profit before 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 2004 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 poli-

cies 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, 13 April 2005

Board of Directors

The Poul Due Jensen Foundation



■ Lars Kolind
Chairman



■ Niels Due Jensen
Vice Chairman



■ Niels Christian Nielsen
Board Member



■ Poul Due Jensen
Board Member



■ Thomas Lund
Board Member



■ Estrid Due Hesselholt
Board Member



■ Hans Christian Hyldelund
Board Member



■ Ingermarie Due Nielsen
Board Member

Auditor's Report

To the Poul Due Jensen Foundation

We have audited the Annual Report of the Poul Due Jensen Foundation for the financial year 2004. The annual report was presented in accordance with the provisions of the Danish Financial Statements Act.

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 have conducted our audit in accordance with Danish auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report is free of material misstatement. The audit includes examining information supporting the amounts and disclosures in the Annual Report. The audit

also includes assessing the accounting policies applied 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 qualifications.

Opinion

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Foundation's assets, liabilities and financial position as at 31 December 2004, as well as of the Group's and the Parent Foundation's operations and the Group's cash flow for the financial year 2004 in accordance with the Danish Financial Statements Act and Danish accounting standards.

Århus, 13 April 2005

DELOITTE
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 2004

Amounts in DKK 1,000

	Note	2004	2003
Net Turnover	1	12,152,906	11,151,533
Production Costs	2, 3	(7,366,225)	(6,835,088)
Research and Development Costs	2, 3	(484,427)	(423,989)
Gross Profit		4,302,254	3,892,456
Sales and Distribution Costs	2, 3	(2,029,905)	(1,874,844)
Administrative Costs	2, 3	(904,663)	(818,109)
Amortisation of Group Goodwill		(37,619)	(45,219)
Operating Profit		1,330,067	1,154,284
Other Operating Expenses		(45,287)	(63,326)
Share of Profit, Associated Companies		(2,140)	(3,730)
Income from Financial Fixed Assets		27,910	29,718
Cost of Financing, Net	4	(76,831)	(39,065)
Profit before Tax		1,233,719	1,077,881
Tax on Profit for the Year	5	(438,082)	(404,633)
Consolidated Profit after Tax		795,637	673,248
Minority Shareholders' Share of Profits in Subsidiaries		(104,596)	(94,342)
Profit for the Year		691,041	578,906

Consolidated Balance Sheet

as per 31 December 2004
Amounts in DKK 1,000

Assets

Fixed Assets	Note	2004	2003
Intangible Fixed Assets			
Completed Development Projects		25,015	0
Group Goodwill		526,030	476,723
Other Intangible Fixed Assets		41,813	56,806
Development Projects in Progress		83,216	52,026
	6	676,074	585,555
Tangible Fixed Assets			
Land and Buildings		1,994,210	1,856,695
Technical Equipment and Machinery		1,502,673	1,374,704
Other Technical Installations		480,319	391,529
Tangible Fixed Assets in Progress		369,669	264,054
	7	4,346,871	3,886,982
Fixed Asset Investments			
Investments in Associated Companies		4,169	0
Securities		566,833	539,123
Other Accounts Receivable		18,807	28,023
	7	589,809	567,146
Total Fixed Assets		5,612,754	5,039,683
Current Assets			
Inventories	8	2,233,268	1,795,277
Accounts Receivable			
Trade Debtors and B/E Debtors		2,324,748	2,185,560
Deferred Tax Assets	9	42,725	40,055
Other Accounts Receivable		353,284	415,092
Accrued Expenses and Deferred Income		111,698	101,680
		2,832,455	2,742,387
Securities		482,471	439,094
Cash at Bank and in Hand		637,448	776,723
Total Current Assets		6,185,642	5,753,481
Total Assets		11,798,396	10,793,164

Amounts in DKK 1,000

Liabilities

	Note	2004	2003
Equity Capital			
Registered Capital		505,000	505,000
Revaluation Reserves		1,828	5,403
Retained Earnings		4,740,484	4,126,309
		5,247,312	4,636,712
Minority Interests			
(mainly the Founder's Family)		748,050	678,994
Provisions			
Liabilities under Guarantee	10	90,506	96,931
Buy-Back Obligation of Employee Shares	10	277,659	204,778
Pension Liabilities and Other Provisions	10	254,464	221,414
Deferred Tax	9	178,042	178,340
		800,671	701,463
Long-term Liabilities			
Mortgage Debt		674,843	698,145
Bank Loans		901,218	930,253
Other Monetary Creditors		88,323	169,193
Corporation Tax		602	1,228
	11	1,664,986	1,798,819
Short-term Liabilities			
Bank Overdrafts and Loans		1,037,488	838,105
Trade Creditors		1,007,438	967,085
Debts to Associated Companies		1,903	3,455
Corporation Tax		155,976	145,689
Other Liabilities		1,128,279	992,424
Accrued Expenses and Deferred Income		6,293	30,418
		3,337,377	2,977,176
Total Liabilities		11,798,396	10,793,164
Financial Instruments			
	12		
Auditors' Remuneration			
	13		
Related Parties			
	14		
Securities, Contingent Liabilities, etc.			
	15		

Equity Capital

1 January - 31 December 2004

Amounts in DKK 1,000

	Registered Capital	Revaluation Reserve	Retained Earnings	Total Equity Capital
Equity Capital, Opening 2003	505,000	6,422	3,693,220	4,204,642
Profit for the Year			578,906	578,906
Exchange Rate Adjustments, Subsidiary Companies, etc.		(1,019)	(130,048)	(131,067)
Revaluation of Hedging Instruments, Opening			(120,063)	(120,063)
Revaluation of Hedging Instruments, Closing			99,195	99,195
Tax on Equity Items			5,099	5,099
Equity Capital, Closing 2003	505,000	5,403	4,126,309	4,636,712
Profit for the Year			691,041	691,041
Exchange Rate Adjustments, Subsidiary Companies, etc.		(444)	(47,375)	(47,819)
Changes in Minority Interests			2,313	2,313
Reversal of Revaluations		(3,131)	3,131	0
Revaluation of Hedging Instruments, Opening			(99,195)	(99,195)
Revaluation of Hedging Instruments, Closing			54,662	54,662
Tax on Equity Items			9,598	9,598
Equity Capital, Closing 2004	505,000	1,828	4,740,484	5,247,312

Cash Flow Analysis

1 January - 31 December 2004

Amounts in DKK 1,000

	Note	2004	2003
Consolidated Profit after Tax		795,637	673,248
Reversal of Entries with no Liquidity Effect	16	1,272,461	1,188,872
Changes in Working Capital	17	(358,732)	233,009
Operational Cash Flow before Interests		1,709,366	2,095,129
Income from Financial Fixed Assets		27,910	29,718
Cost of Financing, Net		(76,831)	(39,065)
Cash Flow from Ordinary Activities		1,660,445	2,085,782
Corporation Tax Paid		(452,407)	(342,659)
Cash Flow from Operations		1,208,038	1,743,123
Acquisition of Companies	18	(237,335)	(28,278)
Investment in Tangible Fixed Assets		(1,000,479)	(854,033)
Disposal of Tangible Fixed Assets		33,317	27,862
Investment in Intangible Fixed Assets		(68,857)	(75,772)
Purchase and Sale of Securities		(23,618)	(59,169)
Cash Flow from Investment Activities		(1,296,972)	(989,390)
Change in Long-Term Creditors		(132,606)	154,215
Change in Short-Term Creditors		153,304	(490,896)
Distribution of Dividend		(6,021)	(4,745)
Acquisition of Minority Interests		(31,694)	0
Unrealised Exchange Rate Adjustments		12,833	88,171
Cash Flow from Financial Activities		(4,184)	(253,255)
Change in Liquid Funds		(93,118)	500,478
Available Funds Including Securities, Opening	19	1,213,037	715,339
Available Funds Including Securities Stated as Current Assets, Closing	20	1,119,919	1,215,817

Notes to the Consolidated Accounts

Amounts in DKK 1,000

Note 1

Net Turnover	2004	2003
Europe	8,629,445	8,095,557
North and South America	1,148,240	1,070,513
East Asia	1,938,169	1,610,512
Middle East/Africa	437,052	374,951
Net Turnover	12,152,906	11,151,533

The Grundfos Group is focusing its activities within the segment of manufacture and sale of pumps. Hence, Net Turnover is only divided into geographical markets.

Note 2

Staff Costs

Total Group Payments to Employees and Board	3,006,087	2,802,236
Retirement Benefit Obligation	177,683	148,761
Social Contributions	358,068	351,743
	3,541,838	3,302,740

Staff Costs are recognised as follows:

Production Costs	1,877,582	1,759,380
Research and Development Costs	334,749	304,059
Sales and Distribution Costs	899,780	828,109
Administrative Costs	429,727	411,192
	3,541,838	3,302,740

The staff costs of the year under review include

Director's fees to the Board of Foundation totalling	1,105	1,053
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Average Number of Full-Time Employees	12,618	11,675
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Number of Employees, Closing	12,586	11,707
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Amounts in DKK 1,000

Note 3

Depreciation and Write-Downs	2004	2003
Depreciation, Intangible Fixed Assets	64,774	69,901
Depreciation, Tangible Fixed Assets	655,350	604,979
	720,124	674,880

Depreciation and write-downs are recognised as follows:

Production Costs	519,937	479,676
Research and Development Costs	54,941	50,688
Sales and Distribution Costs	55,623	47,980
Administrative Costs	52,006	51,317
Amortisation of Group Goodwill	37,617	45,219
	720,124	674,880

Note 4

Cost of Financing, Net

Financing Costs	(164,706)	(147,837)
Total Financing Costs	(164,706)	(147,837)

Interest Income from Bonds	2,424	5,678
Value Adjustments, etc. from Securities	51,849	61,060
Other Interest Income	33,602	42,034
Total Financing Income	87,875	108,772

Cost of Financing, Net	(76,831)	(39,065)
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Note 5

Tax on Profit for the Year

Current Tax	426,232	394,902
Deferred Tax	9,060	7,262
Adjustment re Previous Years	2,790	2,469

Tax on Profit for the Year	438,082	404,633
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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-Deductible Expenses	1%	0%
Non-Deductible Write-Downs on Goodwill	1%	1%
Other, Including Adjustments re Previous Years	2%	4%

Rate of Taxation for the Year	36%	38%
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Amounts in DKK 1,000

Note 6

Intangible Fixed Assets

	Completed Development Projects	Group Goodwill	Other Intang. Fixed Assets	Dev. Projects in Progress
Acquisition Price				
Opening	0	631,386	156,268	52,026
Exchange Rate Adjustments		1,180	(1,368)	
Additions for the Year	27,795	85,715	10,502	58,985
Disposals at Initial Cost			(32,674)	(27,795)
Closing	27,795	718,281	132,728	83,216
Acc. Depreciation				
Opening	0	154,663	99,462	0
Exchange Rate Adjustments		(31)	(878)	
Deprec./Wr-Downs for the Year	2,780	37,619	24,375	
Deprec. Install. Sold			(32,044)	
Closing	2,780	192,251	90,915	0
Book Value 31 Dec. 2004	25,015	526,030	41,813	83,216
Book Value 31 Dec. 2003	0	476,723	56,806	52,026

Note 7

Tangible Fixed Assets and Fixed Asset Investments

	Land and Buildings	Tech. Equip and Mach..	Other Technical Installations	Tang. Fixed Assets in Progress	Assoc. Cos.	Securities	Other Receiv.
Acquisition Price							
Opening	2,803,650	4,973,462	1,093,838	264,054	12,600	539,250	28,806
Aqc./Sale of Activities	150,068	7,661	3,325	81		3,475	
Exchange Rate Adjustments	(17,423)	(15,700)	(16,862)	1,768		2,701	(405)
Additions of the Year	124,542	535,911	236,260	319,092	7,180	319,036	5,824
Disposals at Initial Cost	(46,870)	(128,725)	(102,252)	(215,326)		(296,327)	(12,095)
Closing	3,013,967	5,372,609	1,214,309	369,669	19,780	568,135	22,130
Revaluations							
Opening	27,503						288
Exch. Rate Adjustments, etc.	(2,821)						(48)
Reval. Sold Assets	(758)						(240)
Closing	23,924						0

Amounts in DKK 1,000

Note 7

Tangible Fixed Assets and Fixed Asset Investments

Acc. Depreciation

Opening	974,458	3,598,758	702,309	0	12,600	127	1,071
Aqc./Sale of Activities							
Exchange Rate Adjustments	(12,423)	(13,851)	(11,706)			13	
Deprec./Wr-Downs for the Year	103,090	417,808	134,452		2,140	1,162	3,037
Deprec. Install. Sold	(21,444)	(132,779)	(91,065)				(785)
Brought Forward from Provision re Ass. Company					871		
Closing	1,043,681	3,869,936	733,990	0	15,611	1,302	3,323
Book Value 31 Dec. 2004	1,994,210	1,502,673	480,319	369,669	4,169	566,833	18,807
Book Value 31 Dec. 2003	1,856,695	1,374,704	391,529	264,054	0	539,123	28,023

The cash value for land and buildings in Denmark at the latest tax assessment of real property amounts to DKK 865m. (Book value: DKK 619m).

The book value of capitalised leased facilities as at 31 December 2004 amounts to DKK 25m. (2003: DKK 46m).

The market value of securities as at 31 December 2004 amounts to DKK 565m (2003: DKK 549m).

Note 8

Inventories	2004	2003
Raw Materials and Consumables	997,526	766,859
Work in Progress	406,937	359,921
Manufactures Goods and Goods for Resale	828,805	668,497
Inventories	2,233,268	1,795,277

Note 9

Deferred Tax/Deferred Tax Assets

Deferred tax broken down:

Fixed Assets	234,204	187,405
Current Assets	(51,587)	(17,978)
Provisions	(21,379)	(30,006)
Creditors	273	2,087
Deficit	(2,712)	(3,223)
Other	(23,482)	0
	135,317	138,285

which have been recognised in the balance sheet as:

Deferred Tax Assets	42,725	40,055
Deferred Tax (Liability)	178,042	178,340

Note 10

Other Provisions

	Liabilities under Guarantee	Buy-Back Obl. Employee Shares	Retirement Benefit and Other Obligations
Opening 2004	96,931	204,778	221,414
Exchange Rate Adjustments	(1,441)	0	(395)
Provisions Spent during the Year	(3,281)	(281)	(46,439)
Provisions Carried Back	(7,986)	0	(5,395)
Provisions for the Year	6,283	73,162	85,279
Closing 2004	90,506	277,659	254,464

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	27,227
2007	74,537
2008	28,729
2009	91,371
2010	55,795

The buy-back obligation calculated at market value amounts to DKK 288m (2003: DKK 205m).

Note 11

Long-term Liabilities

2004

2003

Debt falling due after more than 1 year but less than 5 years:

Mortgage Debt	139,550	128,733
Bank Loans	862,831	901,273
Other Monetary Creditors	88,323	168,453
Corporation Tax	602	1,228

Debt falling due after more than 5 years:

Mortgage Debt	535,293	569,412
Bank Loans	38,387	28,980
Other Monetary Creditors	0	740

Distribution of Foreign Exchange and Interest as at 31 December 2004:

Foreign Exchange	Interest	Amounts in DKKm
EUR	3.3%	882
DKK	4.7%	606
GBP	5.8%	68
Other	5.6%	109
Total		1,665

Note 12**Financial Instruments**

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

	Volume	Deferred- entering
EUR	1,161	5
USD	427	26
GBP	337	7
JPY	72	3
Other	75	(1)
Total	2,072	40

As at 31 December 2004, the hedging horizon for the individual currencies is up to one year.

Interest Rate Swaps entered into for hedging purposes at a volume of DKK 2,069m (2003: DKK 2,129m) show a loss of DKK 23m (2003: DKK 7m).

Raw material contracts (nickel and copper) entered into for hedging purposes show a profit of DKK 21m (2003: 0).

Note 13**Auditors' Remuneration**

	2004	2003
Fees to Deloitte for auditing	10,960	10,135
Fees to Deloitte for other services	10,217	6,168

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.

The Group has conducted ordinary business with System B 8 Møbler A/S in which Vice Chairman Niels Due Jensen has a controlling interest. The Group's purchases from System B 8 Møbler A/S amounted to DKK 15m in 2004.

Furthermore, the Group has acquired shares in Grundfos Holding AG from Niels Due Jensen for an amount of DKK 15m.

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 443m and machinery and equipment at a book value of DKK 694m, a total of DKK 1,137m as security for loans, which on the balance sheet date show outstanding debts of DKK 567m.

	2004	2003
Operational Leasing Contracts and Lease Obligations for the Coming Years amount to a Total of	256,553	233,083

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 shares.

Note 16

Reversal of Entries with no Liquidity Effect

Depreciation	720,124	674,880
Liabilities under Guarantee and Other Provisions	63,194	96,282
Share of Profit, Associated Companies	2,140	3,730
Income from other Securities and Investments, which are Fixed Assets	(27,910)	(29,718)
Cost of Financing, Net	76,831	39,065
Tax on Profit for the Year	438,082	404,633
Reversal of Entries with no Liquidity Effect	1,272,461	1,188,872

Note 17

Changes in Working Capital

Changes in Inventories	(381,857)	102,094
Changes in Accounts Receivable	(86,986)	(32,870)
Changes in Suppliers, etc.	155,517	280,385
Unrealised Exchange Rate Adjustments	(45,406)	(116,600)
Changes in Working Capital	(358,732)	233,009

Amounts in DKK 1,000

Note 18

Acquisition of Companies

Acquisitions for the year include Hilge (Germany) and adjustments of previous years' acquisitions.

	2004	2003
Fixed Assets	(164,610)	(6,117)
Inventories	(56,134)	(4,141)
Accounts Receivable	(51,150)	(10,687)
Cash at Bank and in Hand	(16,525)	(427)
Provisions	64,559	5,504
Long-term Liabilities	0	3,719
Short-term Liabilities	46,270	12,149
Net Assets	(177,590)	0
Group Goodwill	(76,270)	(28,705)
Acquisition Price	(253,860)	(28,705)
Of this, Cash at Bank and in Hand	16,525	427
Cash Acquisition Price	(237,335)	(28,278)

Note 19

Cash at Bank and in Hand, Opening

Cash at Bank and in Hand	1,215,817	734,168
Unrealised Exchange Rate Adjustments	(2,780)	(18,829)
Cash at Bank and in Hand, Opening	1,213,037	715,339

Note 20

Cash at Bank and in Hand, Closing

Securities	482,471	439,094
Cash at Bank and in Hand	637,448	776,723
Cash at Bank and in Hand, Closing	1,119,919	1,215,817

Profit and Loss Account for the Poul Due Jensen Foundation

1 January - 31 December 2004

Amounts in DKK 1,000

	Note	2004	2003
Administrative Costs	1	(351)	(643)
Income from investments in Associated Company before Tax		1,047,710	978,769
Premium from Sale of Shares		95,820	28,971
Provision for Buy-Back of Employee Shares		(72,327)	(79,814)
Interest Income	2	5,243	5,360
Financing Costs	3	(3,562)	(4,705)
Profit before Tax		1,072,533	927,938
Tax on Profit for the Year	4	(380,492)	(347,932)
Profit for the Year		692,041	580,006
Proposed Profit Appropriation			
Distribution		1,000	1,100
Brought Forward to Revaluation			
Reserve under the Equity Method		642,342	613,355
Retained Earnings		48,699	(34,449)
		692,041	580,006

Balance Sheet for the Poul Due Jensen Foundation

Amounts in DKK 1,000

Assets	Note	2004	2003
Fixed Assets			
Fixed Asset Investments			
Investment in Associated Company		5,339,906	4,768,886
Accounts Receivable from Associated Company		67,114	70,913
Securities		70	70
Total Fixed Assets	5	5,407,090	4,839,869
Current Assets			
Accounts Receivable			
Accounts Receivable from Associated Companies		178,074	62,734
Accounts Receivable, Corporation Tax		4,204	9,340
		182,278	72,074
Cash at Bank and in Hand		4	15
Total Current Assets		182,282	72,089
Total Assets		5,589,372	4,911,958
Liabilities			
Equity Capital			
Registered Capital		505,000	505,000
Revaluation Reserve under the Equity Method		4,693,613	4,131,712
Capital Available		48,699	0
		5,247,312	4,636,712
Provisions			
Deferred Tax	4	633	2,498
Buy-Back Obligation of Employee Shares		270,186	197,859
		270,819	200,357
Long-term Liabilities			
Mortgage Debt	6	67,114	70,913
		67,114	70,913
Short-term Liabilities			
Bank Overdrafts and Loans		3,799	3,631
Other Liabilities		328	345
		4,127	3,976
Total Liabilities		5,589,372	4,911,958

Equity Capital for the Poul Due Jensen Foundation

1 January - 31 December 2004

Amounts in DKK 1,000

	Registered Capital	Reserve under the Equity Method	Capital Available	Total Equity Capital
Equity Capital, Opening 2003	505,000	3,680,073	19,569	4,204,642
Profit for the Year		613,355	(34,449)	578,906
Exchange Rate Adjustments, Subsidiary Companies, etc.		(131,067)		(131,067)
Revaluation of Hedging Instruments, Opening		(120,063)		(120,063)
Revaluation of Hedging Instruments, Closing		99,195		99,195
Tax on Equity Items		5,099		5,099
Transfer		(14,880)	14,880	0
Equity Capital, Closing 2003	505,000	4,131,712	0	4,636,712
Profit for the Year		642,342	48,699	691,041
Exchange Rate Adjustments, Subsidiary Companies, etc.		(47,819)		(47,819)
Revaluation of Hedging Instruments, Opening		(99,195)		(99,195)
Revaluation of Hedging Instruments, Closing		54,662		54,662
Tax on Equity Items		9,598		9,598
Changes in Minority Interests		2,313		2,313
Equity Capital, Closing 2004	505,000	4,693,613	48,699	5,247,312

Registered capital for the 4 previous years has been increased when brought forward from capital available:

	Opening, year	Increase	New balance
2001	390,000	115,000	505,000
2000	370,000	20,000	390,000

Notes to the Accounts of the Poul Due Jensen Foundation

Amounts in DKK 1,000

Note 1

Administrative Costs

	2004	2003
Including:		
Board Fees	189	184
Fees to Deloitte for auditing	34	33
Fees to Deloitte for other services	86	103

Note 2

Interest Income

Interest income from associated companies amounts to DKK 4,975 thousand against DKK 5,360 thousand in 2003.

Note 3

Financing Costs

Financing costs to associated companies amount to DKK 0 thousand against DKK 40 thousand in 2003.

Note 4

Tax on Profit for the Year

Tax in Associated Companies	381,665	341,195
Current Tax	692	7,154
Deferred Tax	(1,865)	(417)
Tax on Profit for the Year	380,492	347,932

Deferred tax relates to provisions.

Amounts in DKK 1,000

Note 5

Fixed Asset Investments

	Investment in Associated Company	Accounts Receivable from Associated Company	Securities
Acquisition Price			
Opening	541,160	70,913	70
Additions for the Year	15,283		
Disposals at Initial Cost	(6,164)	(3,799)	
Closing	550,279	67,114	70
Revaluations			
Opening	4,227,726	0	0
Profit for the Year	666,045		
Dividend Received	(23,703)		
Exchange Rate Adjustments	(47,819)		
Other Adjustments	(32,622)		
Closing	4,789,627	0	0
Book Value 31 Dec. 2004	5,339,906	67,114	70
Book Value 31 Dec. 2003	4,768,886	70,913	70

The book value of investment in associated company includes goodwill amounting to DKK 80,532 thousand against DKK 78,363 thousand in 2003.

Note 6

Long-term Liabilities

2004

2003

Amounts falling due after 5 years:

Mortgage Debt	50,068	54,624
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Consolidated Profit and Loss Statement in Euros

1 January - 31 December 2004
Amounts in EUR 1,000

	2004	2003
Net Turnover	1,633,741	1,500,697
Production Costs	(990,257)	(919,820)
Research and Development Costs	(65,123)	(57,058)
Gross Profit	578,361	523,819
Sales and Distribution Costs	(272,884)	(252,304)
Administrative Costs	(121,616)	(110,095)
Amortisation of Group Goodwill	(5,057)	(6,085)
Operating Profit	178,804	155,335
Other Operating Expenses	(6,088)	(8,522)
Share of Profit, Associated Companies	(288)	(502)
Income from Financial Fixed Assets	3,752	3,999
Cost of Financing, Net	(10,329)	(5,257)
Profit before Tax	165,851	145,053
Tax on Profit for the Year	(58,892)	(54,453)
Consolidated Profit after Tax	106,959	90,600
Minority Shareholders' Share of Profits in Subsidiaries	(14,061)	(12,696)
Profit for the Year	92,898	77,904

Grundfos in brief



Water provides life to people, animals and plants, and is a necessity in order for industry to produce. Water is very useful when heating and cooling buildings, and is also used to drain off waste products. Anywhere, where water is a coveted resource or needs to be drained away, Grundfos plays a central role.

Our range of efficient and reliable pump solutions is continuously being expanded. Extensive know-how and intensive research and product development allow us to develop new, trend-setting products which meet ever-increasing requirements made by customers and society at large for improved energy efficiency and a reduced impact on the environment.

In addition to pumps and pump systems, Grundfos develops, manufactures and sells energy-efficient electromo-

tors and sophisticated electronics. Once the electronics are built into the pumps they become "intelligent", i.e. capable of assessing the current need for water and adapt their performance accordingly - all of which results in a significant reduction in energy consumption.

At all stages of production, quality needs to be controlled effectively as we have a high degree of our own production. Also, production control ensures a high productivity while at the same time enables us to take both the external environment and the working environment into consideration.

With their knowledge and commitment, the employees are the most important resource in the Grundfos Group. Therefore, the Group aims to offer the employees further training and to create an inspiring environment that pro-



motes the development of new products with an increased utility value and high quality for the customers.

In a world characterised by frequent changes in the global economy, the Group's global nature is our customer's guarantee for continuous and easy access to pumps, spare parts and service. Therefore, the Grundfos Group constantly expands its network of sales and service companies in Europe, America, the Middle East, Australia and Asia. High reliability of supply and the possibility of adapting the pump solutions to local requirements are ensured through decentralised production.

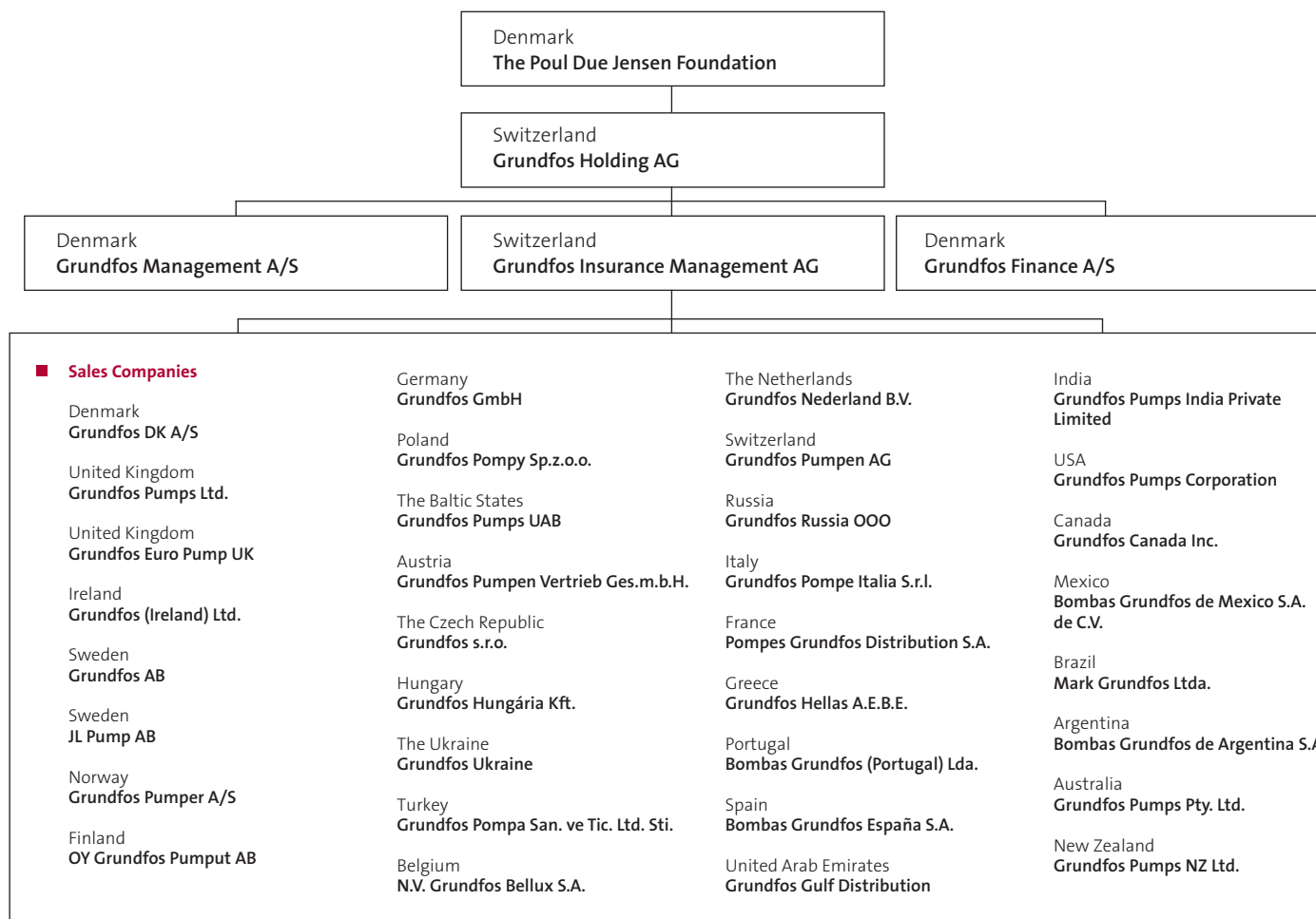
As a globally responsible company, Grundfos strongly emphasise the importance of being in harmony with the environment. All over the world, we are striving to create

and strengthen lasting ties with employees and partners as well as the communities in which we operate.

The Grundfos Group is owned by the Poul Due Jensen Foundation, whose primary purpose is to expand and develop the Group. Reinvestment of own funds maintains the Grundfos Group as an independent company.

For further information about Grundfos, please visit our website at: <http://www.grundfos.com>.

Group Structure





China
Grundfos Pumps (Shanghai) Co. Ltd.

China
Grundfos Pumps (Hong Kong) Ltd.

Korea
Grundfos Pumps Korea Ltd.

Taiwan
Grundfos Pumps (Taiwan) Ltd.

Japan
Grundfos Pumps K.K.

Indonesia
PT Grundfos Pompa

Malaysia
Grundfos Pumps SDN. BHD

Singapore
Grundfos (Singapore) Pte. Ltd.

Thailand
Grundfos (Thailand) Ltd.

■ Manufacturing Companies

Denmark
Grundfos A/S

Denmark
Sintex A/S

United Kingdom
Grundfos Manufacturing Ltd.

Finland
OY Grundfos Environment Finland AB

Germany
Grundfos Pumpenfabrik GmbH

Hungary
Grundfos Hungary Manufacturing Ltd.

USA
Grundfos Pumps Manufacturing Corporation

China
Grundfos Pumps (Souzhou) Co. Ltd.

Taiwan
Grundfos Taiwan Manufacturing Co. Ltd.

Italy
Grundfos Submersible Motors Srl.

Russia
Grundfos Istra OOO

France
Pompes Grundfos S.A.

■ Acquired Companies

Germany
Philipp Hilge GmbH

Germany
Deutsche Vortex GmbH

Switzerland
Biral AG

Switzerland
Arnold AG

Italy
DAB Pumps S.p.A.

Italy
Leader Pumps Group S.p.A.

Korea
Chung Suk Co. Ltd.

Ownership



The Poul Due Jensen Foundation, based in Bjerringbro, Denmark, is the parent company of the Grundfos Group. The Poul Due Jensen Foundation owns 85.5% of the share capital in Grundfos Holding AG, Switzerland, while the founder's family owns 12.0%, and employees own 2.5%.

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%

Philipp Hilge International GmbH & Co. KG,
Germany - 94%

Branches:


Apart from the mentioned companies the Group has one operative branch in South Africa.

Associated companies:

System B8 Holding A/S, Denmark – 30%

Staring Miljø A/S, Denmark - 40%

Historical milestones for the Grundfos Group



1945	Poul Due Jensen establishes Grundfos.
1959	The launch of the first circulator pump marks the beginning of a completely new era.
1960	With the establishment of a pump factory in Germany, Grundfos opens a company outside Denmark for the first time.
1961	With an annual production of 34,000 pumps, Poul Due Jensen sees his vision of mass production come true.
1975	Poul Due Jensen transfers his ownership of the Grundfos Group to the Poul Due Jensen Foundation.
1977	Poul Due Jensen dies, and Niels Due Jensen takes over as Chairman of the Board of Directors.
1980	The first Group Management with Niels Due Jensen as Group President.
1985	The Grundfos Group comprises 15 companies employing 5,000 staff. The annual turnover exceeds 2 billion Danish kroner.
1990	Grundfos inaugurates the Technology Centre, which engages in research in new materials and processes, and designs and manufactures new machines and tools.
1994	Grundfos inaugurates the Development Centre.
2001	Inauguration of the Poul Due Jensen Academy. With the Academy, the Group's massive investments in product development and branding receive whole-hearted support in the form of investments in training within sales/marketing and service, among others.
2003	Niels Due Jensen leaves the position as Group President to Jens Jørgen Madsen.

Milestones 2004

January	1 January: Grundfos takes over 94 per cent of the shares in the German based pump group Hilge.
February	6 February: Grundfos announces that the group has signed on as main sponsor of Team Danmark in connection with the Athens Olympic Games.
March	2-6 March: The wastewater novelty SEV/SE1 takes centre stage at the year's most important fair for Grundfos – the Mostra Convegno in Milan, Italy.
April	18 March: Grundfos wins one of the world's most prestigious design awards – the silver medal of the German iF Design Award 2004 – for its sustainable water supply SQFlex.
May	12 May: Grundfos opens its new sales company in Kiev, the Ukraine.
June	18 May: The Grundfos Prize 2004 is awarded to Frede Blåbjerg, professor, Ph.D., University of Aalborg.
July	20 May: The English sales company is celebrating its 40th anniversary.
August	4 June: 53 diplomats from all over the world visit the group headquarters in Bjerringbro.
September	12 June: Grundfos contributes to keeping the grass fresh and green at the Euro 2004 in Portugal. Up to 90 per cent of the pumps at the ten stadiums that host the games are supplied by Grundfos.
October	29 June-2 July: At the world's largest environmental fair, the IFAT in China, Grundfos invites 150 guests from various regions of China to a seminar.
November	13-29 August: Grundfos invites 50 employees and 170 customers from all over the world to the Olympic Games in Athens.
December	2 August: The Danish Minister of Employment, Mr Claus Hjort Frederiksen, awards Grundfos the S-label of The Social Index for the company's systematic work with social responsibility.
	August-December: The Grundfos Technical Profile catalogue, which is printed in 760,000 copies, is published as an insert in trade magazines and sent to Grundfos companies in 30 countries, to be used in customer related activities.
	28 September-1 October: Grundfos invites 70 key customers and reporters from all over Europe to a special event in connection with the Aquatech water technology fair in Amsterdam, the Netherlands.
	8 September: Grundfos presents its supplier award to NHS Maskinfabrik A/S.
	7 October: Grundfos in the Czech Republic opens new sales offices in the capital of Prague.
	22 October: Grundfos wins the Danish Design Award for its new wastewater pump series SEV/SE1.

The Grundfos Group

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Australia

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