

Sustainability Report 2005



The Grundfos Group

KEY FIGURES – SUSTAINABILITY

Amounts in DKKm

	2005	2004	2003
Indexed electricity consumption in production	84	90	90
Indexed water consumption in production	90	99	94
Indexed chemical waste in production	61	71	95
Number of red chemicals (see page 57)	128	82	99
Total number of employees in the Group	13,369	12,586	11,707
Employee data from the Group's manufacturing companies			
Number of employees	7,098	6,981	6,558
Male employees	4,367	4,258	3,938
Female employees	2,731	2,723	2,620
Male managers	284	254	282
Female managers	48	41	41
Employee turnover, salaried employees	3.49%	5.19%	3.3%
Employee turnover, production workers	4.64%	5.58%	4.26%
Absence due to sickness, salaried employees	1.57%	1.41%	1.59%
Absence due to sickness, production workers	5.02%	5.14%	5.24%
Accident-related absence per 1,000 hours	1.63	1.80	2.31
Accidents per one million working hours	15.8	17.9	19.5
Number of training hours for production workers	216,011	190,631	168,145
Number of apprentices	291	275	267
Number of suggestions for improvements per employee	3.07	3.89	3.87
Number of implemented suggestions for improvements as a percentage of total number of suggestions	84.93%	77.61%	77.49%
	2005	2003	2002
Total employee satisfaction (scale of one to five, where five is the most positive)	4.1	-	4.1
The employees' assessment of Grundfos' ability to live up to its values	4.4	-	4.4



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Niels Due Jensen
Group Chairman

OUR OBJECTIVE IS SUSTAINABILITY IN EVERYTHING WE DO

Responsibility, Sustainability and Openness and trustworthiness are important elements in the Grundfos Group's values. The purpose of this first Sustainability Report is to document that there is action behind the words when we talk about a sustainable development.

The Sustainability Report is a supplement to the Grundfos Group's financial Annual Report where our primary interested parties are able to obtain a larger insight into the Group's activities and into the way we do business. The report should be seen as a natural development of the annual Environmental Report, which Grundfos introduced in 1997, and which is now in figures and facts supplemented by social and ethical responsibility.

Our objective is sustainability in all relations with customers, employees, environment and society locally and globally. We wish to assume responsibility for the fact that Grundfos, which is a large international Group, shows responsibility in relation to the people and society which the company and its products affect.

During 2005, the concept of corruption was discussed in the media all over the world in connection with the UN's humanitarian Oil for Food programme for Iraq. Grundfos has always worked against corruption wherever we meet it, and these efforts were strengthened in 2005. The Group's

Code of Conduct, which all company managers have to sign once a year, has been strengthened and sharpened further, and the Group's controller function is focusing even more on this topic in all Grundfos companies.

We experience that different cultures have perceptions of the concept corruption that differ somewhat – often greatly from the general Danish view. That is why we strive to create a common perception and attitude to corruption. Among other things, this is ensured through a high level of management focus and through training in the Group companies.

In general, competence development is important, not only as a way of helping the employees to perform better, but even more importantly to prepare them to meet the future requirements. This is done through training but also by creating the framework for personal development and the establishment of a healthy physical and mental work environment. This does not only benefit the employee but also Grundfos' competitiveness as well as the local communities in which we operate.

In the light of the UN's Millennium objectives, which focus on respect for nature and on a joint responsibility for social and financial development in the world, we hope to be able to offer our modest contribution.



Jens Jørgen Madsen
Group President and CEO

Through the Group's basic values and policies as well as support for and continued work with the ethical code in the UN's Global Compact initiative, we incorporate responsibility and sustainability in the way we do business. We hereby wish to render our commitment and intention to contribute to a sustainable development visible.

Let me mention a few examples:

- In cooperation with the European pump manufacturers' trade association, Europump, Grundfos launched energy labelling of pumps in 2005 which makes it easier for our customers to choose energy-efficient circulator pumps.
- Through targeted efforts, Grundfos has managed to reduce the accident frequency considerably among the employees.
- We have reached our objective stating that at least three per cent of the Group's workplaces must be reserved for persons with reduced working capacity employed on special terms.

This Sustainability Report contains many other examples of how Grundfos is working to ensure a sustainable development. We have a huge responsibility for the lives and everyday activities of the many people who we affect through our products and activities.

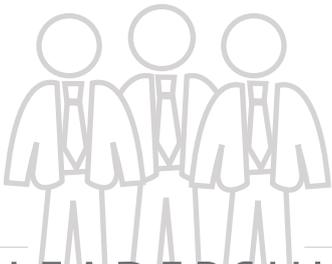
We are aware that it is a demanding process until all aspects of sustainability have been fully integrated in our business. It requires continued management focus, and we consider the work with sustainability to be an ongoing learning process where we constantly aim at new and even more demanding objectives.

In the Grundfos Group, the potential impact on the environment and the work environment is greater in the manufacturing companies than in the sales and service companies. This is the reason why the environmental reporting so far has been concerned with the manufacturing companies which is also the case for this first Sustainability Report. As with previous years' environmental reports, it is based on data from the Group's manufacturing companies which comprise of more than half of our 13,000 employees. It is our intention to develop the Sustainability Report in the years to come to include all of the Grundfos Group's companies.

Niels Due Jensen
Group Chairman

Jens Jørgen Madsen
Group President
and CEO





LEADERSHIP





SUSTAINABILITY PLAYS A DECISIVE ROLE FOR GRUNDFOS – BOTH IN TERMS OF OUR VALUES AND IN TERMS OF THE WAY WE ACT IN PRACTICE. THE OVERALL FRAMEWORK SHOULD ENSURE THAT THE COMPANY IS CONTINUOUSLY DEVELOPING IN A SUSTAINABLE DIRECTION.





LEADERSHIP

When it comes to our values and the way in which we act in practice, sustainability plays a decisive role. Coherence between words and action is important. In the following, we give an account of the framework in the area.

Values and vision

The key to Grundfos' leadership is our key values.

In their shortest form, the key values are expressed as:

- Responsibility
- Foresight
- Innovation

Through innovation we contribute to environmental sustainability by ongoing development of new and less energy-consuming products, technologies and solutions. Innovation is possible because we are foresighted, and our ability to conceive new and better solutions is a result of our strong desire to demonstrate responsibility. However, our efforts to act responsibly also contribute in various other ways to sustainability internally in the Group as well as towards our surroundings.

It is our vision that:

- The company's customers consider Grundfos to be the leading manufacturer and business partner of top quality pumps, in terms of functionality as well as environmental friendliness.
- There is a high degree of satisfaction among our employees, as the jobs and terms of employment provide opportunities for personal development, and the work environment is characterised by consideration for the individual employee's aspirations and qualifications.

- Society at large holds Grundfos in high esteem and recognises the Group for its strict adherence to legal requirement and its respect for democratic principles, local traditions and environment, as well as the people whose lives and conditions are affected.

Global Compact accession

Grundfos joined the Global Compact in 2002. The Global Compact initiative is an invitation from the UN's Secretary General Kofi Annan to the international business life to join an ethical code and thus contribute to improving the working conditions and general living conditions for people all over the world.

When Grundfos joined the UN's Global Compact, the Group committed itself to live up to nine principles for human rights, employee rights and environment, and subsequently, when the UN in June 2004 introduced a 10th principle, Grundfos also joined the principle to work against corruption.

Since the start of the company, it has been built on strong values which still apply. These are values where the respect for our surroundings and the human rights are a key theme and which, among other things, commit us to behave in an ethically responsible manner. The signing of Global Compact is therefore completely in line with the values which form our foundation and which serve as the basis for our policies and strategies.

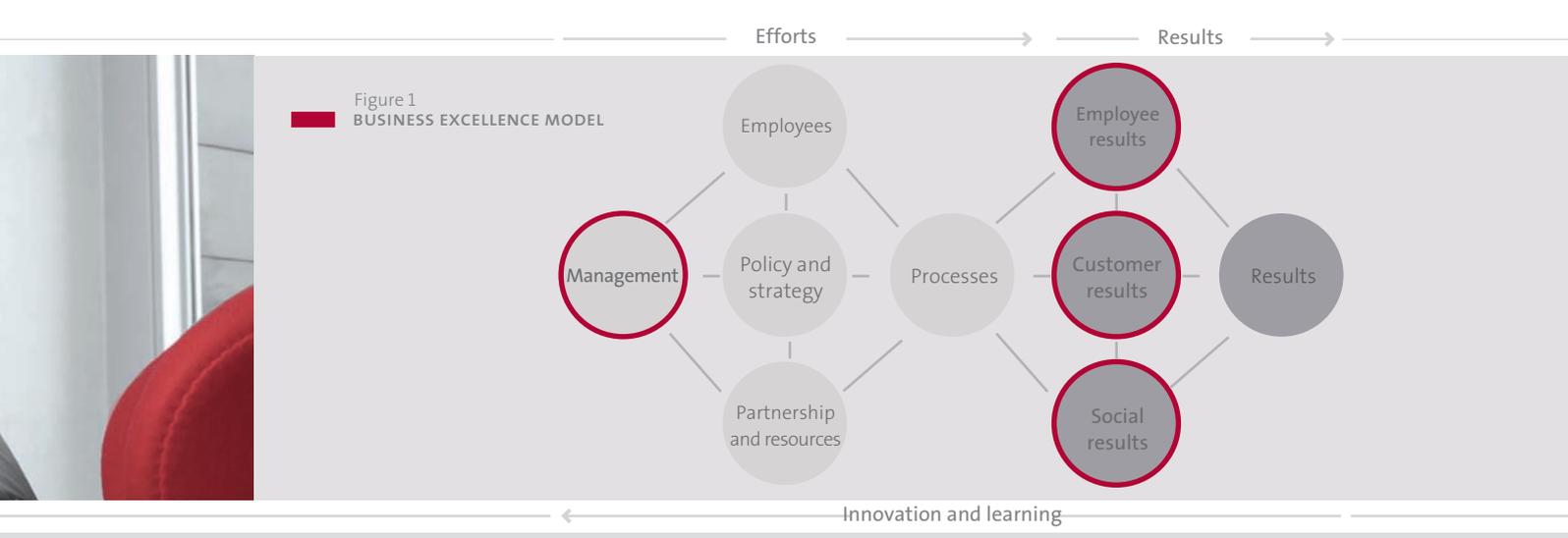


Figure 1
BUSINESS EXCELLENCE MODEL

Global Compact functions as a framework for Grundfos which, in line with our Group policies, comprises our entire operation of the company. We ensure this, e.g. by incorporating the principles in our management practice. In addition, we have recorded a Code of Conduct, which commits our top management in all countries to work in accordance with the Group policies. (See overview of the report's description of progress on page 21).

Business Excellence as management model

We are a value-based organisation and as such we do not wish to record more rules in writing than necessary. However, it is important to have common tools when we work towards common objectives.

As an overall management model, we have chosen to work in accordance with the Business Excellence model, and we find it therefore natural to also use the model in connection with the Sustainability Reporting which is based on the categories leadership, customers, society and employees. (Figure 1: the Business Excellence model.)

In the Business Excellence model, efforts and results are linked, and learning based on achieved results is an important input to the decision process for new objectives, strategies and action plans.

See also Grundfos' interested parties and their special connections to the company described in figure 2 page 10.

Sustainability as guiding principle

We wish to have a holistic approach to sustainability. (See the Group's mission and vision page 11.) Consequently, we take social, environmental and financial aspects into consideration in this report, even though the line between these three aspects is floating.

Responsibility is a keyword when dealing with something as significant as water. The competition for this scant resource increases constantly, and in order to solve the future water supply problems, there will be a large demand for new, better and more efficient technologies.

We feel privileged to help solve these significant social tasks with our expertise and products. But we are also humbled by the tasks and do everything we can to live up to our responsibilities.

Our general obligations within social responsibility are part of Grundfos' business principles and are incorporated in the Group's policy for the area – Corporate Social Responsibility (CSR).

Grundfos' CSR policy deals, among other things, with respect for the cultures and traditions in the countries in which we have companies and how to find a balance between the requirements we impose as a company and the requests and the offers which the local community has to offer. We are interested in participating in the local community.



Figure 2

MAPPING OF INTERESTED PARTIES

The figure illustrates Grundfos' primary interested parties and their special connections to the company.



In some countries, the Government attends to the social responsibility. In others, this is wholly or partly based on voluntary aid. Consequently, there are several ways of interpreting Corporate Social Responsibility, and the responsibility is reflected in various ways in the Group's companies.

Social responsibility may comprise many situations, and there are several challenges within the social area which it is relevant to prioritise from a human and social point of view.

Philosophy of man

People with physical, mental or social problems and thus a relatively reduced working capacity may experience considerable difficulty in being part of the labour market and thereby a well-functioning part of society. The ever-increasing requirements imposed on the employees in most companies on the basis of the technological development, globalisation and today's competitive conditions mean that this challenge is increasing. As a company, we wish to assume our part of the responsibility in this area.

Each individual is responsible for his/her own life, yet he/she is also responsible for the community and the relations of which he/she is part. To Grundfos the employees are human beings with ideas, commitment, responsibility, skills, wishes and needs – and from time to time problems. If the problems are related to the working situation, we help to solve them and we help to create the right settings in order to give the employees the best conditions to solve their problems – irrespective of whether they are employed on ordinary or special terms.

EMPLOYEES EMPLOYED ON SPECIAL TERMS

One of our most important priorities within this area is that it is the objective of all of the Group's companies that at least three per cent of the workplaces must be reserved for employees employed on special terms due to physical, mental or social reasons. This objective was reached in 2005, and to ensure that it is possible to meet the objective, the Group follows the development in the individual companies and an annual status report is prepared.

Human and employee rights

Another important priority within the social area is that we assume our part of the responsibility to ensure that human rights and employee rights are respected and observed. This prioritisation has become increasingly relevant as our company has become increasingly globalised. We wish to "set our own house in order" by having policies and procedures within the area. As far as the suppliers are concerned, it is our keyword to establish good partnerships and do the necessary groundwork when we choose suppliers.

Environmental responsibility

The overall responsibility for environmental and work environment issues has been placed in the line management supported by management support functions. The Group's overall environmental objectives comprise the company's general environmental impact, work environment as well as the environmental impact on the products. They are set out by the Group Management once a year. The decision is based on, e.g. a review of the financial results of recent years, audit results and input from the Group's environmental organisation.

■ SOCIETY

- Society in general**
 - "Licence to operate"
 - Services
 - Environmental impact
 - Workplaces
 - Prosperity/investments in society
- Suppliers**
 - Company mission
 - Reputation
 - Parts and services
- Authorities**
 - Legislation
 - Service, sparring and knowledge
 - Direct and indirect taxes

■ CUSTOMERS

- Obtaining, transportation or disposal of water
- Energy consumption for pumps
- Company mission
- Reputation

■ EMPLOYEES

- Manpower
- Productivity
- Renewal
- Environmental impact
- Salary
- Qualifications
- Safety and health



MISSION:

Grundfos is one of the world's leading pump manufacturers.

It is our mission (*raison d'être*) to successfully develop, produce and sell high quality pumps and pump systems all over the world with the intention of making the lives of human beings easier and more comfortable whilst aiming to contribute actively to an improved global environment.

VISION:

Our vision (the future we are trying to create) is that:

The company's customers consider Grundfos to be the leading manufacturer and business partner for top quality pumps – in terms of functionality as well as environmental friendliness.

There is a high degree of satisfaction among our employees, as the jobs and terms of employment provide opportunities for professional and personal development, and the work environment is characterised by consideration for the individual employee's aspirations and qualifications.

Society at large holds Grundfos in high esteem and recognises the Group for its strict adherence to legal requirement and its respect for democratic principles, local traditions and environment, as well as the people whose lives and conditions are affected.





The environmental managers of the manufacturing companies meet every second year – most recently in 2005 – in order to jointly prepare a presentation for the Group Management stating which environmental action areas to prioritise in the years to come and the areas for which all manufacturing companies need to have objectives. As a result of the differences in procedures, physical conditions and local legislation, the companies also define individual objectives in other target areas.

Safety, for example, generally has a high priority throughout the Group. The American manufacturing company places particular emphasis on safety. Having made a considerable effort to prevent work accidents, the American company has reduced the number from thirteen in 2002 to three in 2005.

In the Danish manufacturing company, the treatment of waste water has been given high priority – partly due to national legislation and partly due to the composition of the waste water. At the moment, a new purifying method, which is based on bacteriological purification, is being introduced and is expected to be fully implemented at the end of 2006.

The Danish manufacturing company has also invested in a more detailed energy measuring system. It now allows for the consumption within various categories such as compressed air, room lighting and production machines to be easily and continuously monitored via PC screens.

With this system, it will be possible to visualise the energy consumption of the individual employee and this will motivate the employees to obtain further reductions in the electricity consumption which will benefit the environment as well as the financial situation. In the long term, our objective is to obtain a complete overview of Grundfos A/S' energy consumption.

Employee involvement

Based on the objectives, local area management in the manufacturing companies adopts action plans that help meet the objectives. This results are, however, attributable to the fact that the employees have responded to the invitation to become actively involved by providing suggestions for improvements.

The number of suggestions has become a reference point in its own right which reflects the employees' commitment to their company. The many suggestions we receive are a symbol of the Grundfos tradition where Grundfos involves the employees and gives them a high degree of co-responsibility.

Co-responsibility is also the keyword for the way in which we have chosen to organise the work carried out to improve the environment and the work environment. To a wide extent, we set up working groups across the organisation with focus on a selected theme – for example chemistry or noise. The purpose of the working groups is also to obtain a high degree of exchange of experience sharing across

WEB REFERENCES

MORE INFORMATION ABOUT THE GRUNDFOS GROUP'S VALUES, POLICIES AND RESULTS:

The Group's mission, vision and values: www.grundfos.com/values

Code of Conduct: www.grundfos.com/codeofconduct

Overview of the Group policies: www.grundfos.com/policies

The financial Annual Report: www.grundfos.com/annualreport

Latest environmental report: www.grundfos.com/dk/environment

OUTSIDE GRUNDFOS:

Global Compact: www.unglobalcompact.org

Business Excellence: www.efqm.org

the company. A prioritised and structured experience sharing is an important part of the work to disseminate and implement management system, policies and procedures throughout the organisation. Sharing of experiences is also carried out via a uniform system for environmental and health and safety audits.

To Grundfos, globalisation is not an end in itself, but primarily a question of sustaining growth in new markets. When we move workplaces from one country to another, we are aware of our moral and ethical obligations towards the employees who lose their present jobs. We do our best to help them find a new job, and so far we have succeeded in doing so (a Hungarian and a Danish employee tell us about their experiences on page 52).

We also demonstrate responsibility towards the communities where new manufacturing companies are set up. We aim to achieve harmony with the local surroundings – e.g. by becoming involved in the local community and supporting initiatives which strengthen the local community as well as Grundfos.

Grundfos has manufacturing companies in nine different countries all over the world. All of Grundfos' manufacturing companies must be certified in accordance with the international standard for environmental control, ISO 14001. The requirement is part of the Group's environmental policy and is met by all of the companies. In addition, several manufacturing companies have chosen to become certified

in accordance with the work environment standard OHSAS 18001.

Grundfos also owns a number of companies which are run under their original name. The Group Management has decided that, for a number of years, they will be subject to the same management systems and recordings as companies which are run under the Grundfos name.

So far, these companies are required to comply with a number of minimum environmental and health and safety requirements, defined in-house. The system used to evaluate the companies that do not carry the Grundfos name is identical to the one we use to evaluate our suppliers. The companies have also been included in the Group's audit plan for environment and occupational health and safety – the first audits of this type of companies took place in the autumn of 2004, and the next follow during 2006.

Financial sustainability

Financial sustainability for a company is part of the prerequisites that the company has the power to prioritise environmental and social responsibility. Financial sustainability means that the company is able to contribute to prosperity and stability in the local community.

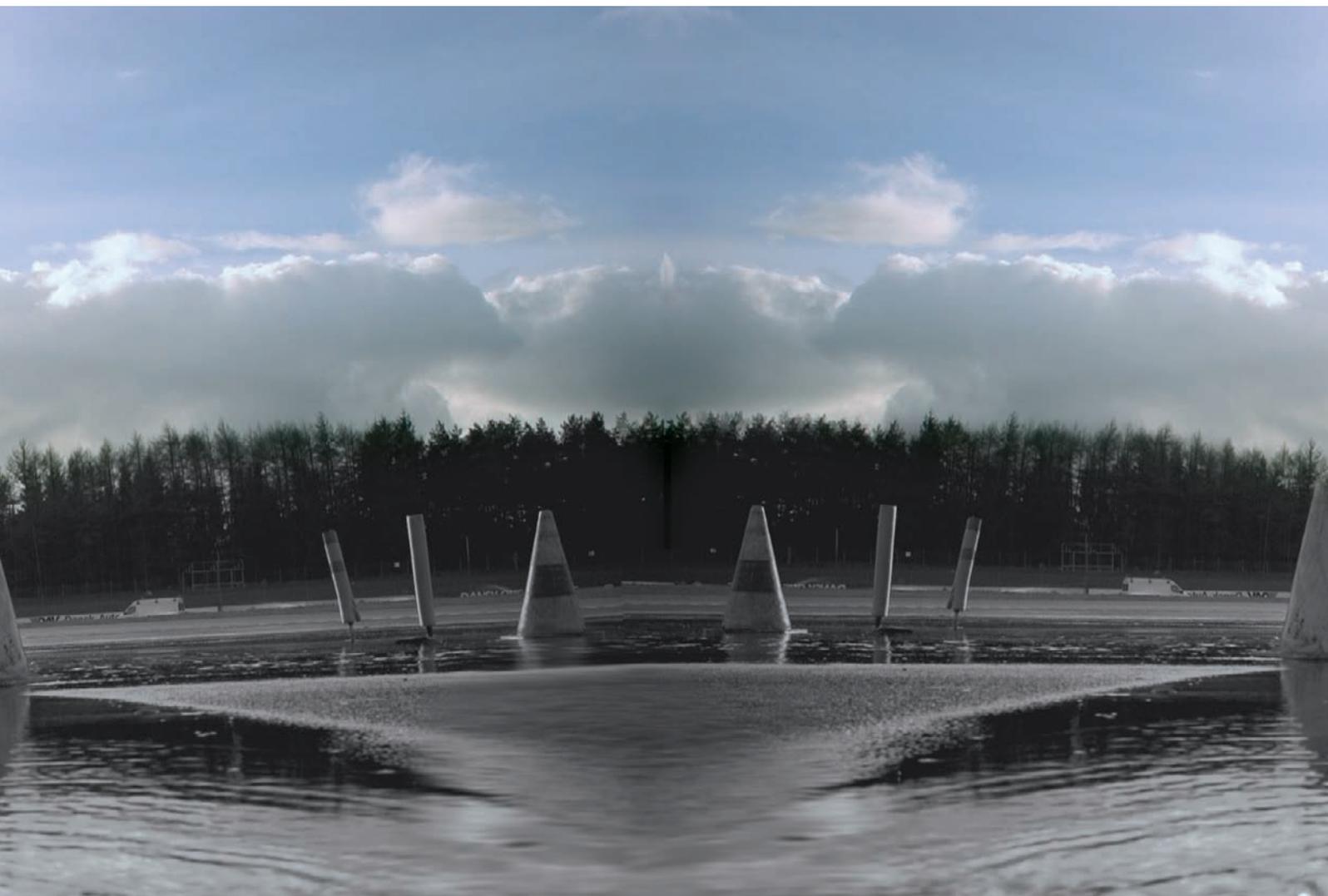
Grundfos is a financially sustainable and soundly-based company. The key figures for the Group are summarised in this report, but the financial reporting is available in the Group's financial Annual Report.





SOCIETY





GRUNDFOS HAS COMPANIES IN MOST PARTS OF THE WORLD. THIS MEANS THAT WE RUN OUR BUSINESS IN VERY DIFFERENT CULTURES, BUT GRUNDFOS IS UNCOMPROMISING WHEN IT COMES TO THE PRINCIPLES FOR OUR COMPANY.





Grundfos Code of C

SOCIETY

No matter where Grundfos is present in the world, we do our utmost to act in accordance with our values which are the same for the entire Group. In this way, we endeavour to show responsibility – and work for social, environmental and financial sustainability in relation to the global society as well as the local communities where our manufacturing companies are located.

ETHICS AND GOOD BUSINESS PRACTICE Human and employee rights

Grundfos' values and policies form the framework for our commitment to support and respect the protection of internationally adopted human rights. As a global company, we have a social influence in many of the world's regions and despite of our major efforts, it is a constant challenge to ensure and improve the working conditions in our entire supply chain.

We have a direct influence on the working and employment conditions of our own employees, and to improve the overview of this area, we have, as an experiment in the manufacturing companies, used a mapping tool developed by the Danish Institute for Human Rights. Human Rights Compliance Assessment (HRCA) Quick Check is an online assessment tool developed by the Danish Institute for Human Rights.

In a pilot project, Grundfos has used the tool to uncover possible dilemmas relating to human rights in our manufacturing companies. We are considering whether to distribute this or a similar assessment tool to all companies in the Group. In addition, Grundfos in Denmark is a member of Amnesty Business Forum which constitutes a framework for dialogue with Amnesty International on human rights and also serves as a network for companies that focus on the issue.

It is, of course, also important to us that our suppliers offer their employees decent working and employment conditions, and in general run their business on an ethically responsible foundation. Naturally, we do not have direct influence on the suppliers, and may primarily work with attitudes when we meet inappropriate situations, but since August 2005, we have made the following demands: "The supplier must, within his/her area of influence, respect and support the UN's Global Compact – including the principles on human and employee rights".

Prior to entering into a supply agreement, the suppliers must answer a number of questions about human rights. The answer to individual questions may give rise to additional questions. This may, for example, involve the use of foreign labour where a number of additional questions are meant to uncover and prevent the employees in question from having a debt relation to the employer as this may prevent the employees in question from seeking work elsewhere. An example is withholding of wages for the payment of agency fees. The suppliers should be told that arrangements which retain employees due to debt can be compared to forced labour which is totally unacceptable.

In addition to demands for human and employee rights, Grundfos also requires that the supplier implements environmental management in accordance with ISO 14001 or a similar environmental management system. The requirements are included in the framework agreement entered into with the supplier.

Compliance with the requirements is partly assessed in terms of self-assessment and partly in terms of audit at selected suppliers. It is much more difficult to ensure that the employees employed by the suppliers' suppliers are treated decently – in our experience it is not sufficient to

Figure 3
DEFINITION OF THE CRITERIA FOR EMPLOYMENT ON SPECIAL TERMS

We have set up a number of criteria to demonstrate who is included in this group. The criteria are outlined in this figure.

Physically	■	It is not a fixed-term employment and it may be included in the group each year as long as the person is employed by Grundfos.
Mentally	■	It is not a fixed-term employment and it may be included in the group as long as the person is employed by Grundfos.
Socially	■	The employment is only registered in the group for one year. Subsequently, it will be considered as a normal employment.

Conduct

obtain the signatures of our suppliers to protect employees at the other end of the chain. We have learned that involvement is necessary, that it is important to work for common international standards and that knowledge should be shared across cultures and national borders.

In our comprehensive programme for the management of the supply chain, we demand that the supplier must fill in a questionnaire for the self-assessment of, e.g. environmental and social results. To ensure that the programme has the intended effect, Grundfos performs audits at selected suppliers. We ask the suppliers to ensure that similar actions are performed in the next link in the supply chain.

Corruption

During the past year, Grundfos has increased its efforts to work against corruption by means of a number of new initiatives. Focus has been increased on Corporate Finance and Control, which has now increased the number of unannounced audits in the Group's companies.

In addition, all Financial Managers are trained in the companies to ensure that they are aware of which danger signals to pay attention to in order to avoid corruption. During the training, they are confronted with various dilemmas to train the individual person in making decisions which correspond to Grundfos' values. All of the Grundfos Group's General Managers, and from 2006 also all General Manager's management teams, must each year sign the Group's Code of Conduct which, among other things, includes an obligation to work against corruption.

In connection with the meeting between all General Managers in Denmark in February 2006, a new tighter Code of Conduct was introduced and signed collectively by all participants on a large poster. Subsequently, the poster has

been sent to all companies, allowing employees and visitors to see which obligations have been accepted by Grundfos' General Managers.

Grundfos has introduced a decision model to the key employees in, e.g. the sales departments and to several of the above-mentioned responsible persons which will help them to act in accordance with laws, democratic principles, local traditions and the environment.

COOPERATION WITH SOCIETY AT LARGE

The tolerant labour market

Grundfos has a long tradition of showing responsibility towards people who are not able to have a job on ordinary terms. It is our objective that 3 per cent of the total number of employees at Group level should be employed on special terms. Status for the manufacturing companies is shown in the table. (Figures 3-4: Definition of the criteria for employment on special terms and the number of employees employed on special terms.)

Employment of disabled people and other minority groups is adjusted in accordance with statutory quota schemes in more than half of the countries in which we produce. By fulfilling a quota, a company is able to achieve benefits such as saved costs.

Typically, the quotas within the social area do not only apply to employees employed on special terms. It may also be essential that the individual company is involved in the surroundings and starts initiatives which contribute to the local community.

Grundfos endeavours to fulfil the quotas of the individual countries. In areas where we have not yet reached our objective, we work intensely to reach it.

Figure 4
NUMBER OF EMPLOYEES EMPLOYED ON SPECIAL TERMS

Company	DENMARK	UK	FINLAND	FRANCE	CHINA	TAIWAN	GERMANY	HUNGARY	USA	TOTAL
Number	141	13	5	12	14	4	48	35	9	281
%	3.8	4.6	4.8	2.5	2.9	1.6	7.5	3.9	3.2	3.9



SOCIAL RESPONSIBILITY

– CONTRIBUTIONS TO THE LOCAL COMMUNITY

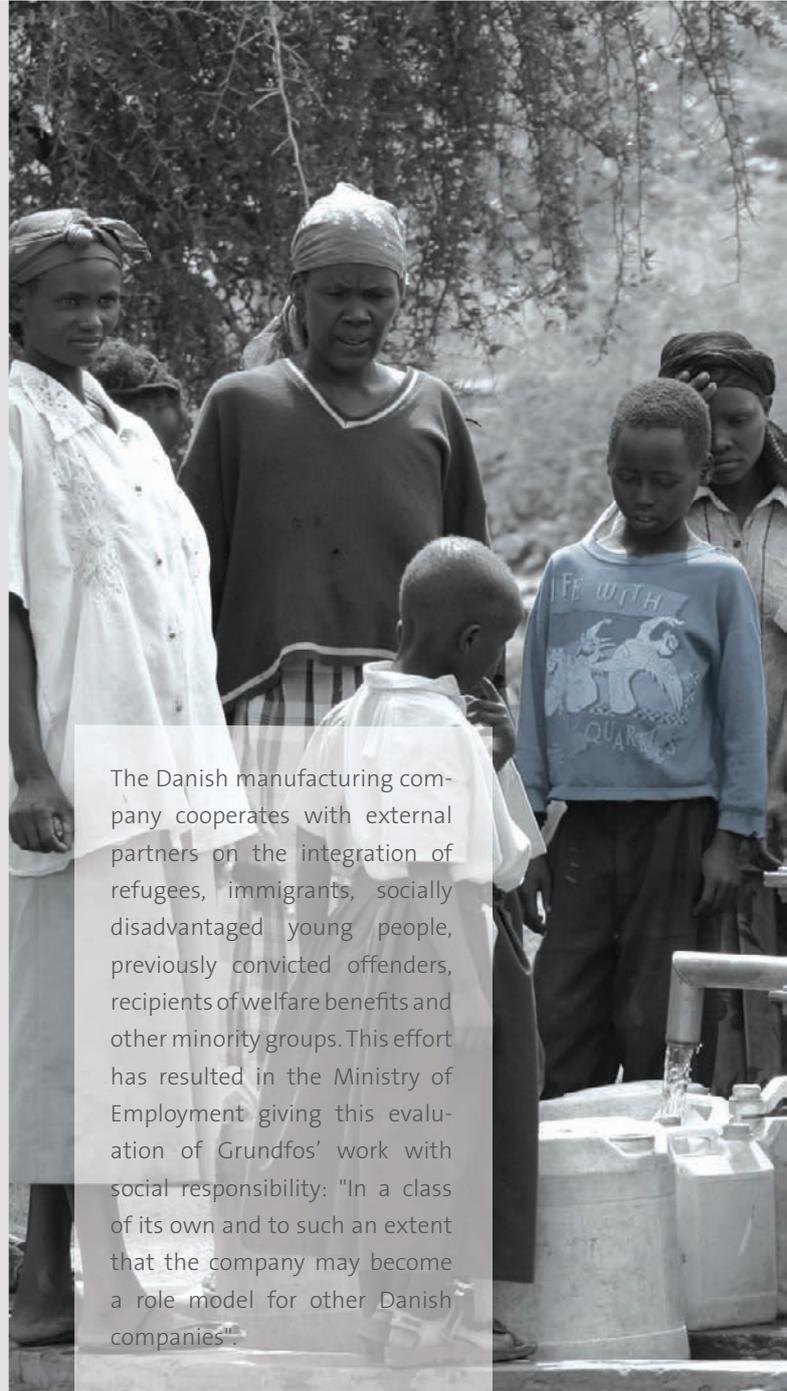
When the tsunami struck Southeast Asia on 26 December 2004, the consequences for the affected local communities were so extensive that Grundfos chose to help with massive financial funds (read the report on page 25). In addition, we provided products as well as core competences.

In connection with Grundfos' 60th jubilee in 2005, we also chose to donate money, this time in order to give a number of Kenyan schools and the surrounding communities a more reliable water supply, and this way make life easier for thousands of people (read the report on page 24).

In both of the cases mentioned, the Group provides a total contribution. However, a large part of Grundfos' social commitment is built on local initiatives. We believe that in many cases the best way to spend the Group's funds and to provide the greatest commitment is to allow the individual companies to have a greater influence on what they wish to support.

In some companies it is the employees who make a noticeable contribution, while other companies donate money and some companies ask foundations to provide financial support for projects. In total, we have registered 141 different initiatives in the area – major as well as minor.

Grundfos is trying to live up to its social responsibility via a large number of local activities which vary from company to company. We have chosen five examples.



The Danish manufacturing company cooperates with external partners on the integration of refugees, immigrants, socially disadvantaged young people, previously convicted offenders, recipients of welfare benefits and other minority groups. This effort has resulted in the Ministry of Employment giving this evaluation of Grundfos' work with social responsibility: "In a class of its own and to such an extent that the company may become a role model for other Danish companies".



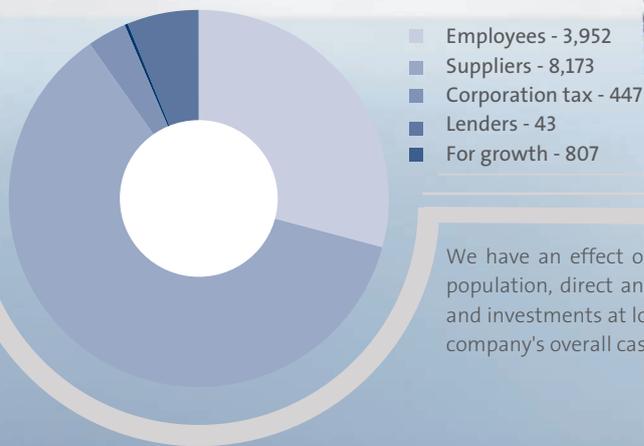
Grundfos in the Czech Republic has donated pumps for the renovation of buildings which house homeless people in Prague. The centre offers food, healthcare and various kinds of counselling to help people back into the labour market.

The Chinese sales company supports a children's home in Shanghai in the form of donations. The employees in the company also demonstrate that they are willing to assume part of the responsibility for the society in which they live – e.g. by visiting the children's home with their families and by donating the children clothes.

Lack of basic knowledge of mathematics in particular is one of the most significant barriers faced by the American manufacturing company when attempting to employ persons from minority groups. To solve the problem, the company has employed an experienced maths teacher from the local school to provide intensive and individual tuition for interested employees who are employed temporarily. The result is that many of these people have subsequently been employed on ordinary terms.

Grundfos' manufacturing company in Taiwan has employed two physically handicapped people with reduced work capacity. One of the company's suppliers found that the idea was so good that he has now contacted the local handicap organisation in order to copy the idea.

Figure 5
TOTAL TURNOVER 13,422



We have an effect on society in the form of providing employment for the local population, direct and indirect taxes for the government as well as via purchases and investments at local suppliers and contractors. We have illustrated some of the company's overall cash flows in this figure.

FINANCIAL SITUATION FROM A SOCIAL PERSPECTIVE

As is the case with other companies, Grundfos strives to obtain a reasonable balance between income and expenditure. A solid financial foundation and the owners' willingness to reinvest most of the company's profit in Grundfos' continued growth, is one of the most important conditions for a sustainable development. None of our shareholders demand an immediate return on their investments. The Group is primarily owned by the Poul Due Jensen Foundation which has the expansion and development of Grundfos as its primary purpose. They are patient enough to allow us to invest our profit in initiatives which will create results in the long term. (Figure 5: Total turnover and the Grundfos Group's key figures on the back cover.)

For us as a company, financial sustainability goes hand in hand with our financial influence on society. We have an effect on society in the form of employment for the local population, direct and indirect taxes for the government as well as via purchases and investments at local suppliers and contractors. We have illustrated some of the overall cash flows from our company to society.

The global need to provide clean water and dispose of waste water is growing year by year. The same applies to the energy-saving circulation of water for heating or cooling of buildings and the need to move liquids in industrial plants. Pumps and pump systems for these purposes constitute Grundfos' core business.

In 2005, the overall growth in the pump market was 4-5 per cent, while the growth in the Grundfos Group's total turnover totalled 10.4 per cent. This shows that Grundfos won market shares in 2005 and has thus strengthened its position as one of the world's leading pump manufacturers. (Figures 6-9: Turnover divided into regions.)

The growth varied from one region to another with high growth rates in new markets such as Eastern Europe, Russia and Asia, whereas the development in Western Europe was more moderate. The growth in sales was 20 per cent in Eastern Europe, over 40 per cent in Russia, and Asia showed an overall growth of 16 per cent.

Figure 6
TOTAL TURNOVER DEVELOPMENT

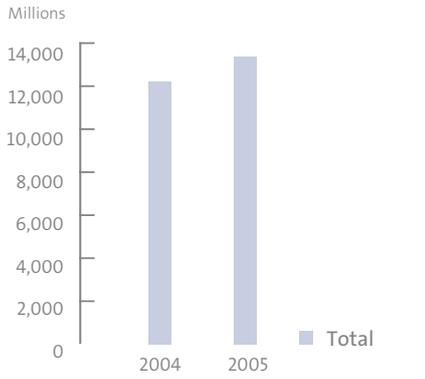


Figure 7
TURNOVER DEVELOPMENT DIVIDED INTO REGIONS

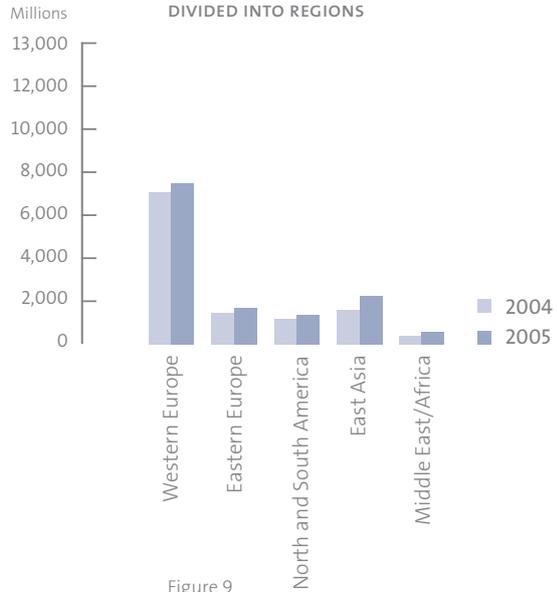


Figure 8
PERCENTAGE OF THE TURNOVER DIVIDED INTO REGIONS

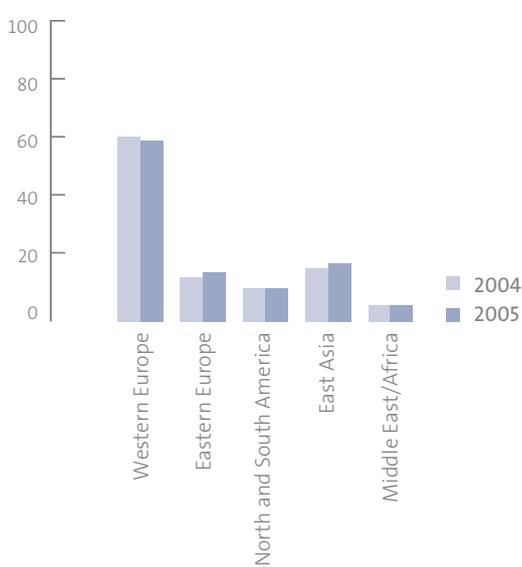


Figure 9
GROWTH IN TURNOVER 2004-2005 PER REGION

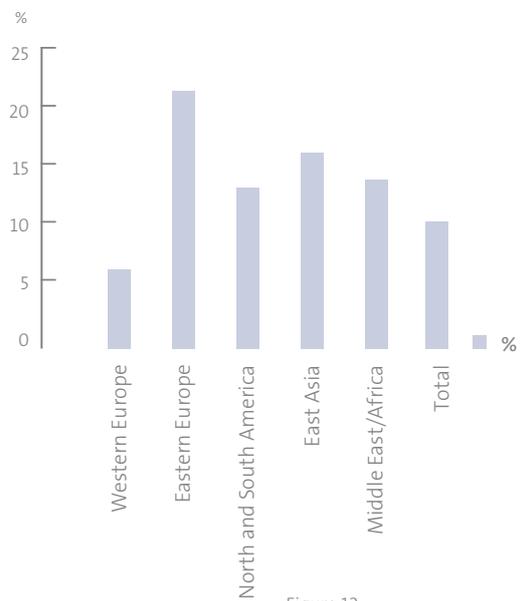


Figure 10
DEVELOPMENT IN TURNOVER IN OECD COUNTRIES/OTHER

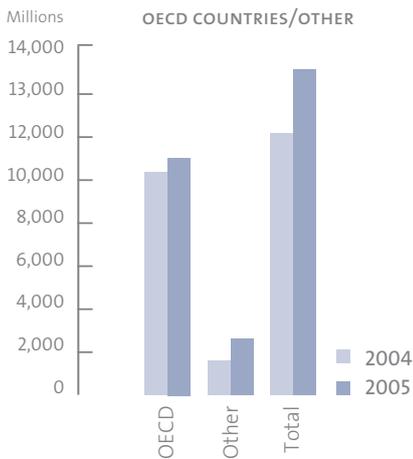


Figure 11
PER CENT OF TURNOVER DEVELOPMENT IN OECD COUNTRIES/OTHER

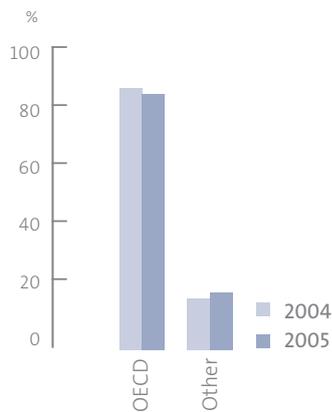


Figure 12
GROWTH IN TURNOVER 2004-2005 IN OECD COUNTRIES/OTHER

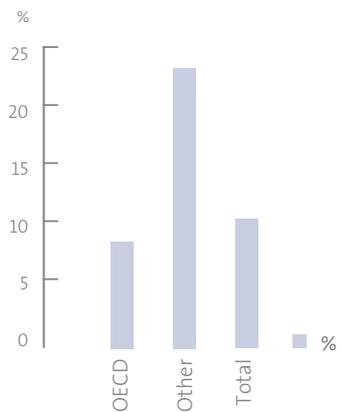
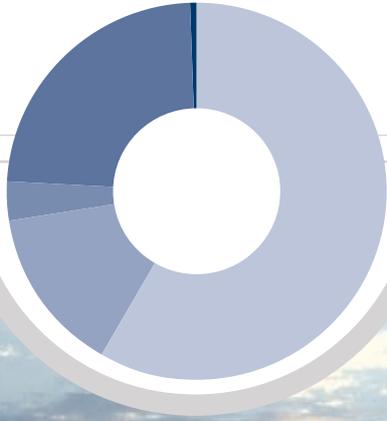


Figure 13

TANGIBLE CAPITAL INVESTMENTS AS OF 31.12.05



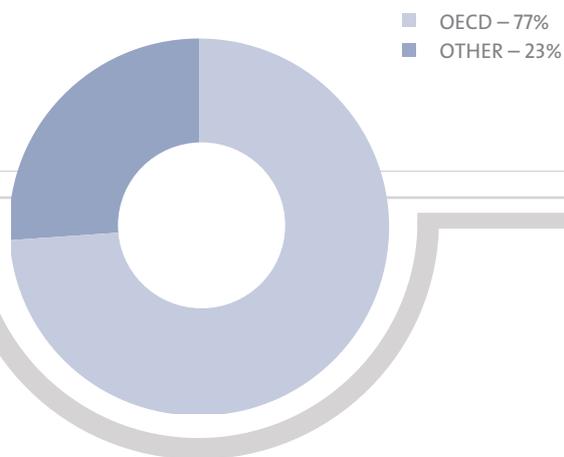
- Western Europe – 59%
- Eastern Europe – 19%
- America – 3%
- East Asia – 20%
- Middle East/Africa – 0%

As the figures illustrate, Grundfos has already started a globalisation process but although investments in Eastern Europe and East Asia are relatively large, investments in Western Europe still represent more than 50 per cent.



Figure 14

TANGIBLE CAPITAL INVESTMENTS, AS OF 31.12.05 , OECD COUNTRIES/OTHER



In 2005, the Grundfos Group focused intensely on the North American market and realised a growth of approx. 13 per cent. By the end of 2005, we concluded negotiations to buy the American pump manufacturer PACO and thereby, the last element in the four-string acceleration strategy for the North American market fell into place.

The strategy was decided at the end of 2004 and, throughout 2005, a great deal of energy and resources were put into its realisation. The three other elements are an expansion of our US-based sales force, the establishment of a factory in Mexico and the setting up of a product development function in the US which, in close cooperation with the central R&D function in Denmark, is to be instrumental in accelerating product development for the American market. The future factory in Mexico is to manufacture competitive products for the American market and thereby reduce the Group's vulnerability in face of the considerable fluctuations of the dollar exchange rate of recent years.

Looking at the Group's turnover both inside and outside the OECD area, it appears that the OECD countries' share

of the total Group turnover has declined from 85 per cent in 2004 to 83 per cent in 2005. This reflects the fact that the annual growth in non-OECD countries reached 23 per cent, while the growth in the OECD area only constituted 8 per cent. (Figures 10-12, page 21: Turnover divided into OECD countries/other.)

Over the next few years, the non-OECD countries' share of the Group turnover is also expected to increase as they comprise the majority of Grundfos' growth markets, while the OECD market is primarily represented by the well-developed pump markets in Europe.

The Group's tangible capital investments, i.e. investments in buildings and production apparatus – are mainly made in the well-developed markets and they correspond more or less to the geographic distribution of the turnover. This is evident when looking at the distribution between OECD and non-OECD countries, while the distribution of capital investments in regions show a somewhat more balanced picture, however with the same general trend. (Figures 13-14: Tangible capital investments, regionally and OECD countries/other.)





GRUNDFOS' CONTRIBUTION

Grundfos donated a total of DKK five million. DKK one million was spent on actual aid through the Danish Red Cross. The main part of the remaining DKK four million was spent on rebuilding with special focus on water supply and disposal of water. The amount was donated successively and at the completion of the report, DKK 3.440 million had been donated. Some of the remaining funds from the

MARONA AND THE WATER

The 11-year-old girl on the third row of benches in the primitive class room is a little shy. The other Masai children want to become doctors, nurses, teachers, pilots and much more, but not Marona, she has her own dream.

Then she whispers: "I want to be president".

Outside a diesel generator starts, and a hacksaw begins to cut water pipes.

Marona is one of thousands of Kenyan school girls who are now getting help to realise their dreams. Over the next few months, 25 schools in the most remote areas of Kenya are having a water supply installed with pumps which are driven by means of solar or wind energy. The systems have been donated by Grundfos on the occasion of the Group's 60th jubilee last year. The project is one in many whereby UNPD and Unicef Kenya in cooperation with the Government in Nairobi are taking concrete initiatives to fulfil the 2015 objectives for education and access to clean water.

These two things are closely connected. Traditionally, the girls have the main responsibility for providing the family with water and they often spend many hours a day waiting by a hand pump or digging water from dry river beds before

they carry the water several kilometres home. The men follow the family's cattle and goats and are often away from the home for weeks. As a result more than half of the girls drop out of school and never get an education.

In addition, they are maintained in a tradition-bound lifestyle and many are already given away in marriage at the age of 13-14. Boarding schools with good sanitary facilities are one of the countermeasures, and they are able to attract and maintain the young girls. This is one of the reasons why Unicef and the Government have targeted their "Water and Sanitation Programme" at the schools and it is consequently here that they will start improving the water supply.

The worst drought in several years has made life even more difficult for Marona and her family. The cattle die of thirst and this was what they had to live off. Now the water flows from the ground and into the large tank and as long as the sun is shining, there is plenty for everyone. Including the animals.

So perhaps Kenya will have a female president from a mud-built hut one day.

"tsunami framework" have been transferred to the water supply project in Kenya.

A voluntary collection among the Group's employees for the benefit of the tsunami victims amounted to DKK 1.054 million and was donated to a number of local relief organisations.



HOPE AFTER THE TSUNAMI

Zulfyan Ahmad was not at home when it happened. As mayor of 9,000 souls in the small fishing village Calang in Sumatra, he had an important meeting in Jakarta on 26 December 2004. When he realised how serious it was, he hurried home. Home to a village which had been devastated and swept away into the sea together with 80 per cent of the inhabitants, among them his entire family. For four months, he governed Calang from a tent. Like everybody else, Ahmad had to fetch water from the mountains as all wells had been destroyed or polluted.

We found one of them between two rows of temporarily built hutments. The water inside it was dark brown and the stench added to the stench from the nearby latrines. A small garden pump made a futile attempt to push water through a linen bag which used to be white. However, nobody wants to fetch muddy water here.

"Grundfos are the only ones who are able to supply what they promise", judges Ahmad. When Grundfos' employees all over the world started working after the Christmas holidays, and the extent of the tsunami was known, they collected large sums of money which the management doubled. The largest sum of this money was earmarked for the afflicted Aceh province in Indonesia where Calang is

situated. In the midst of the hopelessness, a couple of thousand people in Calang now have a faint hope. Balancing on planks over the muddy ground between the hutments, they fetch clean water from four water stations. Each station is equipped with new wells, water tank and a simple water treatment unit with gravel packs and well screens. One of the plants also contains reverse osmosis and UV purification so the drinking water is top-quality. A total of 33 pumps have been implemented in the systems.

Grundfos in Indonesia has been in charge of the entire installation and has instructed the local people in how to maintain the systems, and they have furthermore assumed the responsibility for the operation of a start-up period of three months. They have even provided diesel for the generators.

From his new mayor's office in a modest wood-built house, Zulfyan Ahmad sees how his village is slowly being reconstructed day by day between the remaining coconut palms that are still able to bend with the wind.

"We are very grateful. Now everybody is able to get clean water and avoid a lot of diseases. Otherwise, we would not have been able to proceed with the reconstruction."



CUSTOMERS





WE WISH TO GIVE OUR CUSTOMERS A BROADER BASIS ON WHICH TO ASSESS WHETHER GRUNDFOS IS A COMPANY THEY WISH TO DO BUSINESS WITH. THIS IS ACHIEVED BY CREATING OPENNESS ABOUT THE WAY WE RUN OUR BUSINESS – FOR EXAMPLE WITH THIS SUSTAINABILITY REPORT.



Figure 15

LIFE CYCLE OF THE PUMP

The percentages in the circle show that by far the greatest impact on the environment is caused during operation. These figures apply to a MeCR pump – the environmental impact during the use phase is generally between 70 and 98 per cent for Grundfos pumps.

CUSTOMERS

At Grundfos we focus on the sustainability of our products during their entire life cycle. This means that Grundfos must comply with a large number of prerequisites during product development, production and transportation. At the end of the product's service life, Grundfos also contributes to a responsible disposal, and this way sustainability becomes a visible element in the entire life cycle of the product.

The life cycle of a Grundfos pump consists of the following stages:

- product development
- production
- transportation
- use
- disposal

(Figure 15: Life cycle of the pump.)

Even though we are not solely engaged in environmental sustainability, but also in the social and financial, we have chosen to describe the sustainability in the individual phases on the basis of the life cycle of a pump.

Finance

It is important for the customer to know how expensive or cheap a pump he buys. However, it is not only the purchase price that counts. It is the cost during the entire life cycle of the pump that is relevant. By this we mean the costs relating to the pump – from purchase, installation and operation to maintenance and disposal.



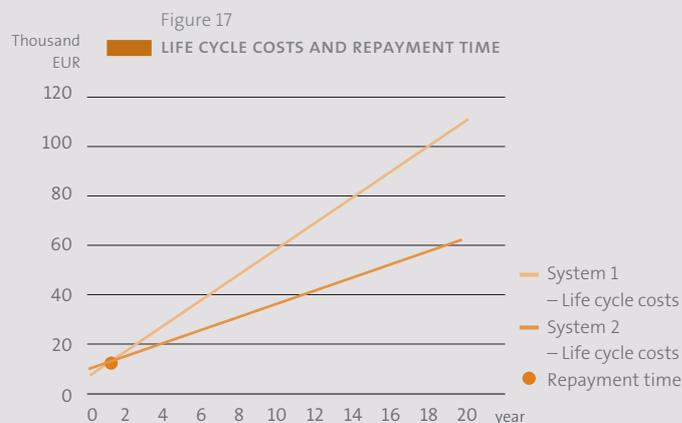
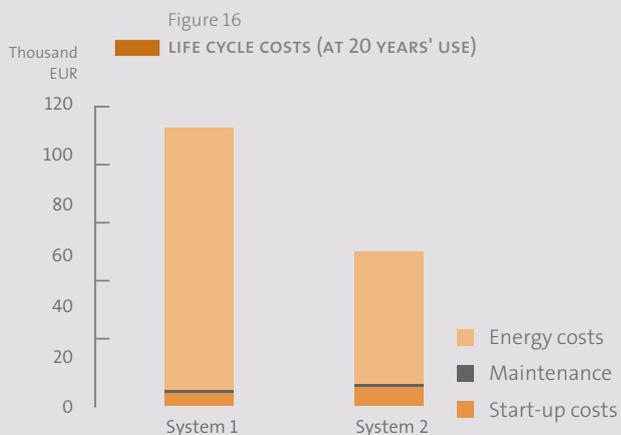
Life Cycle Cost

Only by taking all phases into consideration, is it possible to get an actual idea of how expensive/cheap the pump is. The calculation of this cost image has been systematised in a method called "Life Cycle Cost" which has been developed in a cooperation between the Hydraulic Institute, EuroPump and US Department of Energy's Office of Industrial Technologies.

On the basis of this "Life Cycle Cost" method, we have calculated several examples of how pump tasks may be solved with different pump types with very different results compared to the costs during the life of the pump. In general, the examples show that it is a good investment to buy a pump with a slightly higher purchase price but where the investment, in return, is covered in relatively short time due to low operational costs. This is demonstrated in the example below.

Example:

A 20-year-old pump station needs to be renovated, and the customer wishes to focus on low operational costs. The specifications of the pump system are that a total of



80,000 m² needs to be heated, the total heating requirement is 6,000 kW, the flow is 129 m³/h and the head is 18 m. Today, the pump task is solved by two pumps, one pump with constant speed of rotation plus one standby pump (alternating operation between the two pumps).

Possible solutions:

Life Cycle Cost is calculated for the following two possible solutions:

- System 1 = One pump with constant speed of rotation plus one standby pump (two pumps type NK 80 250/259, 11 kW).
- System 2 = Two adjustable pumps plus one standby pump (three pumps type TPE 80-240, 5.5 kW).

Result:

The result is shown in the bar chart (figure 16). This shows that system 2 – where the adjustable pumps are chosen – is the cheapest choice from a Life Cycle Cost point of view despite the fact that the purchase price of this solution was higher than system 1. After only 18 months, the additional cost paid when choosing system 1 has been covered due to lower operational costs for system 2.

PRODUCT DEVELOPMENT

The life cycle calculations show that the largest part of the environmental impact for a pump comes from the energy consumption during the use phase. The energy consumption of the pump accounts for a substantial amount of the world's total electricity consumption, and this is why we

place tremendous focus on the energy consumption of the pumps we develop.

The reduction in electricity consumption requires foresight as well as innovation because even though the pump, of course, uses electricity during the use phase, the work creating basis for the reductions should already be carried out during product development. The electrical efficiency of the pump is established during the development phase – i.e. the performance of the pump compared to how much electricity it uses.

Product improvements

As part of Grundfos' Energy Project (further described on pages 36-37), two pumps were released for sale in 2005 – the circulator pumps Alpha Pro including electronic control and UPS in a new version. Both pumps may be compared with a previous model and as the table shows, it is possible to obtain large energy savings by choosing the new pumps. Both pumps live up to Grundfos' objective which states:

80 per cent of all new products, which are developed during the period up until 2009, must have an energy consumption which is at least 5 per cent lower than the previous model or other reference product if functionality and life cycle resemble the product.

A new version of the MGE 71/80 motor was also introduced in 2005, and this offers the possibility of energy savings via its ability to adjust the speed. (Figure 18, page 30: Product improvements for the year.)



Figure 19
Index INDEXED ELECTRICITY CONSUMPTION

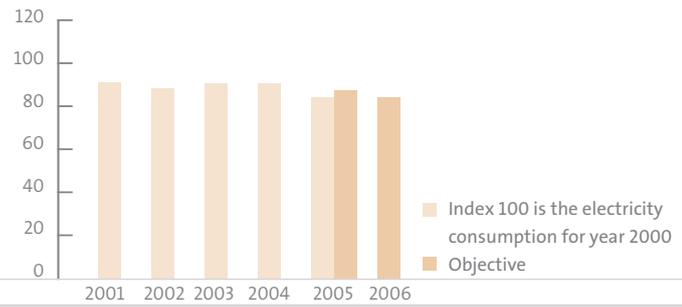


Figure 18

PRODUCT IMPROVEMENTS FOR THE YEAR

PRODUCT	ACHIEVED IMPROVEMENT IN RELATION TO		EXPLANATION	ACHIEVED IMPROVEMENT IN RELATION TO	
	ENERGY EFFICIENCY			MATERIAL CONSUMPTION	
ALPHA PRO	-77%		In this case, the improvement in energy efficiency is an annual energy saving calculated in relation to a typical load profile for heating systems. The improvement has been achieved by means of permanent magnet motor with a high efficiency and speed control.	3.7%	
New version of UPS	-30%		Super optimised hydraulics and motor.	no changes	
New version of MGE 71/80*	averagely -3.5%		Frequency converter-controlled motor where it is possible to adjust the speed as required. Great opportunity for energy savings.	averagely -3.8%	

The two latest pumps which have been released for sale as part of Grundfos' Energy Project, offer – as illustrated in the figure – considerable energy savings compared to previous models of the same type. The improvements in material consumption are more modest.

Material consumption and composition

Seen from a life-cycle perspective, material consumption and composition are also important environmental factors in Grundfos. The objective for material consumption is:

80 per cent of all new products, which are developed during the period up until 2009, must have a lower material consumption than the previous model or other reference product if functionality and life cycle resemble the product.

The result for pumps released for sale in 2005 is that only Alpha Pro has a reduced material consumption. In addition, the new speed adjustable motor MGE 71/80 has had a reduction in the material consumption.

In addition to the amount of materials, the choice of material type is also important for the total impact of the products on the environment. The choice of materials may be of importance in several of the life cycle phases of the

Figure 20
Index INDEXED WATER CONSUMPTION

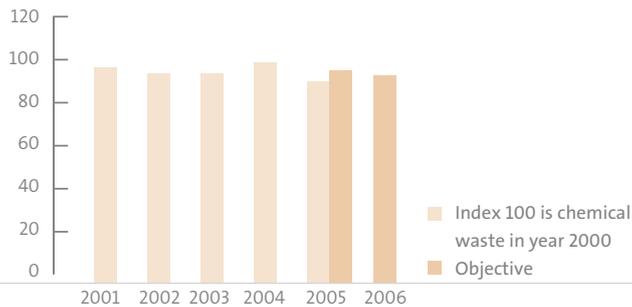
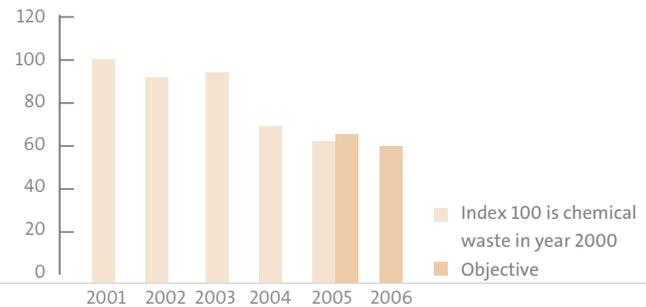


Figure 21
Index INDEXED CHEMICAL WASTE



product. Some materials may be scarce resources and it is consequently important to minimise the use of them, and other materials may be inappropriate due to the recycling options for parts of the product in the disposal phase.

PRODUCTION

As part of Grundfos' environmental policy, all of the Group's manufacturing companies must be certified in accordance with the international standard for environmental control, ISO 14001. Newly established companies have three years to reach this objective, and all Grundfos companies live up to this rule.

In the environmental area several common objectives for all of the Grundfos manufacturing companies have been defined within:

- Electricity consumption
- Water consumption
- Chemical waste

In addition, the Group has a common reference point for transportation in order to obtain the best possible use of the transportation capacity.

Electricity consumption

Electricity is used for various purposes in production, e.g. for ventilation and cooling, compressed air, operation of production equipment and lighting.

The objective for electricity consumption for 2005 has been reached. Savings have been achieved in several companies – generally in the form of many minor initiatives based on

suggestions from the employees. In Denmark, there has been special focus on the consumption of compressed air and on detecting and repairing leakages. (Figure 19: Indexed electricity consumption.)

Water consumption

Clean water is becoming an increasingly scarce resource, and water consumption has therefore been identified as an important environmental factor in all Grundfos manufacturing companies. In production, water is for example used to fill test tanks, washing of metal items and mixing of cooling/cutting fluid. (Figure 20: Indexed water consumption.)

The objective for the water consumption for 2005 has been reached. From 2003 to 2004, the consumption increased due to comprehensive changes in the pipes and extra emptying of, e.g. cooling systems, washers and sprinkler equipment in connection with an improvement project in the Danish manufacturing company. The water consumption has now been stabilised and has even been reduced from 2004 to 2005 in the Danish company.

Significant reductions have been achieved – especially in the American and British companies. A working group has been set up in the American company with the sole purpose of implementing methods for the recycling of water and general optimisation of the water consumption. A leakage was found in the British company and it has now been stopped, and this has been one of the main reasons why the total water consumption in 2005 has been reduced.





Chemical waste

Chemical waste consists of various solid and liquid waste that are mostly defined as hazardous waste. The classification of the waste depends on the country of origin. (Figure 21: Indexed chemical waste.)

Grundfos has tried to provide comparable figures for chemical waste despite the differences in local legislation in the countries where our manufacturing companies are based. The result for chemical waste shows a very positive development from 2003 to 2004. The main reason for this development is that the French company has installed an evaporator to evaporate waste water from a process where waste water was previously handled as chemical waste. This initiative is a very significant improvement environmentally as well as financially.

The reason for the reduction from 2004 to 2005 is mainly that the German company has installed a nano filter capable of purifying cooling/cutting oil as well as waste water from test stations and parts washers. This enables the manufacturing companies to purify a larger part of their own waste products instead of disposing of them as chemical waste.

SALES

Whether or not Grundfos' pumps are used for obtaining, moving, treating or disposing of water, it is not possible to ensure sustainability without a close cooperation with the customers. If a pump is used for a purpose for which it is not designed, it is not used optimally and in the worst case,

it may cause damage or injury to equipment and people. If it is not correctly installed, this may result in the waste of valuable drinking water, the emission of hazardous substances or an unnecessarily high electricity consumption.

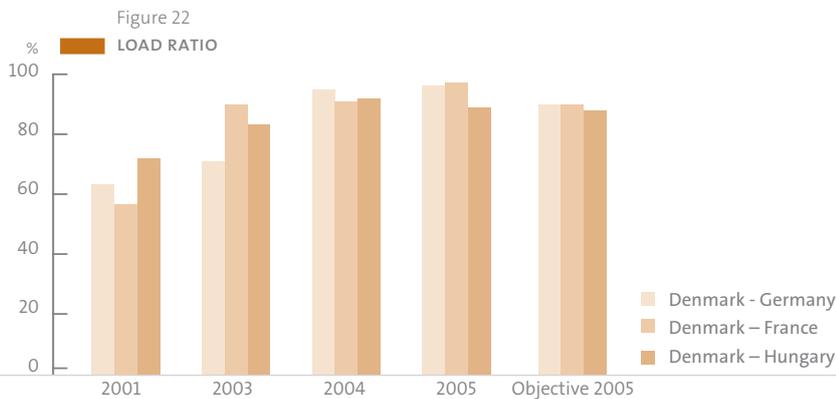
Extensive training programme

Insight into the customer's business is necessary in order for our sales team to provide the best advisory services. Consequently, the Group's sales and service team continuously participates in an extensive training programme at Grundfos' own training centre – The Poul Due Jensen Academy.

In 2005, a total of 980 Grundfos employees participated in the academy's 71 courses where environment and sustainability was part of the training. The most important element in the training is that the sales people achieve an understanding of how our products are selected and installed to fulfil the purpose but use as little energy as possible.

The knowledge which the sales people achieve at the academy makes them capable of helping the customers by choosing the best suitable pumps for the different applications. This is very important because if the customer chooses the wrong pump, even a world-class product may be a bad solution where Life Cycle Cost is concerned.

This is the reason why The Poul Due Jensen Academy has developed a Customer Training Concept to be used when



training customers in the companies. This will teach the customers how to make sustainable pump choices.

Customer training in the companies

Grundfos' sales companies continuously organise training for the customers to increase their knowledge and awareness in connection with choice and use of Grundfos' products. More general topics in relation to the situation in which the pumps are used are also mentioned during the courses which are offered to the customers.

The Danish sales company offers, for example, a modular training programme for professionals who work with pump solutions – from installation and wholesale companies, waterworks and sewage treatment plants and industrial companies to consultant engineers.

A basic module provides basic knowledge of Grundfos' products, techniques and possibilities and subsequently the customers are able to receive further training within the special topics water, heat or waste water. Finally, Grundfos offers customised training modules for groups or companies.

Detailed information

It is one thing to develop energy efficient pumps, but quite another to increase sales of them. Energy labelling has made it easier to communicate the possible energy savings which are known from refrigerators and washing machines. Furthermore, a comprehensive and detailed documentation and information accompanies each Grundfos pump.

This also helps the customers find the right pump solution for the purpose, and it ensures that the pump is installed and used correctly.

TRANSPORTATION

Since 2001, Grundfos has gathered environmental data for selected transportation routes that will be used for defining objectives for ongoing environmental improvements. We have gathered data about the regular routes between Grundfos' distribution centre in Denmark and the distribution centres in France, Germany and Hungary. (Figure 22: Load ratio.)

Objectives have been defined for the load ratio – i.e. the degree of utilisation of the space in a truck during transportation. It has been decided to formulate the objective of this parameter as it is here Grundfos primarily has an impact on the environment during transportation. All of the set objectives for the load ratio have been reached – to the benefit of the environment as well as the financial situation. These selected destinations only represent a small part of the Group's total transportation. In the long term, we expect to be able to calculate the results for a larger part of Grundfos' total transportation requirement.

USE

Naturally, quality is most important to the customer, and Grundfos is consequently continuously working on the improvement of the quality in all phases of the product's life cycle.



Our most important overall quality indicator is the "guarantee per cent", which reflects the share of the products sold that are reported faulty within Grundfos' two-years guarantee period. We are pleased to note that it has been declining constantly in recent years.

The reason for this decline has, among other things, been a considerable effort within our main focus areas:

- Increased use of accelerated test methods with the purpose of improving the robustness of the product already in the development phase.
- Systematic use of Grundfos' phased development model which contains tools such as "Design for Assembly", "Failure Mode Effect Analysis" and "Reviews".
- Systematic and documented improvement process of existing products which are based on systematic recording of guarantee cases in the market.

Service

Even though Grundfos' pump solutions are well-known for their robustness, repair and maintenance during the operation will, of course, be required from time to time. As part of Grundfos' efforts to ensure that the customers remain satisfied after having purchased one of our products, service teams are available all over the world ready to provide fast and efficient assistance when the customers need it.

Resources are also available to enable themselves in order to obtain the best possible use of their products. Via a

comprehensive electronic catalogue and library at "grundfos.com", they will find drawings, user manuals and other technical information.

Measurement of customer satisfaction

Every second year, Grundfos surveys customer satisfaction in all companies in the Group. The companies' ability to fulfil the customers' needs is evaluated according to ten different parameters and the results are gathered in a satisfaction index.

Just like the results, the improvement areas also vary from company to company – in each case, it will be the criteria which are estimated as the most important and which have obtained the lowest score.

DISPOSAL

A Grundfos pump which has reached the end of its service life is not just waste but still a valuable resource. Typically, between 90 and 99 per cent is recycled after dismantling and sorting at source. Even though it is not a statutory requirement, we make it possible for our customers to return worn-out pumps to Grundfos.

We wish to instruct our customers in how they dispose of worn-out pumps in the best possible way. For each new product we introduce in the market, we prepare disposal analyses, and it is our objective to prepare instructions on how to dispose of all product types.





ENERGY LABELLING

— ACTION BEHIND THE WORDS

Since Grundfos introduced the new A and B-labelled circulator pumps in August 2005, the amount sold in the period up until March 2006 will result in electricity savings corresponding to the annual consumption of electricity of almost 89,000 households in Western Europe.

The energy labelling, which is prepared by the pump manufacturers' trade association Europump on Grundfos' initiative and supported by the EU, includes a classification from A to G. Class A pumps save most energy, while class G pumps consume more energy. So far the energy labelling has been reserved for the more visible domestic appliances such as electric bulbs, washing machines and refrigerators. As we know that circulator pumps in Europe consume just as much energy as domestic washing machines – and that there are potential savings of around 80 per cent by choosing A-labelled pumps, the energy labelling of circulator pumps represents an important step in the direction towards a sustainable development.

It has not been an easy task to develop the energy labelling scheme which applies throughout the EU, as requirements and traditions for heating vary considerably in the European countries. It has taken four years to develop the calculation methods that determine whether a pump is placed in one category or the other.

During the entire process, we have stayed in contact with representatives from the European Commission to ensure that the agreement complies with current legislation. It is also the representatives from the European Commission who, in cooperation with representatives from Europump, control that the participants in the energy labelling scheme comply with the principles of the agreement.

ALPHA Pro from Grundfos holds the record for energy savings. A power input of as little as 5 W ensures ALPHA

Pro a certain A-label in the European energy labelling of circulator pumps. The manufacture of this type of pump is a quantum leap in the development of energy-optimised circulator pumps for European homeowners. By drawing on the company's technological experience, which over the past year has meant a drastic reduction in the energy consumption of large pumps, Grundfos has developed solutions, which set completely new standards for the energy consumption of small circulator pumps.

An annual energy consumption of down to 90 kWh throws the traditional average pump's consumption of 500-600 kWh into relief. The combination of speed control, a completely new and compact stator construction and a unique permanent magnet motor technology makes all the difference. Outside Grundfos, the energy labelling scheme has been supported by a comprehensive campaign targeted towards installers in order to prepare them to advise the end users on how to sell energy-labelled pumps.

Why is energy saving so important to us all? The Kyoto protocol documents the following:

- The EU, USA, Russia, Japan and China produce 75 per cent of the world's greenhouse gasses.
- 75 per cent of the world's greenhouse gasses come from energy production and the burning of fossil fuels, etc.
- 25 per cent of the gasses come from the production of electricity.

How is this connected to the use of circulator pumps?

- By upgrading standard circulator pumps in an average household in Europe, it is possible to save up to 10 per cent of the total annual electricity consumption in the household.
- Modern circulator pumps save up to 80 per cent compared with the traditional pumps which are installed today.

Average saving (kWh/year)		
Energy label		
New UPS compared to old UPS	149	B
Alpha Pro compared to old UPS	380	A

Figure text: As shown, is it possible to obtain large savings by choosing the latest circulator pumps, and the energy label makes the choice easier.



REPLACEMENT TO ENERGY-SAVING PUMPS BENEFITS THE USERS

Grundfos produces pumps with automatic transmission so to speak – they never use more electricity than necessary.

- It is important to think long-term when choosing a pump. As a responsible heating station, we consider it our job to make the right decisions on our own behalf as well as on behalf of the end uses.

These are the words of John Nielsen. He is the energy advisor for Fredericia Fjernvarme A.m.b.a. It is his job to advise customers about the most energy-efficient and environmentally friendly pump solutions. He is in no doubt about which type of circulator pump to include in the district heating unit that is installed in new customers' homes.

The best in the market

- When new customers wish to be connected to the heating station's supply network, we offer only one solution where circulator pumps are concerned – and that is energy labelled pumps from Grundfos, explains John Nielsen.

Energy labelled circulator pumps are part of the heating station's package deals. They never use more electricity than necessary as they adjust their output according to the current need for heat, in contrast to a conventional pump which continues at the same speed even if there is a reduction in the consumption.

The right choice

- If the customers were to choose which pump to install in their houses, they would be inclined to choose the solution with the lowest acquisition cost – i.e. a unit with a conven-

tional pump. However, when we explain that an intelligent pump will be cheaper in the long run they are willing to pay, explains John Nielsen.

In more than one sense, John Nielsen is on the customer's side. Fredericia Fjernvarme A.m.b.a. is a limited liability company. This means that the customers own the company, which receives 99 per cent of the heat from the Shell refinery and the Skærbæk power plant. Instead of being wasted as surplus energy, the heat benefits 6,000 residential homes in the Danish town of Fredericia.

Reduces the energy consumption

It is most important to encourage customers to replace old, inefficient systems with new ones that meet today's requirements for reduced energy consumption and reduced impact on the environment in the form of CO₂ emissions from the power plants. And whether the customers are big industrial customers or blocks of buildings, I always advise the customers and the installers to replace traditional circulator pumps with new, intelligent Grundfos pumps, says John Nielsen.

Fredericia Fjernvarme A.m.b.a. has had great success in reducing the energy consumption. The plant uses the same amount of energy today that it did 17 years ago. Despite the fact that the heating station has had some 100 new customers every year – ranging from one-family houses to big industrial companies.

PUMP SCHOOL PROVIDES KNOWLEDGE AND OVERVIEW

Grundfos' Danish sales company continuously organises training for the customers to increase their knowledge and awareness in connection with choice and use of Grundfos' products.

Each year, TRE-FOR Vand A/S provides its customers with between 10 and 11 million m³ water. This makes the company Denmark's largest privately owned water supply. Pumps and pump systems are a daily topic for many of the company's employees.

Back in school

Several of the company's employees have been to the Pump School at Grundfos. Ole Dam from TRE-FOR Vand A/S in Kolding was trained at Grundfos in Bjerringbro. He has participated in two of the Pump School's service modules.

- I learned a lot – it was really good. I mostly work with submersible pumps. The training at the course also gave me knowledge of other pump types. For example, sewage pumps which I also work with, explains Ole Dam.

Electronic solutions

The maintenance of pumps takes up a large part of Ole Dam's working day. So far he has used manuals and consulted his colleagues. Ole Dam therefore had great expectations of the practical exercises at the Pump School where, among other things, he would learn how to dismantle a pump and assemble it again. Ole Dam also stresses that it was exciting to learn something about the electronic pumps

which are being used more and more often. Finally, the introduction to the resources available in the help tools from Grundfos, e.g. technical documentation and the electronic documentation system, Wincaps, was very useful.

- The courses have taught me how to get help from the Internet when I am working on a job. This is the way development is heading so it is good to get a thorough introduction to the opportunities in the programme.

Hands on training

- The Pump School is theory for practitioners and practice for theorists, summarises sewage engineer Søren B. Hansen from Solrød. He has participated in the course Waste Water at the Pump School at Grundfos.

- I have basically only worked with pumps in theory when I studied at the Technical University of Denmark, so it was really good for me to brush up on some of the theory from those days and also to hold the pump and all of its parts in my hands in the workshop. The training is, of course, based on the Grundfos products, but the training is in no way biased sales talk – the course also deals with other brands, explains Søren B. Hansen.

THE PUMP SCHOOL IN BRIEF

The Danish sales company offers, for example, a modular training programme for professionals who work with pump solutions – from installation and wholesale companies, waterworks, sewage treatment plants and industrial companies to consultant engineers.

A basic module provides basic knowledge of Grundfos' products, techniques and possibilities and subsequently the customers are able to receive further training within the special topics water, heat or waste water. Finally, Grundfos offers customised training modules for groups or companies.





EMPLOYEES





THE EMPLOYEES ARE ESSENTIAL TO THE DEVELOPMENT OF A COMPANY. GRUNDFOS OFFERS GOOD WORKING CONDITIONS AND THE EMPLOYEES REPAY THIS BY SHOWING COMMITMENT AND INTEREST. THIS CREATES SUSTAINABILITY.





EMPLOYEES

Grundfos wishes to ensure a good working environment and offer the employees a work environment that promotes the employees' professional and personal development and a close dialogue between management and the employees. We believe that this approach to the work creates a common understanding of the company's objectives and motivates the employees to create the best possible results.

DEVELOPMENT AND INITIATIVES

During recent years, the number of employees has been slightly increasing in the manufacturing companies – however, the new companies in Hungary and China have, of course, experienced the largest growth, whereas some of the companies in Western Europe either maintain the status quo or account for a reduction in the number of employees.

To set up a company in a new country is not without problems, but Grundfos has achieved a great deal of expertise

and experience in overcoming the obstacles since we started to globalise production in 1960. The employees, among others, benefit from this as they receive a thorough training in accordance with the "train the trainer" principle from the employees who are used to solve similar tasks before the responsibility is passed on to them.

If we have to move production from one country to another, we do everything possible to avoid having to make employees redundant in the company which hands over the production. Instead, we offer the employees who are affected other jobs as they become vacant due to natural wastage. (Figures 23-25: Number of employees.)

More female managers

Grundfos employs employees according to qualifications and does not distinguish between men and women. Grundfos does not aim at obtaining an even gender distribution, and through the years, the general tendency has

Figure 23

NUMBER OF EMPLOYEES IN THE ENTIRE GRUNDFOS GROUP

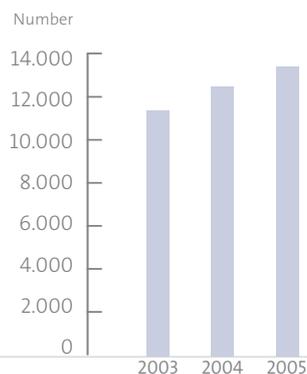


Figure 24

NUMBER OF EMPLOYEES IN THE MANUFACTURING COMPANIES

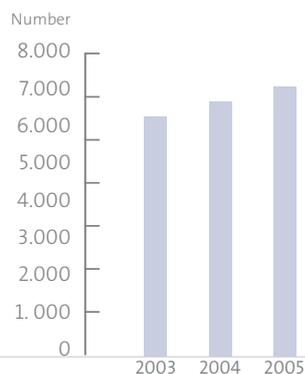
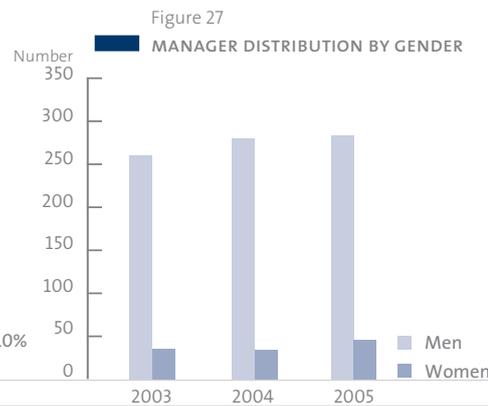
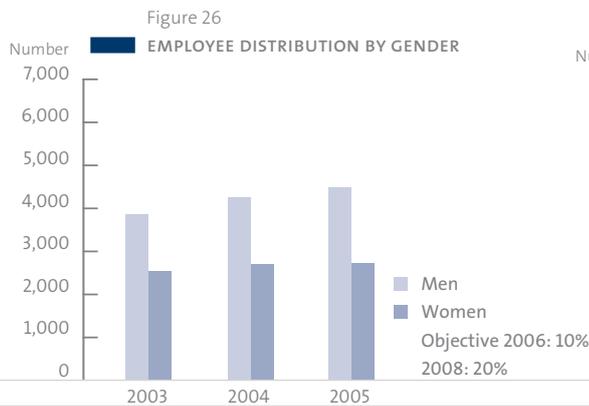


Figure 25

NUMBER OF EMPLOYEES IN GRUNDFOS' MANUFACTURING COMPANIES

country	31-12-2003	31-12-2004	31-12-2005
DENMARK	3.698	3.850	3.727
UK	278	281	280
FINLAND	164	159	132
FRANCE	426	462	490
CHINA	286	357	413
TAIWAN	219	236	255
GERMANY	665	648	619
HUNGARY	547	713	901
USA	275	275	281



38 per cent of the employees in the manufacturing companies are women, and 14 per cent of the managers in these companies are women. As regards the managers, Grundfos wishes to support a development which is directed towards a more equal distribution of the number of men and women. The first objective was that women should represent 10 per cent of the managers in 2006. This objective has already been reached, and the next objective is that the group will represent 20 per cent in 2008.

been that we have more men employed in our manufacturing companies. In parts of production where we have a lot of motor winding and electronics assembly, the gender distribution is, however, often reverse. (Figure 26: Employee distribution by gender.)

As far as management is concerned, the general tendency is that there are more men than women. (Figure 27: Manager distribution by gender.)

As many women have the same management qualifications we require as men, we have decided to change this composition by increasing the number of female managers in all companies. This is achieved by ensuring, where possible, that female candidates are always invited for interviews for the vacant executive posts, and by initiating strategic projects to increase the number of women who apply and request career development.

Furthermore, in Denmark we organise information meetings where we invite our female employees to come and

obtain knowledge from internal and external female managers about what it means to be a manager.

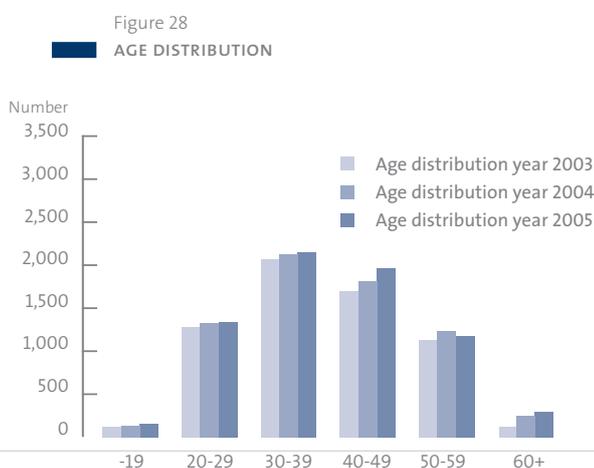
Balanced age composition

The age composition of our employees has stayed almost the same over the years. The majority of the employees are between 30 and 39 years old and a slightly increasing number of employees are between 40 and 49 years. This means that there is a good balance between young employees and older more experienced employees. (Figure 28: Age distribution.)

Due to the general demographic development, a lot of activities are initiated in order to be able to continuously recruit young people in the Western European companies. This is not necessary for the Asian companies where a lot of people are about to enter the labour market.

The Western European companies are all focusing on participating at relevant job fairs and have increased contact with the universities and institutions of higher education – e.g. by offering more internships and company visits as well as by increasing the number of students who write projects in the companies.

Furthermore, all companies are trying to improve the students' knowledge of the company as well as the knowledge of persons engaged in active employment. The German company participates each year in the survey "Great place to work", and in Denmark we have this year held the students' competition "Grundfos Challenge" (further described on page 54) as a means of creating interest in the company.



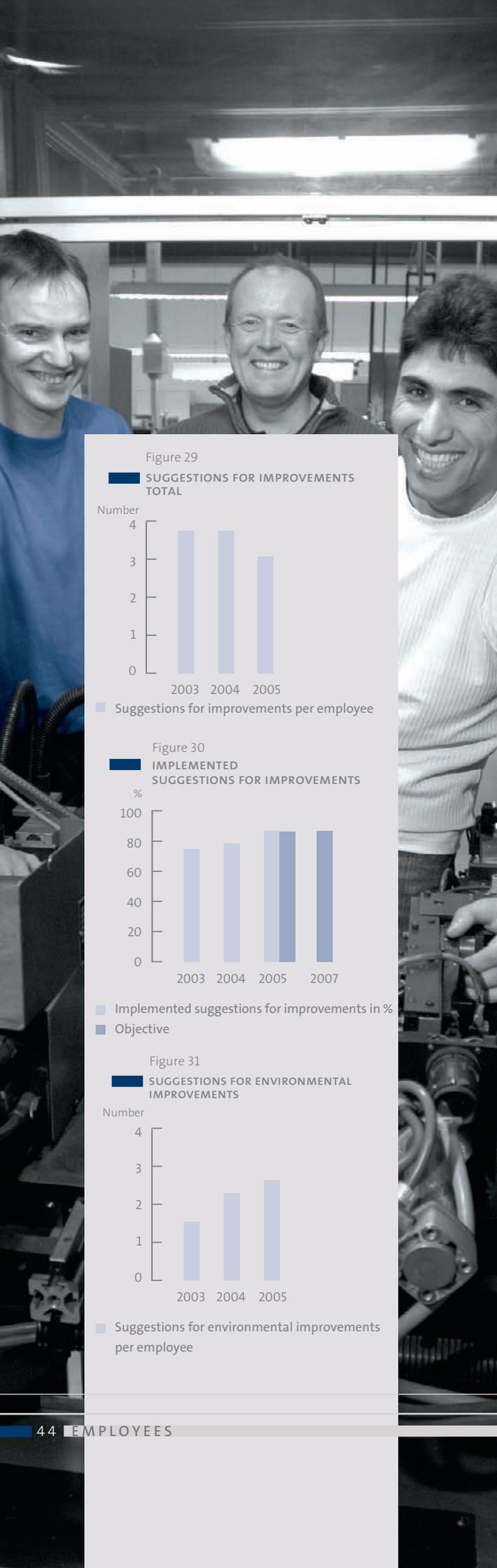


Figure 29

SUGGESTIONS FOR IMPROVEMENTS TOTAL

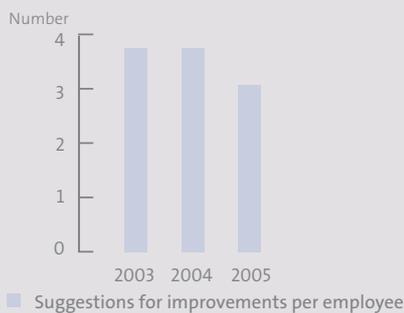


Figure 30

IMPLEMENTED SUGGESTIONS FOR IMPROVEMENTS

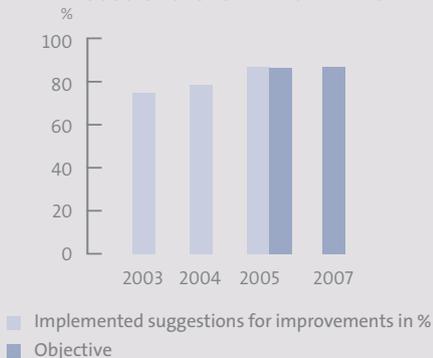


Figure 31

SUGGESTIONS FOR ENVIRONMENTAL IMPROVEMENTS

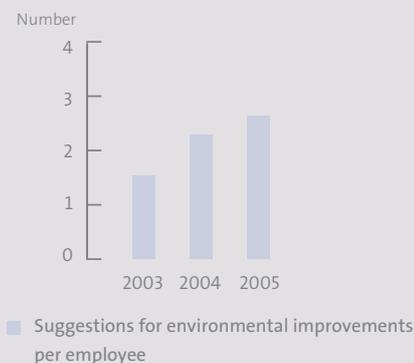
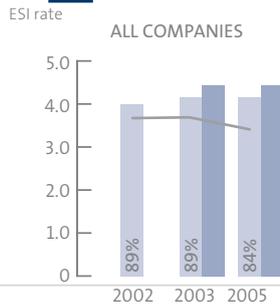


Figure 32

RESULT – EMPLOYEE SATISFACTION SURVEY



The figure shows the total satisfaction in the overall question categories: Myself, my job, my manager, my team/ my department and my Grundfos. Furthermore, it shows the extent to which the employees evaluate that the company lives up to its values.

MOTIVATION AND INVOLVEMENT

The employees' general interest in assisting in the development of the company is reflected in their participation in improvement projects – all companies in the Group work in accordance with Business Excellence as regards improvement culture. In the manufacturing companies they are registered in the suggestions for improvements databases. (Figures 29-31: Suggestions for improvements.)

By making suggestions for improvements and subsequently participating in the implementation of these, the employees show commitment and responsibility for the continued development of their workplace. There is a general and continuously high number of employees in the companies who make suggestions for improvements and at the same time, an increasing number of suggestions are implemented.

In the day-to-day life, there is seldom the time, or the opportunity to talk about the fundamental and long-term conditions concerning the employees' employment. Consequently, all employees have an annual appraisal interview with their immediate manager.

For many years, it has been part of Grundfos' culture to conduct opinion polls among the employees which are used as a tool to develop and improve the company. The opinion polls include the following issues: Myself, my job, my manager, my team/my department, my Grundfos and the values. (Figure 32: Result – employee satisfaction survey.) In general, there

Figure 33 A

GROUP QUESTIONS – EMPLOYEE SATISFACTION SURVEY

	Denmark	UK	Finland	France	China	Taiwan	Germany	Hungary	USA
1 I am able to use my skills and knowledge in my job	4.31	4.23	3.85	4.52	3.75	4.45	4.70	4.38	4.22
2 My manager inspires and motivates me	4.31	4.22	3.71	3.86	3.44	4.08	4.33	3.87	3.91
3 We have agreed upon objectives for my job	4.20	4.04	3.55	4.06	3.72	4.09	4.18	3.96	3.63
4 We have agreed upon objectives for my development at Grundfos	4.05	3.94	3.06	3.61	3.44	4.10	3.88	3.94	3.63
5 My manager inspires me to bring forward new ideas	3.76	4.23	3.56	3.81	3.43	4.11	3.76	3.83	3.65
6 There is correlation between my department and Grundfos' objectives and plans	3.92	4.62	3.54	4.03	3.55	4.26	4.59	4.11	4.06
7 We help each other	4.22	4.29	3.56	4.45	3.77	4.18	4.24	4.51	3.98
8 In my department there is a high level of job satisfaction	3.80	4.31	3.65	3.93	3.66	4.15	4.33	3.92	3.78
9 We challenge each other to find new ways to do our job	3.98	4.21	3.91	3.99	3.62	4.03	4.21	4.08	3.88
10 We have a good cooperation with other departments	4.19	4.71	3.44	4.00	3.52	3.92	4.53	3.57	3.69
11 We know what our internal cooperative partners expect	4.14	4.43	4.12	3.97	3.91	4.24	4.21	4.11	3.90
12 We know what our external customers expect from us	4.24	4.29	3.55	4.16	3.45	4.08	4.63	4.26	3.99
13 I enjoy working at Grundfos	4.28	4.57	3.58	4.17	3.44	4.25	4.71	4.34	3.99

has been a very high level of satisfaction over the years and a very high response rate. We consider the latter to be an indication of the fact that the employees are interested in and committed to the continued development of their workplaces.

When managers and employees have singled out areas for improvement, activities are initiated in all companies. This method encourages the employees to actively help improving the company.

As the figures show, the employees' assessment of whether Grundfos lives up to its values – our brand – is very positive in all companies. It is not just something we communicate externally but also something which the employees experience and which they believe characterises our daily activities.

We have asked the employees in the manufacturing companies a number of particular questions. (Figures 33A and B: Employee satisfaction survey.) The questions show that the employees in general have a high level of confidence in their immediate manager. The manager is readily available and approachable, the employees trust him/her, and the manager encourages the employees to work in team/production groups. The employees know that their work supports the Group's overall objectives which results in a high level of job satisfaction and understanding of the business.

Salaries and employee benefits

To increase the individual employee's understanding of the salary, a pay policy has been prepared in several of the companies to allow the manager to inform each individual employee of how the salary of the person in question has been determined.

As a supplement to the salary, many employee benefits may contribute to increase the satisfaction of the individual employee. Naturally, differences between the companies exist, but in general everybody is trying to group the employee benefits which the company is offering within the following criteria: Health, training, lifestyle, arrangements and savings. (Figure 34, page 46: Employee benefits in Denmark.)

Cooperation

Protection is the keyword of a well-functioning collective employment law system. In the Danish manufacturing company, management and union representatives have together defined a number of processes and implemented initiatives to ensure the best possible cooperation.

The visible proof is a handbook on cooperation which, in addition to procedures for the handling of disagreements, contains detailed principles on a fixed meeting structure, cooperation conferences, communication, experience sharing with other companies and training of union representatives.

Figure 33 B

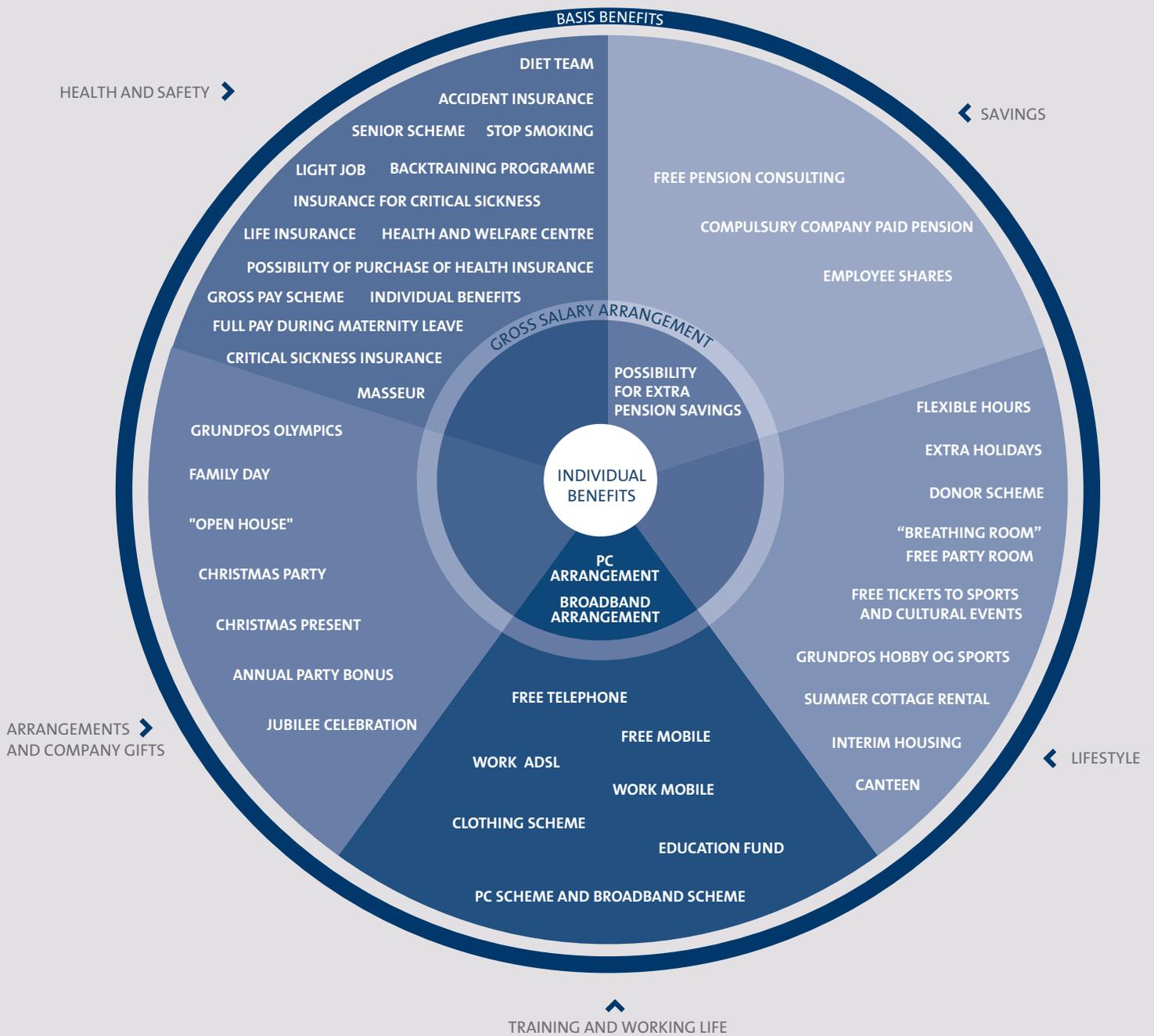
PARTICULAR QUESTIONS IN THE MANUFACTURING COMPANIES	Denmark	UK	Finland	France	China	Taiwan	Germany	Hungary	USA
1 It is possible for me to get into contact with my manager when I need to	4.21	4.07	4.25	3.99	3.78	4.28	4.2	4.10	4.13
2 I can frankly say what I think to my manager	4.32	4.22	4.24	4.00	3.73	4.13	4.1	4.11	3.95
3 My manager encourages us to work in a team	4.05	4.19	3.80	3.94	4.03	4.28	3.8	3.92	4.17
4 I know how to work to reach Grundfos' objectives	4.34	4.33	3.79	4.02	3.77	4.34	3.7	4.51	4.08
5 Grundfos promotes environmental awareness	4.47	4.74	3.25	4.56	3.73	4.36	4.0	4.59	4.31

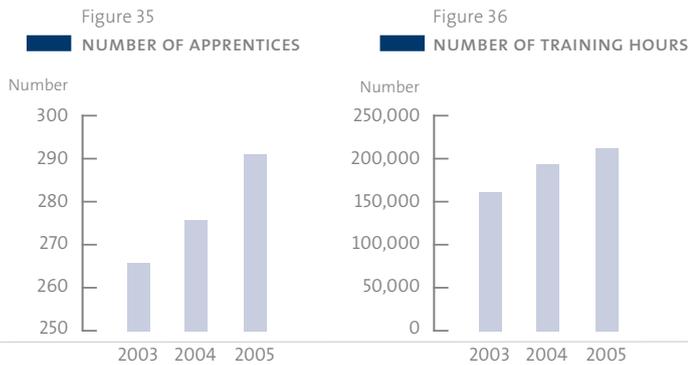


Figure 34

EMPLOYEE BENEFITS IN DENMARK

In Denmark we have been working on the visibility of the company's employee benefits and we have worked from this model. The model has been represented in the internal media and is also used when new employees are introduced.





TRAINING AND COMPETENCE DEVELOPMENT

Good opportunities for development of the employees are important for a company that wishes to attract and maintain highly qualified employees in order to reach its objectives. Consequently, Grundfos intervenes in a number of different aspects – e.g. with a number of offers for training as well as job rotation and job change.

Apprentices in all companies

Being a responsible company, it is our task to help young people get an education. All of the manufacturing companies train apprentices and, through the years, the number of apprentices in the Group has grown steadily.

The Danish company in particular has an increased number of adult apprentices at the moment. This means that previously unskilled employees may increasingly be offered a training place for the purpose of getting a vocational training.

As regards young people who are not able to start a apprenticeship on ordinary terms, Grundfos in Denmark demonstrates a particular responsibility. Via an introduction course, the young people are helped to improve their professional qualifications in order to subsequently become apprentices on ordinary terms. (Figure 35: Number of apprentices.)

Further education necessary

The increased competition in the labour market means that our employees constantly have to receive further training. This fact is reflected in the number of hours spent on the

training of the production workers. (Figure 36: Number of training hours.)

All training is determined and agreed upon in all companies in relation to the company's requirements and in relation to the gap which exists between the individual employee's present level of competence and the expected future level.

The overall clarification of needs is typically carried out once a year in each function by means of an HR tool called Strategic Competence Development (SCD) or quality assessment for the production workers. This way, the company ensures that the employees' training and development supports the strategic objectives.

When a competence gap is identified in a department, it is corrected via training or development activities. This is agreed upon during the annual personal development review between manager and employee. During the review, the past year's innovation, working and development objectives are also evaluated and new objectives are determined.

Furthermore, the general performance is evaluated during the development review and the employee's salary is adjusted accordingly.

The annual personal development review is thus a very important tool for the employee as well as the management as it ensures that the individual person and the entire function have the right skills for the future challenges.



Figure 37

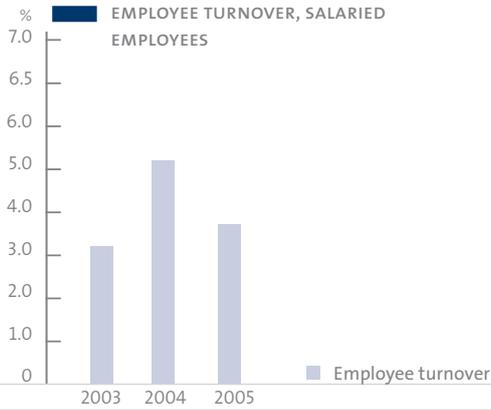


Figure 38



HEALTH AND WELFARE

Welfare is difficult to measure but the figures for employee turnover and absence due to sickness may serve as an indication of how our employees thrive. (Figures 37-40: Employee turnover and Sickness-related absence.)

For continuity in a company, it is important to avoid frequent turnover of the employees. Consequently, the employee turnover is the subject of a great deal of attention in the individual Grundfos companies, and where possible, activities are initiated which will encourage the employees to continue their employment at Grundfos. We do our utmost to give the employees the possibility of getting another job internally, try job rotation in another function or train for other job types in order to meet their requests for new challenges internally in Grundfos.

In general, the companies experienced an increase in the employee turnover for production workers as well as salaried employees from 2003 to 2004. However, all other areas experienced a decline from 2004 to 2005.

Hungary and China in particular meet great challenges as regards employee turnover as there is a large demand for employees who are willing to move to earn more money in both countries. In China, the moving of the company has made the challenges particularly great because the employees were reluctant to move due to insufficient public transportation to the new factory.

Figure 39

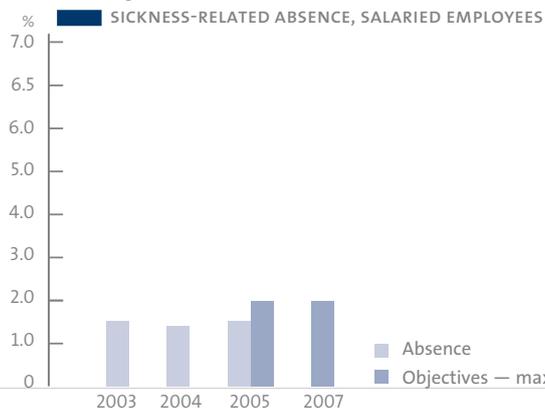
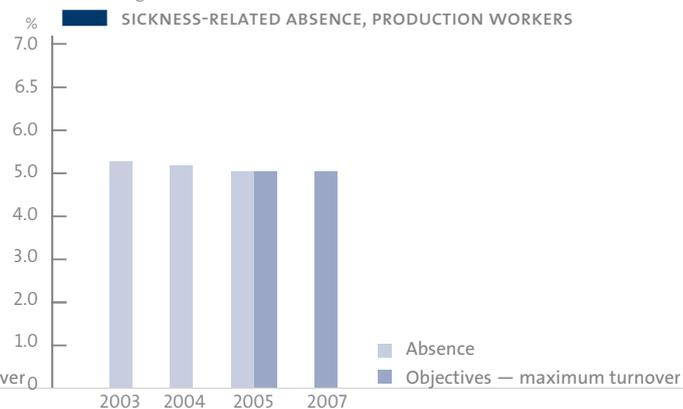


Figure 40



Reduction of absence due to sickness

Absence due to sickness is expensive for the employees, the company and society, so there are many good reasons why Grundfos is focused on reducing it.

The general tendency for the Group is that absence due to sickness is now below the 2003 level. Despite the fact that this is an area which constantly receives a great deal of attention from the management. (Figures 39-40: Sickness-related absence.)

The figures cover differences between the companies, and the individual companies are encouraged to take initiatives to increase health and welfare. In this way, the companies are able to focus on what they find important. In several companies, different activities have been initiated to reduce the absence due to sickness.

In Denmark this is done by focusing on fast efforts towards employees on long-term sick leave through health dialogues and they will be offered a gradual return to the job. To prevent illness, the employees are helped to lead a healthier lifestyle via healthy food in the canteens, fitness centres with instruction, slimming courses, stop smoking courses and massage arrangements.

From the generally high degree of satisfaction which can be interpreted from the opinion poll, it shows that the employees are positive towards these initiatives.

Work environment and safety

The most important common target areas for the manufacturing companies within work environment and safety are:

- To reduce the number of work accidents.
- To reduce the number of red chemicals in production (see explanation of red chemicals on page 50).

The target areas are selected by the Group Management on the basis of a presentation which was prepared at a common seminar for the environmental managers in the manufacturing companies.

In recent years, the development in the companies relating to health and safety is that more and more companies are being certified in accordance with OHSAS 18001, which is a standard for working environment management. Only the Finnish and Hungarian companies have yet to introduce this standard. The development is completely in line with the recommendations which the Group Management has defined in the area.

Focus on work accidents

To reduce the number of work accidents, efforts have especially been initiated in the following areas:

- Visibility and information at all levels in the organisation.
- Campaigns focused on safety – both during and outside working hours.
- Follow-up on the accidents with corrective actions to avoid reoccurrence.



Figure 41 ACCIDENT-RELATED ABSENCE

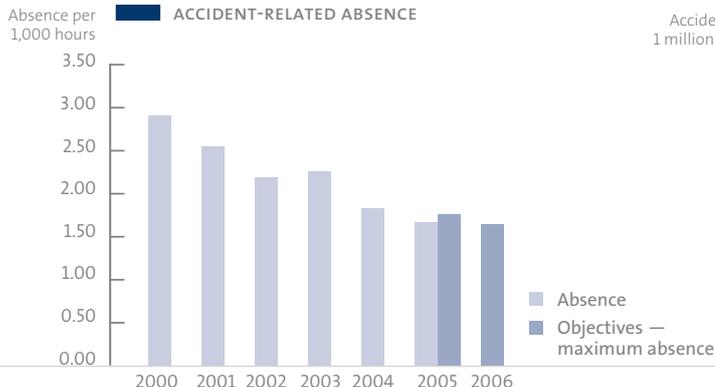
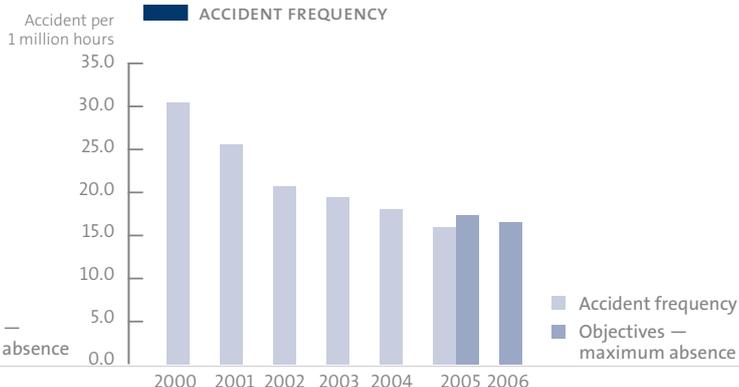


Figure 42 ACCIDENT FREQUENCY



- Registration and follow-up on near-accidents.
- Systematic safety checks.
- Focus on ordinary clearing.

It is mainly a matter of habit to be aware of what may potentially go wrong. We are trying to make it a habit to register near-accidents via observations during systematic safety checks. In this way, small and large risks are taken just as seriously as actual accidents when it comes to registration and follow-up.

The American manufacturing company has held campaigns in 2005 with the title "BE SAFE 24/7". The theme was to think about safety 24 hours a day – at work and at home. By focusing on the safety of the family, safety at the workplace is made more relevant and immediate to the individual employee.

In general, the development in the accident frequency and the accident-related absence is very positive and the objectives for 2005 have been reached. However, there are still substantial differences between the companies, and it is possible to spread the knowledge of this area across the Group. We will try to improve in this area via a higher degree of availability of the data which is collected every six months regarding accidents. (Figures 41-42: Accident-related absence and accident frequency.)

Reduction of chemicals

Since 1996, we have focused on reducing the number of chemicals in production. Since 2003, we have changed

strategy to primarily focus on the chemicals which are most damaging to the environment and health. At the Group's environmental seminar in 2003, a simple method was developed which classifies the chemicals in red, yellow and green groups where the red group contains the most hazardous chemicals and the green group contains the least hazardous chemicals. (Figure 43: Number of red chemicals.)

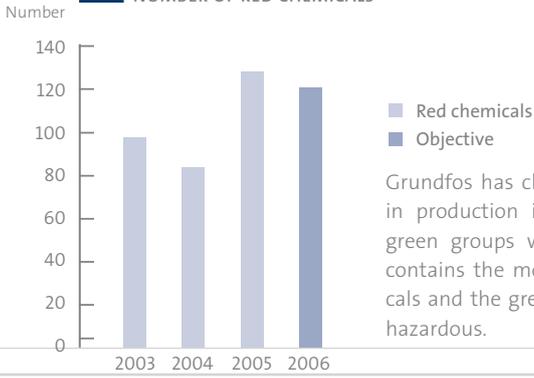
The method is based on the European rule structure for the classification of chemicals, as a harmonised set of rules does not yet exist globally in the chemical area. Chemicals used in non-European companies have been classified in the same way on the basis of the relevant safety data sheets. When all the chemicals in the Grundfos manufacturing companies have been grouped, it is easy to identify the most critical chemicals from a working and environmental viewpoint, and it will be easier to prioritise the action which needs to be taken with respect to the chemicals which need to be replaced.

In 2005, there has been a change in the basis for the categorisation of the red, yellow and green chemicals. The reason is that the legislation and the lists on which we base our categorisation have been changed. Chemicals which were previously not considered to be hazardous have now been put on the list of suspected substances, and we have taken this into account in the categorisation.

At the moment, we are for example working on the replacement of lead in our production of electronics.

Figure 43

NUMBER OF RED CHEMICALS

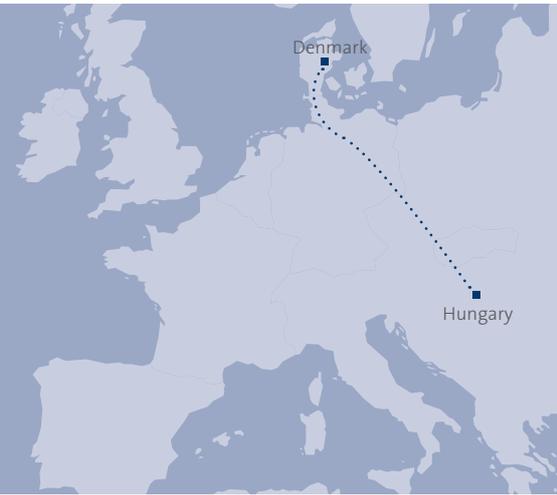


Grundfos has classified all chemicals in production into red, yellow and green groups where the red group contains the most hazardous chemicals and the green contains the least hazardous.





Michael Nielsen



DENMARK-HUNGARY ROUND-TRIP

When it was announced that Grundfos intended to set up a motor factory in Hungary and move the motor production from Denmark, the reactions from the two countries were very different.

- I was very pleased because I used to work a long way from home. I had never heard about Grundfos, but thought that it sounded interesting, so I sent in an application.

- It was a very sad announcement we got that day in the canteen. Everybody was sad when they left the meeting, but life had to go on. It was not a decision we could change.

So different were the reactions from Róbert Vozár in Hungary and tool setter Michael Nielsen, who had the job in Denmark which Róbert took over.

Michael agreed to help with the transfer, and it included several stays in Tatabánya. He soon realised that the sad announcement ended having a totally different and positive outcome for him. His job was to train Róbert in the production line. The first time Michael came to Hungary, it was odd for him to see "his" familiar machines in the new surroundings.

- I was given an incredibly warm welcome in Hungary, explains Michael who, during each stay in Hungary, was invited home to Róbert and his parents.

It was a wonderful break from the daily routine, and when Michael was offered a job as tool setter in the factory situated next to the motor factory, he felt secure about the future.



Róbert Vozár



To Róbert it meant a lot to be part of the start-up of a production:

- When you are one of the first in a new factory, the chances of getting interesting jobs are best. I thought that it would be a good opportunity for me and my plans for the future.

His expectations have certainly been fulfilled. He started as a tool setter, but after a couple of years he started a cooperation with Grundfos in Denmark on the purchase of new equipment, and today he is working with the purchase and commissioning of equipment, while the tool setter job is only relevant when relief is required in the rotor department.

To Michael the change meant that he got the "kick" he needed to avoid continuing in the same old routine. He ex-

perienced a few months of exiting challenges and he made a good friend in Hungary. He did lose the job he enjoyed, but what he got in return made it all worth it. Today, he has a challenging job as tool setter and mentor for the apprentices in his department, so he does not feel that he has lost anything at all.

The employees were kept informed about what was going on in the transfer project, and consequently the transfer did not prove to be as drastic as the employees in Denmark feared when they heard the initial announcement. On the contrary, the experiences that they had were good and they received a greater awareness of the fact that they are part of an international group.



■ Visions got new oxygen in the basement

In the basement of Grundfos' headquarters at a technical water treatment plant, Product Business Manager Michael Skjoldemose provided the Challenge participants with inspiration on how to optimise the global water supply in the years to come.



GRUNDFOS CHALLENGE

– SOLVE THE WORLD'S WATER PROBLEMS

42 students from 12 Danish universities and institutions of higher education took up the challenge when Grundfos invited them to the Grundfos Challenge – a competition in innovation.

The Poul Due Jensen Academy – The Grundfos Group's internal training academy in Bjerringbro – provided the setting for some of Denmark's most talented engineering and economics students in April 2006. The purpose was to show that Grundfos wishes to find new and better ways forward – preferably in cooperation with the top educational institutions. So we invited a number of educational institutions to get teams together consisting of engineering and economics students. The Grundfos Challenge competition was an event which focused on talent, innovation, team work and the ability to think ahead.

Intensive week

The students were divided into teams of three and during one intensive week their mission was to deliver their sug-

gestions for the future water supply. Grundfos had provided facilities and human resources. During the process, the participants and Grundfos had plenty of opportunity to exchange knowledge and ideas.

Fruitful cooperation

A week of an unusually high level of activity culminated in the announcement of the winners of the Grundfos Challenge – one team of engineering students and one team of economics students received praise and a cash prize. The prize amounted to a total of DKK 265,000.

The week brought together enthusiastic young people who showed a great interest in committing to a week's programme at Grundfos. The teams proved that they were able to quickly understand a complex problem, and that they were able to work in the organisation of a large company. In addition, they used their the knowledge gained from their studies to find new methods of solving one of the great problems faced by mankind.



ABOUT THE REPORT

As a supplement to the Grundfos Group's financial Annual Report, this Sustainability Report is intended to give all of our primary interested parties a greater insight into the Group's activities, and to give them a broader basis for their approach to and cooperation with Grundfos. We wish to contribute to transparency, not only in terms of our product range and services but also in terms of our role as business partner, employer and responsible citizen.

As this first Sustainability Report for the Grundfos Group has been published after the existing Group environmental reports, it primarily concerns the manufacturing companies. However, in the long term, we wish to extend the report to include the rest of the Group. In the Grundfos Group, the potential impact on the environment and the working environment is greater in the manufacturing companies than in the sales and service companies. As a result, the registration of our environmental activities has so far primarily been concentrated on the manufacturing companies.

Grundfos' Sustainability Report covers the nine manufacturing companies that carry the Grundfos name. The manufacturing companies are independent legal entities and do not include a sales function. However, there are areas where, in order to show a balanced image of the company, we have found it necessary to use Group data and data collected in our sales companies, i.e. expand the area which the report covers. This mainly concerns data in the chapters on customers and society.

The Group Management has decided that all companies owned by Grundfos have to live up to the same high standard for a number of years as regards quality and environmental management. Manufacturing companies that do not carry the Grundfos name are, however, not described in this report

as they so far are run as separate companies in the Group and they are thus subject to a set of internally determined requirements concerning environment and health and safety. The system used to evaluate the companies that do not carry the Grundfos name is identical to the one we use to evaluate our suppliers. In the past financial year, these companies represented 13.3 per cent of the Group's total turnover.

The report deals with sustainability and comprises the products: social responsibility, environment and working environment and, to a certain degree, financial issues and is thus inspired by the Global Reporting Initiative (GRI). The activities and results described in the report relate to the financial year 2005.

The environmental and working environmental data was collected and processed by the Central Environment Department at Grundfos. Environmental and working environmental data for the report is collected annually from the manufacturing companies according to a fixed reporting procedure and in a standardised format. In the manufacturing companies, the key data is collected in accordance with procedures laid down in the environmental management systems. The development of this data is monitored on an ongoing basis. A Group standard for data collection and processing has been prepared containing specific definition of the content of the data and the procedures for the quality control of data.

Data and data collection systems form part of the ongoing internal environmental audits and are also included in the tests of the environmental management systems for environmental and working environmental data carried out by the external certification bodies. The efforts to improve the production environment are governed by the environmental management system of the individual manufacturing companies.

In addition to environmental data, data from other Group entities has been collected. Group HR has provided the material about employees. An annual internal status on employee data is prepared and in this report it only deals with the Group's manufacturing companies – employee turnover, absence due to sickness, number of employees, number of employees employed on special terms and local projects for social responsibility. From 2004, the Group's employee satisfaction survey is only carried out every second year. In addition to the above-mentioned, the legal department, shipping, the development centre, the finance and accounting function, quality, Supply Chain and sales have provided input.

Although Grundfos goes to great lengths to ensure that the data in this Sustainability Report is as complete and accurate as possible, certain data may be subject to uncertainty. Indexed figures are used in the report.

Additional information

Glossary

Business Excellence model: Management and assessment model created by

EFQM: European Foundation for Quality Management.

CSR: Corporate Social Responsibility

EMAS: Eco Management and Audit Scheme. European directive for environmental management.

HRCA: Human Rights Compliance Assessment System: Model for evaluation of companies' human and employee rights.

ISO 14001: International standard for environmental management.

OHSAS 18001: Standard for occupational health and safety management.

Environmental audits: Spot checks to see if the environmental management system complies with the requirements of ISO 14001, OHSAS 18001 as well as with own requirements.

Calculation of index

Indexed environmental key figures have been used several times in this report. Indexed figures are used in order to compare figures for different years despite changes in production activity. Most objectives are therefore defined on the basis of indexed key figures.

The figures used for the manufacturing activity vary from one manufacturing company to the other. Some use the number of working hours spent, some turnover and some entirely different indicators of the production activity. The turnover of manufacturing companies that carry the Grundfos name is used to define the overall Group objectives.

Example:

If the electricity consumption in year 2004 is 100 million kWh and the turnover is DKK 2 billion, while the electricity consumption in 2000 is 95 million kWh and the turnover is DKK 1.8 billion, the index for year 2004 compared with 2000 would be: $(100/2)/(95/1,8)*100 = 94,7$. i.e. a saving of 5.3 per cent from 2000 to 2004.

Red chemicals

Red chemicals: To support the reduction process of the number of hazardous chemicals in production, Grundfos has grouped the chemicals. They are divided into red, yellow and green chemicals, with the red group containing the most hazardous chemicals. Consequently, the primary focus regarding reduction is on the "red" chemicals. The increase in 2005 is caused by a re-grouping of a number of chemicals which have been moved from the green and yellow categories to the red category.

ASSURANCE REPORT

To the management of Grundfos A/S

We have reviewed the Grundfos Sustainability Report 2005 (the Report) with the purpose of evaluating whether employee and environmental data at Group level and for the factories in Bjerringbro and Germany are reported in accordance with the reporting practices described on pages 56 and 57, and are documented and consistent with the Company's business activities during the period.

The management of the Company is responsible for the Report. It is our responsibility to express a conclusion based on our review of the Report.

The review

We performed our review in accordance with the Danish Standard for Assurance Engagements ("RS 3000 Andre erklæringsopgaver med sikkerhed end revision eller review af historiske finansielle oplysninger" (RS 3000 Assurance Engagements other than audits or reviews of historical financial information)). Our objective was to achieve limited assurance that the employee and environmental data at Group level and for the factories in Bjerringbro and Germany are reported in accordance with the described reporting practice and are documented and consistent with the Company's business activities during the period.

As part of the review, we assessed the applied reporting practices and analysed the consistency of the Report with the Company's audited Annual Report. The review mainly comprised interviews with management representatives and employees and analytical procedures. Therefore the assurance obtained is less than assurance which would have been obtained if we had performed an audit.

Conclusion

During our review, in all material respects, nothing has come to our attention that causes us to believe that employee and environmental data at Group level and for the factories in Bjerringbro and Germany as reported in the 2005 Sustainability Report are not in accordance with the reporting practices, and are not documented and consistent with the Company's business activities during the period.

Copenhagen, 5 July 2006

Deloitte

Statsautoriseret Revisionsaktieselskab

H.P. Møller Christiansen

Preben J. Sørensen

State-authorized public accountant State-authorized public accountant

OWNERSHIP

The Poul Due Jensen Foundation, based in Bjerringbro, Denmark, is the parent company of the Grundfos Group. The Poul Due Jensen Foundation owns 85.1 per cent of the share capital in Grundfos Holding AG, Switzerland, while the founder's family owns 12.0 per cent and the employees own 2.9 per cent.

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

Grundfos A/S, Denmark - 99.7 per cent.

Grundfos Pumps Pty. Ltd., Australia - 70 per cent.

PT Grundfos Pompa, Indonesia - 98 per cent.

Grundfos (Thailand) Ltd., Thailand - 74 per cent.

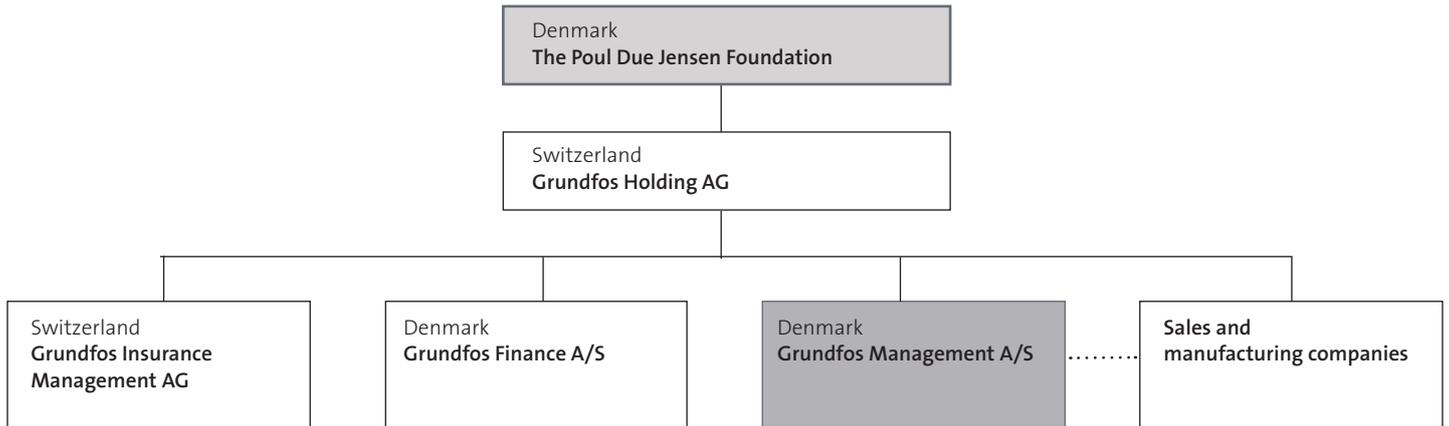
Philipp Hilge International GmbH & Co. KG, Germany - 94 per cent.

Associated companies:

Bjerringbro Savværk Holding A/S, Denmark - 30 per cent.

Staring Miljø A/S, Denmark - 40 per cent.

ORGANISATION



GROUP BOARD OF DIRECTORS AND GROUP MANAGEMENT



Group President and CEO Jens Jørgen Madsen, Grundfos.



Professor Niels Christian Nielsen, CBS



Group Chairman Niels Due Jensen, Grundfos



Vice Group President Carsten Bjerg, Grundfos



Director Thomas Lund, Dansk Teknologi



Chairman Lars Kolind, The Poul Due Jensen Foundation



Group President, Christine Bosse, Tryg Vesta



Executive Vice President Carlo Prola, Grundfos



Executive Vice President Søren Ø. Sørensen, Grundfos

Board of Directors of the Poul Due Jensen Foundation

- | | | | |
|--------------------------------------------|-------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------|
| ■ Chairman
Lars Kolind | ■ Member of the Board
Poul Due Jensen | ■ Member of the Board
Ingermarie Due Nielsen | ■ Member of the Board
Thomas Lund |
| ■ Vice Chairman
Niels Due Jensen | ■ Member of the Board
Estrid Due Hesselholt | ■ Member of the Board
Niels Christian Nielsen | ■ Member of the Board
Christine Bosse |

Group Board of Directors - Grundfos Management A/S

- | | | |
|------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------|
| ■ Group Chairman
Niels Due Jensen | ■ Member of the Board
Professor Niels Christian Nielsen | ■ Member of the Board
Group President Christine Bosse |
| ■ Vice Chairman
Director Lars Kolind | ■ Member of the Board
Director Thomas Lund | |

Group Management - Grundfos Management A/S

- | | | | |
|--------------------------------------------------------|------------------------------------------------|--------------------------------------------------|--------------------------------------------------------|
| ■ Group President and CEO
Jens Jørgen Madsen | ■ Vice Group President
Carsten Bjerg | ■ Executive Vice President
Carlo Prola | ■ Executive Vice President
Søren Ø. Sørensen |
|--------------------------------------------------------|------------------------------------------------|--------------------------------------------------|--------------------------------------------------------|

Group Functions

Architects
Branding
Controlling/Finance
Finance
Purchasing
IT/EBusiness
Legal Department
Communications
Quality
New Business
Human Resources
The Poul Due Jensen Academy
Production
SCM/logistics
Service

Business Development Centre

Business Unit
Building Services

Business Unit
Industry, Waste Water and Water Supply

Business Unit
Dosing

Development and Technology
R&T

Sales and manufacturing companies

GRUNDFOS IN BRIEF

Number of companies (as of 01.03.2006)

- 45 sales companies
- 12 manufacturing companies
- 8 Non-Grundfos Brand Companies
- 4 management companies
- 69 companies in total

NORTH AMERICA:
Canada
USA
Mexico

SOUTH AMERICA:
Brazil
Argentina

Grundfos develops, manufactures and sells a wide range of circulator pumps for heating, cooling and air conditioning in residential and commercial buildings, centrifugal pumps for a number of different industrial purposes and submersible pumps for irrigation and water supply.

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

electric motors 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. This results in a significant reduction of the energy consumption.

At all stages of production, quality needs to be controlled effectively as we have a high degree of our own production. Production control also ensures a high productivity while at the same time enabling us to take both the external environment and the work 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 promotes 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. Consequently, 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 emphasises 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 primarily owned by the Poul Due Jensen Foundation, whose purpose is to expand and develop the Group. Reinvestment of own funds ensures that the Grundfos Group remains an independent company.

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

GRUNDFOS MILESTONES

Historical milestones

- 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 employees. The annual turnover exceeds DKK 2 billion.
- 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 hands over the position of Group President and CEO to Jens Jørgen Madsen.
- 2005 Grundfos introduces the world's first A-labelled circulator pump, Alpha Pro, and the world's first B-labelled standard circulator pump.

Milestones 2005

- **1 January:** Grundfos takes over the German dosing pump group Alldos.
- **1 January:** Grundfos takes over Italian manufacturer of submersible-pump motors Tesla.
- **4 January:** The Grundfos Group donates DKK 4 million to the parts of Asia that were struck by the tsunami and DKK one million to the Danish Red Cross.
- **6 February:** Grundfos signs a two-year sponsorship agreement with the Danish Badminton Federation.
- **14 March:** Grundfos and Europump launch new energy-labelling scheme for circulator pumps.
- **15 March:** Grundfos introduces the world's first A-labelled circulator pump, Alpha Pro, and the world's first B-labelled standard circulator pump.
- **25 March:** Opening of new factory in Chennai, India.
- **2 May:** Grundfos marks its 60th Jubilee for all employees of the Group and business associates in Denmark.
- **13-16 May:** Almost 700 employees from 50 countries compete in the Grundfos Olympics in Denmark.
- **26 May:** Opening of a new factory in Russia.
- **6 June:** French company Nexans Winding Wires is honoured with the Grundfos Supplier Award.
- **1 July:** Opening of a sales company in Johannesburg, South Africa.
- **1 September:** Expansion of the Hungarian factory is opened.
- **23 September:** Opening of a new sales company with assembly facilities, outside Istanbul, Turkey.
- **8 October:** All Danish employees and their partners are invited to jubilee concert.
- **25 October:** Opening of a new distribution centre in France.
- **1 November:** Grundfos takes over South African pump manufacturer Brisan Turbo (Pty) Ltd.
- **21 November:** Opening of a new factory in Suzhou, China.
- **5-18 December:** Grundfos is the main sponsor of the Women's World Handball Championship in St. Petersburg, Russia.



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GLOBAL COMPACT – REFERENCE LIST

HUMAN RIGHTS

Principle 1: The company should support and respect the protection of internationally adopted human rights; and	4, 5, 8, 10, 12, 13, 16, 19, 25, 46, 47, 48, 49, 50, 52
Principle 2: ensure that they are not involved in abuse of human rights.	5, 8, 10, 13, 16

WORKING CONDITIONS

Principle 3: Companies should respect voluntary unionism and the right to collective bargaining;	16, 45
Principle 4: abolition of all kinds of forced labour; and	16
Principle 5: abolition of child labour; and	16, 19
Principle 6: abolition of discrimination as regards engagement and employment.	5, 8, 10, 16, 17, 18, 24, 42, 43

ENVIRONMENT

Principle 7: Companies should support preventive initiatives to solve environmental problems;	12, 16, 30, 32, 33, 34, 50
Principle 8: take initiatives to promote responsibility towards the environment; and	8, 10, 12, 13, 16, 28, 29, 30, 31, 32, 33, 36, 44, 49, 50, 53
Principle 9: support the development and dissemination of environmentally friendly technologies.	5, 8, 16, 28, 29, 30, 31, 33, 36, 53

ANTI-CORRUPTION

Principle 10: Companies should work against all kinds of corruption, including blackmailing and bribery.	4, 8, 16, 17
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KEY FIGURES FOR THE GRUNDFOS GROUP - FINANCE

Amounts in DKKm

	2005	2004	2003	2002	2001
Profit and loss account					
Net turnover	13,422	12,153	11,152	10,703	10,214
Operating profit	1,353	1,328	1,154	913	814
Earnings before interest and tax (EBIT)	1,297	1,281	1,087	903	795
Cost of financing	(43)	(49)	(9)	(177)	(177)
Profit before tax	1,254	1,232	1,078	726	618
Consolidated profit after tax	807	794	673	441	388
Profit for the year (excluding minorities)	701	690	579	373	336
Balance sheet					
Assets					
Intangible fixed assets	993	676	586	554	496
Tangible fixed assets	4,700	4,347	3,887	3,792	3,711
Fixed asset investments	567	590	567	534	518
Current assets	6,906	6,185	5,753	5,292	5,374
Total assets	13,166	11,798	10,793	10,172	10,099
Liabilities					
Equity capital	5,994	5,150	4,637	4,205	3,935
Minority interests	856	735	679	612	597
Provisions	1,036	911	701	595	542
Long-term liabilities	1,526	1,665	1,799	1,640	1,772
Short-term liabilities	3,754	3,337	2,977	3,120	3,253
Total liabilities	13,166	11,798	10,793	10,172	10,099
Capital investments, tangible	1,009	1,000	854	798	870
R&D costs, incl. activated	590	543	464	454	458
Interest-bearing debt, net	843	1,015	881	1,732	1,995
Result before tax as a percentage of net turnover	9.3%	10.1%	9.7%	6.8%	6.1%
Return on equity	12.7%	14.2%	13.3%	9.4%	8.9%
Equity ratio	52.0%	49.9%	49.3%	47.4%	44.9%

As of 2002, development projects are included in the balance sheet, and as of 2004, accounting policies for the inclusion of defined benefit schemes have been changed. No restatement of comparatives has been made for previous years in this respect.

Definition of ratios:

Return on equity:

Consolidated profit as a percentage of the average equity capital inclusive of minority interests.

Equity ratio:

Equity capital inclusive of minority interests at year-end as a percentage of total assets.

BE > THINK > INNOVATE >

Being responsible is our foundation
Thinking ahead makes it possible
Innovation is the essence

The Grundfos Group

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