

# Responsible Taxes

## Report for 2021\*

Approach to Taxes  
Country-By-Country

\* The financial information, including the Country-by-Country table, presented in this report is reflecting on Grundfos' economic performance of the 2020 fiscal year.

# Approach to taxes

1. Governance and compliance
2. Planning and use of tax incentives
3. Tax risk management
4. Relationships with Tax authorities
5. Global Tax Footprint

In Grundfos we pioneer solutions to the world's water and climate challenges and improve quality of life for people.<sup>1</sup> Everything we do is guided by our values; sustainable, open and trustworthy, focused on people, independent, partnership and relentlessly ambitious. These values enable us to have confidence in achieving long-term, sustainable growth.<sup>2</sup>

The Board of Directors has approved Grundfos Group Policies according to which: "As regard to tax, Grundfos runs its business responsibly and plays an active role in society. This means that Grundfos will act as a responsible citizen and will strive to ensure a fair and reasonable allocation of the group profit in the jurisdictions/communities where Grundfos is present as well as being in compliance both for direct and indirect taxes".<sup>34</sup> We see taxes as an essential part of a well-functioning society. We recognize that taxation is a tool to help financing achievements of the UN sustainable development goals.

The Group Policies are underpinned by our Global Tax Principles<sup>3</sup> and the below describes further our approach to taxes inspired by standard GRI 207: Tax

## 1. GOVERNANCE AND COMPLIANCE

The Tax Principles<sup>3</sup> govern our approach to tax and these principles are ultimately owned by the Board of Directors through the approval of the principles by the Audit Committee. The frequency of the review is ad hoc depending on changes in the business etc.

From a group point of view, the operational accountability for management of taxes sits with the Chief Financial Officer (CFO) who shall ensure that appropriate people, processes and systems are in place in order to be in compliance with local and international tax laws.

The CFO delegates the overall group responsibility for managing the area of corporate income tax, transfer pricing and VAT to the Head of Tax and employee taxes to the Head of HR and custom duties to the Head of Group Supply Chain.

As a consequence of being a truly global organization, we have a large volume of tax compliance obligations, including but not limited to filing tax returns,

paying taxes, filing claims and taking tax relevant decisions.

Group Tax is collaborating with local finance teams, who have the day-to-day responsibility for local tax compliance. The local compliance is either carried out by the local finance responsible or is outsourced to external partners or our internal center of excellence. Group Tax is responsible of ensuring an adherent application of the tax principles throughout the Group.

Furthermore, Group Tax provides training sessions/workshops and guidance in both indirect and direct tax.

## 2. PLANNING AND USE OF TAX INCENTIVES

Changes in commercial business strategies and the evolving regulatory environment in which we operate result in decisions on how to structure our commercial arrangements. In making these business decisions, we consider tax as one factor along with other factors to consider as we seek to have a sustainable "profit after tax- decision".

In enabling us to ensure tax is appropriately considered when making such choices, Group Tax is an integrated

partner involved in key business planning activities.

When evaluating the tax aspect of a business decision, the following criteria are considered:

- Commercial purpose;
- Tax technical analysis;
- Financial impact;
- Any downside risks;
- Internal resource commitment;
- Reputational impact.

This also implies that we only use business structures that are aligned with the business activities for commercial reasons and no business decisions are taken with the sole purpose of tax optimisation. Hence:

- No arrangement will be implemented if the main purpose is to obtain a tax benefit that is not intended by the relevant tax rules;
- Payments are not routed through other entities in a back-to-back arrangement for the sole purpose of saving withholding tax;
- No hybrid financing will be implemented with the sole objective of obtaining a tax benefit.

We will accept and utilise tax incentive, relief etc. offered by authorities to support local development where the incentives are generally accessible and where the use is comfortable within the intention of the law, and the establishment of businesses are not driven by these opportunities.

As an example, we are making use of the super deduction of R&D costs at 130% in Denmark FY 2020. This incentive supports our 2025 strategy, where innovation leadership is a must win battle: "Our main source of competitiveness is differentiation – and the very foundation for differentiation is innovation". Grundfos was actively engaged in advocating the Super deduction.

Other examples are development incentives granted to support local investments.

Grundfos Serbia was granted a 10-year tax corporate income tax exemption as part of establishing a local production plant.

Grundfos Hungary was granted a 10-year development tax incentive (80% tax exemption) as part of establishing local production plants.

Furthermore, in a smaller scale, energy usage optimization investments qualify for corporate income tax incentive in Hungary as an example.

### 3. TAX RISK MANAGEMENT

Given the scale of our business and volume of tax obligations, tax risk will inevitably arise from time to time in relation to the interpretation of tax laws and nature of our compliance set up.

We proactively seek to identify, evaluate, manage and monitor tax risks to ensure they remain within the group's risk appetite.

The material risks are being reported to the Audit Committee as part of the uncertain tax risk provision and at an aggregated level as part of the overall Enterprise Risk Management reporting.

The most important risk areas have been identified at group level and controls and procedures have been developed to manage the risks. Group Tax manages and reviews the most important risk areas on an ongoing basis and all compliance tasks are based on a four eyes review principle which means that the tax returns etc. are reviewed by a colleague or an external service provider.

Whenever there is complexity or uncertainty in relation to particular tax risks, we may collaborate with external professional advisors to ensure that

- we comply generally and during implementation of new systems and new regulations;
- we have a common understanding of specific tax risks and;
- we get a second opinion.

Significant identified risks must be reported to Group Tax. Group Tax will report the most significant tax risks to the Group CFO. In Grundfos we have implemented a whistle-blower system to give employees, board members and third parties cooperating with Grundfos (such as suppliers, advisers, consultants, business partners etc.) the means to report suspected criminal acts or non-compliance with the Grundfos Code of Conduct if they feel uncomfortable using the normal channels. The reporting can be done in any language.

### 4. RELATIONSHIP WITH TAX AUTHORITIES

Our tax obligations inevitably and appropriately involve our engagement with tax authorities in the various jurisdictions in which we operate. All such engagements will be undertaken in line with the following standards:

- We have an open and transparent dialogue with the tax authorities;
- Where possible, we will seek early guidance and certainty on matters of complexity. Where we do this, we will always seek to provide the information required by the authorities to provide such guidance;

- Where possible, we will seek to meet with the local tax authorities to enable them to understand our business;
- When we are offered to enter into tax compliance or co-operative compliance schemes by the authorities, we will be properly evaluate this proposal case by case. Key factors of the evaluation factors will be; open and trustworthy, estimated time consumption, expected benefits etc.
- In case of double taxations, we seek to reduce the double taxation e.g. by engaging the competent authorities in mutual agreement procedures or implementing advance pricing agreements.

In a broader tax stakeholder engagement, we are participating in the tax panel meetings of the Confederation of Danish Industry and in the Tax Dialogue Project with the purpose of bringing our tax and business insights to the table in the informal discussions around sustainable tax, tax legislation and practice.

### 5. GLOBAL TAX FOOTPRINT

Profit is a means to growth – not a goal in itself according to our values. This is transformed into an EBIT target of 10% in our 2025 strategy. This allows us to invest in the future and pioneer new offerings and solutions to our customers. Hence, this will influence the level of the group annual corporate income tax contribution. Please refer to the Country-by-Country reporting for further information on corporate income tax. The investment

into the business does, however, also imply investment in people and the main tax contribution comes from the employee taxes which constitutes 58% of the total contribution.

Looking at our global tax footprint we can see how Grundfos has globally

contributed to the local public finances via tax payments<sup>5</sup> for financial year 2020.

Total amount paid in financial year 2020 was 3.96 billion DKK.

# 3.96 bn

Total tax contribution  
FY 2020 in DKK.

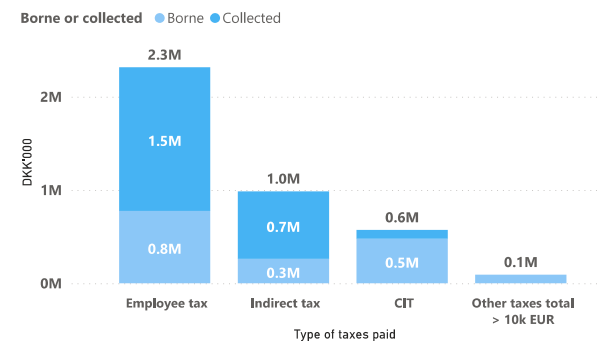
### Total tax contribution 2020 in %



We have split the total tax contribution into 4 different types of paid taxes; employee tax, indirect tax, corporate income tax and other taxes. 58% of the total tax contribution comes from employee taxes.

The split between collected and borne taxes is 59% collected taxes and 41% borne taxes.

### Global cash tax payments FY 2020



1. Our Purpose
2. Our values
3. Please see our global Tax Principles on our website Business principles | Grundfos

4. From our Group Policies
5. Tax payments are payment by Grundfos to the government, direct and indirect through an agent on an annual actual cash-paid basis.

**Grundfos Group FY 2020** (amounts in 1,000 DKK)

Tax Jurisdiction	Revenues - Unrelated Party	Revenues - Related Party	Profit (Loss) before Income Tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued - Current Year	Number of Employees	Tangible Assets other than Cash and Cash Equivalents
Argentina	154,760	2,580	25,817	1,259	6,519	104	5,010
Australia	643,700	79,188	62,703	(3,279)	18,965	157	26,009
Austria	293,467	21,286	26,641	52	6,993	80	17,701
Belgium	445,417	9,353	31,541	8,611	9,101	97	19,455
Brazil	107,896	2,803	13,759	356	2,814	80	7,968
Bulgaria	43,248	7	1,233	175	142	17	201
Canada	375,587	1,069	20,061	4,016	5,357	84	32,851
Chile	61,996	1,556	(309)	30	164	34	3,344
China	3,074,827	3,808,423	108,939	18,604	24,996	1,867	443,372
Columbia	33,661	513	(1,501)	53	-	29	3,160
Croatia	58,262	5,841	4,943	336	961	31	639
Czech Republic	186,937	14	7,614	1,363	2,293	67	50,028
Denmark	2,758,248	16,969,790	909,132	149,039	165,745	4,372	2,282,239
Egypt	141,546	440	(3,200)	(223)	36	42	2,130
Estonia	38,805	-	618	433	-	8	4,041
Finland	267,531	37,553	15,820	971	3,008	92	9,469
France	749,440	319,921	53,387	31,718	15,833	649	148,182
Germany	2,020,882	806,000	283,349	178,328	85,074	1,172	307,568
Ghana	19,031	-	405	234	185	11	3,524
Greece	87,853	887	3,901	(9,957)	1,090	28	6,213
Hong Kong	90,551	785	2,539	1,440	449	21	164
Hungary	202,200	999,671	107,736	4,623	7,049	2,622	523,553
India	387,867	38,617	6,369	2,978	2,851	406	49,449
Indonesia	173,168	69,797	(11,938)	12,097	-	132	8,488
Ireland	150,055	2,156	10,037	-	1,251	27	1,377
Italy	1,463,558	1,364,084	164,412	20,129	33,927	897	419,574
Japan	517,394	1,527	19,157	11,775	6,640	149	69,498
Kazakstan	64,691	133	6,769	2,691	2,079	31	2,087
Kenya	65,048	767	16,764	68	4,759	15	1,953
Korea	312,265	94,446	10,912	456	3,758	159	57,382
Latvia	29,736	-	491	342	-	11	4,180
Lithuania	32,613	-	521	364	-	10	10,532
Malaysia	161,928	4,642	(1,500)	124	-	112	22,641
Mexico	252,450	566,598	52,270	1,400	14,604	384	89,549

Tax Jurisdiction	Revenues - Unrelated Party	Revenues - Related Party	Profit (Loss) before Income Tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued - Current Year	Number of Employees	Tangible Assets other than Cash and Cash Equivalents
Morocco	-	409	(74)	-	-	-	60
Netherlands	533,233	59,934	42,048	9,722	10,998	142	33,754
New Zealand	98,616	1,046	9,569	1,981	2,718	20	6,783
Nigeria	2,993	-	182	-	368	6	-
Norway	224,019	16,968	23,519	1,994	5,366	83	5,951
Peru	40,578	701	1,529	(244)	416	16	1,813
Philippines	67,169	53,057	296	2,528	811	287	7,375
Poland	417,397	7,043	21,976	9,815	5,330	206	29,216
Portugal	130,735	9,168	3,386	3,893	886	62	6,963
Romania	195,039	3,347	18,119	3,145	3,138	46	819
Russia	1,308,830	1,002,706	110,036	24,350	25,747	467	131,070
Saudi Arabia	202,407	3	12,802	2,383	2,296	42	127,595
Serbia	71,767	1,782,531	177,000	(0)	-	792	184,404
Singapore	100,962	655,095	27,237	4,557	4,265	158	161,225
Slovakia	61,680	932	3,398	1,406	61	29	14,565
Slovenia	-	5,446	931	823	183	5	143
South Africa	261,108	30,700	493	(706)	(477)	162	5,506
Spain	418,539	11,995	7,893	2,699	1,975	128	16,848
Sweden	311,239	9,710	23,006	6,256	4,943	92	27,931
Switzerland	507,503	73,076	43,066	46,650	6,733	180	127,488
Taiwan	162,681	661,253	29,261	3,193	6,821	310	62,772
Thailand	180,646	4,008	(3,790)	312	-	88	33,593
Turkey	279,786	11,335	65,358	17,505	12,832	81	10,331
UAE	376,992	32,775	9,668	-	-	116	13,801
UK	1,198,576	155,396	108,664	8,487	22,157	448	84,992
Ukraine	105,608	399	9,283	986	1,449	41	2,330
USA	3,556,061	2,514,680	108,272	5,950	18,684	1,169	470,034
Vietnam	79,871	1,086	2,934	803	624	48	2,798
Group elimination	(20,651)		(241,452)	-			(485,689)
<b>Total</b>	<b>26,340,000</b>	<b>32,315,245</b>	<b>2,564,000</b>	<b>599,096</b>	<b>564,967</b>	<b>19,221</b>	<b>5,718,000</b>

**Note:** The accounting principles follows the definitions in the Annual Report for Grundfos Holding A/S. Revenue does also include income from fee. Income tax accrued does not include Deferred taxes and uncertain tax provision. Number of employee is closing amount(FTE). Amounts per country are amounts reported in the consolidation system used by Grundfos Group before eliminations. A minor part of entities which are typically acquired Groups (sub Groups) who has their own consolidations system are reported in the Grundfos consolidation system as consolidated amounts hence, we see currency adjustment related to these entities and eliminations. "Group elimination" is related to elimination for inventory and fixed assets transferred between to Grundfos entities. Further to that currency adjustments is also included under Group elimination hence amounts is reported in one currency consolidated per sub group.