

SUSTAINABILITY REPORT 2006



The Grundfos Group

BE > THINK > INNOVATE >

GRUNDFOS 

KEY FIGURES — CSR

	2006	2005	2004
Indexed electricity consumption in production	84	84	90
Indexed water consumption in production	74	90	99
Indexed chemical waste in production	55	61	71
Number of red chemicals	137	128	82
Total number of employees in the Group	15,162	13,369	12,586
Employee data from the Group's production companies			
Number of Employees	7,977	7,098	6,981
Male employees	66.05 %	61.52 %	60.99 %
Female employees	33.95 %	38.48 %	39.01 %
Male managers	82.87 %	85.54 %	87.31 %
Female managers	17.13 %	14.46 %	12.69 %
Employee turnover, salaried employees	5.82 %	3.49 %	5.19 %
Employee turnover, production workers	5.88 %	4.64 %	5.58 %
Absence due to sickness, salaried employees	1.61 %	1.57 %	1.41 %
Absence due to sickness, production workers	4.55 %	5.02 %	5.14 %
Accident-related absence per 1,000 hours	1.97	1.63	1.80
Accidents per one million working hours	15.02	15.8	17.9
Number of training hours for production workers	184,478	216,011	190,631
Number of apprentices	411	291	275
Number of suggestions for improvements per employee	2.91	3.07	3.89
Number of suggestions for improvements implemented as a percentage of total number of suggestions	72.69 %	84.93 %	77.61 %
Employee motivation and satisfaction in total*	73		
Employee loyalty	83		

* In 2006, the Grundfos Group introduced a new employee motivation survey. The scale is 0-100, where 100 is the most positive value.

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SUSTAINABILITY

— AS A GUIDING PRINCIPLE

Since the very early days, Grundfos' core values – responsibility, foresight and innovation – have been natural elements in the way we do business. Since 2002, these core values have been further supplemented by the UN's Global Compact and, together, they provide the foundation for Grundfos' holistic approach to CSR (Corporate Social Responsibility). We are aware of the fact that we need to assume our share of the responsibility for the social and environmental impact that our processes and products can have on society at large, not least during the process of globalisation, and we do our utmost to keep any impact under control. We have therefore implemented a number of measures to further strengthen our efforts in this area. The purpose of this report is to document these efforts.

The world today is facing a number of global challenges that we, as a company, can do our bit to help solve. It is in areas such as energy and global warming, and access to clean drinking water that our products and competences can really make a difference. Grundfos' energy-efficient pumps contribute to energy savings where they are installed and our expertise within the supply and disposal of water may help to relieve water shortages in countries where this is a problem.

We are working on the development of an "Innovation intent", a new vision with business potential for Grundfos, that will also help meet some of the global challenges, particularly within water, water purification and energy-efficient solutions.

For the first time in many years, we have found it difficult to attract and retain employees for certain positions in Denmark and some other Western European countries. The same has been the case for some of our Asian companies. We are therefore pleased to report that, in 2006, the level of employee satisfaction and motivation is high. It has, however, become clear that we will have to do more over the next few

years to promote Grundfos' qualities as a workplace if we are to continue to attract qualified employees.

In spite of the fact that social responsibility features highly in day-to-day operations at Grundfos, we consider our CSR work to be a learning process, with new goals being set all the time. This year we have established a CSR committee, charged with advising the Group management team on CSR issues and ensuring that CSR activities are integrated both in key processes and in all parts of the organisation. We are in the process of developing a CSR strategy for the entire group and have furthermore appointed an ethics committee whose role it is to oversee the broadening of, and adherence to, our ethical principles – the Group's Code of Conduct. We are also planning to implement concrete points of measurement at individual Grundfos companies that management teams can use as reference.

In this way, we create a win-win situation for our customers, society and Grundfos; the customers get quality pumps with good life cycle economy, society gets products that help to meet some of the world's most pressing challenges and Grundfos has a fantastic business opportunity in sustainability that we will be well equipped to seize. There are clear benefits to be reaped from the interplay between responsibility and business, and we will continue our efforts to integrate CSR in all aspects of the way we do business.

Niels Due Jensen
Group Chairman

Carsten Bjerg
Group President

Bjerringbro, 20 June 2007





GRUNDFOS — OVERVIEW



BUSINESS CONTEXT

It can seem like an overwhelming task for us, as a company, to respond to some of the world's most serious problems and challenges. Nevertheless, we believe that we have a share of the responsibility to meet some of these challenges through our products, competences and other resources, whilst maintaining the business potential. Our work in some such areas is already fully underway, whilst in others it is a vision contained in our "Innovation intent".

In addition to a concentrated effort in the field of energy efficiency, we have our focus firmly set on sustainable technologies that can help to solve these challenges faced by society. This area of our business is primarily intended for use in industrialised parts of the world, but we also have a solar-powered and wind-powered groundwater pump, SQ-Flex, and other products that are suitable for use in the third world.

As a way of providing a framework for this report, the following gives a brief insight into two of the many challenges faced by the world, i.e. global warming and access to clean drinking water; areas in which we believe we can make a difference.

GLOBAL WARMING

In its report from February 2007, IPCC¹ concluded, with 90 per cent certainty, that global warming is human-induced as a result of the release of greenhouse gases. Global warming will have consequences for us all – private individuals, society and companies – regardless of where we live on this planet, though the consequences will be more far-reaching for some continents than others. This has sharpened the global debate, with the world's leaders discussing how the release of greenhouse gases can be reduced.

The IEA¹ – International Energy Agency – an independent energy forum for 26 industrialised nations – predicts that global CO₂ emissions will increase by 50 per cent from now until 2030 and will have more than doubled by 2050. The IEA has, however, outlined how various measures can be implemented to bring about a more sustainable development, in which CO₂ emissions are reduced by 16 per cent. Increased energy efficiency will account for 80 per cent of the reduc-

tions. This is where Grundfos' energy-efficient pumps have a role to play.

ACCESS TO CLEAN DRINKING WATER

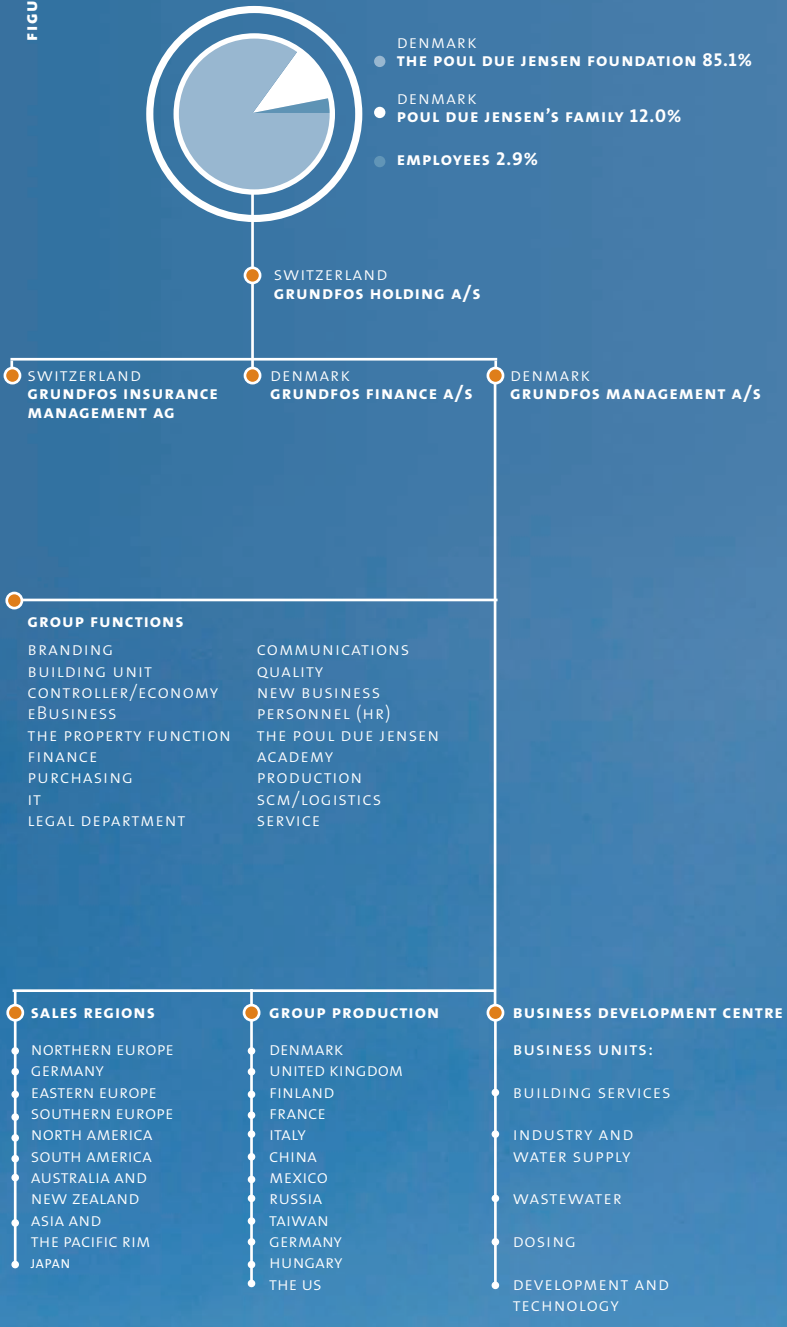
At the UN Millennium Summit in September 2000, world leaders approved a number of targets for joint measures to combat poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. These targets are termed the Millennium Goals (see fact file on the next page). In its status report 2006, on the progress made in respect of these targets, the UN writes: "As long as half of the populations of the developing countries still lack basic sanitary conditions, it is unlikely that the world will achieve its target."

The full extent of the seriousness of the problem is also seen in the UN organisation UNDP's finding from 2006, in which it is concluded that 1.8m children die every year as a result of diarrhoea and other illnesses caused by dirty water and poor hygiene, and that the failing health associated with these conditions undermines productivity and economic growth in countries with these problems. The inequalities that prevail in the current patterns of globalisation are exacerbated and vulnerable households are kept in a cycle of poverty. For further information see page 65¹.

Though the contribution of one company may seem like a drop in the ocean of problems, we at Grundfos wish to be part of the solution and believe that, via our products and competences, we can make a difference where this is concerned. A vision regarding this is built into our "Innovation intent".



1 OWNERSHIP AND CORPORATE STRUCTURE



In addition, targeted focus on CSR helps us to minimise the social, environmental and financial risks and any negative impact caused by our production and other activity around the globe, and might even have a positive influence on our stakeholders through our actions.

BUSINESS AREAS

Grundfos develops, manufactures and sells a wide range of pumps for heating, cooling and air conditioning in residential and commercial buildings, pumps for various industrial purposes, dosing, water supply and finally pumps for wastewater discharge. Circulator pumps alone account for an annual production of over 12 million pumps.

In addition to pumps and pump systems, Grundfos develops, manufactures and sells energy-efficient electromotors and sophisticated electronics. Once the electronics are built into the pumps they become “intelligent”, i.e. capable of assessing the current water requirement, and adapt their performance accordingly. Considerable energy savings can be made as a result.

In addition to its traditional business areas, Grundfos has a New Business company that is charged with developing new products and business areas that, among other things, can help to remedy future environmental problems.

OWNERSHIP, CORPORATE STRUCTURE AND MANAGEMENT

The Grundfos Group is primarily owned by the Poul Due Jensen Foundation (85.1 per cent) which has the objective of expanding and developing the Group. Reinvestment of its own funds ensures that the Grundfos Group remains independent and sustainable.

FACTS ABOUT THE UNS MILLENNIUM OBJECTIVES

The UN has set the following eight development objectives, aimed at completion by 2015:

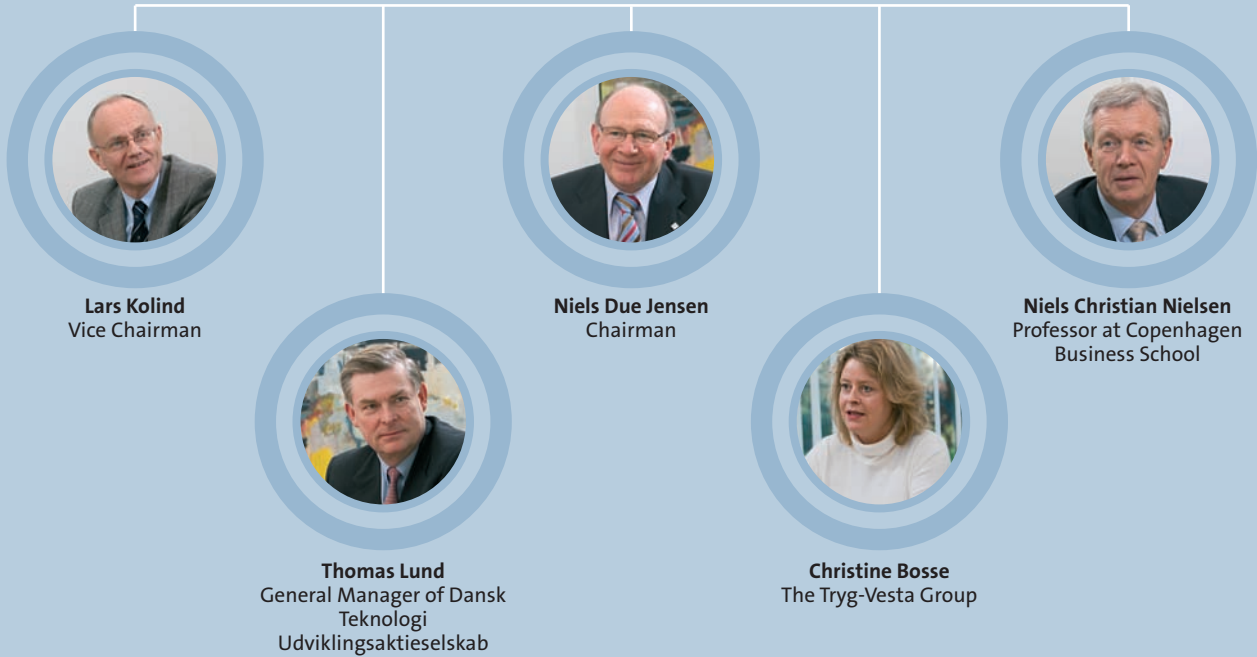
1. To halve poverty
2. To ensure all children have access to education
3. To ensure equal rights for women
4. To reduce child mortality by two thirds
5. To reduce mortality among pregnant women and women in childbirth by three quarters
6. To stop the spread of HIV/AIDS and other infectious diseases
7. To ensure environmental sustainability
8. To develop a global partnership for development



2 THE BOARD OF DIRECTORS AND MANAGEMENT OF THE GROUP

FIGURE

THE BOARD OF DIRECTORS OF THE GROUP, GRUNDFOS MANAGEMENT A/S



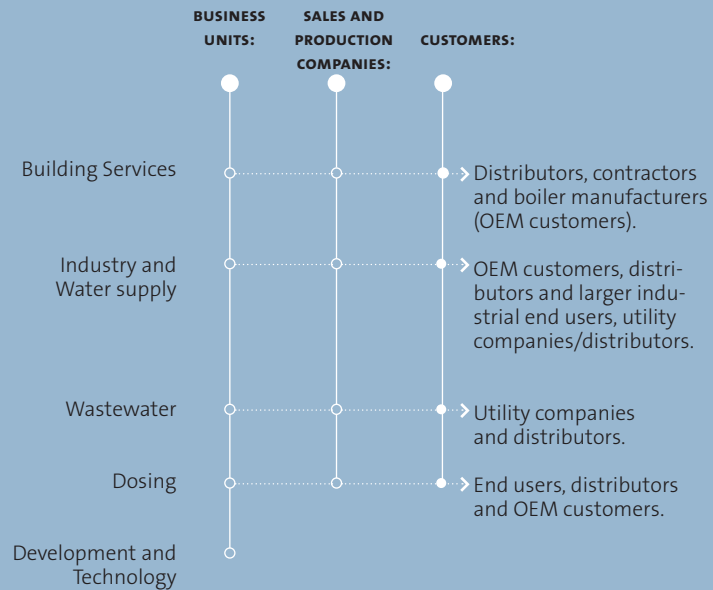
THE GROUP MANAGEMENT, GRUNDFOS MANAGEMENT A/S



3 GRUNDFOS' BUSINESS DEVELOPMENT CENTRE

FIGURE

Grundfos' business development centre consists of four business areas and the Group' research and technology unit. The business development centre works with strategy and product development. The actual embodiment of the group's strategies takes place in the sales and production companies where there is daily contact with suppliers and customers.



The Group comprises 75 companies, with 44 sales companies, 12 production companies, 11 other branded companies, four New Business companies and four management companies. See figures 1–3, Ownership and Corporate Structure, The Board of Directors and Management of the Group, and Grundfos’ Business Development Centre. All Group functions are essentially globally oriented but the way in which the global approach manifests itself in practice may vary.

Today, Grundfos’ business can be found in most regions of the world, though primarily in industrialised parts. See figure 7, Grundfos’ global presence, page 12.

EMPLOYEES

With their knowledge and commitment, our employees are the Grundfos Group’s most important resource. The Group therefore strives to offer its employees further training and to provide an inspiring environment that will promote the development of new products and business areas.

At the end of 2006, Grundfos employees numbered 15,162 in 41 countries worldwide.

BUSINESS EXCELLENCE AS A MANAGEMENT MODEL

Grundfos uses EFQM’s Business Excellence model² as its main business model. The model uses input and results in relation to employees, customers and society as its experience base and basis for learning and innovation processes. See figure 4, The Business Excellence model. The Group’s largest company, the Danish production com-

pany Grundfos A/S, was the first company in the Group to introduce Business Excellence. On 7 November 2006, after ten years’ work to implement the management principles, Grundfos A/S was chosen as EFQM Award winner and, in addition, received two special prizes for Corporate Social Responsibility and People Development and Involvement. The EFQM Award is considered to be one of Europe’s most prestigious corporate awards and is awarded by the European Foundation for Quality Management (EFQM), a joint organisation for all companies working with the Business Excellence model.

Furthermore, in 2006, Grundfos entered into a partnership agreement with EFQM, together with other trend-setting companies in Europe, including BMW and TNT, on the further development of the Business Excellence model. This cooperation has led to the launch of a new global training programme for all Grundfos managers, the purpose of which is to teach them how to work with Business Excellence.

A number of the Group’s sales and production companies also won national recognition or awards for their results within Business Excellence.

2006 - INNOVATION YEAR

Grundfos has earned its position as one of the world’s leading pump manufacturers through innovation. This was not, however, our reason for choosing to focus on this one of our core values, “Innovation”, by making 2006 Grundfos Innovation Year. The reason for this was that we wished to mark the beginning of one of our organisation’s most important target areas in the years to come.

4 THE BUSINESS EXCELLENCE MODEL

FIGURE

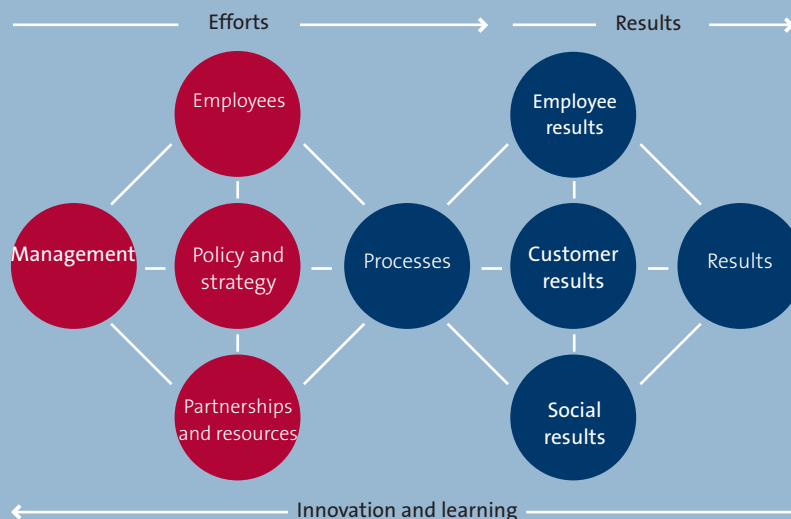




FIGURE 5 VISION AND MISSION

IT IS OUR VISION THAT:

- Our customers consider Grundfos to be the leading manufacturer of top quality pumps in terms of functionality and environmental friendliness, and their primary business partner in this area.
- There is a demonstrably high level of employee satisfaction, as the jobs and terms of employment provide opportunities for personal development, in a good working environment, where consideration is given to the aspirations and qualifications of individual employees.
- Society at large holds Grundfos in high esteem and recognises the Group for its strict adherence to legislation and its respect for democratic principles, local traditions and the environment, as well as the people whose lives are affected by us.

It was a global initiative with the aim of strengthening a common understanding of what innovation means to Grundfos and how we, as an organisation, can focus our efforts on becoming even more innovative.

At Grundfos, innovation does not only relate to our products, it must also be an integral part of our work with business models, business processes and customer experiences. CSR is given an equal footing with other business-related matters and considerations. By combining different types of innovation we will be in a position to create unique services and value for our customers.

Our definition is:

Innovation = Creativity x successful implementation

Creative ideas must be realised in order to benefit our customers, our business and society at large.

GRUNDFOS AND CSR

Together with Grundfos' vision and mission, our core values – Be > Think > Innovate – constitute the organisation's business principles. See figures 5 – 6, Vision, Mission and Grundfos' Business Principles. And read more at www.grundfos.com.

GLOBAL COMPACT

In 2002, Grundfos joined the UN Global Compact Initiative, an invitation from the UN to the international busi-

ness community to sign up to an ethical code with the aim of contributing to the improvement of working conditions and general living conditions for people all over the world. Global Compact's ten principles concern human rights, employees' rights, the environment and work to counter corruption.

Grundfos has committed itself to the Global Compact principles, a move which is fully in accordance with business principles and Group policies. When the Group policies were last reviewed, Grundfos had not yet joined the Global Compact, so the policies were not written with the Global Compact in mind. This will be remedied when the Group policies are reviewed in 2007, thus assuring agreement with the Global Compact.

CODE OF CONDUCT

Grundfos has formulated a Code of Conduct – a set of ethical rules for the way we do business.

The top management throughout the Group has undertaken to observe the Code of Conduct and ensure that the companies act within its framework. It is signed every year by all managers throughout the organisation (read more about the Code of Conduct at www.grundfos.com/codeof-conduct and on page 52 of this report).

At present, the Global Compact principles are an indirect part of the Code of Conduct. The plan is to incorporate them fully in the aforementioned revision of the group policies.

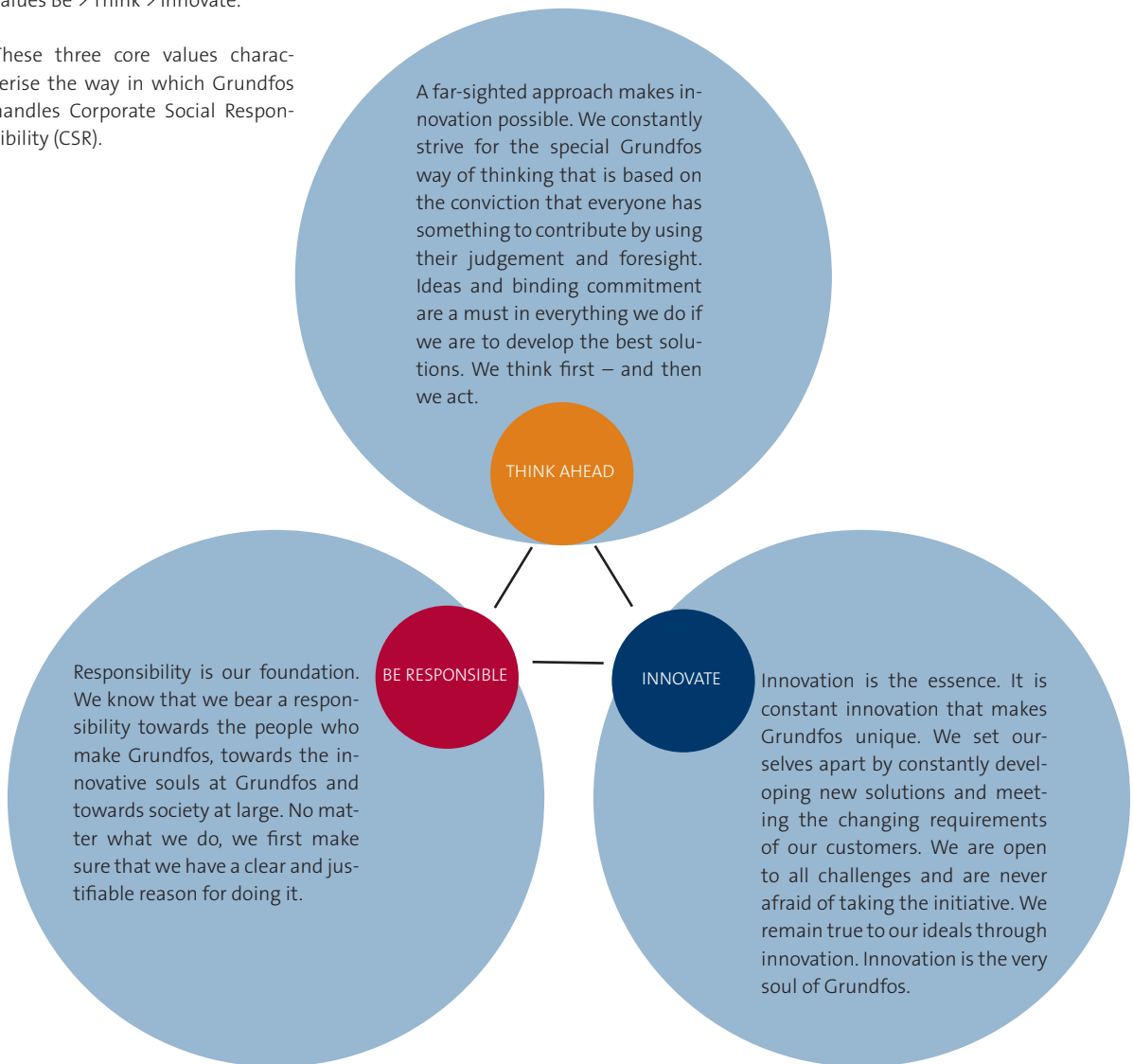
MISSION:

As one of the world's leading pump manufacturers, it is Grundfos' 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 make an active contribution to an improved global environment.

6 GRUNDFOS' BUSINESS PRINCIPLES

FIGURE Grundfos' existence is based on the values Be > Think > Innovate.

These three core values characterise the way in which Grundfos handles Corporate Social Responsibility (CSR).



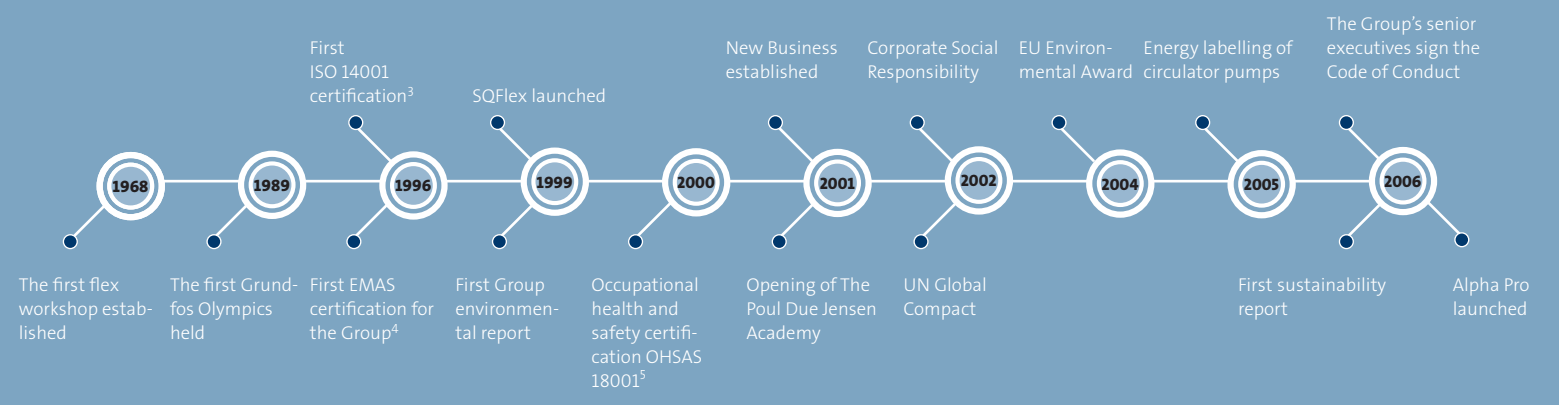
7 GRUNDFOS' GLOBAL PRESENCE

FIGURE



8 CSR MILESTONES

FIGURE



CSR MANAGEMENT

In spite of the fact that social responsibility features highly in day-to-day operations at Grundfos, we consider our CSR work to be a learning process, with new goals being set all the time. We would like to take our current efforts a step further and are in the process of developing a CSR strategy that will help us to embed CSR in the organisation, so that it becomes an integral part of all business decisions.

With this aim in mind we have recently formed a committee, consisting of representatives of a number of the Group’s functional areas, which will be charged with identifying the areas that our CSR work should be concentrated upon. One of its main tasks will be to ensure that CSR activities are integrated in all key processes and in all parts of the organisation.

Grundfos will furthermore work the ten principles of the Global Compact into the CSR strategy, and the top management of the individual companies will receive specific targets, while the strategy will help to raise the profile of Grundfos’ priorities in this area. See also figure 8, CSR Milestones on the previous page.

STAKEHOLDER COMMITMENT

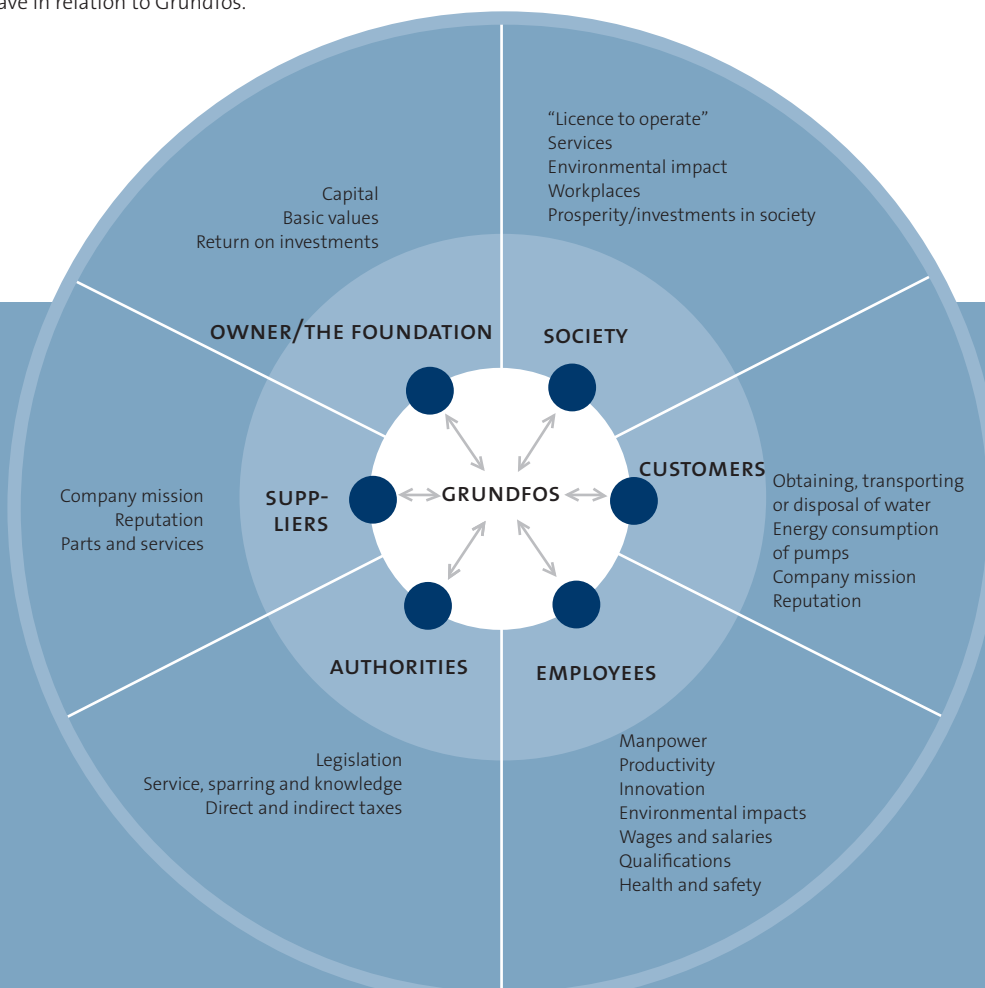
Grundfos has a wide-ranging group of interested parties and, with few exceptions, by far the majority of our stakeholder work takes place on a decentralised basis through the Grundfos companies throughout the world. See also figure 9, Stakeholder chart.

The production company in Hungary is an example of the cooperation with the authorities in a local community. When the third factory was to be built in Hungary, the local company had a close and good working relationship with the local authorities in the town of Székesfehérvár. Grundfos presented the company’s values and intentions from the outset. This formed the basis for an open and direct dialogue between Grundfos and the authorities, and this was a tremendous help in the ensuing proceedings .

We are keen to maintain the decentralised access but one of the CSR committee’s tasks will be to examine whether a higher degree of centrally controlled systematism and coordination can strengthen the CSR work.

9 STAKEHOLDER CHART

FIGURE Illustration of some of the relevant “stakes” or connections that the various stakeholder groups have in relation to Grundfos.







VALUE AND RESPONSIBILITY
THROUGH OUR PRODUCTS

“IN ALL PRODUCT DEVELOPMENT AND IMPROVEMENT,
WE SHALL ENDEAVOUR TO DEVELOP THE MOST ENERGY-
SAVING AND COST-EFFECTIVE PRODUCTS.”

Extract from the Group research and development policy



VALUE AND RESPONSIBILITY THROUGH OUR PRODUCTS

Without pumps there would be no water in our taps, we would not be able to heat or cool our homes and machinery used in the industry would not be lubricated. But, as long as the pumps are working, only very few of us even notice them in our everyday lives. This is why the high energy consumption of many of the pumps, as they carry out a long list of important tasks, is often overlooked.

Grundfos makes the everyday lives of people all over the world more comfortable whilst actively contributing to a better global environment.

HOW WE HELP OUR CUSTOMERS

THE FINANCIAL ASPECT

By taking every stage in the life cycle of a pump into consideration, you get a true picture of how expensive/inexpensive a pump really is. The focus should not, however, be solely on the purchase price but on the total cost of the pump during its lifetime – so everything from the purchase, installation and operation to maintenance and disposal. This way you can see if a “saving” when purchasing the pump turns out to be more costly in the long run, as it results in a higher energy consumption and greater additional costs incurred during the pump’s lifetime.

Using the Life Cycle Cost method, developed in collaboration between the Hydraulic Institute, Europump and the US Department of Energy’s Office of Industrial Technologies, we have calculated some examples of how different pump tasks can be solved with different results. See the example on the next page.



EXAMPLE:

A 20-year-old pump station is to be renovated and the customer wishes to focus on low operational costs. The specifications of the pump system are that a total area of 80,000 m² is 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 a constant speed of rotation and one standby pump (alternating operation between the two pumps).

Possible solutions:

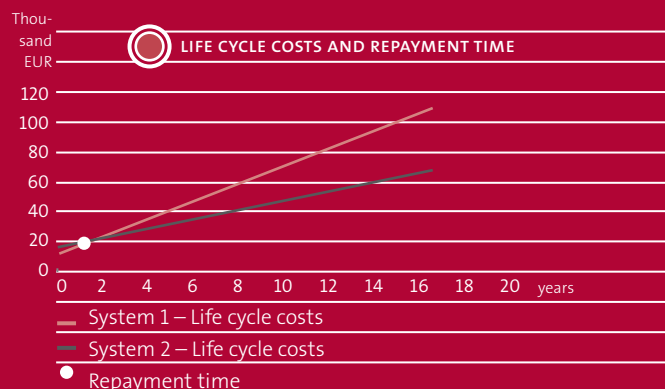
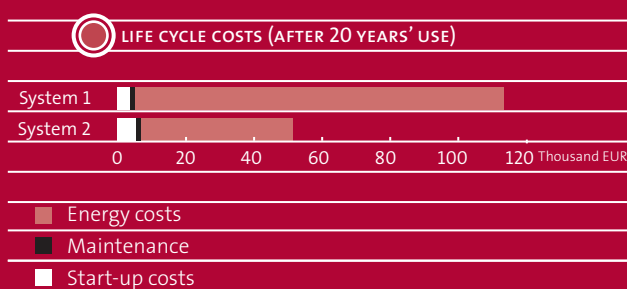
Life Cycle Cost is calculated for the two following possible solutions:

- System 1 = One pump with a constant speed of rotation and one standby pump (two pumps type NK 80 250/259. 11 kW).

- System 2 = Two adjustable pumps and one standby pump (three pumps type TPE 80-240, 5.5 kW).

Result:

The result is shown in the bar chart. It shows that system 2 – with the adjustable pumps – is the cheapest option from a Life Cycle Cost point of view, despite the fact that the purchase price of this solution was higher than for system 1. After only 18 months, the additional cost paid over system 1 has been covered due to the lower operational costs of system 2.



ADVICE AND CUSTOMER TRAINING

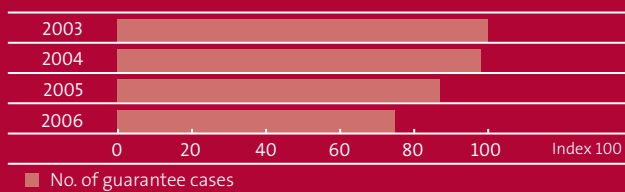
Full utility value can only be obtained from innovative pump systems if they are used for the purposes intended. If they are used for anything else, this may affect the low energy consumption and the other benefits offered by Grundfos pumps. So knowledge and awareness in connection with the selection and use determine the level of benefit to be gained by customers from Grundfos' products.

The Poul Due Jensen Academy trains Grundfos' own sales people so that they can pass their knowledge on to the customers. All technical training of customers takes place locally at Grundfos companies around the world and is designed to help customers choose the right pumps.

“THE GROUP WILL MOTIVATE STAFF, CUSTOMERS, SUPPLIERS AND OTHER INTERESTED GROUPS TO PRACTICE ENVIRONMENTAL AWARENESS THROUGH TRAINING AND INFORMATION.”

Extract from the Group's environmental policy



FIGURE 10 INDEXED DEVELOPMENT IN GUARANTEE CASES 2003–2006

QUALITY

In order to meet the demands of customers for high quality, Grundfos goes to great lengths to improve the quality in all phases of the product's life cycle.

We consider the “guarantee per cent” to be our most important overall indicator of quality. The guarantee per cent reflects the share of products sold that are reported faulty within Grundfos' two-year guarantee period and we are pleased to note that the percentage has been declining constantly in recent years. See figure 10 above, Indexed development in guarantee cases 2003–2006.

A systematic approach has contributed to this decline, starting in the development process during the design and testing of the product, and followed by the monitoring, registration and analysis of faulty products. Measures such as these are intended to ensure that products are robust, reliable and long-lasting – with a lesser impact on the environment. See the example below.

EXAMPLE:

In spite of everything we do to ensure that this is not the case, sometimes the quality is not good enough. When this happens, it is important for us to put the problem right as soon as possible as the story below illustrates.

PRODUCT RECALL

At the beginning of week 14 in 2006, the Australian company became aware that the earth connection in a Grundfos pump had been installed incorrectly.

In the worst case this could lead to the malfunction of the earth connection – possibly endangering the user.

On Wednesday 5 April (week 14), a global order to stop delivery was issued to our sales companies to ensure that none of the pumps manufactured in weeks 12 and 13 were sold to customers.

On Friday 7 April, a worldwide recall of the product was issued, stating that ALL pumps MUST be returned, even if they had already been installed. In production, remedial action was initiated so that further faults could be prevented.

On Friday 21 April, the order to stop delivery was updated and a recall with the serial numbers of the faulty pumps was issued together with written instruction on how the recall was to be handled. Over the next few weeks all of the faulty products were collected and the faulty pump parts were replaced. Once the pumps had been reassembled they were tested and returned to the distribution warehouses.

“GRUNDFOS PLACES GREAT EMPHASIS ON QUALITY AS AN INTEGRAL PART OF THE ORGANISATION AND CONSIDERS QUALITY ASSURANCE TO BE A VITAL PARAMETER IN THE CONTINUED GROWTH OF THE GROUP.”

Extract from the Group policy on quality



CUSTOMER-DRIVEN PRODUCT DEVELOPMENT

With the help of customer visits, focus groups and questionnaires, etc. during the early stages of a development project, Grundfos can examine how, and for which applications, the customers will use the new product. See the example. This allows us to develop products which, through their construction, design and choice of materials, minimise the impact on the environment whilst remaining user-friendly.



EXAMPLE OF FRUITFUL COOPERATION WITH CUSTOMERS:

When a new product was being developed, a number of visits to customers took place. During these visits, the development team noticed that there was excessive furring on the internal components of the old pump models. The furring led to reduced efficiency, more frequent chemical cleaning or the replacement of the pump. This cooperation with customers and the experience gained by Grundfos meant that extra focus was placed on the choice of materials and surface treatment.

CUSTOMER SATISFACTION

Grundfos wishes to achieve a responsible, open and credible dialogue in partnership with its customers. These are important elements in the Group's values, and value-based sales make sense both for Grundfos and our customers.

Every second year, as an integral part of Business Excellence, Grundfos measures the level of customer satisfaction at all companies within the Group. The ability of the companies to meet the needs of the customers is assessed on the basis of ten different parameters, the results of which are gathered and entered into a satisfaction index, where index 75 and above is normally considered to be good. See figure 11, Customer satisfaction analysis.

The analyses are carried out by the individual business units and the major differences in culture, market and level of maturity of the companies mean that there is no Group target for customer satisfaction. The results vary from company to company, as do the areas for improvement – those which have achieved the lowest score and which are considered to be the most important in each case.

See also figure 12, The value wheel.

THE RESULTS OF THE CUSTOMER SATISFACTION ANALYSIS

1. The perception of Grundfos as a sustainable company will undoubtedly differ from customer to customer. It would, however, be fair to say that the general level of satisfaction of dealing with us reflects the perception of how we do business, including the high priority we give to our principles regarding sustainability. The loyalty index shows an improvement from 77 to 79 – i.e. a high level of loyalty on the rise.
2. From 2004 to 2006 there is an improvement from index 70 to 73 on the most direct question regarding sustainability, i.e. the question regarding Grundfos' environmental friendliness. We see this as the result of increased efforts in areas relating to the environment and more visible communication in the form of environmental and sustainability reports. There is, however, still room for improvement.
3. It is important for the customer to feel that they have received competent advice from us when selecting a pump. The right pump is essential for the job in question to ensure optimum performance, safety and not least energy consumption, often resulting in considerable energy savings, and thereby reduced CO₂ emissions. Over the past few years, Grundfos has invested a lot of time and energy in the training of its own employees and customers. The satisfaction index has increased from 74 to 76, i.e. a high level of satisfaction on the rise.
4. Most new products will, in many ways, be more environmentally sustainable than older products due to their construction and materials, reusability, more considerate production and improved energy efficiency. The quality of information regarding new products is therefore of importance to sustainability in a wider sense. Despite a rise from 69 to 71, further improvement is still required in this area.
5. The handling of complaints is identified as an important focus area in several customer satisfaction surveys. It is important for us that our customers feel that they have received good and fair treatment when making complaints of any sort. The index in 2006 is 67 as opposed to 66 in 2004 – so a small increase in spite of a concerted effort. The level is too low and this will therefore be a major focus for improvement.
6. Responsiveness to the customer's needs and special requirements is an indication of Grundfos' general ability to be flexible and to listen to customers. Grundfos' ability to read the market is also under the spotlight here – both regarding products and services, further value regarding products and sustainability issues. In spite of the increase from 68 to 71, the level is not high enough and further improvement is still required.

FIGURE 11 CUSTOMER SATISFACTION SURVEY

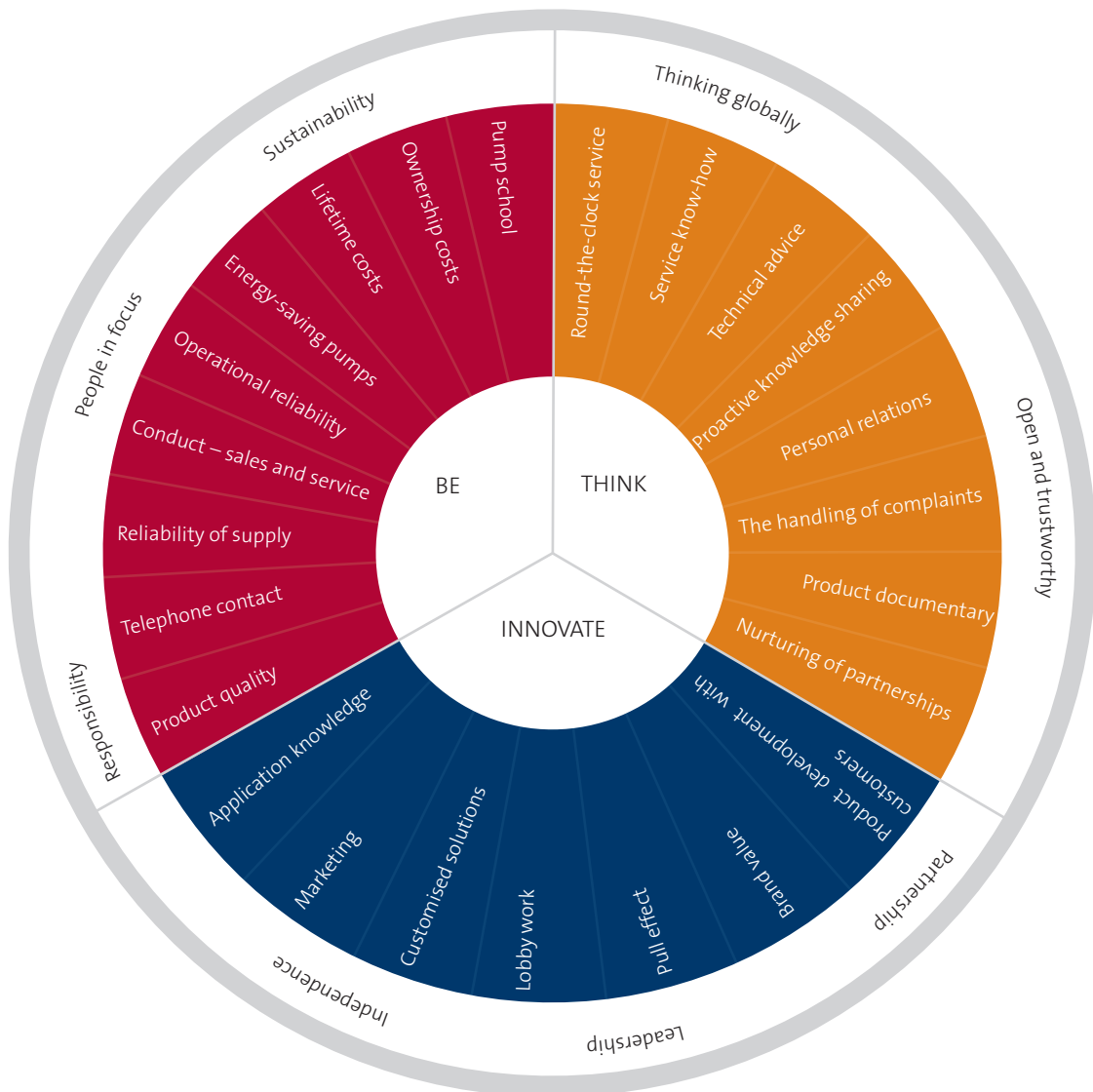




FIGURE THE VALUE WHEEL

For Grundfos, all ten parameters in our customer satisfaction form part of a value-based sale, deeply rooted in the Grundfos Group's values. This is illustrated in the value wheel that our Danish sales company, among others, uses to ensure sustainable customer satisfaction.

The value wheel is a general representation of the value-based sale that we endeavour to make to our customers. All services or parameters that are expected to have value for customers are grouped according to the general Grundfos values and Be > Think > Innovate. In this way, a greater awareness and understanding of the necessity of the value-based sale is generated throughout the organisation.



HOW WE CONTRIBUTE TO THE SOCIETY AT LARGE

Our products provide us with a unique opportunity to make a contribution to society through energy-efficient and energy-saving solutions with reduced electricity consumption and CO₂ emissions as a result. By working together with other interested parties within the industry to promote the energy labelling of products, Grundfos also helps consumers to make a conscious choice with regard to the energy consumption of products. In this way we can have a positive effect on the society at large and contribute to a greater awareness of the benefits of using energy-saving products.

ENERGY-SAVING PRODUCTS

All phases in the life cycle of a pump have an impact on the environment. Between 70 and 98 per cent of the total impact that a Grundfos pump has on the environment occurs, however, during the use phase. In the use phase, MeCR, the industrial pump, upon which our example of the life cycle of a pump is based, has an overall environmental impact of 87.9 per cent. See figure 13, The pump's life cycle. This is why Grundfos invests countless resources in its product development to reduce the pump's energy consumption during operation, without it affecting its performance.

Since the introduction of the first Alpha circulator pump for small buildings in 1999, Grundfos has been leading the way in energy-efficient products. In more recent years, its successors, Alpha Pro and Magna, circulator pumps for large buildings, have contributed to a significantly reduced energy consumption in pump systems in both commercial buildings and private households. In 2006 alone, Grundfos sold energy-optimised circulator pumps in Europe in numbers that entail electricity savings corresponding to the annual consumption of over 118,000 average Western European households, or 532 million kWh. See also figure 14, Total annual electricity savings for e-products

HIGHLY-EFFICIENT GRUNDFOS MOTORS

A feature that Grundfos' wide range of standard motors share is their high efficiency and low energy consumption. High-performance Grundfos pumps for industry and commercial buildings are, for the most part, fitted with motors that conform to Eff1 – Europe's highest efficiency class. This is unique to the pump market – no other pump supplier is able to supply pumps with the equivalent motor efficiency as standard.

In 2006, Grundfos produced over 213,000 Eff1 standard motors, making it the highest producing manufacturer of high-efficiency motors in the world.

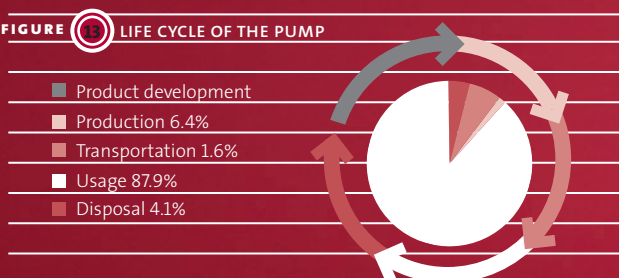
An indication of the fact that Grundfos is one of the front runners in environmental sustainability and contributes to a global reduction of energy consumption, is that Grundfos motors are approved in both Korea (KEMCO (Korea Energy Management Corporation) certification) and England as eligible for subsidisation due to their high efficiency. In Australia, the motors are also on a "positive list" for products that meet general requirements (Minimum efficiency performance standard) for efficiency at a particularly high level.

INFLUENCE ON THE MARKET

— ENERGY LABELLING

Grundfos can make a contribution to greater energy efficiency by focusing its research and development on the creation of new, innovative products with lower energy consumption.

FIGURE  LIFE CYCLE OF THE PUMP



“WHAT IS GOOD FOR THE ENVIRONMENT IN THE FORM OF REDUCED CO₂ EMISSIONS, IS ALSO GOOD FOR CUSTOMERS' WALLETS IN THE FORM OF REDUCED ENERGY COSTS.”

Kim Klastrup
Group Branding Manager



But the products are not enough in themselves – if customers choose other pumps with higher energy consumption, the potential for a positive effect on energy consumption and CO₂ emissions remains untapped.

It is therefore also important to make people aware of the benefits of the products through intensive sales and marketing activities and making it easy for customers to choose the products with the lowest energy consumption with the aid of energy labelling.

Grundfos works closely with other interested parties within the industry to use labelling to improve knowledge of energy-efficient products. By labelling relevant Grundfos products with the letters A to G according to their energy efficiency, it makes it easier for installers and private customers to choose the most energy-efficient solutions. Many manufacturers have started to use labelling and it has become an important factor in the choice of the right circulator pump.

Grundfos has gone to great lengths to ensure that private customers, consulting engineers and installers are informed about energy efficiency and about the products available to achieve considerable savings on energy consumption. By working together with its wholesale business partners and providing information about the energy labelling on websites such as www.energyproject.com, Grundfos has increased knowledge and helped customers to make qualified choices when selecting pumps.

Grundfos has also initiated a number of other activities to broaden knowledge about energy labelling and the opportunities to save energy through the choice of circulator pump. Installers have been invited to events, seminars and courses, and provided with user manuals and material to inform their customers about potential energy savings.



The figures show the global energy saving generated by all Grundfos' energy-saving pumps sold in the year concerned. The estimate is based on the actual sales figures for each year and assumptions about which previous models the pumps sold replace.

FIGURE 14 TOTAL ANNUAL ELECTRICITY SAVINGS FOR E-PRODUCTS

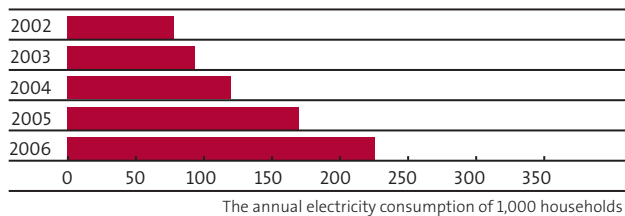
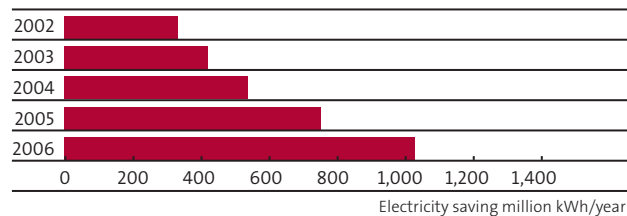


FIGURE 14 GLOBAL ANNUAL ELECTRICITY SAVINGS FOR E-PRODUCTS





CSR CREATES VALUE FOR GRUNDFOS

CSR is becoming an increasingly central and integrated part of Grundfos' main business areas and we will continue to work on combining the business potential that we see in sustainability with the benefits that sustainable products can have on the world around us. It is still our ambition to be the industry leader with groundbreaking solutions and efficient pumps and pump systems, but we are also looking into new business areas which will serve to strengthen Grundfos' competitive position and contribute to the solving of specific problems and challenges in the world.

With this in mind, we remain fully aware of the need for the further energy optimisation of Grundfos pumps and, in 2005, we launched the first A-labelled circulator pumps. It is both to the benefit of the environment and Grundfos that the new A-labelled pumps made a major breakthrough into the European markets in 2006. Both these and our solar and wind-powered drinking water pumps are specific examples of the fact that CSR is a lucrative business opportunity. It is expected that the majority of the pumps that Grundfos sells in the years to come will be energy-labelled and will have a

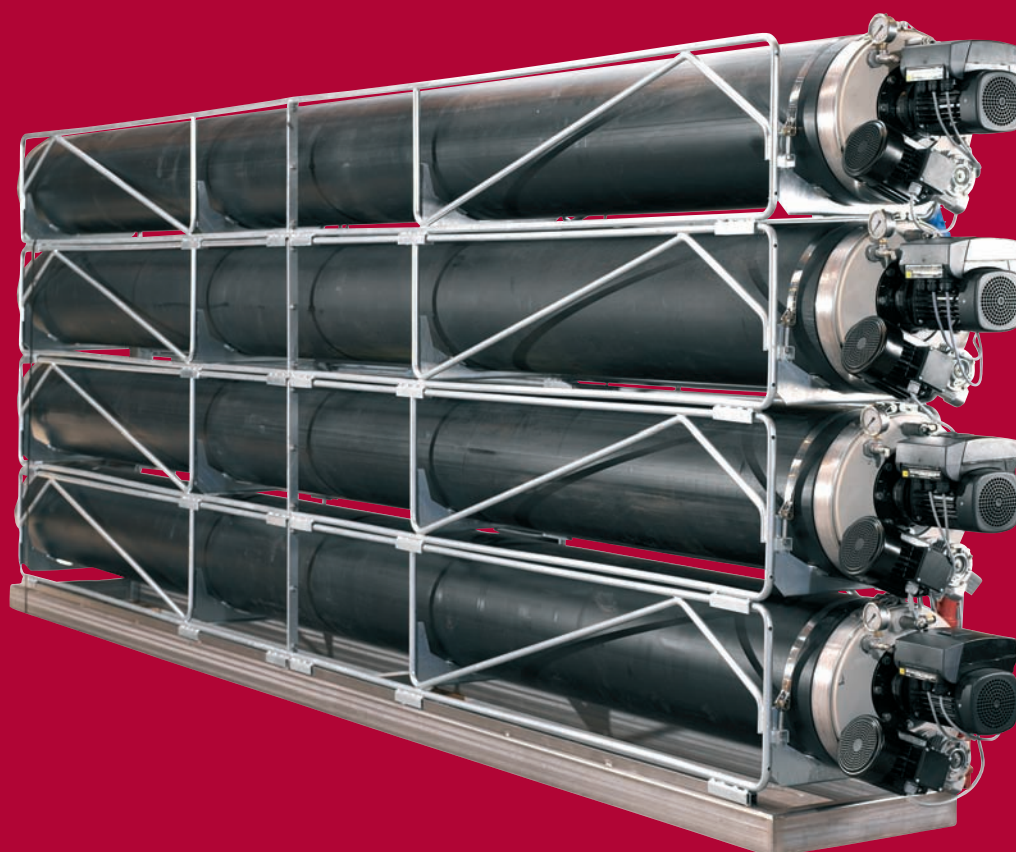
considerable positive impact on the environment. This, however, will only be possible with the support of legislation, energy policy and public opinion. Grundfos will play an active part in ensuring that such a future becomes a reality.

New Business is another example of the broadening of our horizons through the development of a number of new business areas which may, in the long term, hold considerable business potential and, at the same time, contribute to meeting some of the world's most pressing needs within water, water purification, energy-efficient solutions and thus ensure better living conditions and less strain on the environment.

With New Business as a common denominator, Grundfos has launched a number of major projects in recent years which are under continuous development with a view to increased commercialisation. In 2006, Grundfos NoNox, which supplies urea dosing systems for the purification of exhaust from diesel engines, was chosen as a supplier to the world's largest manufacturer of large diesel engines. The mobile biological purification plant, Grundfos BioBooster, is still under development and we have high expectations for Grundfos' investment in the Danish company Infarm A/S' development of environmental technology for animal production as a result of legal initiatives concerning liquid manure.



 Nonox



 BioBooster



BERLIN CENTRAL STATION SAVES ENERGY

In May 2006, Berlin Central Station, a major new European junction station, was opened. With 300,000 passengers a day and train departures and arrivals at 90-second intervals, nothing can be left to chance where logistics or technology are concerned.

The construction management therefore set extraordinarily high safety requirements with regard to the pumps installed. In order to ensure 100 per cent functionality at all times, all pump installations were fitted with a double safety feature, i.e. double pumps at each station.

All installations are linked to the central technical control room, where all data is displayed directly on the screens. The

installations are connected to a network which ensures efficient communication throughout the sizeable building.

All functions at the station are controlled electronically and this requires a high energy consumption, not least in the form of power to operate the heating system, air conditioning and sanitary installations. Over a third of all operating costs in the building relate to energy. Of this, heat pumps alone account for five per cent of the operating costs.

With energy consumption accounting for such a large share of the costs, it is not surprising that the developer strongly favoured low energy products when choosing pumps etc. In addition to financial savings, this would also have major



benefits for the environment - something that is given high priority in Germany.

It was possible to halve the estimated energy consumption by using Grundfos Magna pumps, infinitely adjustable heating pumps with an *autoadapt* function that adjusts the setting to the current heating requirements.

This efficient pump regulation not only saves energy but also improves the regulation of the system and reduces heat loss in the system, whilst improving the level of comfort for the many people making their way around the station.

Berlin Central Station is more than just a station. It is an important symbol of the unification of Germany and the country's position in the centre of Europe. A symbol such as this needs to be a grandiose building that does not place an unnecessary strain on the environment. The railway service is an environmentally-friendly form of transport, and a beautiful building such as the new central station in Berlin will undoubtedly inspire and encourage more travellers to take the train.



The lives of the villagers have been made considerably easier by the SQFlex systems, with clean water as opposed to the water that they would previously have had to fetch from the rivers.

CLEAN WATER — DELIVERED NATURALLY

Fifty-three smaller communities in the Central Asian republic of Kyrgyzstan are using the sun to help meet one of the greatest challenges faced by the villages

There is power in Kyrgyzstan, even in the villages but it is intermittent. A little like the erratic operation of the borehole pumps that falter more often than they function correctly. Solar-powered pump systems are therefore a sustainable solution for the people living in the country who are used to fetching water from polluted streams or from wells many kilometres away.

DOWN TO THE LAST DETAIL

Fifty SQFlex water supply systems, financed by Danida and effected through the UN's development programme, UNDP, in Kyrgyzstan, have made a marked difference to the lives of thousands of people in the Central Asian country.

Grundfos has been responsible for the entire project and has supplied everything needed to install and start up the systems – down to the last detail. Pipes, fittings, steel wire, stands for the solar panels, a complete toolbox, etc.

LOCAL MANPOWER

With the help of local workers, Adilet Abdybekov from UNDP in Kyrgyzstan has installed the majority of the 50 systems himself. It was therefore crucial for every last detail to be taken care of. Something as basic as a crosshead screwdriver might have to be picked up in the capital Bishkek, a six-hour

drive away. A compass was needed to position the solar panels correctly in relation to the sun, a generator to provide power and a hacksaw to saw the plastic tubes.

“Sanitary conditions were appalling. A limited and irregular supply of water was a cause of disease and the reason why many people moved to the larger towns. The people living in those areas, which now have a new water supply, had to fetch polluted river water or water from wells many kilometres away from their homes. The project has solved a huge problem, the benefits of which can be seen both for the population and the environment,” points out Adilet Abdybekov.

THE SUN POWERS THE PLANT

Each of the 50 solar-powered water supply systems provides water for approx. 1,000 people.

“In rural areas, security of supply is vital to living conditions and the quality of life. There can be many different problems associated with a power supply but, with the sun as an energy source, the population has access to a free water supply pretty much all year round. The constant supply of water from a reliable source also means that the possibilities are there for the population to practice sustainable agriculture,” explains Adilet Abdybekov.



FACTS ABOUT KYRGYZSTAN:

Kyrgyzstan is situated in the north-eastern part of Central Asia, in the heart of the Tian Shan mountain range. The landscape of the country is characterised by plateaus and valleys. The subsoil is rich in lead, zinc and other metals. There are large coal reserves and some occurrences of oil and natural gas. River pollution is a serious problem as a third of the population obtained their water directly from the rivers.

The lives of the villagers have been made considerably easier by the SQFlex systems, with clean water as opposed to the water that they would previously have had to fetch from the rivers.



PROSPECTS IN OTHER REGIONS

The positive experience gained from the project in southern Kyrgyzstan has, among other things, meant that the central government has started looking into the possibility of other such projects in similar regions in Kyrgyzstan.

“This first, vital step in the water supply field has paved the way for increased focus on water at all stages of the supply chain. The issue of wastewater has recently been brought up for discussion. It will be some time before a fully satisfactory solution is found for areas such as these but, not so very long ago, water purification was not even on the agenda. In my opinion, the project seen as a whole has contributed immensely both to the region and the international challenge of providing clean water for all,” concludes Adilet Abdybekov.

Adilet Abdybekov is in the process of finishing off yet another installation, watched over by the locals.



FACTS ABOUT GRUNDFOS' TECHNOLOGY AND MILLENNIUM GOALS

Clean water for the world is one of the UNs 2015 goals. For over a billion people, access to clean drinking water is non-existent or involves great difficulty.

At a summit meeting in Johannesburg, South Africa, in 2002 the world's richest countries agreed that a more sustainable water supply should become one of the common goals for third world development – the so-called 2015 goals. The aim was, and is, that the percentage of people, who do not have access to clean drinking water, should be halved before 2015.

Products and know-how based on Grundfos technology go towards solving the problem every day. One example is a project in Kyrgyzstan which, with the help of Grundfos' solar and wind-powered water supply systems, provides clean water for thousands of villagers.





**ENVIRONMENTAL
VALUE AND RESPONSIBILITY**

ENVIRONMENTAL VALUE AND RESPONSIBILITY

Grundfos, like the rest of society, faces the global challenge of ensuring a healthy and sustainable environment in the future.

With the signing of the Global Compact and the defining of policies regarding the Group's main activities, we are making it clear that we wish to act responsibly where the environment and society at large are concerned.

We have (within the environmental principles seven, eight and nine of Global Compact) over the course of several years, initiated many processes which are to assist with the constant development of global environmental activities – including the rule that our production companies have to be certified to ISO 14001, the international standard on environmental management.

One of the most recent activities that we have initiated is Grundfos' participation in the work involving the EuP Directive (Energy using Products). This means that, in partnership with the European pump manufacturers' trade organisation Europump and other pump manufacturers, we will try to find a method of evaluating the environmental impact of products that consume energy. The project, which is expected to reach completion this year, is in line with our wish to develop more environmentally-friendly, energy-efficient products.

MANAGEMENT PRACTICE


POLICIES AND GUIDELINES

Several of the Group's policies concern environmental issues, particularly the environmental, health, purchasing, and research and development policies. Read the policies in their entirety at www.grundfos.com/policies.

In practice, the policies are realised through targets which are to ensure focus on minimising the strain on the environment throughout the life cycle of the product, from product development and production to disposal.

ORGANISATIONAL RESPONSIBILITY

In 2006, Grundfos established an independent Group environmental division to further strengthen the focus on the environment. The division will coordinate internal Group environmental activities, including the development of the current environmental management system, support of environment and working environment in relation to production and product development and the monitoring of whether international and national regulations, environmental legislation and environmental directives, etc. are conformed to. The division is also to function as a link between the Group's environmental units worldwide and strengthen the environmental work already in progress.



“GRUNDFOS WISHES TO BE PERCEIVED AS A CLEAN
COMPANY WHERE SUSTAINABILITY AND TRUST-
WORTHINESS ARE DECISIVE PARAMETERS FOR THE
WAY WE DO BUSINESS.”

Extract from the Group environmental policy

FIGURE 15 OVERALL ENVIRONMENTAL OBJECTIVES FOR PRODUCTS

- 80 per cent of all new products must be at least five per cent more energy-efficient than a similar reference product if functionality and life cycle resemble them.
- By the end of 2009, 80 per cent of all new products must have a material content that is three per cent lower than a similar reference product if functionality and life cycle resemble them.
- New products may not contain substances that do not meet the requirements of the RoHS Directive.

EMPLOYEE TRAINING

Each production company is responsible for the on-going training of its own employees, both internally and externally. In this way, Grundfos ensures that all employees have the skills and knowledge required for their jobs (read more on page 44 – section on employee development and training).

One example of this was when we moved part of our production from Denmark to Hungary. All Hungarian employees that would be working with epoxy products in the future were trained in the health risks associated with work of this kind. This type of training is not a legal requirement in Hungary, but since we are required by Danish law to provide our employees with epoxy courses, and have had considerable success in preventing injury, we wanted to take a proactive approach to preventing our employees at Grundfos Hungary from being exposed to unnecessary health and safety risks.

MONITORING AND FOLLOW-UP

All Grundfos production companies are responsible for overseeing and following up on the environmental targets set by the Group and the company concerned. The production companies are also obliged to report significant environmental data to the Group environmental function every six months, which will then follow up on inadequate performance. Once or twice a year, each production company will undergo an external audit by a third party, and the Group's audit team will carry out internal audits at least every other year.

INNOVATION AND INFLUENCE

At Grundfos, responsibility is given high priority in the way we do business, and we therefore favour being trendsetters with regard to finding innovative solutions that take into consideration the environment and the people whom we live, work and deal with.

We also participate externally in national and international working groups, conferences and standardisation fora focusing on the environment, with the objective of playing a part in the setting of the agenda for a high environmental and working environment standard within the production and development of pumps and motors.

Based on the life cycle of the pump (for a more detailed description of the pump's life cycle, see section two, page 22), we will point out the main direct and indirect environmental factors that we are constantly seeking to improve in the following section. The use phase has already been described in

section two, where the environmental factors are also indicated. The use phase will not therefore be described here.

PRODUCT DEVELOPMENT

At Grundfos we focus on the sustainability of the 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 offers to help the customer with the responsible disposal of the product, and this way sustainability becomes a visible element in the entire life cycle of the product.

Historically, Grundfos has been focusing on the environment in its product development for many years and life cycle analyses (LCA) were carried out on all Grundfos products at the end of the 90s. The life cycle analyses showed that the main environmental impact from a pump and motor comes from energy consumption during the use phase as described in section two.

The main focus in product development in recent years has therefore been on energy optimisation and the development of new technological solutions, that have made a positive contribution to the reduction of the energy consumption of our products.

We go to great lengths, on a global scale, to ensure that substances that are detrimental to the environment and health are not used in production or in our products. Group objectives ensure that there is constant focus on the chemical substances used. See figure 15, Overall environmental objectives for products.

An example of this is the development of lead-free products. Grundfos' products are not subject to the EU RoHS⁶ Directive which bans the use of lead in products. Grundfos has nevertheless opted to ban all substances listed in the directive, so lead will be phased out of all our products by 31. 12. 2008. The development will be followed closely and a large number of our products already comply with the RoHS Directive.

“GRUNDFOS WISHES TO BE PERCEIVED AS A RESPONSIBLE COMPANY WHERE SUSTAINABILITY AND TRUSTWORTHINESS ARE DECISIVE PARAMETERS FOR THE WAY WE DO BUSINESS.”

Extract from the Group environmental policy

TARGET AREAS IN 2006

PRODUCT IMPROVEMENTS 2006

Examples of some of the results achieved in 2006, in connection with product improvements, are:

THE MAGNA PUMP

A new Magna was developed in 2006 as part of Grundfos' Energy project (see pages 22 – 23) to replace an earlier product. With this new pump there are potential savings of 67 per cent in energy consumption and the product therefore meets Grundfos' target.

MOTORS

There have been no new products introduced over the past year but there is a clear strategy for the development work already underway. Grundfos' motors are mainly used for pumps but we also sell to the ventilation sector and a smaller number are used for compressors.

ENVIRONMENTAL IMPROVEMENTS AT THE PRODUCTION COMPANIES

As part of the environmental policy, all Group production companies must be certified to ISO 14001, the international standard for environmental control. Newly established companies have three years to obtain certification. The majority of companies have also chosen to become certified to OHSAS 18001, an international occupational health and safety management system specification. See figure 16, Certification, status 2006.

Several common environmental objectives have been defined for all production companies, that are to be met by the end of 2007. See figure 17, Environmental objectives for the production companies.

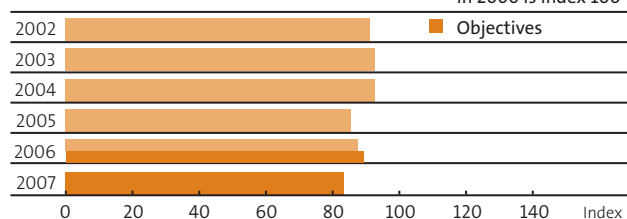
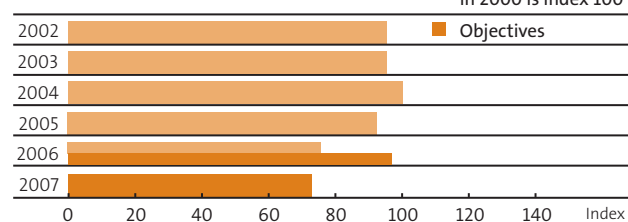
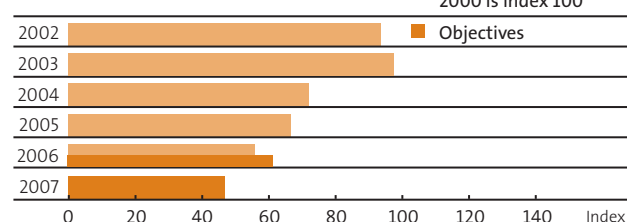
FIGURE 17 ENVIRONMENTAL OBJECTIVES FOR THE PRODUCTION COMPANIES

Area	Objective	Term
Electricity	19% reduction in indexed electricity consumption compared to 2000	31-12-2007
Water	28% reduction of indexed water consumption compared to 2000	31-12-2007
Chemical waste	55% reduction in indexed chemical waste compared to 2000	31-12-2007
Number of red chemicals	Reduction in the number of red chemicals from 128 in 2005 to 117.	31-12-2007
Accident frequency	Reduction in accident frequency to 14.0 accidents per 1 million working hours.	31-12-2007
Accident-related absence	Reduction in accident-related absence to 1.6 hours of absence per 1,000 working hours	31-12-2007

FIGURE 16 CERTIFICATION, STATUS 2006

	ISO 14001	OHSAS 18001	EMAS
Denmark	●	●	●
Germany	●	●	●
England	●	●	●
France	●	●	●
The US	●	●	
Taiwan	●	●	
China	●	●	
Finland	●		
Hungary	●		

The Group's production companies in Italy, Russia and Mexico are not yet certified. A certification schedule is to be drawn up next year.

FIGURE 18 INDEXED ELECTRICITY CONSUMPTION**FIGURE 19** INDEXED WATER CONSUMPTION**FIGURE 20** INDEXED CHEMICAL WASTE

ELECTRICITY CONSUMPTION

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

The 2006 target for electricity consumption has been achieved, see figure 18, Indexed electricity consumption. Savings have been achieved at several companies – generally as a result of employee suggestions for improvements. There has been particular focus on reducing the consumption of compressed air. At the American and Danish companies, it has largely been a question of minimising leakages of compressed air. The English company has turned its attention to the compressors which has resulted in a healthy reduction in the consumption of compressed air.

Another reason for these reductions is the better use of production equipment due to increased turnover.

WATER CONSUMPTION

Clean water is becoming an increasingly scarce resource and water consumption has therefore been identified as an important environmental factor for all Grundfos production companies. Water is used in production for the filling of test tanks, the washing of metal items and the mixing of cooling/cutting fluid.

The 2006 target for water consumption has been achieved, see figure 19, Indexed water consumption. In general, major reductions have been achieved – especially by the Chinese, Finnish and German companies. The indexed water consumption of the Chinese company has been reduced by almost 50 per cent compared to figures for 2005. This is attributable to the installation of a biological purification plant where all wastewater from production is reused to clean the tanks and for watering the outdoor areas. In 2005, a 200 m³ test basin at the Finnish company was improved, with a 23 per cent reduction in the indexed water consumption in 2006 compared to 2005 as a result.

One reason for the water reduction of all companies is the improved use of washers and testers – this is particularly true of the German company, where there is a 20 per cent reduction on the 2005 figure for indexed water consumption.

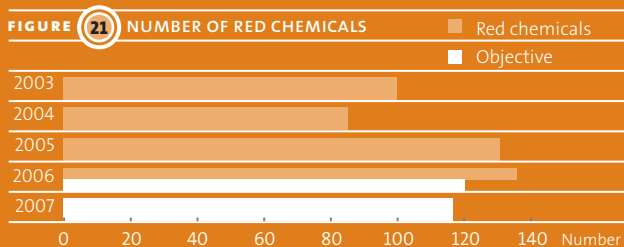
CHEMICAL WASTE

Chemical waste consists of different solid and liquid waste matter that, for the most part, is defined as hazardous waste. The classification of the waste depends on the country of origin.

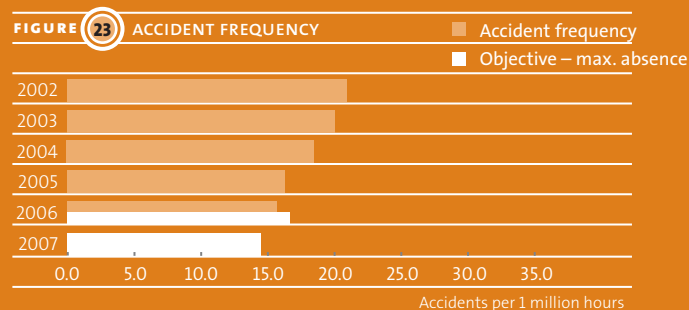
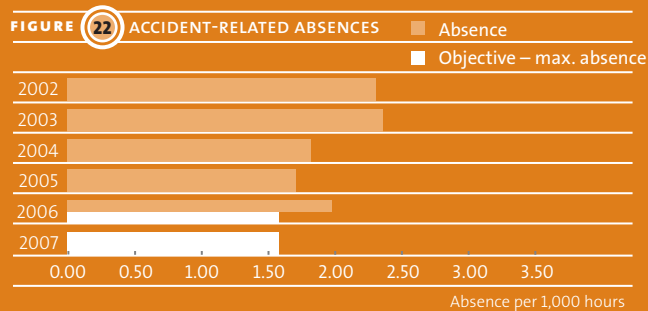


“AWARENESS OF THE FACT THAT WE GIVE EXTENSIVE CONSIDERATION TO THE ENVIRONMENT AND PEOPLE, SHOULD GIVE CUSTOMERS PEACE OF MIND, WHEN THEY BUY A GRUNDFOS PRODUCT.”

Niels Møller Jensen
Head of Group Quality and Group Environment



Read more about red chemicals below.



Grundfos has tried to provide comparable figures for chemical waste despite the differences in local legislation in the countries where our production companies are based. A Group standard has therefore been devised to define what types of waste we are dealing with and how they should be sorted etc.

The 2006 target for chemical waste has been achieved. See figure 20, Indexed chemical waste. The result for chemical waste shows a very positive development starting back in 2001, with a 45 per cent reduction in the indexed amount at the end of 2006. This positive development is first and foremost due to the fact that, over the years, concerted efforts have been made to reduce the amount of chemical waste via changes in processes, whereby the companies either minimise the amount or clean a higher percentage of their own waste products themselves rather than disposing of them as chemical waste.

In 2006, the Finnish company began the recirculation of machinery fluid, giving a 45 per cent reduction in the amount of indexed chemical waste compared to 2005.

The Danish company has enjoyed a 21 per cent reduction in the indexed chemical waste. This is due, among other things, to the fact that the amount of sludge from the wastewater purification plant has been significantly reduced due to a change in cleaning method.

WORK ENVIRONMENT AND SAFETY

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

- To reduce the number of work-related accidents.
- To reduce the number of red chemicals in production.

The target areas are selected by the Group management on

the basis of a presentation given by the environmental managers of the production companies.

The development is completely in line with the recommendations that the Group Management has defined in the area.

In recent years, the development at the companies relating to health and safety is that more and more companies are being certified to OHSAS 18001, a standard for work environment management. Only the Finnish and Hungarian companies have yet to introduce this standard.

RED, YELLOW AND GREEN CHEMICALS

Since 2003, it has been our strategy to focus primarily on the chemicals used in production which are most damaging to the environment and health. In 2003, a simple method was developed which classifies the chemicals in red, yellow and green groups, with the red group containing the most hazardous chemicals and the green group containing the least hazardous 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 regarding chemicals. 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 at the Grundfos production 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 that need to be replaced.

The 2006 target for a reduction in the number of red chemicals has not been achieved. See figure 21, Number of red chemicals. In 2006, there has been an increase in the

“THE HEALTH AND WELFARE OF OUR EMPLOYEES IS SOMETHING THAT GRUNDFOS TAKES VERY SERIOUSLY. WE THEREFORE ENDEAVOUR TO PROVIDE A SAFE PHYSICAL AND MENTAL WORKING ENVIRONMENT, WHERE THERE IS A GOOD BALANCE BETWEEN THE RESOURCES OF THE INDIVIDUAL AND THE COMPANY’S EXPECTATIONS.”

Extract from the policy on health and welfare



number of red chemicals used compared to the number in 2005 which is due to several factors. As a result of changes in legislation, the basis for categorisation of red, yellow and green chemicals was changed back in 2005. The changes first came into force at the French company in 2006. In addition, the English company has changed chemical supplier, resulting in more red chemicals than before.

We are currently working on adapting to the change in legislation, the EU REACH⁷ regulation that came into force in June 2007. Grundfos’ European companies have jointly initiated the preliminary investigations into how the work on compliance with the regulation should be put into practice.

FOCUS ON WORK-RELATED ACCIDENTS

In order to reduce the number of work-related accidents, special efforts have been focussed in the following areas:

- Visibility and information at all levels of the organisation
- Campaigns focusing on safety – both during and outside working hours
- Follow-up on the accidents that have occurred with corrective measures to ensure that it does not happen again
- Focus on alternative jobs
- Registration of and follow-up on near-accidents
- Systematic safety checks
- General workplace cleanliness

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

In general, developments with regard to accident frequency and accident-related absence have been very positive. See figures 22–23, Accident-related absence and Accident frequency. There has, however, been an increase in accident-related absence in 2006 compared to 2005. In spite of the fact that there have been less accidents overall in 2006 than in 2005, a higher number of the accidents have resulted in longer periods of absence than in 2005. The 2006 target for accident-related absence has not, therefore, been achieved, whereas the target for accident frequency has.

There are still major differences in the results of the different companies where this is concerned. We have therefore implemented initiatives to strengthen the spread of knowledge across the Group. We have done this by strengthening our efforts to share relevant data, and extract the best examples of improvements for use by all companies.

ENVIRONMENTAL WORK AT THE SALES COMPANIES

By way of a new initiative in 2006, reports on the same environmental focus areas as for the production companies have been compiled for the sales companies. It has been a challenging task and all companies have invested a lot of time and energy in collecting data. As there are major global differences regarding the supply of electricity, water, heating and climatic conditions etc., it is difficult to present the vast amount of data collected during this first data collection.

The data will be evaluated internally and used to set targets for the sales companies’ environmental performance. It should also be mentioned in this respect that the energy consumption of all sales companies accounts for six to seven per cent of the Group’s total energy consumption. External reporting on the environmental performance of the sales companies is planned for next year’s report.

FIGURE 24 OVERALL ENVIRONMENTAL OBJECTIVES FOR TRANSPORTATION

- To achieve a load ratio of at least 90 per cent between Denmark and Germany by the end of 2007
- To achieve a load ratio of at least 90 per cent between Denmark and France by the end of 2007
- To achieve a load ratio of at least 88 per cent between Denmark and Hungary by the end of 2007

As far as environmental certification is concerned, the Danish sales company is certified to ISO 14001, OHSAS 18001 and EMAS. The British sales company is also ISO 14001 certified and was notably awarded “Green Hero” status in 2006. The distinction is awarded to British companies that have set environmental standards and observed them in an exemplary way. In 2005, the company also received one of the most prestigious global awards for best environmental practice, “Champion of Champions 2005”.

TRANSPORTATION

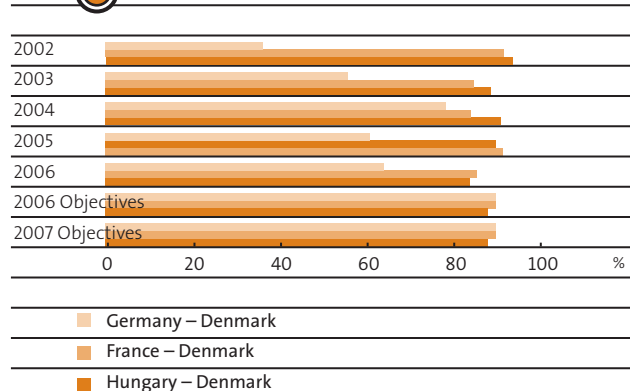
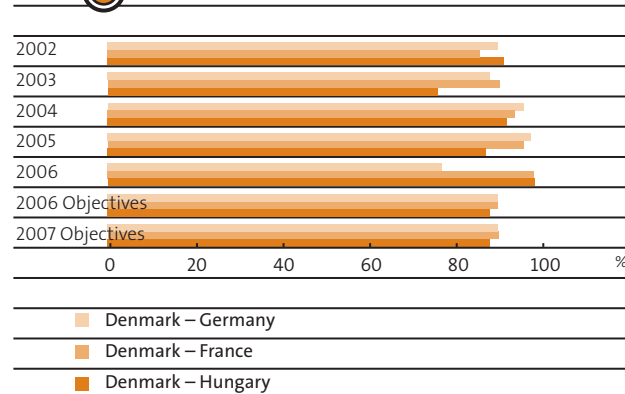
Since 2001, Grundfos has collected environmental data on the main transport routes that will be used to define a basis of experience, set targets and achieve ongoing environmental improvements. We have collected data on the regular routes between Grundfos’ distribution centre in Denmark and the distribution centres in France, Germany and Hungary. In the long term, we expect to be able to calculate the results for a larger part of the total transportation requirement.

Objectives have been defined for the load ratio – the degree of utilisation of the space in a truck during transportation. It has been decided to formulate an objective for this param-

eter as it is here that Grundfos primarily has an impact on the environment during transportation. See figure 24, Overall environmental objectives for transportation.

The targets for the different routes vary slightly, see figures 25–26, Load ratios to and from Denmark, but the average target for the three routes subject to measurement is approx. 90 per cent. As the figures show, the targets have not been achieved on all distances. One of the reasons for this is that it is not calculated proportionally. This means that a route that is only driven once a week, for example, counts in the same way as a route driven every day, and this affects this year’s figures as the route between France and Denmark, that was previously driven once a week, no longer exists. The figures have, therefore, gone from 91.8 per cent last year to 83.6 per cent this year.

There has, in addition, been a major drop on the Denmark–Germany route. Here the load ratio has gone from 96.7 per cent last year to 77.1 per cent this year. This is due to the fact that we have reached maximum capacity, so an extra lorry was put onto the route from 1 April. This will result in excess capacity for the first year or so.

FIGURE 25 LOAD RATIOS

FIGURE 26 LOAD RATIOS


“THE GROUP’S PURCHASING DEPARTMENT SHALL ENSURE THAT ALL TRANSPORTATION IS COORDINATED AND CARRIED THROUGH IN THE MOST OPTIMAL WAY WITH REGARD TO THE ENVIRONMENT AND ECONOMY.”

Extract from the Group purchasing policy

TRANSPORTATION WITH CONSIDERATION FOR THE ENVIRONMENT

As we need to ensure that our customers receive their orders at the agreed time, it can be necessary to dispatch small orders. This is not especially environmentally-friendly and we are, therefore, constantly working to optimise transportation to ensure that it places as little strain on the environment as possible.

The choice of the means of transport is highly significant from an environmental point of view. Here, too, we strive to find an optimal environmental solution. This year, for example, we have re-routed transportation from Denmark to Russia from transportation by road to transportation by sea which is far more environmentally-friendly.

Unfortunately, the European railway network has not been extended at the same rate as the rise in the amount of freight. Far more freight could be sent via the more environmentally-friendly means of transportation if the railway network had been sufficiently extended.

Transportation by lorry cannot be ruled out entirely. In order to minimise the strain on the environment as much as pos-

sible, it is a Grundfos requirement that the transport companies that we deal with are environmentally-approved with regard to e.g. CO₂ emissions in exhaust.

In Japan, Grundfos has chosen a solution that takes both customer requirements and the transport environment into consideration. In order to be in a position to meet customer requirements for next-day delivery, decentralised warehouses have been established close to the customers. Products can be transported to these warehouses in large quantities, using the means of transportation to the full. When customers place small orders, the distance is, in turn, shorter.

With today’s demands for fast delivery we cannot base transportation on environmentally-neutral solutions. We have to think innovatively and untraditionally and be open to different solutions to make the strain on the environment, caused by the transportation of goods today, as little as possible.



DISPOSAL OF PRODUCTS

A Grundfos pump which has reached the end of its service life should not be considered waste but a valuable resource. We therefore prepare disposal analyses on all Grundfos products that our customers receive when purchasing a Grundfos pump. Typically, 85–99 per cent of a Grundfos pump can be reused and thereby re-enter the pump’s life cycle.

Our circulator pump, ALPHA Pro, one of our highest-selling products has, for example, a re-use value of 91.7 per cent by weight, while 7.2 per cent by weight of the worn-out pump goes to incineration and 1.1 per cent by weight to landfill.

As part of our environmental policy, we give our customers the option of, and information about, returning products that have reached the end of their service life to Grundfos. This is not a legal requirement and, apart from providing information, we do not have set procedures regarding disposal but we encourage our customers to help us with this out of consideration for the environment.

“WHEREVER POSSIBLE OUR PRODUCTS SHOULD BE DESIGNED TO BE REUSED OR RECYCLED. IT SHOULD BE POSSIBLE TO DISPOSE OF PRODUCTS AND PACKAGING IN A RESPONSIBLE WAY.”

Extract from the Group research and development policy



The image features a vibrant field of green wheat stalks reaching towards a clear, bright blue sky. In the center, there is a graphic consisting of two concentric circles. The inner circle is a solid, medium-blue color, and the outer circle is a lighter, semi-transparent blue. The text 'SOCIAL VALUE AND RESPONSIBILITY' is centered within the inner circle in a white, bold, sans-serif font.

**SOCIAL
VALUE AND RESPONSIBILITY**

SOCIAL VALUE AND RESPONSIBILITY

From the outset, social commitment has been an integral part of Grundfos' culture and business mission. Today, it remains part of our basic values and goes hand-in-hand with the Group's business strategies and policies. Our commitment to showing social consideration is realised in different ways, in the specific measures carried out by individual companies within the Group.

No matter where Grundfos is 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 our employees, business partners, the local community and society at large.

EMPLOYEES

Grundfos' ability to develop, produce and sell high-quality pumps and pump systems throughout the world is based on our employees' knowledge and skills.

It is part of our vision to have demonstrably satisfied and motivated employees.

We achieve this by creating a good working environment, by offering challenging work and training when required, and by focusing on diversity within our organisation.

There is currently considerable focus on globalisation within our organisation and it is therefore one of our most important strategic focus areas within personnel management.

MANAGEMENT PRACTICE

POLICIES AND GUIDELINES

Our main policies regarding personnel management are the Group's policies on personnel and social responsibility. Read the policies in their entirety at www.grundfos.com/policies.

ORGANISATIONAL RESPONSIBILITY

The mission of the Group's Human Resources organisation is to help the Group to achieve its objectives through the attraction, retention, development and deployment of employees, and organisational development within the framework of the organisation's values.

The overall responsibility for working conditions and the welfare of all Grundfos employees lies with our Group HR function. Naturally, it is the line management that deals with the practical day-to-day management of this area, and that is why we have created a matrix organisation, in which HR managers and salaried employees report directly to regional or local managers and also indirectly to the Group HR department. This means that they are in close proximity to the problems and needs that arise on a daily basis within the organisation, and are also closely linked to the area in which the main strategic HR decisions are made.

CONTROL AND FOLLOW-UP

The HR departments at our production companies have many years' experience in the reporting of employee-related figures in accordance with Group standards. At the sales companies, on the other hand, the tradition for central data collection does not exist. This year is the first year that we are reporting data from them and, in the coming years, we plan to establish a new data collection system covering all companies.

If there are any problems in a certain area where the analysis is carried out, it is up to Group HR and the regional HR structure to help the local management to find a solution.



"OUR GLOBAL PRESENCE MUST BE IN HARMONY WITH THE LOCAL SURROUNDINGS AND THE PEOPLE WHOSE LIVES AND LIVING CONDITIONS ARE AFFECTED BY US."

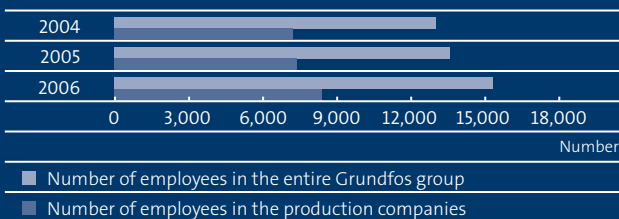
Jørn Henriksen
Group HR Manager





“IN WORDS AND ACTIONS WE WISH TO BE A RESPONSIBLE COMPANY, BOTH COMMERCIALY AND SOCIALLY, AND ONE THAT IS RECOGNISED AS SUCH BY OUR EMPLOYEES, CUSTOMERS, SUPPLIERS, THE LOCAL COMMUNITY IN WHICH WE WORK – NOT TO MENTION OUR COMPETITORS.”

Extract from the CSR policy

FIGURE 27 NUMBER OF EMPLOYEES IN THE GRUNDFOS GROUP

TARGET AREAS IN 2006

In 2006, our world presence and commitment has increased in the form of three new companies in Rumania, China and the US. As mentioned in section one, page 9, Grundfos - summary, we are represented in 41 countries and the number of employees worldwide increased by 10.4 per cent in 2006, reaching 15,162 employees at the end of the year. See figure 27, Number of employees in the Grundfos Group. Slowly but surely, we are in the process of undergoing the transition from primarily being a Danish company, with many international departments, to being a global company.

This creates new challenges for us, as a company, to address. E.g. new means and strategies to attract and retain employees necessary to avoid shortages in qualified manpower – a situation Grundfos experienced for the first time in 2006. We believe, furthermore, that diversity is a strength and therefore keep a careful eye on the composition of staff, especially with regard to gender distribution, age and minority groups in the community. This is also an area in which we can make a contribution to social development by giving minority groups access to the labour market. Lastly, employee satisfaction and welfare is a special point of focus for us, in particular how this is expressed in employee surveys, absence due to sickness and opportunities for commitment and active participation in company development

The above topics will be described in greater detail below and the section rounds off with a description of our employee motivation survey which provides an analysis of our employees' level of satisfaction and motivation.

DANISH COMPANY GOES GLOBAL

As Grundfos grows and becomes an increasingly global company, so too does the responsibility for ensuring that the employees are properly equipped to deal with the new challenges that they will face in an international environment. Where once everyone spoke Danish, today many different languages are spoken throughout the Group and English is the common language. And where previously it was enough to be familiar with what was happening within the Danish Group and on the Danish market, it is now increasingly important to be acquainted with other markets and business procedures if success is to be maintained.

TRAINING ADVANCES UNDERSTANDING

To ensure that the organisation has a common language, our training department has gone to great lengths to train the employees in the corporate language, English. In 2006, 1,138 Grundfos employees took part in English lessons and, in the countries where English is not the mother-tongue, 9.48 per cent of employees attended English lessons. There are major regional differences where this is concerned as, in some countries, English is traditionally taught in state schools while, in others, this is not the case. We place extra focus on this in our growth regions. An example of this is our Eastern European sales region, where over 30 per cent of our employees participated in English language instruction in 2006.

INTERNATIONAL PROJECTS

The overseas posting of Grundfos employees is yet another measure that strengthens the global way of thinking. International projects ensure the personal and professional development of employees and, for the Group, it ensures an exchange of professional expertise across national borders. We also believe that international projects go towards ensuring the long-term enrichment and development of the Group's international skill set. In 2006, 39 employees were posted overseas on long-term, international projects – and this figure is set to increase in the future.

We also send production workers out to new production companies around the world on short-term projects to help them to get production off to a good start. Over the past few years, we have also added short international projects to our employee rotation programme for newly-qualified engineers and economists, and some of our apprenticeship programmes.

EMPLOYEE DEVELOPMENT AND TRAINING

We wish to provide our employees with the opportunity for both personal and professional development.

An indicator of this is the number of hours of training at our Danish production company. In 2006, 184,478 hours were spent on the training of production workers. That is to say, 36 hours per production worker.⁹

In previous years, there was a target for hours of training but



“WE SHALL STRIVE TO PROVIDE A WORKING ENVIRONMENT THAT IS ATTRACTIVE FOR BOTH PRESENT AND FUTURE EMPLOYEES, AND WHICH ENCOURAGES THEM TO USE THEIR ABILITIES AND PROVIDES ENJOYMENT AND JOB SATISFACTION.”

Extract from the Group HR policy

“IT IS A BASIC PRINCIPLE OF THE GROUP THAT ALL EMPLOYEES OF EACH INDIVIDUAL COMPANY ARE TREATED EQUALLY, REGARDLESS OF GENDER, RACE OR RELIGION, TO ENSURE THAT ALL ARE GIVEN THE SAME OPPORTUNITIES FOR EMPLOYMENT, EMPLOYMENT CONDITIONS, TRAINING AND PROMOTION.”

Extract from the Group HR policy

FIGURE 28 COURSE PARTICIPANTS AT THE POUL DUE JENSEN ACADEMY

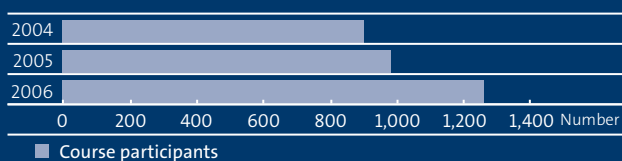
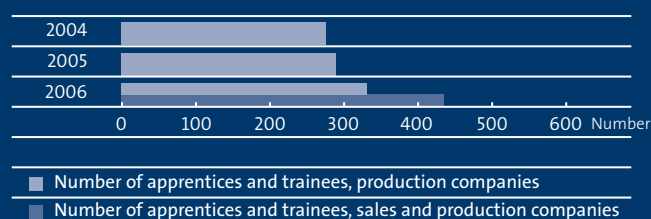


FIGURE 29 NUMBER OF APPRENTICES



we have come to realise that it is meaningless to strive to achieve a certain target if this does not reflect whether or not it is sufficient training. We therefore began some years ago to work with the concept of strategic competence development.

The idea behind it is that each department links its tasks to a general strategy and finds out which competences are necessary to implement the strategy. In this way, the training requirements of each employee are analysed, and this is linked to the personal development review which is carried out on an annual basis for almost all Grundfos employees. This means that every manager is responsible for the follow-up process. It is our aim for all of our companies to work with strategic competence development and, at this point in time, two thirds have begun to use the tool.

In order to further strengthen the training of our employees, we established The Poul Due Jensen Academy in Denmark in 2001. At present, the Academy's courses are primarily aimed at sales and marketing employees and managers, and are designed to support the skills that we need in order to implement our general strategies. In 2006, 1,260 employees attended courses at the Academy. See figure 28, Course participants at The Poul Due Jensen Academy.

To underline the training and education philosophy worldwide, we established three satellite academies in South Africa, Russia and China in 2006.

TALENT MANAGEMENT

To ensure that Grundfos remains in a position to attract, develop and retain new and existing employees, we have decided to focus on talent management – both externally and internally.

Over the past few years, the following initiatives have been implemented within talent management:

The Sales Career Programme (SCOP) has the objective of attracting newly-qualified employees with a technical and professional background throughout the world and turn them into talented sales employees.

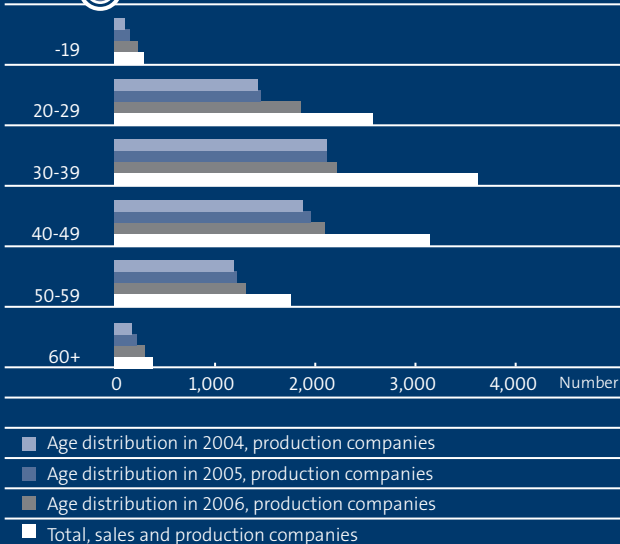
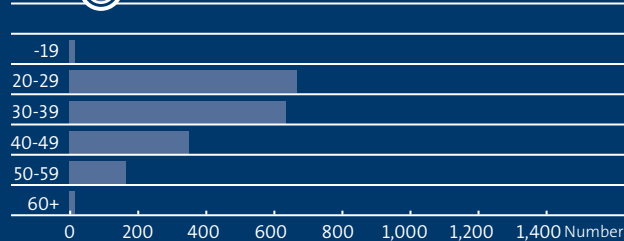
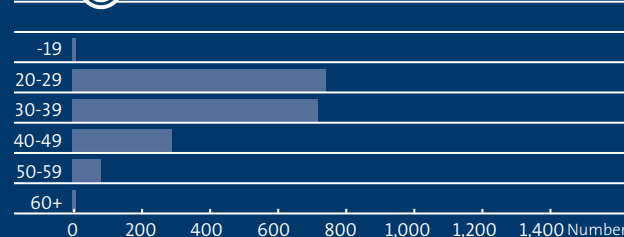
The Management Trainee Programme (MTP) has the objective of developing managers who are equipped to handle growth and globalisation. Two years after the programme, participants will be in a managerial position.

The Employee Rotation Programme for newly-qualified engineers and economists reveals the strengths and interests of the participants and many of them continue their work with the organisation after completing the two-year course.

In Denmark, we also have an internal project manager training course.

APPRENTICES

All of our production companies run apprenticeship programmes, where we train young people to become skilled employees and the number of apprentices has risen over the past few years. See figure 29, Number of apprentices.

FIGURE 30 AGE DISTRIBUTION**FIGURE 31** AGE DISTRIBUTION IN EASTERN EUROPE**FIGURE 32** AGE DISTRIBUTION IN ASIA

At the Danish production company we have created a programme for young people who are not able to follow the normal apprenticeship programme straight away. It is an introductory programme that enables participants to start their apprenticeship under the normal conditions.

PERSONAL DEVELOPMENT REVIEW

We achieve our results through the professional and personal development of individual employees. The employee and his/her manager have at least one development review a year. It is our aim that all companies implement our personal development review tool. Eighty-eight per cent of our companies use the tool at all levels of the organisation and our regional HR managers follow the development and help the companies which have not yet implemented the tool.

We want a direct link between performance and pay. Our managers will therefore assess the performance of the employees over the year gone by. The assessment is used to decide the pay and future targets are set together with the employee.

DIVERSITY MANAGEMENT

AGE DISTRIBUTION

We aim to achieve an age distribution that reflects the community around us. We believe that a combination of young and more senior employees creates a good working environment and an environment which is conducive to learning. Age distribution is generally satisfactory. See figure 30, Age distribution.

The balance between young and more senior employees varies from country to country. In Western Europe, there is a slightly higher number of more senior employees which is a true reflection of the social trends after many years with a low birth rate. We are very aware of the situation and are working on different measures that will hopefully attract younger people, in order to ensure a sustainable age distribution in the future.

Although Denmark follows the Group average where age distribution is concerned, we are finding it increasingly difficult to recruit employees due to an extremely high level of activity generally in society. With a view to attracting young people in particular, we have developed a number of initiatives, e.g. the Grundfos Challenge competition for students, held once a year in Denmark, with the participation of students from higher education institutions. We have increased our focus on attracting young people to our Danish apprenticeship programmes, e.g. through radio spots, visits to relevant schools and by using various popular sports trainers in our marketing campaigns as part of our support of Team Denmark. We know from experience that many young people are keen to travel during their apprenticeship, so we are working on increasing the opportunity for this.

We also wish to create working conditions that enable more senior employees to work for us after retirement age, e.g. in our Danish production company where we offer senior employees flexible working hours that fit in with their individual requirements.

In Eastern Europe and Asia, the trend is slightly different and we have considerably more young employees. This is primarily due to the level of education and, to a certain degree, the knowledge of English which has high priority. See figures 31–32, Age distribution in Eastern Europe and Asia.

We hope that, in time, there will be a better balance in these countries but we need to bear in mind that young people here often change jobs faster than the average for the Group as a whole. It can create problems if the company's culture and knowledge is not passed on properly. In China and India, we are working on new employee retention plans to bring an end to an undesirable employee turnover and to strengthen employee loyalty. Up until now, the emphasis has been on our values, responsibility and the training that we offer our employees but, in these countries with a particularly high turnover, we will also have to look at pay and employee benefits in the future. We are very aware of the development in our staff turnover and the fact that it has risen since last year is a cause for concern. See figures 33–34, Undesirable staff turnover for salaried employees and production workers.

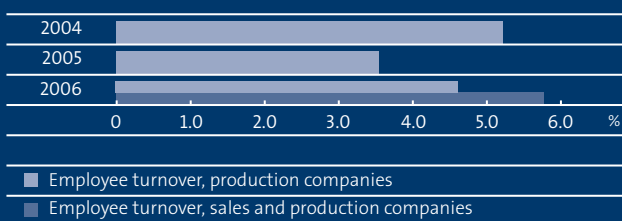
WOMEN IN MANAGERIAL POSITIONS

If we compare the gender distribution among our employees in general with the number of female and male managers – see figure 35, Manager distribution by gender, it is clear that we need to employ more female managers so that the general distribution between men and women in the organisation is reflected at management level – see figure 36, Employee distribution by gender. With a view to increasing the number of female managers, we have set the target that at least 25 per cent of managers recruited at Group level should be women and have noticed a positive development in this area over the past few years.

Over the past year, several measures have been implemented to increase the focus on female managers, especially at our Danish companies where, in 2006, we set annual targets for the number of female managers until 2009. The target for 2007 is 14 per cent, for 2008 it is 16 per cent and for 2009 it is 18 per cent. The targets are evaluated on a quarterly basis.

Grundfos in Denmark is also a member of a network of companies set up by the Danish Ministry of Equal Opportunities and, in 2006, we hosted a seminar on women and management within this network. The percentage of female managers at our Danish companies is now 13 per cent, which is satisfactory.

FIGURE 33 UNDESIRABLE EMPLOYEE TURNOVER, SALARIED EMPLOYEES



* Undesirable means that the employees leave Grundfos of their own accord, e.g. employees who have found alternative employment elsewhere.

FIGURE 34 UNDESIRABLE EMPLOYEE TURNOVER, PRODUCTION WORKERS



FIGURE 35 MANAGER DISTRIBUTION BY GENDER

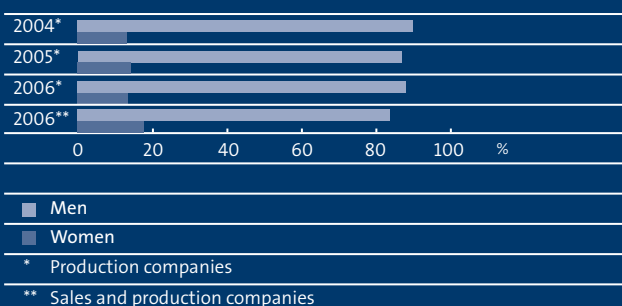
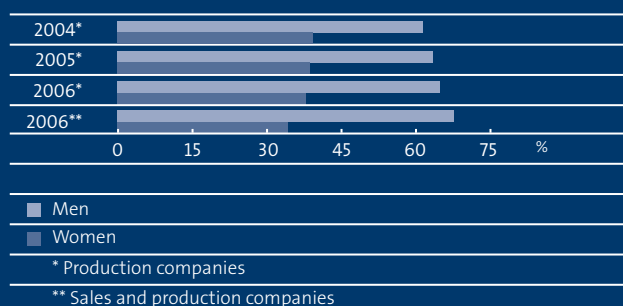


FIGURE 36 EMPLOYEE DISTRIBUTION BY GENDER



As keen as we are to increase the number of female managers, we should point out that we will always employ the best qualified candidate for the job, regardless of gender, race or religion. We also need to be aware that Grundfos works and sells pumps in a male-dominated industry, in which it has typically been difficult to attract women at managerial level.

MINORITY GROUPS

All Grundfos companies are encouraged to be aware of and work for minority groups in the community and to create job opportunities for them. In Denmark, for example, we have a special programme for immigrants and refugees, intended to help them into the Danish labour market. In the UK and Denmark, we have programmes for former offenders to help them back to a normal life after having served their sentence. These minority groups vary considerably from country to country.

Since the voluntary establishment of our first flexible workshop for employees with reduced working capacity in Denmark in 1968, this practice has spread to other companies. It is our objective that, on average, three per cent of our total workforce will be employed on flexible or special terms.

We have achieved 2.62 per cent for employees with reduced working capacity in 2006. A further 1.14 per cent of our workforce is made up of employees from other minority groups such as ethnic minorities or other groups that are difficult to integrate depending on the culture of their country of origin. Together, these two figures exceed three per cent. See figure 37, Employees on special terms in the Group.

SUGGESTIONS FOR IMPROVEMENTS

It is vital to us that our employees are satisfied with their jobs and working conditions. Only satisfied employees will become involved in, and committed to, future activities that will ensure the survival of the company. It is therefore important to listen to the suggestions that employees may have for improvements. All suggestions are evaluated by the relevant people within the organisation, and the employee is given feedback about whether the suggestion will be implemented. If employees feel that their suggestions are taken seriously, it generates a high level of commitment.

At our production companies, the suggestions for improvements are reviewed via an improvement database and, in 2006, there were a total of 29,122 suggestions for improvements, or 2.91 suggestions per employee. Of these sug-

“WE WISH TO CREATE A TOLERANT COMPANY, WITH A NON-PREJUDICIAL WORKING ENVIRONMENT, THAT IS CHARACTERISED BY DEEP RESPECT FOR EMPLOYEES’ DIFFERENCES. AS A CONSEQUENCE OF THIS, OUR SOCIAL RESPONSIBILITY IS REALISED THROUGH SPECIFIC MEASURES AT INDIVIDUAL COMPANIES WITHIN THE GROUP, INCLUDING INITIATIVES TO PROMOTE THE EMPLOYMENT OF PEOPLE WITH REDUCED WORK CAPACITY.”

Extract from the CSR policy

FIGURE 37 EMPLOYEES ON SPECIAL TERMS IN THE GROUP

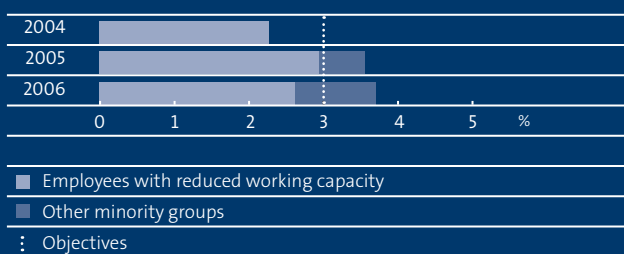


FIGURE 38 SUGGESTIONS FOR IMPROVEMENT IN TOTAL

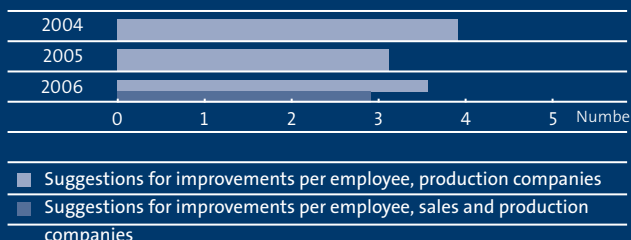


FIGURE 39 SUGGESTIONS FOR IMPROVEMENTS IMPLEMENTED

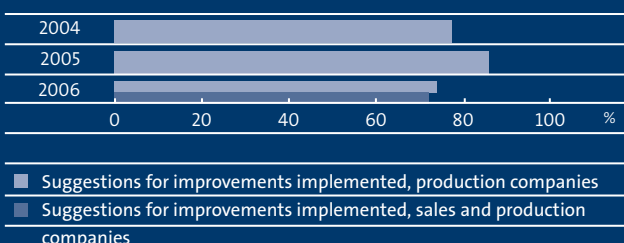
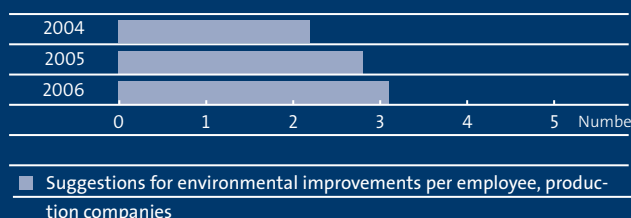


FIGURE 40 SUGGESTIONS FOR ENVIRONMENTAL IMPROVEMENTS



gestions 21,170 were implemented, corresponding to 2.12 suggestions per employee⁹. Individual suggestions for improvements can be followed carefully in the improvement database and all employees can follow the status of their suggestion and see whom they should contact for further information.

Other Grundfos companies have a suggestion box in the canteen and suggestions for improvements that are to be implemented are displayed on a notice board that everyone at the company can see.

See figures 38–40: Total suggestions for improvements, Suggestions for improvements implemented and Suggestions for environmental improvements.

SICKNESS AND ABSENCE

We know that if employees are satisfied with their lives at home and at work they have fewer sickness days than if the working environment is not good, or there are problems in the family. As an employer we can primarily support the employees in these areas by creating a good working environment and a good framework for a reasonable balance between work and family life.

Although we do have some average figures for sickness-related absence, the figures vary considerably from country to country. Legislation is very different in the countries where we are represented and, in some cases, allows employees to take holiday after a period of sickness as they do not receive full pay when they are sick. In these cases, the figures regarding absence do not provide a true picture. Similar conditions also exist in other countries.

The total average number of sickness days is 1.61 per cent for office workers and 4.55 per cent for production workers, see figures 42–43, Sickness-related absence, salaried employees and production workers.

The number of sickness days for office workers is difficult to measure in some countries, as people who can work from home tend not to call in sick.

EMPLOYEE MOTIVATION SURVEY

For many years, it has been part of the company culture to

carry out satisfaction surveys on employees. They are used as a tool to develop and improve the company. We have chosen a new method of employee analysis which not only measures satisfaction but also what motivates the employees to achieve the best results from a business point of view. The new type of analysis is called Employee Motivation Survey (EMS) and it is carried out in cooperation with an external consultancy firm which helps to ensure employee anonymity.

Analyses are carried out in the following areas:

- Image
- Top management
- Cooperation
- Development
- Pay and working conditions
- Your manager
- The day-to-day work

There has generally been a high level of satisfaction over the years and a high rate of response. 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 workplace. The total rate of response for the new EMS is 85 per cent which meets our target of 80 per cent. The rate of response for the satisfaction survey was 84 per cent in 2005. Comparisons have not been made between the new analysis and the old one, as the questions are not entirely the same and the answer scale is different to previous years.

As with the old analysis, the survey is followed up by improvement initiatives in areas selected by managers and employees. The new solution includes the “Action Plan” tool that helps managers to implement activities and to continue to follow up until the next analysis.

RESULTS REGARDING MOTIVATION AND SATISFACTION

The main result of the motivation analysis for the entire Grundfos Group generally shows a high level of satisfaction and motivation. The total score for satisfaction and motivation is index 73, which is a high level, see figure 44, Total satisfaction and motivation. If we benchmark Grundfos using the European Employee Index (EEI), our cooperating partner’s benchmark tool, the total score is only 67.

FIGURE 42 SICKNESS-RELATED ABSENCE, SALARIED EMPLOYEES

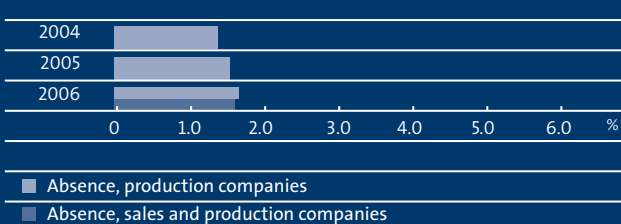


FIGURE 43 SICKNESS-RELATED ABSENCE, PRODUCTION WORKERS

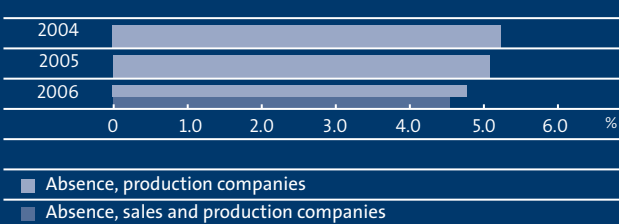
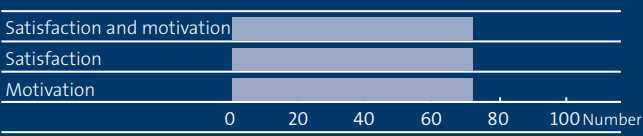
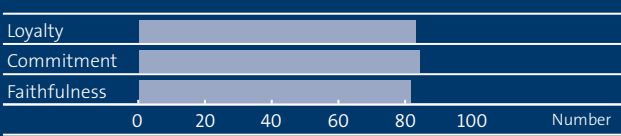


FIGURE 44 TOTAL SATISFACTION AND MOTIVATION



Grundfos	
80+	Very high level of satisfaction
71-80	High level of satisfaction
61-70	Satisfied
51-60	Low level of satisfaction
- 50	Very low level of satisfaction

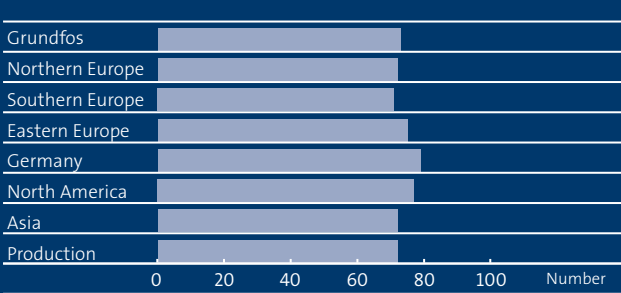
FIGURE 45 LOYALTY



Grundfos	
80+	Very high level of satisfaction
71-80	High level of satisfaction
61-70	Satisfied
51-60	Low level of satisfaction
- 50	Very low level of satisfaction

If we look at the results divided into our sales regions and production regions, the same high level of satisfaction and motivation exists. All have a total score of 71 or above (see figure 46).

FIGURE 46 GRUNDFOS REGIONS



■ Satisfaction and motivation



“AS A GLOBAL COMPANY WE NATURALLY HAVE A DUTY TO PARTICIPATE IN THE INTERNATIONAL WORK FOR HUMAN RIGHTS, EMPLOYEES’ RIGHTS AND THE ENVIRONMENT, AND IN THE FIGHT AGAINST CORRUPTION.”

Christian Hartvig, Chief Corporate Legal Officer



Loyalty among Grundfos employees is also high, i.e. index 83. If we compare this with EEI, the level of loyalty is only 77. See figure 45, Loyalty.

If we look at the results divided into our sales regions and production regions, the same high level of satisfaction and motivation exists. All have a total score of 71 or above – see figure 46, Grundfos regions.

In the ten questions that European Employee Index uses as benchmarks, Grundfos has a higher score in pretty much every area. See figure 47, European Employee Index EEI Benchmark.

All in all, Grundfos has achieved a good result and one that we should be pleased with, especially as it is the first time that the new method of employee analysis has been used. It only remains for us to make use of the Action Plan tool to maintain and continue work on the action initiated, before the next analysis is carried out in 2009.

ETHICS AND HUMAN AND EMPLOYEE RIGHTS

As a global company, we have a social influence in many of the world’s regions and, despite concerted efforts on our part, it is a constant challenge to ensure and improve the working conditions throughout our supply chain.

MANAGEMENT PRACTICE

ETHICS COMMITTEE AND “WHISTLE-BLOWER” FUNCTION

Over the past few years, Grundfos’ main priority has been the continued implementation of the Global Compact’s tenth principle against corruption and on looking into the possibilities and framework for an internal function, which can work partly as a so-called “whistle-blower” function and partly as an advisory function for the organisation with regard to the Grundfos Code of Conduct.

The function has been named “The Ethics Committee” and consists of three people appointed by Group management. Strongly inspired by the American Sarbanes-Oxley Act, employees who become aware of the breach of the Code of Conduct, can approach the committee anonymously. Employees who approach the committee in good faith are assured protection against discretionary dismissal etc. Communication with the committee takes place via a special email address

that is separate from Grundfos’ general IT system.

In addition to working as a whistle-blower function, the ethical committee provides guidance in matters of dispute.

CODE OF CONDUCT

In February 2006, all members of Grundfos’ Group management, directors of the business units, company directors and other selected staff directors, a total of 68 people, signed a joint copy of the Group’s Code of Conduct. The signed poster was then mass produced and now hangs in prominent places at all Grundfos companies.

In addition to demanding the general compliance with the Group’s mission, vision, values and policies, and the compliance with national, regional and international legislation, the Code of Conduct deals with matters such as political contribution, generally accepted accounting principles, fair competition, entertainment and gifts, bribery, kickbacks and other types of financial compensation and conflicts of interest.

In addition to the poster, there are texts and explanations related to the Code of Conduct, now also on the Group’s intranet.

TARGET AREAS IN 2006

Ethics and employee and human rights are areas in our CSR work that require further structure and organisation. In addition to the organisational and instructive work involved with the setting up of an ethics committee and putting together a Code of Conduct, our activities in the area have therefore been aimed at generating knowledge and overview.

INTERNAL QUESTIONNAIRE STUDY

This year, the Group has chosen to focus on our performance within a number of areas which have priority for us in business terms, and which overlap with the Global Compact principles. These are Complicity (Global Compact principle two), Freedom of Association and Collective Bargaining (Global Compact principle three), Discrimination (Global Compact principle six) and Corruption (Global Compact principle ten). With our global penetration and presence in countries with different forms of governance and cultural patterns, we have chosen to focus on these areas as, in our opinion, it is these areas that are likely to encounter a number of dilemmas in everyday life.

“WE MUST DEMAND OF OURSELVES THAT BOTH OUR SOCIAL AND ETHICAL CONDUCT ARE IN ACCORDANCE WITH INTERNATIONAL CONVENTIONS ON HUMAN RIGHTS AND LABOUR RIGHTS.”

Extract from the CSR policy

FIGURE 47 EUROPEAN EMPLOYEE INDEX EEI BENCHMARK

	Grundfos	EEI
	2007	2006
Satisfaction and motivation	73	67
Satisfaction	73	65
(1) How satisfied are you in overall terms as an employee at Grundfos?	76	69
(2) Imagine the ideal place to work. How close to this ideal does Grundfos come?	70	60
Motivation	73	69
(3) I feel motivated in my work?	74	71
(4) I always look forward to going to work?	72	66
Loyalty	83	77
Commitment	84	82
(5) I am willing to make an extra effort if necessary?	87	83
(6) I believe that my colleagues think that I do a good job?	80	83
(7) I am open to changes that affect me?	84	79
Faithfulness	82	73
(8) I want to still be working at Grundfos in two years time?	84	75
(9) I seldom look for alternative employment outside Grundfos?	78	74
(10) I would recommend others to seek employment at Grundfos?	81	70

The figure above shows the ten questions that the European Employee Index uses as benchmarks. Grundfos scores highly in most areas.

“AS A RULE, THE GROUP WILL COOPERATE WITH SUPPLIERS FOR WHOM QUALITY, THE ENVIRONMENT, ETHICS, FLEXIBILITY AND RELIABILITY OF SUPPLY FEATURE HIGHLY IN THEIR LIST OF PRIORITIES.”

Extract from the Group purchasing policy

In an attempt to take stock of the status of the different companies, a questionnaire survey was conducted. On the whole, the results within the areas mentioned are good, and below is a presentation of the main conclusions of the survey. Of the 53 companies surveyed, 41 have completed and returned the questionnaire.

Security: Approx. 50 per cent of the Group’s companies have a security patrol to keep an eye on the factory area. Some of the guards are employed by Grundfos, while external security companies carry out the work elsewhere. In a few countries, armed guards are used. In all cases, the guards are trained to deal with the typical situations they will find themselves in, and to use a minimum of force to maintain and re-establish order. In many countries, the training is repeated on an annual basis.

Freedom of association and collective bargaining: For cultural reasons, three of Grundfos’ companies do not meet Global Compact’s third principle on collective bargaining 100%. As with many other companies in the US, Grundfos’ American companies do not work with trade unions, but encourage employees to approach the management directly if they have problems. A so-called “open door” principle is practised. In many other countries, freedom of association is a distinct legislative requirement.

Discrimination: Two thirds of the companies surveyed have implemented a procedure to ensure that discrimination does not take place, and all countries surveyed have procedures to ensure that discrimination does not take place in connection with the actual recruitment of individual employees. In some countries, however, the legislation has factors that,

from a Global Compact perspective, may seem discriminatory and may present the company with a dilemma. According to French law, employees in France are not allowed to wear the burka, while in South Africa the law requires positive discrimination in favour of black applicants. In two thirds of the countries, employees undergo training in what constitutes discrimination, and how attempts should be made to avoid it. The implementation of the discrimination rules seems to be proceeding well. Only one company has reported that job applicants or employees have pleaded discrimination.

Grundfos in Denmark has received a single complaint from a job applicant who felt discriminated against. The company in question was Grundfos A/S, where a job applicant felt discriminated against at a job interview. The case was investigated internally by the Group’s legal department. In the case in question, in which the complaint was about the signage at the entrance of one of Grundfos’ buildings, the Group’s legal department found no evidence of discrimination, and the Complaints Committee for Ethnic Equal Treatment found in favour of Grundfos.

Corruption: None of the countries surveyed has been approached or met demands regarding corruption within the past two years. Approx. half of the companies have trained their employees to recognise and avoid corruption in their everyday work.

Many of the countries have drafted policies linked to the Grundfos Code of Conduct and, as previously mentioned, the managers of the companies are asked to sign the Code of Conduct, so the work to broaden the understanding and practical interpretation of it continues.

FIGURE 48 NEW PROJECTS IN 2007

- Development and implementation of a Code of Conduct for Grundfos' purchasing activities and for the Group's suppliers.
- Development and implementation of a more CSR-oriented approval procedure for new Grundfos suppliers.
- Development and implementation of a risk assessment tool.
- The making of at least three inspection visits to the suppliers, where we evaluate that the risk of non-conformance with our requirements is greatest.
- Entering of a framework agreement (including reference to the principles of the UN Global Compact) with at least half of the Group's suppliers.

SOCIAL VALUE AND RESPONSIBILITY IN THE SUPPLY CHAIN

Grundfos strives to ensure a high standard within CSR throughout the supply chain. By focusing on CSR in selection and approval procedures, the Group endeavours to ensure that all its suppliers are responsible and competent.

ACTIVITIES IMPLEMENTED

For several years, it has been a requirement of Grundfos that all suppliers of materials for use in production must, within their sphere of influence, respect and support the basic values and principles of the UN Global Compact.

The principles of the UN Global Compact are included as an obligatory part of Grundfos' framework agreement with our main suppliers and as an important part of the assessment of potential suppliers.

In addition, it is expected that suppliers of production materials, with an average to high impact on the environment, institute and maintain an environmental management system. Even before reaching the agreement stage, potential suppliers are assessed to ensure that they can meet Grundfos' requirements and expectations regarding social, environmental and quality-related responsibility.

The efficiency of the approval procedure for potential suppliers was documented by the identification of disagreements or improvement potential throughout 2006. In some cases, the disagreements were too serious or too numerous to enter a partnership with the potential supplier.

FUTURE ACTIVITIES

The requirements and activities involved with CSR throughout the supply chain are constantly improved and, within the next few years, Grundfos will intensify its endeavours to ensure a responsible and competent supplier group. The assurance of CSR within the existing supplier group will become a focus area over the coming years, with the development of risk assessment tools and more stringent checks on the most risky suppliers. See figure 48, New projects in 2007.

As far as the current approval procedure is concerned, there will be even greater focus on CSR, and our requirements and expectations of suppliers will be more clearly defined through the development of a Code of Conduct for our suppliers.



"IF GRUNDFOS IS TO BE CREDIBLE AS A SOCIALLY RESPONSIBLE AND ENVIRONMENTALLY-AWARE COMPANY, IT IS NECESSARY TO ENSURE HIGH STANDARDS THROUGHOUT THE SUPPLY CHAIN."

Lars Petersen
Group Supply Chain Manager





“WE WISH TO TAKE AN ACTIVE ROLE IN THE LOCAL COMMUNITY AND SUPPORT INITIATIVES THAT STRENGTHEN BOTH THE LOCAL COMMUNITY AND GRUNDFOS.”

Extract from the CSR policy

FINANCIAL CONTRIBUTIONS TO THE LOCAL COMMUNITY AND GLOBAL SOCIETY

FINANCIAL DEVELOPMENT FROM A SOCIAL PERSPECTIVE

The global need to provide clean water and dispose of wastewater is growing year by year. The same applies to the energy-saving circulation of water for the heating or cooling of buildings and the need to move liquids in industrial plants. Pumps and pump systems for these purposes are Grundfos' core business and there can be no doubt that, in many parts of the world, there has been major social growth in 2006, which has naturally had a positive effect on Group sales.

A sound financial foundation and reinvestment of the majority of the company profit in Grundfos' continued growth are prerequisites for ensuring the continued sustainable development of the company.

Grundfos is primarily owned by the Poul Due Jensen Foundation which has the expansion and further development of the company as its primary purpose, see figure 1, Ownership and Corporate structure, page 7. There are no shareholders, who demand a large and immediate return on their investments, so the company is free to invest in long-term projects or other business areas.

As is the case with other companies, Grundfos strives to obtain a reasonable balance between income and expenditure. With a record growth in turnover in 2006, and an ability to self-finance Group expansion, it must be said that Grundfos has emerged a stronger company at the end of the year. 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 providing employment for the local

FIGURE 49 CASH FLOW

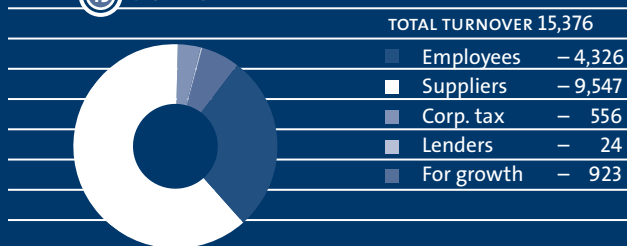


FIGURE 50 TOTAL TURNOVER

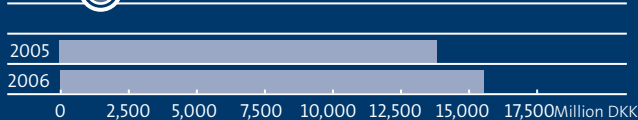


FIGURE 51 TURNOVER DIVIDED BY REGION

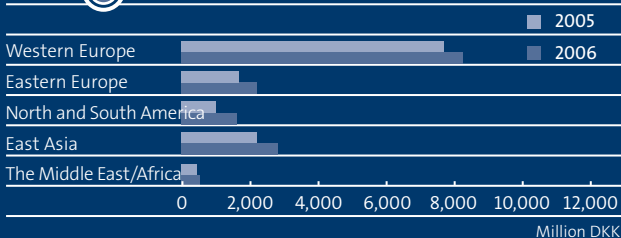


FIGURE 52 PERCENTAGE OF TURNOVER DIVIDED BY REGION

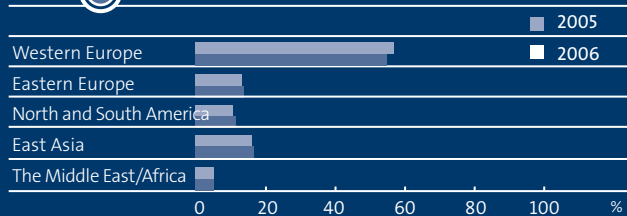
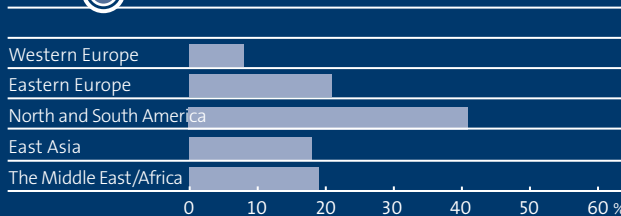


FIGURE 53 GROWTH IN TURNOVER 2005-2006 BY REGION



population, the payment of direct and indirect taxes to the government as well as via purchases from and investments in local suppliers and contractors. We have illustrated some of the overall cash flow from our company into the community in figure 49, Cash flow. See also the Grundfos Group's key financial data on the back cover of the report.

In 2006, sales developed very positively and the increase was remarkable as it was high for the Group as a whole and included all main geographical markets. See figures 50-53, Total turnover, Turnover divided into regions, Percentage of turnover divided into regions and Growth in turnover 2005-2006 by region.

With a total growth of 15 per cent compared to the previous year, Grundfos gained a considerable share of the market, as the total pump market is estimated to have grown by four to six per cent during 2006 - though with great geographical variations.

Two per cent of the growth derives from other brand companies, not least the American company PACO Pumps Ltd., which was acquired on 1 March 2006 together with its affiliated company in China, Wuxi Ltd. This year also saw the strategic acquisition of two smaller companies, Wåge Industri AB in Sweden and Watermill Products Ltd. in England.

The sales growth was broadly based and the majority of our sales regions achieved two-digit percentage increases, though not the mature markets in Southern Europe and Japan. These did, however, follow the budgeted development with increases of six to seven per cent. The Middle East and related individual markets experienced similar or lower growth rates.

Several years' stagnation on the Group's largest individual market, Germany, was turned into a sales growth of 14 per cent in 2006, which was better than expected. Strategic growth markets such as Russia, India, China and the US grew by even higher percentages and, in several places, Grundfos passed important milestones for sales growth.

The fact that the sales development was very positive in all main markets is remarkable and it indicates that the globalisation strategy for sales to the large markets outside Europe has succeeded.

The globalisation of the Group's research and development activities gathered momentum in 2006 with the establishment of local development centres in the US, China, Hungary and Germany. But the majority of the Group's product development still takes place in Denmark.

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 83 per cent in 2005 to 80 per cent in 2006. This reflects the fact that the annual growth in non-OECD countries reached 34 per cent, while the growth in the OECD area only constituted 11 per cent. See figures 54–56, Turnover in OECD countries/other, Percentage of turnover in OECD countries/other and Growth in turnover 2005–2006 in OECD countries/other.

We have seen this trend over the past few years with growth economies such as China, India and Russia as the primary driving forces. We also expect the non-OECD countries' share of the Group turnover 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. In 2006, the share increased considerably in the OECD countries, as a result of the Group's massive investments in Denmark, the US and Hungary, etc. There is a decline in tangible capital investments outside the OECD countries but with the investments that are planned for next year, including production apparatus in China and Russia, it cannot be concluded on this basis that there is a downwards trend. See figures 57–58, Tangible capital investments in 2006, OECD countries/other and regionally.

DONATIONS AND SOCIAL WORK

We make a contribution to society by donating money or products for various purposes and by taking an active and social role in the local community. A large share of the donations go to charity, sports or cultural projects. In addition, we often donate products and offer our expertise if a country or a region has problems with flooding or needs help in the field of water supply.

The majority of our donations are given decentrally by our local companies, but in some cases the entire Group backs a project. This is true of our water supply project in rural areas of Kenya for example, where Grundfos has donated 25 SQ-Flex systems to remote villages.

FIGURE 54 DEVELOPMENT IN TURNOVER IN OECD COUNTRIES/OTHER

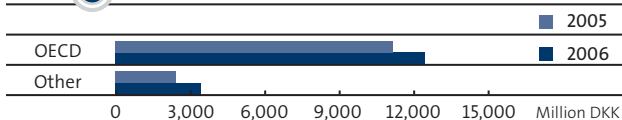


FIGURE 55 PERCENTAGE OF TURNOVER IN OECD COUNTRIES/OTHER

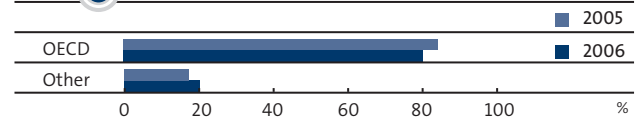


FIGURE 56 GROWTH IN TURNOVER 2005–2006 IN OECD COUNTRIES/OTHER

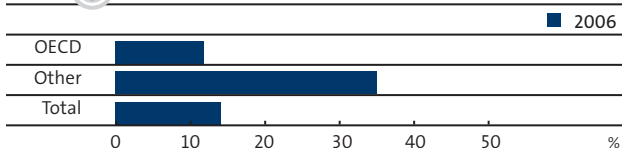


FIGURE 57 TANGIBLE CAPITAL INVESTMENTS IN 2006

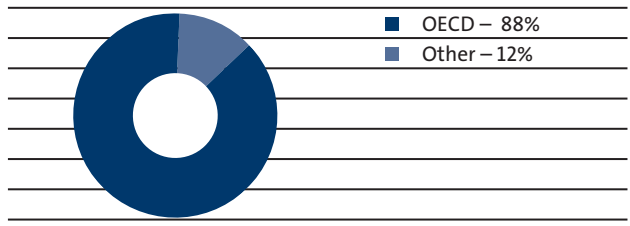
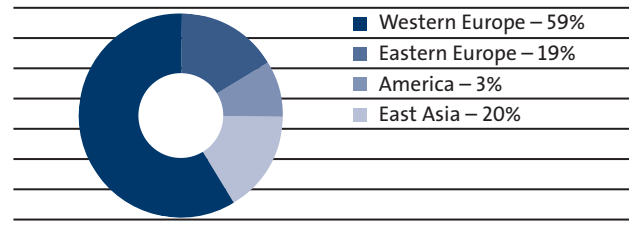


FIGURE 58 TANGIBLE CAPITAL INVESTMENTS IN 2006





SOCIAL RESPONSIBILITY THAT PAYS

Grundfos in South Africa trains young unemployed people for jobs in the pump industry

In early morning Soweto, just west of Johannesburg in South Africa, an immaculately dressed young man in black trousers and a white shirt makes his way through the crowded streets towards a line of battered minibuses and takes the last remaining space in one of these taxis near the front of the queue. This is the start of a two-hour and two taxi changes journey that he makes every day before arriving at his destination outside a new pristine building in an industrial area that lies to the east of Johannesburg.

Sandiso Tschangela is one of the 20 young people that Grundfos in South Africa (GZA) is now giving the opportunity to get a firm foothold in a labour market, where four out of ten fall by the wayside. Meanwhile, many companies are finding it hard to recruit qualified employees.

The GZA Academy was set up in the spring of 2006 and is the result of a targeted CSR effort which is in line with the South African government's attempt to ensure the black population better living conditions through professional qualifications. The young people attend a six-month intensive training course in pump technology and sales technique, and the teachers are highly-qualified experts from the Grundfos Group.

Sandiso's background is typical of the students. He is in his late twenties and has an education but no experience. He grew up in a distant, poor province in one of the former homelands, where the apartheid regime isolated the black population. His life has been a constant battle. It was not helped by the fact that he lost both of his parents at an early age and was forced to live with his grandparents, together with his two sisters. All three of them now live with an aunt in Soweto, but in one of the better areas of the sprawling township, which is otherwise largely made up of slums.

In the large, light classroom at the academy the students meet as they get there. Mobile phones beep and lively conversations in several different languages can be heard. A small group laughs loudly, a couple of students keenly study each other's notes. One person reads the job ads.

When asked about their dreams for the future, their replies reveal both determination and variation: Cynthia from Nigeria is particularly happy with the lessons in sales technique and customer contact. She will try to combine this with her training as a chemical engineer, as she dreams about selling dosing pumps to the oil industry. Sithi wants to become a sales engineer. Theo wants to become a pump technician, specialising in service and maintenance, perhaps with his own company. Christian would like to start out as a sales engineer but has managerial ambitions.

There are other companies in South Africa that provide training opportunities for young people, but Grundfos has gone one step further by paying the young people a wage that they can not only live off, but which for many is also enough to help the family. Perhaps in the form of a subsidy towards the schooling of younger siblings.

Ayanda Seku, Grundfos' CBS Manager, enters the room. He is there to talk about Commercial Building Service solutions and the students listen intently to Ayanda's competent presentation. He is one of the graduates of the first team in 2006 and was employed immediately after the course.

"I can honestly say that the course has changed my life," says Ayanda calmly. "I couldn't get a job and was really having problems, but now I have a job and self-confidence and, with the experience that I have gained so far, anything is possible."

All 17 of Ayanda's peers have found jobs, most of them with Grundfos or its distributors in South Africa and Kenya.

These are the proud words of Duncan Cooper, Regional Managing Director of NEREG who explains:

"One thing is the social responsibility that we devote a lot of time and effort to because it fits in with our core values and

South Africa's official policy. But we also do it because it pays to do it. The young people leave here as ambassadors for our brand and, even if not all of them are employed by us, they will always think of Grundfos first when, for example, they are advising a customer."

The fact that Grundfos also accepts students from countries such as Nigeria and Kenya is because these are key markets for Grundfos in Africa, where loyalty can be a decisive factor.

So, however you look at it, the GZA Academy is an investment in the future for Grundfos.

From the room where practical pump training is being given there is sudden applause and the sound of girls laughing.

The two girls on the team, Cynthia and Ndivhu, are celebrating the fact that they have solved one of the tasks set by the teacher: to get a stubborn pump to start. It just needed to be primed, i.e. filled with a little water from a syringe, to get it started.

Not so dissimilar to the 20 young people who just needed a little push in the right direction to get them started.



OTHER EXAMPLES OF SOCIAL RESPONSIBILITY AT GRUNDFOS SOUTH AFRICA INCLUDE:

- SACRED (South African Children's Resource for Education and Development) – a foundation to support the education of the children of the most needy employees.
- Funds from the same foundation are also used to ensure a decent home for employees who do not already have one. The first home will be transferred in 2007, first to rent and then to own.
- Handover of the operation of the canteen to an employee, who now runs it as an independent financial unit and has employed five assistants who, previously, had no income.
- The employees support a home for orphaned or abused children and hold an annual Christmas party for them.



ABOUT THE REPORT



GRUNDFOS ABOUT THE REPORT

As a supplement to the Grundfos Group's financial Annual Report, this Sustainability Report is intended to give all of our stakeholders a greater insight into the Group's activities, and to give them a broader basis for their approach to and cooperation with Grundfos. We strive to achieve 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.

The Sustainability Report deals with the Grundfos Group's principles, practice and results for 2006 for important issues regarding sustainability, including product range, social responsibility, environment and working environment and, to a certain extent, financial issues. The report was inspired by the Global Reporting Initiative (GRI), guidelines for the compilation of sustainability reports. The definition of important issues is determined internally on the basis of existing programmes and activities in the respective areas. This is again firmly anchored in the dialogue between the functions and the stakeholders.

The Sustainability Report covers the entire Grundfos Group, though with the exception of production companies that do not bear the Grundfos name.

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 production companies according to a fixed reporting procedure and in a standardised format. At the production companies, the key data is collected in accordance with procedures laid down in the environmental management systems. Result development is constantly monitored. A Group standard for data collection and processing containing specific definition of the content of the data and the procedures for the quality control of data is used. Data and data collection systems form part of the ongoing internal environmental audits⁸ and are also included in the tests carried out by the external certifying bodies on the environmental management systems for environmental and working environmental data. Indexed figures have been used in the report. The efforts to improve the production environment are governed by the environmental management system of the individual production companies.

Environmental and working environmental data from the sales and service companies is collected via the use of questionnaires, starting in 2006. Grundfos is gradually extending and improving the method of collection of important environmental and working environmental data.

Information relating to employees is provided by the Group HR Department. An annual internal status on employee data is prepared, dealing with employee turnover, absence due to sickness, number of employees, number of employees employed on special terms and local projects for social responsibility. The Group's employee satisfaction survey is conducted every other year.

In addition to the above, Grundfos' other Group functions and sales and production have also provided input.

A definition and description of what the different data covers is provided in the report according to context or is specifically linked to the data concerned.

Production companies that do not bear the Grundfos name are not included in this report as, for the time being, they are run as separate companies within the Group and are therefore subject to a set of internally determined requirements concerning environment and health and safety. For a number of years, these companies must meet the Group standard with regard to quality and environmental management. The system used to evaluate the companies is identical to the one we use to evaluate our suppliers. Over the past financial year, these companies represented 13.9 per cent of the Group's total turnover.

Although Grundfos goes to great lengths to ensure that the data in this report is as complete and accurate as possible, certain data may require additional verification.

ADDITIONAL INFORMATION

NOTES

1: Additional information at:

- **IPCC, 2007:** Summary for Policymakers. In: Climate Change 2007: The Physical Science Basis. Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press (<http://www.ipcc.ch/press/prwg2feb07.htm>)
- **The International Energy Agency (IEA)** (www.iea.org)
- **Human Development Report 2006**, Beyond scarcity: Power, poverty and the global water crisis, United Nations Development Programme 2006 (<http://hdr.undp.org/hdr2006/>)
- **The Millennium Development Goals Report 2006**, United Nations (<http://unstats.un.org/unsd/mdg/Resources/Static/Products/Progress2006/MDGReport2006.pdf>)

2: **Business Excellence model:**

Management and assessment model created by EFQM – European Foundation for Quality Management.

3: **ISO 14001:** International standard for environmental management.

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

5: **OHSAS 18001:** Standard for occupational health and safety management.

6: **RoHS:** Restriction of the use of certain hazardous substances in electrical and electronic equipment (Directive 2002/95/EC).

7: **REACH:** Registration, evaluation and authorisation of chemicals (Directive 2006/121/EC).

8: **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.

9: In the cases where it has not been possible to provide employee-related data for certain companies, those companies

have not been included. A headcount for such companies is not, therefore, included in the proportional calculation.

CALCULATION OF INDEX

Indexed environmental key figures have been used in several places 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 production activity vary from one production company to another. Some use the number of working hours spent, some turnover, and some entirely different indicators of the production activity. The turnover of production companies that bear the Grundfos name is used to define the overall Group objectives.

EXAMPLE:

If the electricity consumption in 2005 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 2005 compared to 2000 would be: $(100/2)/(95/1.8)*100 = 94.7$. i.e. a saving of 5.3% from 2000 to 2005.

AUDITOR'S REPORT

TO THE MANAGEMENT OF GRUNDFOS A/S

We have performed a review of the Grundfos Sustainability Report 2006 ("the Report"). The purpose of our review was to submit a statement on the employee, environmental and financial data in the Report. The management of the company is responsible for the Report. Our responsibility is to provide a conclusion based on our review of the Report.

THE PERFORMED REVIEW

We have performed our review in accordance with the Danish auditing standard on assurance engagements RS 3000 ("Assurance engagements other than audits or reviews of historical financial information"). It has been our purpose to obtain limited assurance that the employee, environmental and financial data at Group level in the Report are in accordance with the described reporting practice and information reported by factories and other business units. By agreement, we have visited the company's factories in Bjerringbro, DK, and Fresno, USA, in relation to the environmental data, in order to evaluate whether data are documented, collected and calculated in accordance with Group instructions. Our review is based on an evaluation of risk of material errors. We have evaluated the reporting practice and analysed correlations with the company's audited annual accounts, and we have performed spot check comparisons with docu-

mentation. The review is limited to first of all include enquiries from management and employees as well as analytical procedures and a limited level of assurance is thus lower than the assurance which would have been obtained if we had performed an audit.

CONCLUSION

During our review, nothing came to our attention that caused us not to believe; 1) that the employee, environmental and financial data for the Group overall are in accordance with the described reporting practice and information reported by factories and other business units, and 2) that environmental data from the company's factories in Bjerringbro, DK, and Fresno, USA, are documented, collected and calculated in accordance with Group instructions.

Århus, 20 June 2007

Deloitte
Statsautoriseret Revisionsaktieselskab

H.P. Møller Christiansen
State-authorized
Public Accountant

Preben J. Sørensen,
State-authorized
Public Accountant

GLOBAL COMPACT REFERENCE LIST

HUMAN RIGHTS	PAGE NUMBER
Principle 1: Companies should support and respect the protection of internationally adopted human rights; and	2, 10, 13, 28, 29, 36, 37, 52, 54, 55, 60, 61
Principle 2: ensure that they are not involved in abuse of human rights.	2, 10, 13, 52, 54, 55
WORKING CONDITIONS	
Principle 3: Companies should respect voluntary unionism and the right to collective bargaining;	2, 10, 13, 52, 54, 55
Principle 4: abolition of all kinds of forced labour; and	2, 10, 13, 55
Principle 5: abolition of child labour; and	2, 10, 13, 55
Principle 6: abolition of discrimination as regards engagement and employment.	2, 10, 13, 47-49, 52, 54, 55
ENVIRONMENT	
Principle 7: Companies should support preventative initiatives to solve environmental problems;	2, 6, 10, 13, 32-39, 55
Principle 8: take initiatives to promote responsibility towards the environment; and	2, 6, 10, 13, 32-39, 55
Principle 9: support the development and dissemination of environmentally-friendly technologies.	2, 6, 10, 13, 22-29, 32-39, 55, 58
ANTI-CORRUPTION	
Principle 10: Companies should work against all forms of corruption, including blackmail and bribery.	2, 10, 13, 52, 54, 55

SUBJECT INDEX

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Accident frequency	p. 34, 36, 37.
Appraisal interview	p. 46, 47.
Basic values	p. 42.
Business Excellence	p. 9, 20, 65.
Chemical waste	p. 34, 35, 36.
Code of Conduct	p. 2, 10, 12, 52, 54, 55.
Corporate Social Responsibility (CSR)	p. 2, 7, 10, 11, 12, 13, 24, 43, 52, 53, 55, 56, 60, 66.
Corruption	p. 10, 52, 54, 67.
Disposal	p. 2, 13, 16, 22, 32, 33, 39.
Electricity consumption	p. 22, 23, 34, 35, 65.
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Global Reporting Initiative (GRI)	p. 64.
Group policies	p. 10.
Innovation	p. 2, 6, 9, 10, 11, 33.
ISO 14001	p. 12, 34, 65.
Life cycle	p. 2, 16, 17, 18, 22, 32, 33, 39.
OHSAS 18001	p. 34, 36, 38, 65.
Personal development review	p. 46–47.
Production companies	p. 8, 9, 12, 32, 33, 34, 35, 36, 37, 42, 44, 46, 48, 49, 50, 64, 65.
Sales companies	p. 9, 18, 37, 42, 64.
Satisfaction index	p. 20.
Suggestions for improvements	p. 35, 49, 50.
Wastewater	p. 7, 8, 29, 35, 36, 56.
Water consumption	p. 34, 35.
Working environment	p. 10, 12, 32, 33, 36, 42, 47, 50, 64, 65.

KEY FIGURES

FOR THE GRUNDFOS GROUP

Amounts in DKKm

	2006	2005	2004	2003	2002
Profit and loss account					
Net turnover	15,376	13,422	12,153	11,152	10,703
Operating profit	1,534	1,353	1,328	1,154	913
Earnings before interest and tax (EBIT)	1,503	1,297	1,281	1,087	903
Net financials	(24)	(43)	(49)	(9)	(177)
Profit before tax	1,479	1,254	1,232	1,078	726
Consolidated profit after tax	923	807	794	673	441
Profit for the year (excluding minorities)	796	701	690	579	373
Balance sheet					
Assets					
Intangible fixed assets	1,090	993	676	586	554
Tangible fixed assets	5,043	4,700	4,347	3,887	3,792
Fixed asset investments	582	567	590	567	534
Current assets	8,366	6,906	6,185	5,753	5,292
Total Assets	15,081	13,166	11,798	10,793	10,172
Liabilities					
Equity Capital	6,939	5,994	5,150	4,637	4,205
Minority interests	996	856	735	679	612
Provisions	1,212	1,036	911	701	595
Long-term liabilities	1,456	1,526	1,665	1,799	1,640
Short-term liabilities	4,478	3,754	3,337	2,977	3,120
Total liabilities	15,081	13,166	11,798	10,793	10,172
Number of employees at year-end	14,782	13,369	12,586	11,707	11,383
Capital Investments, Tangible	1,119	1,009	1,000	854	798
Research and development costs, incl. capitalised	680	590	543	464	454
Interest-bearing debt, net	823	843	1,015	881	1,732
Result before tax as a percentage of net turnover	9.6 %	9.3 %	10.1 %	9.7 %	6.8 %
Return on equity	12.5 %	12.7 %	14.2 %	13.3 %	9.4 %
Equity ratio	52.6 %	52.0 %	49.9 %	49.3 %	47.4 %

As of 2004, accounting policies for the inclusion of defined benefit schemes were 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

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