FLSmidth A/S

Vigerslev Allé 77

2500 Valby

CVR no. 15 02 88 82

Annual report for 2018

Adopted at the annual general
meeting on 27 March 2019

Tom Knutzen

chairman

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Statement by management on the annual report

The board of directors and executive management have today discussed and approved the annual report of FLSmidth A/S for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved at the general meeting.

Valby, 27 March 2019

Executive management

Thomas Schulz CEO	Lars Vestergaard CFO

Board of directors

Vagn Ove Sørensen chairman	Tom Knutzen vice chairman	Caroline Grégoire Sainte Marie
Marius Jacques Kloppers	Richard Robinson Smith	Anne Louise Eberhard
Claus Østergaard	Søren Dickow Quistgaard	Mette Dobel

Independent auditor's report

To the shareholder of FLSmidth A/S

Opinion

We have audited the financial statements of FLSmidth A/S for the financial year 1 January - 31 December 2018, which comprise a summary of significant accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements, that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management's review

Management is responsible for the management's review.

Our opinion on the financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management's review.

Copenhagen, 27 March 2019

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jens Thordahl Nøhr
State Authorised Public Accountant
mne32212

Kennet Hartmann
State Authorised Public Accountant
mne40036

Company details

FLSmidth A/S
Vigerslev Allé 77
2500 Valby

Telephone: +4536181000
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Website: www.flsmidth.com

CVR-no. 15 02 88 82

Financial year: 1 January - 31 December 2018
Incorporated: 6 March 1991

Domicile: Copenhagen

Board of directors
Vagn Ove Sørensen, chairman
Tom Knutzen, vice chairman
Caroline Grégoire Sainte Marie
Marius Jacques Kloppers
Richard Robinson Smith
Anne Louise Eberhard
Claus Østergaard
Søren Dickow Quistgaard
Mette Dobel

Executive Board
Thomas Schulz, CEO
Lars Vestergaard, CFO

Auditors
ERNST & YOUNG
Godkendt Revisionspartnerselskab
Osvald Helmuths Vej 4
2000 Frederiksberg

Financial highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

	2018	2017	2016	2015	2014
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Profit/loss					
Revenue	3,551	3,235	3,401	3,480	3,780
Gross profit	273	376	244	-13	545
Profit/loss from ordinary operating activities before gains/losses from fair value adjustments	122	318	23	-15	217
Net financials	199	-395	35	-120	-32
Profit/loss for the year	283	-152	225	9	307
Balance sheet					
Balance sheet total	10,875	9,884	9,016	9,318	8,198
Investment in property, plant and equipment	11	0	24	11	12
Equity	4,361	4,095	4,366	4,143	4,611
Number of employees	912	928	1,085	1,192	1,238
Financial ratios					
Gross margin	7.7%	11.6%	7.2%	-0.4%	14.4%
EBIT margin	3.4%	9.8%	0.7%	-0.4%	5.7%
Solvency ratio	40.1%	41.4%	48.4%	44.5%	56.2%
Return on equity	6.7%	-3.6%	5.3%	0.2%	7.0%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the accounting policies..

Numbers for 2014-2017 have not been adjusted to reflect new accounting policy, IFRS 15, adopted 1 January 2018.

Management's review

Business activities

FLSmidth A/S is a market-leading supplier of equipment and services to the global cement and minerals industries. The company supplies everything from single machinery to complete cement plants and minerals facilities including services before, during and after the construction.

FLSmidth A/S is also the owner of the entire FLSmidth Group's patents, trademarks and know-how and receives royalties from other Group companies for their use thereof.

Business review

The company's income statement for the year shows a profit of MDKK 283, and the balance sheet at 31 December 2018 shows equity of MDKK 4,361.

The operating profit in 2018 amounted to MDKK 136 (2017: MDKK 318) which is in line with expectations.

The balance sheet total amounted to MDKK 10,875 at the end of 2018 (end of 2017: MDKK 9,884). The equity at the end of 2018 amounted to MDKK 4,361 (2017: MDKK 4,095), representing an equity ratio of 40.1% (2017: 41.4%). The return on shareholders' equity in 2018 amounted to 6.7% (2017: -3.6%).

The profit for the year MDKK 283 (2017: loss MDKK -152).

The total order intake of FLSmidth A/S MDKK 4,200 in 2018, representing a 5% decrease compared to the year before (2017: MDKK 4,409).

Management's review

Market trends

Cement:

The market for new cement capacity remains subdued with low plant utilisation globally. A slow but steady increase in global cement consumption, excluding China, has so far been insufficient to absorb the prevailing overcapacity in many regions. Further, "downside risks to global growth have risen in the past six months." (IMF, World Economic Outlook, October 2018). Increased global uncertainty, combined with rising USD denominated emerging market debt levels, could be pushing a cement market recovery further out in the horizon.

Despite limited tendering activity for large projects in the market, the pipeline contains certain opportunities in Africa, Asia, the Middle East and South America. The cement market is regional or local by nature, and only around 5% of the world's clinker production is being transported over long distances.

2018 saw a healthy level of small to mid-sized orders related to grinding plants, upgrades, retrofits and single equipment. The market for replacement and upgrade projects, which represents a strategic focus area for FLSmidth, is expected to show a continued solid level of activity, since little new capacity is coming online.

FLSmidth's cement aftermarket has been under slight pressure in the past one and a half years due to a lack of first-time spare packages related to new cement plants, and the scaling down of operation & maintenance contracts in Africa. Apart from this, the cement market showed largely stable developments in 2018 that are expected to continue in the short-term. Longer term, spare parts consumption will grow along with growing production.

Cement companies are primarily focused on retrofits and rebuilds to reduce costs and environmental impact of existing plants. In both India and China, cement companies are increasingly requesting plant improvements to ensure compliance with stricter environmental regulation.

Mining:

Following relatively strong growth in mining capex in 2018, a continued positive momentum is expected for 2019, albeit more modest growth rates. Demand still relates primarily to replacement and brownfield projects. Greenfield activity remains limited with only few large project opportunities in the pipeline. Timing is uncertain due to lengthy processes tied to environmental approvals, internal Board approvals and, in some cases, financing. Miners show most interest in copper, gold and battery related minerals, but the recovery in 2018 was broad-based and included mounting interest in coal, iron ore and other minerals.

Contrary to the positive mining capex trend, commodity prices were challenged in 2018.

Management's review

Following strong metal price increases in 2016-2017, the IMF metal price index ended 2018 down 10%.

The mining aftermarket showed continued positive developments in 2018, but grew at a much slower rate than the market for new equipment.

Pricing for both equipment and services was largely unchanged in 2018.

Special risks apart from generally occurring risks in the industry

Risk reporting

Group Risk Management is responsible for the risk management organisation and the facilitation of risk management activities across the organisation as well as the annual reporting of risks as identified by the organisation and defined in the Group's Risk Management Policy.

2018 Key risks
The annual top-down assessment resulted in the identification and re-calibration of the following key risks, which pose a potential threat or opportunity (in random order of priority) based on the myriad of mitigation efforts put into place, as well as the changing risk environment:

-Disruptive Business – digitalization changing the competitive landscape
-Political Risk – intensification of nationalist/protectionist trends
-Compliance – violation of ethical behaviour
-Safety – catastrophic impact on health and safety of our personnel
-Market Conditions – strong competition and continuous pricing pressure in cement
-Cyber Threats – cyber (virus) attack

The most significant risks have been identified through a risk mapping of probability and consequence, as illustrated below

Risk assessment and mitigating actions:

RISK	CONTEXT AND IMPACT	MITIGATION
Disruptive Business (Digitalization)	The rapid speed of disruptive innovations/technology is changing the competitive landscape and presents both opportunities and threats in the form of growth opportunities and different types of peer group profiles.	In addition to its focus on growth through productivity, the group has established partnerships with third parties as well as internal cross-functional digitalization project teams. A Chief Digitalization Officer joined Group Executive Management in 2018 and over the last couple of years, the group strategy, vision and organisational structure have been adjusted to prepare the organisation for future growth.
Political Risk	Trend in protectionism, nationalism, emerging coalitions and aggressive trade agendas could impact our ability to deliver to our customers as promised.	The group has invested in the establishment of local sales offices around the globe to be closer to our customers. Procurement optimisation has also resulted in focus on strategic, global sourcing and business continuity planning for supply chain risks.
Compliance	Compliance is a top-priority at FLSmidth with a robust tone from the top and compliance chairman at Board level. Any systematic violation could impact our brand and reputation.	The group's Compliance Department is responsible for ensuring that the company lives up to ethical standards and employs a range of policies including the global Code of Business Conduct, the Anti-Bribery Policy, the Whistleblower Hotline, screening of third parties and protocol sign-offs.
Safety	In general, the mining industry has high safety standards, while the standards in the cement industry vary. Serious accidents could impact our brand and reputation and result in loss of trust with customer base.	FLSmidth has zero tolerance for safety risks and safety is a high priority for everyone internally and at third party sites where projects are carried out. Focus remains on improving LTIFR/TRIFR, safety audits are conducted by top management, all employees are required to participate in safety training annually, safety shares and recording of near-misses are mandatory and the President's Safety Award is granted annually to those demonstrating great safety practices.
Market Conditions	A subdued cement market, on a global scale, with few large projects, strong competition and ongoing price pressure, is challenging profitability but at the same time creating opportunities to safeguard our future competitive position in the cement industry.	Standardisation and value engineering of equipment to lower the cost base. Focus on growing share of products and services, relative to projects, to ensure a more stable, profitable and less cyclical cement business. Focus on our life-cycle offering. Innovation to become the market leader, not only in projects, but for all key equipment.
Cyber Threats	The continuously evolving threat of cyber security, data leakage and data security is a key area of focus. A sophisticated cyber-attack could result in an extended period of down-time resulting in delays and additional costs.	The Group is focused on IT security and awareness; conducting regular audits and continuous analysis of current controls. Cyber awareness training was conducted across the organisation in 2018. An IT Security Committee meets regularly to assess the risk landscape and business continuity plans are in place for specific areas.

Currency risks

The Company's currency risks derive from the impact of exchange rates on future commercial payments and financial payments.

The purpose of the cash management is to ensure that the Company at all times has sufficient and flexible financial resources at its disposal and is able to honor its obligations when due. The parent company FLSmidth & Co. A/S manages its short-term liquidity risks through cash pool systems in various currencies and by having short-term overdraft facilities in place with a number of financial institutions and manages its long-term liquidity risk through committed financial facility agreements.

Financial counterpart risk

The use of financial instruments entails the risk that the counterparty may not be able to honor its obligations. The Company minimizes this risk by limiting its use of financial institution to those with an acceptable credit rating.

Credit risks

The Company's financial assets are mainly managed or approved by Group Management and Treasury department.

The credit risk incurred from trade receivables is generally managed by continuous credit evaluation of major customers and trading partners.

Credit risks on counterparties other than banks are minimized through the use of export letters of credit and guarantees and evaluation of customer relationships as and when necessary.

Statutory report on corporate social responsibility

FLSmidth submitted a progress report to the UN Global Compact on 31 January 2019. The report replaces a statutory statement of corporate social responsibility pursuant to the exemption given in the Danish Financial Statements Act Section 99a.

The report for 2018 is available on:
http://www.flsmidth.com/governance_statement

Concurrently with the Group Annual Report, FLSmidth has published its annual Sustainability Report, covering non-financial performance related to the environmental and social impacts.

The 2018 Sustainability Report is in full compliance with Section 99a (for the executive management) of the Danish Financial Statements Act, and also serves as the Communication on Progress to the United Nations Global Compact.

The report for 2018 is available on:
http://www.flsmidth.com/SustainabilityReport2018

Statutory report on the underrepresented gender

The Board of Directors of FLSmidth continuously evaluates the diversity of the Board and the Executive Management as well as among managers and employees. In connection with recommendations and appointments, diversity is deliberately taken into account when considering the profiles and qualifications of potential candidates. At the end of 2018, women accounted for 33% (end 2017: 33%) of the members of the Board of Directors elected at the Annual General Meeting, fulfilling the target that minimum 25% of the members elected at the annual general meeting should be female.

At the end of 2018, women accounted for 14% (end 2017: 13%) of the total workforce, while 10.4% of all managers were female (end 2017: 10.5%). The Group target is minimum 18% woman in the workforce by 2023, and 13% of all managers should be female by 2023. When filling management vacancies externally, at least one female candidate must be in the run-up.

Due to FLSmidth's global presence in over 50 countries, the total workforce naturally reflects a multitude of cultures and nationalities. The Board of Directors has set a long-term goal according to which global managers (top 70) should to a greater extent reflect the representation of nationalities among all employees and the geographical location of FLSmidth's technology centres in Denmark, the USA and India. Today 60% of Group Executive Management has another nationality than Danish (2017: 67%), 61% of the total number of global managers (top 70) has another nationality than Danish (2017: 66%), and 91% of the total number of eployees (end 2017: 90%).

Significant events occurring after end of reporting period

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Outlook for 2019:

In 2019, FLSmidth A/S expects revenue in the range of DKK 3.6-4.0bn (2018: DKK 3.5bn) and an operating profit margin of around 13%. The growth is primarily related to expected growth in both Cement project revenue and Cement aftermarket revenue.

Accounting policies

The annual report of FLSmidth A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied are consistent with those of last year with the exception of the conditions for recognition and measurement of revenue from costumer contracts in accordance with IFRS 15.

The principles from IFRS 15 were adopted using the modified retrospective method. The adoption of IFRS 15 did not have material effect on the figures in the financial statements.

The annual report for 2018 is presented in MDKK

Pursuant to sections §112 subsection 1 and §86 subsection 4 of the Danish Financial Statements Act, the Annual Report of FLSmidth A/S does not contain consolidated financial statements nor a cash flow statement. With the same reference, disclosure of audit fee is exluded in accordance with §96 subsection 3.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Accounting policies

Income statement

Revenue

Revenue comprises of sale of projects, products and service within the Mining and Cement Industries.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to our customers at an amount that reflects the transaction price to which we expect to be entitled in exchange for these goods or services.

Revenue from projects, products, and services (with the exception of sale of service hours) are recognised over time, using the cost-to-cost method, when we have no alternative use for the goods or services to be delivered and we have an enforceable right to payment for work completed.

If we do have an alternative use for the goods or services to be delivered, e.g. products with a low degree of customisation, such sales will be recognised at the point in time when control transfers to the customer, usually upon delivery.

Additionally, if we do not have an enforceable right to payment for work completed throughout the contract term, such sales will also be recognised at the point in time when the control transfers to the customer, usually upon customer acceptance. In the case of significant uncertainties with the collectability of contract consideration, revenue is recognised upon cash receipt.

Judgements are made when determining if a project, product or service is recognised as revenue over time or at a point in time. The judgements relate to if we have an alternative use of the assets sold and if we have an enforceable right to payment throughout the contractual term. When assessing if an asset has no alternative use we estimate the alternative use cost amount. We have limited historical data as we rarely redirect our assets. The estimate is based on the specifics of each contract. When assessing if we are entitled to payment throughout the contract term, a judgement is made based on the contract wording, legal entitlement and profit estimates.

Service sales (sale of service hours) are recognised over time, using the cost-to-cost method, as the customer receives and consumes the benefits as we perform the services.

In determining the transaction price revenue is reduced by probable penalties, payment of liquidated damages and any other claims that are payments to our customers. The transaction price is also adjusted for any variable elements, where we estimate the amount of the variable transaction price. The variable amount is estimated at contract inception and re-estimated periodically throughout the contract term. The variable amount is recognised as revenue when it is highly probable that reversal will not occur.

Warranties are granted in connection with the sale of equipment and systems and are classified as assurance-type warranties that are not accounted for as separate performance obligations.

Revenue is recognised less rebates, cash discounts, value added tax and duties and gross of foreign withholding taxes.

The accounting policies have been amended to reflect IFRS 15. The changes are insignificant and comparative numbers are unchanged, however aggregated in the same way as 2018.

Cost of productions

Cost of productions comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation.

Cost of productions also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs.

Sales and distribution costs

Sales and distribution costs comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Administrative costs

Administrative costs comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

Other operating income

Other operating income and costs comprise income and costs of a secondary nature in relation to the activities of the Company, including certain grants, rentals and royalties, fees, etc.

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement.

Gain and loss from the disposal of individual fixed assets which cannot be considered part of the disposal of a complete activity is included in other operating income and costs.

Accounting policies

Impairment of financial assets

Impairment and reversals of impairment of investments in subsidiaries and associates are presented net in the income statement.

Dividend from Group enterprises

Dividend from investments in subsidiaries and associates is recognised as income in the income statement in the financial year in which the dividend is declared. This will typically be at the time of the approval by the Annual General Meeting of the distribution from the company concerned.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

The Company and its Danish Group enterprises are jointly taxed with the other Danish members of the FLSmidth & Co. A/S Group. The current Danish corporation tax is shared between the jointly taxed companies in proportion to their taxable incomes (full distribution with refund of tax losses).

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use tax losses to reduce their own taxable profits.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Development projects, patents and licences and other intangible assets

Development costs comprise costs, wages/salaries and amortisation losses that are directly and indirectly attributable to the company's development activities.

Developments projects recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Clearly defined and identifiable development projects, for which the technical rate of utilisation, sufficient resources and a potential future market or application in the Company can be demonstrated and which are intended to be manufactured, marketed or used, are recognised as intangible assets if the cost can be determined reliably, and if it is sufficiently certain that the future earnings or the net selling price will cover production, selling and administrative costs plus the development costs. Other development costs are recognised in the income statement as the costs are incurred.

Amortisation of completed development projects except from software is charged on a straight line basis during their estimated useful life. Development projects are written down for impairment to recoverable amount if lower. Development projects in progress are tested for impairment at least once a year.

Amortisation of patents, rights, customer relations and other intangible assets is charged over the remaining patent or agreement period or useful life if shorter. The amortisation profile is systematically based on the expected distribution of the assets' future economic benefits. The basis of amortisation is reduced by impairment losses if any.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually five years.

Amortisation takes place systematically over the estimated useful life of the assets which is as follows:
-Development costs, up to 8 years
-Software applications, up to 5 years
-Patents, rights and other intangible assets, up to 20 years
-Customer relations, up to 20 years

A few intangible assets have an economic life of up to 20 years.

If under rare circumstances useful life can not be estimated reliably, useful life is set at 10 years.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight line basis over the estimated useful life

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period, and licences are amortised over the term of the licence, however not more than 20 years.

Gains and losses on the disposal of development projects, patents, licences and other intangible assets are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Tangible assets

Items of land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

	Useful life
Manufacturing plants	20-40 years
Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	5 years

Assets of low acquisition value or short life are recognised in the income statement in the years of acquisition.

The useful life and residual value of the company's property, plant and equipment is reassessed annually.

Gains or losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses, respectively.

Financial assets

Investment in subsidiaries and associates are measured at cost. If cost exceeds the recoverable amount, a write-down is made to this lower value.

Dividend from subsidiaries and associates is recognised in full as income in profil and loss for the year, not considering if distributed dividends exceed the accumulated earnings after the acguisition date.

Other securities and investments, including listed shares are measured at fair value via the income statement.

In particular circumstances where the value quoted on the stock exchange is considered not to represent the actual fair value, the shares concerned are carried at an estimated fair value. Value adjustments are recognised in the income statement as financial items.

Other securities and investments includes shares in cement plants acquired in connection with orders received are measured at fair value. If the fair value is not immediately ascertainable, the shares are measured at a prudently assessed value.

Impairment of non-current assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is tested for impairment, other than what is reflected through normal amortisation and depreciation, on an annual basis.

Where there is evidence of impairment, an impairment test is performed for each individual asset or group of assets, respectively. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price and the value in use. The value in use is determined as the present value of the anticipated net cash flows from the use of the asset or group of assets and the anticipated net cash flows from the disposal of the asset or group of assets after the end of their useful life.

Inventories

Inventories are measured at cost using the FIFO method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The cost of goods for resale, raw materials and consumables comprises the purchase price plus delivery costs.

The cost of finished goods includes the cost of raw materials, consumables, direct cost of labour and production/production overheads.

The net realisable value of inventories is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Contract work in progress

Contract work in progress is measured at the selling price of the work performed. The selling price is measured by reference to the stage of completion at the balance sheet date and the expected aggregate income from the individual work in progress. The stage of completion is determined as the share of the expenses incurred relative to the expected total expenses for the individual work in progress.

The stage of completion for the individual project is normally calculated as the ratio between the costs incurred and the total budgeted costs. In some projects, where costs cannot be used as a basis, the ratio between completed sub activities and the total project is used instead.

The individual work in progress is recognised in the balance sheet under receivables or payables. Net assets comprise the sum of work in progress where the selling price of the work performed exceeds invoicing on account. Net liabilities comprise the sum of work in progress where invoicing on account exceeds the selling price.

Contractual prepayments are recognised as prepayments received from customers among long-term and current liabilities.

Prepayments to subcontractors consist of prepayments to subcontractors in connection with work-in-progress for third parties and are measured at amortised cost.

Provision is made for loss making contracts on work-in-progress. This is based on individual assessment of the estimated loss until the work is completed.

Prepayments

Prepayments recognised under 'Current assets' comprises expenses incurred concerning subsequent financial years.

Provisions

Provisions comprise expected expenses relating to warranty commitments, losses on work in progress, restructuring, etc. Provisions are recognised when, as a result of a past event, the company has a legal or constructive obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at the value in use.

Warranty commitments include expenses for remedial action within the warranty period. Provisions for warranty commitments are measured and recognised based on Management's best estimate of the amount whereby the obligation is expected to be settled. Provisions with an expected maturity of more than one year from the balance sheet date are discounted using a rate that reflects the risk and maturity of the liability.

On corporate acquisitions, provisions for restructuring costs in the acquiree are included in the statement of the cost and, thus, in goodwill or goodwill on consolidation. Provisions for restructuring costs are made in so far as they have been decided no later than at the time of acquisition and the process has been initiated.

When it is probable that the total expenses will exceed the total revenue from contract work in progress, the total expected loss on the work in progress is recognised as a provision. The provision is recognised under 'Production costs'.

Accounting policies

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Deferred tax is measured according to the tax rules and at the tax rates at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the income statement, with the exception of items taken directly to equity.

Liabilities

Liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Prepayments received from costumers

Prepayments received from costumers recognised under 'Current liabilities' comprises payments received concerning income in subsequent financial years.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency transactions are considered cash flow hedges, the value adjustments are taken directly to equity.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Fixed assets acquired in foreign currencies are measured at the exchange rate at the transaction date.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Positive and negative fair values of derivative financial instruments are included in 'Other receivables' or 'Other payables', respectively.

Fair value adjustments of derivative financial instruments designated as and qualifying for hedging of future cash flows are recognised in other receivables or other payables and in equity. If the future transaction results in recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or the liability, respectively. If the future transaction results in income or expenses, amounts previously recognised in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

As for derivative financial instruments that do not qualify for hedge accounting, fair value adjustments are recognised in the income statement on a current basis.

Financial highlights

Definitions of financial ratios:

Gross margin ratio $$\frac{\text{Gross profit x 100}}{\text{Revenue}}$$

EBIT margin $$\frac{\text{Profit/loss before financials x 100}}{\text{Revenue}}$$

Solvency ratio $$\frac{\text{Equity at year-end x 100}}{\text{Total assets at year-end}}$$

Return on equity $$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$

Income statement 1 January 2018 - 31 December 2018

	Note	2018 MDKK	2017 MDKK
Revenue	1	**3,551**	**3,235**
Cost of productions		-3,278	-2,859
Gross profit		**273**	**376**
Sales and distribution costs		-217	-58
Administrative costs		-443	-473
Operating profit/loss		**-387**	**-155**
Other operating income	3	509	473
Profit/loss before financial income and expenses		**122**	**318**
Income from investments in subsidiares	4	110	254
Impairment and reversals of impairment of investments in subsidiaries		150	-545
Financial income	5	245	94
Financial costs	6	-306	-198
Profit/loss before tax		**321**	**-77**
Tax on profit/loss for the year	7	-38	-75
Net profit/loss for the year		**283**	**-152**
Reserve for development projects		159	74
Retained earnings		124	-226
		283	**-152**

Balance sheet at 31 December 2018

	Note	2018 MDKK	2017 MDKK
Assets			
Completed development projects		268	277
Acquired patents		1,107	1,277
Development projects in progress		277	188
Other intangible assets		245	46
Intangible assets	9	**1,897**	**1,788**
Land and buildings	10	30	32
Other fixtures and fittings, tools and equipment	10	20	29
Tangible assets		**50**	**61**
Investments in subsidiaries	11	6,256	4,635
Investments in associates	12	0	0
Other investments	13	10	45
Deferred tax assets	14	314	253
Financial assets		**6,580**	**4,933**
Total non-current assets		**8,527**	**6,782**

Balance sheet at 31 December 2018 (continued)

	Note	2018 MDKK	2017 MDKK
Assets			
Finished goods and goods for resale		28	36
Inventories		**28**	**36**
Trade receivables	15	505	575
Contract work in progress	16	388	656
Receivables from subsidiaries	17	1,241	1,716
Other receivables		108	69
Prepayments	18	53	29
Receivables		**2,295**	**3,045**
Cash		**25**	**21**
Total current assets		**2,348**	**3,102**
Total assets		**10,875**	**9,884**

Balance sheet at 31 December 2018

	Note	2018 MDKK	2017 MDKK
Equity and liabilities			
Share capital		500	500
Reserve for development projects		273	188
Retained earnings		3,586	3,401
Hedging reserve		2	6
Equity	19	**4,361**	**4,095**
Other provisions	20	222	383
Total provisions		**222**	**383**
Prepayments received from customers		202	207
Other payables		0	1
Total non-current liabilities	21	**202**	**208**
Banks		10	0
Prepayments received from customers		493	485
Trade payables		761	667
Contract work in progress	16	351	587
Payables to subsidiaries		3,929	3,215
Corporation tax		28	37
Other payables	22	518	207
Total current liabilities		**6,090**	**5,198**
Total liabilities		**6,292**	**5,406**
Total equity and liabilities		**10,875**	**9,884**

Other notes	
Staff	2
Contingencies, etc.	23
Mortgages and collateral	24
Financial instruments	25
Related parties and ownership structure	26

Statement of changes in equity

	Share capital	Reserve for develop-ment projects	Retained earnings	Hedging reserve	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Equity at 1 January 2018	500	114	3,475	6	4,095
Value adjustment of hedging transactions	0	0	0	-5	-5
Other equity movements	0	0	-13	0	-13
Net profit/loss for the year	0	159	124	0	283
Tax regarding changes in equity	0	0	0	1	1
Equity at 31 December 2018	**500**	**273**	**3,586**	**2**	**4,361**

Notes

		2018	2017
		MDKK	MDKK
1	**Revenue**		
	Income recognised in accordance with the point-in-time principle	616	746
	Income recognised in accordance with the percentage-of-completion method	2,935	2,489
	Total revenue	**3,551**	**3,235**
	Geographical breakdown:		
	North America	57	
	South America	98	
	Europe, North Africa & Russia	1,459	
	Sub-Saharan & Middle east	1,174	
	Asia	465	
	Subcontinental India	292	
	Australia	6	
	Total revenue	**3,551**	**3,235**
	Segment reporting:		
	Projects	2,349	
	Products	184	
	Service	971	
	Cement	**3,504**	**3,224**
	Projects	42	
	Service	5	
	Mining	**47**	**11**
	Total revenue	**3,551**	**3,235**

Effective from 1 July 2018 our organisation transitioned from four Divisions into two Industries, Mining andCement, and from a country setup to a regional structureto support the Industries.

Notes

1 Revenue (continued)

Revenue arises from sale of life-cycle offerings to our customers. We sell a broad range of goods and services within the Mining and Cement Industries split into the main categories projects, products and services

Projects:

The sale of projects comprise sale of plants, plant extensions, process systems and process system extensions.

Projects are usually significant in amount, have a long lead time affecting the financial statements of more than one financial year, have a high degree of project management and involve more than one FLSmidth entity in the delivery to the customer.

A project is usually considered one performance obligation as a project typically includes highly interrelated and interdependent physical assets and services, like engineering, installation and supervision. Dependent on the contract structure one performance obligation can consist of more than one contract.

Most of the projects are sold as fixed price contracts and revenue from projects are usually recognised over time; applying the percentage of completion cost-to-cost method.

A project contract will often entitle us to receive a down payment from the customer, followed by several progress payments linked to our performance progress. Upon completion and customer acceptance we will usually be entitled to the final payment. To the extent possible we obtain payment guarantees to minimise our risk during execution.

Products:

The sale of products comprise sale of standardised and customised equipment, such as preheaters, cyclones, mills and kilns. Products will usually have a lead time of less than one year.

Each product is considered as one performance obligation. Most of the products are sold at a fixed price and revenue is usually recognised over time, applying the cost-to-cost method.

Products that are standardised or customised to a low degree are recognised at the point in time when control of the products transfers to the customers, usually upon delivery.

A product sale will often entitle us to receive a down payment from the customer, followed by several progress payments linked to our performance progress. Upon completion or delivery we will usually be entitled to the final payment. To the extent possible we obtain

1 Revenue (continued)

payment guarantees to minimise our risk during execution.

For standardised products we will usually be entitled to payment upon delivery.

Service:

Service comprises various service elements to support the life-cycle offerings portfolio. The sale can consist of spare parts, wear parts, service hours, long-term maintenance contracts and sale of upgrades and retrofits.

The sale of service hours include amongst others sale of supervision, electronic or mechanical service of equipment or plants.

Each spare part and wear part is considered one performance obligation. The sale is usually agreed at a fixed price and revenue is usually recognised at the point of delivery. We are normally entitled to payment once we have delivered the parts.

The performance obligation for service sale and maintenance contracts is either each service hour or the full contract, depending on the contract wording. Most service contracts are fixed price contracts, if not for the full service, then for the hourly rate. Service sales are recognised over time as the services are provided to the customer based on the cost-to-cost method. We are normally entitled to payment once the service has been provided or on a monthly basis.

Service projects, such as upgrades and retrofits are defined as one performance obligation. The transaction price is usually fixed and revenue is typically recognised over time using the cost-to-cost method. The payment pattern for upgrades and retrofits are very similar to the pattern for projects and products.

Notes

		2018	2017
		MDKK	MDKK
2	**Staff**		
	Wages and Salaries	722	670
	Pensions	28	34
	Other staff expenses	38	18
		788	**722**
	Staff cost capitalised as part of development projects	-75	-38
		713	**684**
	including remuneration to the Executive and Supervisory Boards of:		
	Base salary (including pension)	13	11
	Cash bonus	5	5
	Expensed share-based payments	5	4
	Benefits/car	1	1
	Executive Board	**24**	**21**
	Reinvoiced to other Group Companies	-20	-18
		4	**3**
	Board of Directors fee	5	5
		9	**8**
	Average number of employees	912	928

The staff costs included in the income statement are included in the items: Production costs, sales and distributions costs and administrative costs.

Notes

		2018	2017
		MDKK	MDKK
3	**Other operating income**		
	Other operating income	470	473
	Gain from sales of investments	39	0
		509	**473**

Other operating income and costs include IT, royalty and management fee from Group Companies. The item also consists of refund of travel costs, insurance compensation, etc.

		2018	2017
4	**Income from investments in subsidiares**		
	Dividend from subsidiaries	110	254
		110	**254**

		2018	2017
5	**Financial income**		
	Fair value adjustment of shares	3	3
	Other financial income	1	0
	Foreign exchange gains	181	61
	Derivatives	60	30
		245	**94**

		2018	2017
6	**Financial costs**		
	Fair value adjustment of shares	10	71
	Interest paid to subsidiaries	19	13
	Other financial costs	3	2
	Foreign exchange losses	228	79
	Derivatives	46	33
		306	**198**

7 Tax on profit/loss for the year

	2018 MDKK	2017 MDKK
Current tax for the year	111	104
Deferred tax for the year	-65	-33
Adjustment of tax concerning previous years	-12	3
Adjustment of deferred tax concerning previous years	4	1
	38	**75**

8 Distribution of profit

	2018 MDKK	2017 MDKK
Reserve for development projects	159	74
Retained earnings	124	-226
	283	**-152**

9 Intangible assets

	Completed development projects	Acquired patents	Development projects in progress	Other intangible assets	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Cost at 1 January 2018	983	2,966	187	317	4,453
Transfer between tangible and intangible assets	0	0	4	0	4
Additions for the year	0	0	228	195	423
Disposals for the year	0	0	0	-20	-20
Transfers for the year	115	0	-142	27	0
Cost at 31 December 2018	1,098	2,966	277	519	4,860
Impairment losses and amortisation at 1 January 2018	706	1,689	0	270	2,665
Depreciation for the year	124	170	0	24	318
Reversal of depreciation of sold assets	0	0	0	-20	-20
Impairment losses and amortisation at 31 December 2018	830	1,859	0	274	2,963
Carrying amount at 31 December 2018	**268**	**1,107**	**277**	**245**	**1,897**

As of 31 December 2018, the carrying value of the intangible assets with an estimated economic life time of 20 years amounts to MDKK 358 (2017: MDKK 397).

Intangible assets under development consist of development projects and software. The transfer from intangible assets under development to completed development projects primarily relates to several R&D projects finalised in 2018.

Development projects are measured at full cost value under the assumptions that the projects will bring future economic benefits when continuing the Company's normal operation with the current market shares and market conditions.

Depreciation for year 2018 MDKK 194 is included in administration costs and MDKK 124 as production costs in the financial statement.

10 Tangible assets

	Land and buildings	Other fixtures and fittings, tools and equipment	Total
	MDKK	MDKK	MDKK
Cost at 1 January 2018	76	176	252
Transfer between tangible and intagible assets	0	-4	-4
Additions for the year	0	11	11
Disposals for the year	0	-6	-6
Other adjustments	0	2	2
Cost at 31 December 2018	76	179	255
Impairment losses and depreciation at 1 January 2018	44	147	191
Depreciation for the year	2	16	18
Reversal of impairment and depreciation of sold assets	0	-6	-6
Other adjustments	0	2	2
Impairment losses and depreciation at 31 December 2018	46	159	205
Carrying amount at 31 December 2018	**30**	**20**	**50**

Depreciation for year 2018 MDKK 18 is included in administration costs in the financial statement.

11 Investments in subsidiaries

	2018 MDKK	2017 MDKK
Cost at 1 January 2018	5,487	4,138
Additions for the year	1,532	1,349
Disposals for the year	-316	0
Cost at 31 December 2018	6,703	5,487
Revaluations at 1 January 2018	-852	-315
Disposals for the year	256	0
Reversals of impairment changes for the year	170	15
Impairment changes for the year	-21	-552
Revaluations at 31 December 2018	-447	-852
Carrying amount at 31 December 2018	**6,256**	**4,635**

Prior years' impairment of subsidiaries in Germany, Spain and Switzerland at the amount of MDKK 171 is reversed.

Due to improved outlook:
As at 31 December 2018, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment for 2018 of MDKK 21 (2017: MDKK 552).

Key assumptions:
Value in use of Group companies, expressing their recoverable amount, is calculated by discounting expected future cash flow to net present value. Expected future cash flow is based on Management estimates including expected growth rates, etc. The discounting factor is also based on Management estimates which include both general capital market conditions and a specific risk profile. The calculations of value in use consist of discounted expected cash flow for the next six years and a calculated terminal value of cash flow for the subsequent period. The calculation of terminal value is based on Management's conservative growth rate estimate for each of the generating units.

Impairment tests have been performed for the US, German and French activities. For each test an individual growth rate and earnings before interest and tax has been assessed. The applied discount rate after tax is 8% + a market risk rate.

Management is of the belief that the key assumptions are achievable.

11 Investments in subsidiaries (continued)

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
FLS Maroc	Morocco	100%		
FLSmidth (Jersey) Limited	Jersey	100%		
FLSmidth (Pvt.) Ltd.	Pakistan	100%	2	1
FLSmidth (Thailand) Co. Ltd.	Thailand	100%		
FLSmidth (UK) Limited	United Kingdom	100%	350	28
FLSmidth A/S (Jordan) Ltd.	Jordan	100%		
FLSmidth AB	Sweden	100%	1	-2
FLSmidth Argentina S.A.	Argentina	100%		
FLSmidth Caucasus Limited (LLC)	Armenia	100%		
FLSmidth Co. Ltd.	Vietnam	100%	14	0
FLSmidth GmbH	Austria	100%	199	43
FLSmidth Iranian (PJSCo)	Iran	100%		
FLSmidth Kenya Limited	Kenya	100%	-5	-7
FLSmidth Limited	Ghana	100%		
FLSmidth LLP	Kazakhstan	100%		
FLSmidth Ltd.	United Kingdom	100%		
FLSmidth Ltda.	Brazil	100%	146	21
FLSmidth Mekanik SistemlerLtd. Sti	Turkey	100%	3	2
FLSmidth Milano S.R.L.	Italy	100%	81	2
FLSmidth Mongolia	Mongolia	100%	41	12
FLSmidth MAAG Gear AG	Switzerland	100%	78	34
FLSmidth MAAG Gear Sp. z o.o.	Poland	100%		
Reset Holding AG	Switzerland	100%		
Teutrine GmbH	Switzerland	100%		
FLSmidth Nepal Private Limited	Nepal	100%		
FLSmidth Panama Inc.	Panama	100%		
FLSmidth Philippines, Inc.	Philippines	100%		
FLSmidth Qingdao Ltd.	China	100%	128	30
FLSmidth Rusland Holding A/S	Denmark	100%	11	0
LLC FLSmidth Rus	Russia	100%		

Notes

11 Investments in subsidiaries (continued)

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
FLSmidth S.A.	Spain	100%	44	8
FLSmidth SAS	Colombia	100%		
FLSmidth S.A.	Ecuador	100%		
FLSmidth Sales and Services Limited	Nigeria	100%	0	1
FLSmidth SAS	France	100%	27	1
FLSmidth Shanghai Ltd.	China	100%	47	13
FLSmidth Spol. s.r.o.	Czech Republic	100%	42	4
FLSmidth Ventomatic SpA	Italy	100%	414	37
FLSmidth MAAG Gear S.p.A	Italy	100%		
FLSmidth Zambia Ltd.	Zambia	100%		
NHI-Fuller (Shenyang) Mining Co. Ltd.	China	50%		
P.T. FLSmidth Construction Indonesia	Indonesia	67%		
Pfister Holding GmbH	Germany	100%	8	-2
PT FLSmidth Indonesia	Indonesia	100%	38	20
Saudi FLSmidth Co.	Saudi Arabia	100%	6	-3
The Pennies & Pounds Holding, Inc.*	Philippines	33%		
FLSmidth Tyskland A/S	Denmark	100%	83	-11
FLS Germany Holding GmbH	Germany	100%		
FLSmidth Hamburg GmbH	Germany	100%		
FLSmidth Pfister GmbH	Germany	100%		
FLSmidth Real Estate GmbH	Germany	100%		
FLSmidth Wadgassen GmbH	Germany	100%		
FLSmidth Wadgassen Ltd.	Russia	100%		
FLSmidth Wiesbaden GmbH	Germany	100%		
FLSmidth Wuppertal GmbH	Germany	100%		
Fuller Offshore Finance Corp. B.V.	Netherlands	100%		
FLSmidth Kovako B.V.	Netherlands	100%		
FLSmidth Minerals Holding ApS	Denmark	100%	1,225	17
Euroslot KDSS (Pty.) Ltd.	South Africa	100%		
FLSmidth Sociedade LDA.	Angola	100%		
FLSmidth Buffalo (Pty.) Ltd.	South Africa	100%		
FLSmidth Mozambique Limitada	Mozambique	100%		

Notes

11 Investments in subsidiaries (continued)

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
FLSmidth Roymec (Pty) Ltd.	South Africa	100%		
FLSmidth (Pty) Ltd.	Botswana	74%		
FLSmidth South Africa (Pty.) Ltd.	South Africa	75%		
FLSmidth Ltd.	Canada	100%		
FLSmidth Private Limited	India	100%		
FLSmidth Pty. Ltd.	Australia	100%		
DMI Holdings Pty. Ltd.	Australia	100%		
DMI Australia Pty. Ltd.	Australia	100%		
ESSA Australia Limited	Australia	100%		
Fleet Rebuild Pty. Ltd.	Australia	100%		
Mayer Bulk Group Pty. Ltd.	Australia	100%		
FLSmidth Mayer Pty. Ltd.	Australia	100%		
Mayer Int. Machines SA Pty. Ltd.	South Africa	100%		
FLSmidth ABON Pty. Ltd.	Australia	100%		
FLSmidth Krebs Australia Pty. Ltd.	Australia	100%		
FLSmidth M.I.E. Enterprises Pty. Ltd.	Australia	100%		
Ludowici Pty. Limited	Australia	100%		
Ludowici Australia Pty. Ltd.	Australia	100%		
Ludowici China Pty Limited	Australia	100%		
Ludowici Hong Kong Limited	Hong Kong	100%		
Yantai Ludowici Mineral Equip Ldt.	China	100%		
Rojan Advanced Ceramics Pty. Ltd.	Australia	100%		
Ludowici Hong Kong Investments Ltd.	Hong Kong	100%		
Ludowici Packaging Australia Pty. Ltd.	Australia	100%		
Ludowici Packaging Limited	New Zealand	100%		
FLSmidth S.A.	Chile	100%		
FLSmidth S.A. de C.V.	Mexico	100%		
FLS US Holdings, Inc.	United States	100%	3,444	-26
FLSmidth Inc.	United States	100%		
Fuller Company	United States	100%		
FLSmidth Dorr-Oliver Eimco SLC Inc.	United States	100%		
FLSmidth Dorr-Oliver Inc.	United States	100%		

Notes

11 Investments in subsidiaries (continued)

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
FLSmidth Dorr-Oliver Int. Inc.	United States	100%		
Ludowici Mineral Equip Inc.	United States	100%		
Phillips Kiln Services (India) Pvt. Ltd.**	India	50%		
SLS Corporation	United States	100%		
FLSmidth (Pty.) Ltd.	South Africa	100%		
FLSmidth A/S - United Arab Emirates Branch	United Arab Emirates	100%		
			6,427	223

12 Investments in associates

	2018	2017
	MDKK	MDKK
Cost at 1 January 2018	8	8
Cost at 31 December 2018	8	8
Revaluations at 1 January 2018	-8	0
Amortization of goodwill	0	-8
Revaluations at 31 December 2018	-8	-8
Carrying amount at 31 December 2018	**0**	**0**

13 Financial assets

	Other investments
	MDKK
Cost at 1 January 2018	36
Additions for the year	19
Disposals for the year	-34
Cost at 31 December 2018	21
Impairment losses at 1 January 2018	-9
Impairment of sold assets for the year	10
Transfers for the year	10
Impairment losses at 31 December 2018	11
Carrying amount at 31 December 2018	**10**

Other securities and investments include shares in cement plants acquired in connection with signing of orders. As part of a normal procedure, shareholder agreements have been signed that entail an obligation to make a general offer in connection with resale and, with regard to a few items, limitations in negotiability for short periods.

	2018	2017
	MDKK	MDKK
14 Deferred tax		
Deferred tax at 1 January 2018	253	233
Movements via the income statement	65	33
Movements via equity	0	-2
Changes in relation to previous years	-4	-1
Deferred tax at 31 December 2018	**314**	**253**

15 Receivables

Ageing:

	2018	2017
Not due for payment	345	422
Overdue up to 60 days	82	113
Overdue between 60-180 days	53	21
Overdue between 180-360 days	7	12
Overdue more than 1 year	17	7
Trade receivables at 31 December 2018	**504**	**575**
Trade receivables not due for payment with retentions on contractual terms	100	0

Write-down of trade receivables:

	2018	2017
Write-down at 1 January 2018	19	44
Additions	8	12
Reversals	-4	-37
Realised	0	0
Write-down at 31 December 2018	**23**	**19**

16 Contract work in progress

	2018 MDKK	2017 MDKK
Sales price value of production for the period	6,030	6,561
Payments received on account	-5,642	-5,905
	388	**656**
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	388	656
Prepayments received recognised in debt	-351	-587
	37	**69**

17 Receivables from subsidiaries

Receivables from affiliated companies include receivable dividend from prior years at the amount of MDKK 0 (2017: MDKK 73).

The receivables include cash pool accounts, group trade receivables and a non interest bearing balance of MDKK 38 (2017: MDKK 22) with affiliated companies.

We have in 2018 recognized a write down of MDKK 10 receivables from subsidiaries due to the immediate stop of activities and no or very little chance of settlement of our receivables.

18 Prepayments

Prepayments include prepayments to subcontractors as well as expenses incurred concerning subsequent financial years.

19 Equity

The share capital consists of:

	Nominal value
3 shares of TDKK 100	300
2 shares of TDKK 100,000	200,000
1 shares of TDKK 299,700	299,700
	500,000

20 Other provisions

	2018 MDKK	2017 MDKK
Balance at beginning of year at 1 January 2018	384	416
Provision in year	203	229
Used during the year	-365	-262
Balance at 31 December 2018	**222**	**383**

The expected due dates of other provisions are:		
Within one year	171	333
Between 1 and 5 years	51	50
	222	**383**

When assessing work-in-progress and completed projects, various project related risks including performance guarantees have been taken into account for which allowances have been made on the basis of Management's estimates.

A few issues are pending in respect of previously supplied goods. In this context, provisions have been made to counter any losses.

Provisions mainly consist of provisions for the usual warranties and provisions for loss-making contracts.

Notes

21 Long term debt

	Debt at 1 January 2018	Debt at 31 December 2018	Instalment next year	Debt outstanding after 5 years
	MDKK	MDKK	MDKK	MDKK
Prepayments received from customers	207	202	0	0
	207	**202**	**0**	**0**

22 Other payables

Other liabilities include due holiday pay, other employee, other accruals and public taxes.

Financial instruments is included at fair value mDKK 11 (2017: mDKK 8).

	2018	2017
	MDKK	MDKK
23 Contingencies, etc.		
Guarantees	4,721	5,616
Rental agreements	7	19
Operational lease	3	1
	4,731	**5,636**

23 Contingencies, etc. (continued)

The Company has through its banks provided usual security in the form of performance guarantees etc. for contracts and supplies. At the end of 2018 the total number of performance and payment guarantees issued amounted to DKK 1.316m (2017: 1,107m). In cases where a guarantee is expected to materialise, a provision for this amount is made in the Annual Report under the heading of Provisions.

In addition, the Company is from time to time involved in disputes regarding material amounts that are normal for its business. This is not expected to impose significant liabilities upon the Company, and the outcome is not expected to have significant impact on the Company's financial position.

The company is part of a Danish joint taxation scheme for which FLSmidth & Co. A/S is the administrator. As part of the joint taxation, FLSmidth A/S is liable with other companies in the joint taxation scheme for Danish corporate taxes on dividend, interest and royalties within the joint taxation group.

24 Mortgages and collateral

None of the assets owned by FLSmidth A/S are pledged and the Company has no collateral agreements.

25 Financial instruments

Currency hedging

The Company uses forward exchange contracts in order to hedge currency risks on underlying contractual and budgeted payments and currency risks on loans and investments.

The figures below show the principals and the fair value of pending forward exchange contracts at 31 December 2018, which have been made to hedge currency risks. All fair values are based on officially fixed quotations, if available, alternatively in prices quoted by banks. Principals are translated at balance sheet date rates of exchange. Pending forward exchange contracts at 31 December 2018 have up to two years' time to maturity.

In the case of forward exchange contracts, negative principals indicate net sale of the currency concerned and positive principals indicate net purchase of the currency concerned.

Currency	2018	2017
	MDKK	MDKK
AUD	-68	-101
CHF	0	-17
USD	-331	-375
ZAR	-64	-88
INR	-61	-51
MXN	-22	-22
GBP	-6	-30
CAD	-13	-94
Other currencies	187	-67
	-378	**-845**

Fair value of financial assets and liabilities not measured at fair value

The book value of receivables and payables at 31 December 2018 largely corresponds to the fair value.

26 Related parties and ownership structure

Transactions

In 2018, FLSmidth Inc. transferred the business assets related to the cement project business as operated by FLSmidth Inc. regarding projects within the Cement industry outside the United States to FLSmidth A/S. At a value of 195mDKK, which is recognized as other intangible assets at 31 December 2018.

In 2018, FLSmidth A/S transferred all its shares in FLSmidth Global Field Services ApS to FLSmidth Operation & Maintenance A/S at a value of 37mDKK. The transfer of shares has created a gain on sale of subsidiaries of 27mDKK that is presented as part of income from investments in subsidiaries.

Cash pool accounts are legally owned by FLSmidth & Co. A/S. The accounts are therefore considered balances with related parties. In the balance sheet the cash pool accounts are recognised under receivables and payables to affiliated companies as part of assets and liabilities, respectively.

Other matters of interest in relation to related parties are disclosed in the notes to the financial statements.

Revenue	300mDKK
Cost pf production	-637mDKK
Royalties	557mDKK
Group fees	576mDKK
Group cost	-392mDKK
Interest cost	-19mDKK

Consolidated financial statements

FLSmidth A/S is a fully consolidated subsidiary in the Parent's (largest group) consolidated financial statements, FLSmidth & Co. A/S, Valby, Denmark, CVR no. 58180912.

The Group Annual Report 2018 is available on www.flsmidth.com:

https://www.flsmidth.com/en-gb/company/investors/downloads/reports-and-presentations