# FLSmidth A/S

**Vigerslev Allé 77**

**2500 Valby**

**CVR no. 15 02 88 82**

Annual report for 2019

Adopted at the annual general meeting on 25 March 2020

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 2019.

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 2019 and of the results of the company's operations for the financial year 1. januar - 31. december 2019.

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, 25 March 2020

### Executive management

| | |
|---|---|
| Thomas Schulz<br>CEO | Annette Høi Butt Terndrup<br>director |

### Board of directors

| | | |
|---|---|---|
| Vagn Ove Sørensen<br>chairman | Tom Knutzen<br>vice chairman | Gillian Dawn Winckler |
| Thrasyvoulos Moraitis | 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 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and 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 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.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism 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 note 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 25 March 2020

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
Fax: +4536301820

Website: www.flsmidth.com

CVR-no. 15 02 88 82

Financial year: 1. January - 31. December 2019
Incorporated: 6 March 1991

Domicile: Copenhagen

**Board of directors**
Vagn Ove Sørensen, chairman
Tom Knutzen, vice chairman
Gillian Dawn Winckler
Thrasyvoulos Moraitis
Richard Robinson Smith
Anne Louise Eberhard
Claus Østergaard
Søren Dickow Quistgaard
Mette Dobel

**Executive Board**
Thomas Schulz, CEO
Annette Høi Butt Terndrup, director

**Auditors**
ERNST & YOUNG
Godkendt Revisionspartnerselskab
Dirch Passers Alle 36
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:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| | MDKK | MDKK | MDKK | MDKK | MDKK |
| **Key figures** | | | | | |
| **Profit/loss** | | | | | |
| Revenue | 3.590 | 3.551 | 3.235 | 3.401 | 3.480 |
| Gross profit | 290 | 273 | 376 | 244 | -13 |
| Profit/loss from ordinary operating activities before gains/losses from fair value adjustments | 46 | 122 | 318 | 23 | -15 |
| Net financials | 409 | 199 | -395 | 35 | -120 |
| Profit/loss for the year | 441 | 283 | -152 | 225 | 9 |
| **Balance sheet** | | | | | |
| Balance sheet total | 11.976 | 10.875 | 9.884 | 9.016 | 9.318 |
| Investment in property, plant and equipment | 3 | 11 | 0 | 24 | 11 |
| Equity | 4.798 | 4.361 | 4.095 | 4.366 | 4.143 |
| Number of employees | 900 | 912 | 928 | 1.085 | 1.192 |
| **Financial ratios** | | | | | |
| Gross margin | 8,1% | 7,7% | 11,6% | 7,2% | -0,4% |
| EBIT margin | 1,3% | 3,4% | 9,8% | 0,7% | -0,4% |
| Solvency ratio | 40,1% | 40,1% | 41,4% | 48,4% | 44,5% |
| Return on equity | 9,6% | 6,7% | -3,6% | 5,3% | 0,2% |

The financial ratios are calculated in accordance with the definitions included in the accounting policies.

Numbers for 2015-2017 have not been adjusted to reflect 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 revenue of MDKK 3.590 (2018: MDKK 3.551)

The operating profit in 2019 amounted to MDKK 46 (2018: MDKK 122) which is below expectations.

Total assets amounted to MDKK 11.976 at the end of 2019 (end of 2018: MDKK 10.875). The equity at the end of 2019 amounted to MDKK 4.798 (2018: MDKK 4.361), representing an equity ratio of 40,1% (2018: 40,1%). The return on shareholders’ equity in 2019 amounted to 9,6% (2018: 6,7%).

The profit for the year amounted to MDKK 441 (2018: MDKK 283), impacted by reversal of impairments of investments in subsidiaries. As at 31 December 2019, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment for 2019 of MDKK 12 (2018: MDKK 21). Further, the test showed reversal of prior year's impairment of entities in USA, Brazil and Iran of total MDKK 387 (2018: MDKK 170)

The total order intake of FLSmidth A/S MDKK 3.044 in 2019, representing a 28% decrease compared to the year before (2018: MDKK 4.200).

# Management's review

## Market trends

Demand Drivers
Demand for minerals and cement are driven by economic growth and growing populations. Continued industrialization and urbanisation in emerging markets drives demand for infrastructure and higher standards of living. Economic growth across the globe creates a steady need for new homes, office buildings, roads and ports, all driving the demand for cement. Metals are an essential part of modern living and they play a very important role in creating a more sustainable future. The world is becoming more committed to decarbonisation and getting there will take a monumental shift from traditional fossil fuels to a higher level of renewable generation. As energy becomes cleaner and cheaper, electrification of transport and other energy-heavy sectors will accelerate. The green transition is increasing the demand for the metals and minerals needed to produce wind turbines, solar panels, electric vehicles, refrigeration, air conditioning and other electronic equipment. Technological advancement and decarbonization will accelerate demand for minerals.

Supply Trends
Environmental approvals and community issues continue to be the main reason for stalled new mining projects, and a number of mining companies are experiencing increasing difficulties to obtain licenses for new projects. At the same time, the declining grades of most of the world's mining resources is one of the biggest challenges faced by mining operations around the world today. Mining companies will have to embrace new ways to cope with the declining ore grades and they must find new ways in which to mine smarter, improve extraction rates and reduce operational costs. As mining companies look to secure long-term growth, they are also increasingly expanding their operations to countries with a higher geopolitical risk profile or to more remote environments. The basic materials used in cement production are however widely accessible around the world. The most common supply constraint in cement is access to financing (hard currency). In some cases, access to energy and an educated workforce represent constraints as well.

Trends and Political Barriers
The challenges of climate change and the green transition is one of today's most important themes. It is imperative to improve the methods used to produce cement and to operate mines, and companies in both industries are increasingly leveraging the development of digital and innovative solutions to transition to sustainable forms of production. In both mining and cement, the race to transform business models calls for suppliers, such as FLSmidth, who can offer new sustainable technologies to address challenges such as rising costs, tighter regulations and increased sustainable and societal expectations. At the same time, the industry faces enormous challenges as trade wars and political barriers are escalating. Companies will need to find a way to navigate through import and export limitations, and plan for the potential effect on their business and how to mitigate the risks.

## Management's review

Global economic headwinds combined with challenges regarding community relations have dominated the sentiment in the mining market during 2019. The social and regulatory license to operate is considered the key risk for miners, escalated by the significant disruption caused by issues regarding permits during the year. Social unrest and political instability have become a concern especially in South America, and mining companies have experienced fierce opposition from local residents who fear pollution and loss of water supply. Consequently, we continue to receive strong interest in our sustainable technologies and tailings management, which can help mining companies maximise safety and attain a license to operate. The slowdown in global trade flows, headwinds to Chinese demand for base metals as well as the weakness in global industrial output pushed down prices for most commodities during the year. Copper prices fell during the larger part of 2019, but surged to the highest level in seven months in mid-December after reports that the US and China were closing in on a limited trade deal. The gold price soared to its highest in nearly seven years towards the end of the year. The tendency of cautious investment behaviour continued throughout 2019. Greenfield activity and other large capital investments have been limited and main activities have been focused on smaller brownfield expansions, single equipment and OPEX to improve productivity and reduce production costs. Miners are, overall, in a healthy financial position and have the ability and fundamental need to invest. This is reflected in our pipeline which remains encouraging, and includes opportunities for larger investments. Trade war tensions will likely continue to influence the price of copper and other minerals in 2020. However, as the global trend of decarbonisation accelerates, there will be a growing demand for minerals. The green economy is metal intensive and especially copper plays a key role in creating a more sustainable future. Copper is needed for the electrification of transport and it is also central to the production of a variety of technologies, including batteries, smart phones and laptops. An electric vehicle contains five times more copper than an internal combustion engine vehicle. The biggest offshore wind turbines contain up to 30 tonnes of copper and each high-speed train uses about 20 tonnes of copper-containing components. At the same time, copper grades are declining which means more material needs to be processed to keep supply at similar levels. Furthermore, the manufacturing sector is facing greater scrutiny from end consumers, demanding a transparent, ethical supply chain. As an example, carmakers are pressured to ensure the materials used for electric vehicle production are responsibly sourced. This clearly points to an increasing need for leading solution providers, like FLSmidth, who can help miners make their production more digital and sustainable.

## 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.

2019 Key risks
The annual assessment resulted in the identification of the following key risks which pose a potential threat and/or opportunity:

- Market Conditions – Challenging macroeconomic environment
- Political instability – Volatile risk environment in many countries where FLSmidth conducts business
- Digitalization – Changing customer demands
- Non-compliance with rules and regulation
- Safety – Severe impact on health and safety of personnel
- Cyber Threats – Continuously evolving as technology advances
- Supply Chain – Staying flexible and agile
- Project Execution – Delivering on time and as promised
- Financial risk – Liquidity risk, credit risk and foreign exchange risk
- Climate related risks

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

Risk assessment and mitigating actions:

## Management's review

| RISK | CONTEXT AND IMPACT | MITIGATION |
|---|---|---|
| **Digitalization** | Digital transformation is necessary to ensure customer expectations for innovative and value-added services are met. Keeping up with the speed of change presents both challenges in maintaining cutting edge solutions as well as opportunities for optimising growth through innovative digital offerings and services. | The Group has invested heavily in mitigation efforts and it has had a positive impact on the Company's internal productivity as well as with customers. With the launch of digitally enabled products and digital offerings aimed at increasing productivity at customer sites and the appointment of Regional Product Line Managers as well as implementation of AI in parts of Procurement, Finance and other Group Functions the Company continues to move forward with its productivity agenda. |
| **Political Risk** | Increasing instability and polarisation in many countries as well as tensions between major world economies pose a threat to the Company's ability to carry out projects in some jurisdictions potentially increasing delays and costs to procure materials. | The Company's local footprint continues to expand with strategic investments placing FLSmidth closer to customers around the world. Group Procurement optimisation continues to focus on strategic, global sourcing and building relationships with multiple suppliers to protect supply chain and logistics operations. |
| **Non-compliance with rules and regulation** | Compliance has top-priority in FLSmidth with zero tolerance for any violation that could impact the FLSmidth brand and reputation. As the Company continues to expand through business opportunities, acquisitions and establishment of local offices in challenging environments, focus on mitigating compliance risks remains high. | The Group has a dedicated Compliance Department that has established rules and procedures to ensure a common understanding of ethical behaviour. There are policies in place to support the organisation with day-to-day compliance issues such as the Code of Conduct and Anti-Bribery policy, as well as tools and procedures to identify individual issues that may pose a threat including the Whistleblower Hotline, screening of third party agents and sign-off protocols. Training is conducted on a continuous basis to ensure that employees at all times adhere to the applicable policies and guidelines. The training is mandatory for all employees. |
| **Safety** | The risk of serious injury or death given the nature of failure to ensure healthy and safe working conditions for employees and contractors at a customer site is a serious issue that could result in a loss of trust and ultimately business for FLSmidth. The domino effect that such an event would have on the organisations reputation as a reputable supplier would be catastrophic. | The Group has zero tolerance for safety risks both at third party sites as well as its own. Safety is a high priority for everyone. Focus remains on improving TRIFR/ LTIFR. 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 each year to those demonstrating great safety practices. |
| **Market Conditions** | The company is exposed to a challenging macroeconomic environment with many mining customers facing permit delays and having a more cautious approach to large new capital investments. | As part of the company's business improvement activities, it will continue to leverage synergies and consolidate competencies. Regional, Industry and Group functions are continuously considering and adjusting their organisations in response to changing business environments, fluctuating order intake and market outlook to ensure stronger customer relationships. |
| **Cyber Threats** | The continuously evolving threat of cyber security, data leakage and data security is a key area of focus. A major cyber-attack could result in an extended period of down time resulting in delays to customers and additional costs for the organisation. FLSmidth equipment on customer sites could be used by hackers to gain access to customer's IT systems. Customers are beginning to ask for products and services where cyber security is imbedded by design. | The Group is focused on IT Security and awareness; conducting regular audits and updates to our IT Security Committee. In 2019, increased use of cloud-based solutions and continuous cyber awareness training across the organisation are helping to mitigate this risk. In early 2020 an initiative was launched to imbed cyber security in the full value chain of our products from R&D to commissioning and operations. |
| **Supply Chain** | High demands on trusted supply chains could result in delays in deliveries to customers which could lead to penalties and disruptions in executing projects. | Group Procurement is on a strong path towards increased operational efficiencies through new tools and more uniform processes. The Group's global sourcing strategy allows for more flexibility and agility in working with external supply chains to help alleviate potential disruptions. |
| **Projects** | The inherent risks in a project business could impact our global effectiveness and execution of projects. | The company is consolidating project execution in fewer centres to ensure the right level of competencies and expertise is available in each centre. Ongoing control of project profitability, cash flow and execution risks. |

### *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.

### Research and development activities in and for reporting entity

Central to MissionZero is our focus on enabling our customers in mining and cement to move towards zero emissions. We will do so by leveraging the development of digital and innovative solutions tied to sustainable productivity, offering our customers the required technological solutions.

We will develop solutions that will enable our customers to move towards operating their cement plants with zero emissions, 100% fuel substitution and zero waste by 2030.

Also, we will develop solutions that will enable our customers to move towards managing mining processes with zero water waste, zero emissions and zero energy waste by 2030.

### Statutory report on corporate social responsibility

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 2019 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 2019 is available on:
http://www.flsmidth.com/SustainabilityReport2019

### Statutory report on the underrepresented gender

The Board of Directors of FLSmidth continuously evaluates the diversity of the Board and the Group Executive Man-agement as well as among managers and employees. In connection with recommendations and appointments, di-versity is deliberately taken into account when considering the profiles and qualifications of potential candidates.

At the end of 2019, women accounted for 33% (end 2018: 33%) of the shareholder-elected Board members, fulfilling the target that minimum 25% of the members elected at the Annual General Meeting should be female.

At the end of 2019, women accounted for 16% (end 2018: 14%) of the total workforce, while 11% of all managers were female (end 2018: 10%). The Group target is minimum 18% woman in the workforce by 2023, and 14% of all managers should be female by 2023. When filling management vacancies exter-nally, at least one female candidate must be in the run-up.

Due to FLSmidth’s global presence in over 60 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 67% (2018: 60%) of Group Executive Management and 91% (end 2018: 91%) of the total number of employees have another nationality than Danish.

# Management's review

## Significant events occurring after end of reporting period

In early 2020, the COVID-19 outbreak is escalating globally and impacting communities and businesses as well as financial markets negatively. The outbreak is considered a subsequent event, which has not impacted the financial position of the Company at 31 December 2019.

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

## Outlook for 2020

As a consequence of the global uncertainty caused by the COVID-19 pandemic, we suspend our financial guidance for 2020 pending further clarification of market developments and the actual financial impact on our business. The underlying mining and cement industries remain sound but given the day-to-day development in markets around the world, we are currently unable to assess the extent of the impact.

# Accounting policies

The annual report of FLSmidth A/S for 2019 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.

The annual report for 2019 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 Company has chosen IFRS 15 as interpretation for revenue recognition.

### 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.

### 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.

# Accounting policies

## 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.

## Accounting policies

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.

# Accounting policies

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.

## Leases

Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The company's total liabilities relating to operating leases and other rent agreements are disclosed under 'Contingencies, etc.'.

Currently the company has no financial leases.

## 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.

# Accounting policies

## 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.

# Accounting policies

## 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'.

## 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.

# Accounting policies

## 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 2019 - 31 December 2019

| | Note | 2019<br>MDKK | 2018<br>MDKK |
|---|---|---|---|
| **Revenue** | 1 | **3.590** | **3.551** |
| Cost of productions | 2-9<br>10 | -3.300 | -3.278 |
| **Gross profit** | | **290** | **273** |
| Sales and distribution costs | 2-9<br>10 | -170 | -217 |
| Administrative costs | 2-9<br>10 | -425 | -443 |
| **Operating profit/loss** | | **-305** | **-387** |
| Other operating income | 3 | 351 | 509 |
| **Profit/loss before financial income and expenses** | | **46** | **122** |
| Income from investments in subsidiares | 4 | 63 | 110 |
| Impairment and reversals of impairment of investments in subsidiaries | 11 | 375 | 150 |
| Financial income | 5 | 94 | 245 |
| Financial costs | 6 | -123 | -306 |
| **Profit/loss before tax** | | **455** | **321** |
| Tax on profit/loss for the year | 7 | -14 | -38 |
| **Net profit/loss for the year** | | **441** | **283** |

**Appropriation of profit:**

| | | |
|---|---|---|
| Reserve for development projects | 178 | 159 |
| Retained earnings | 263 | 124 |
| | **441** | **283** |

## Balance sheet at 31 December 2019

| | Note | 2019<br>MDKK | 2018<br>MDKK |
|---|---|---|---|
| **Assets** | | | |
| Completed development projects | | 204 | 268 |
| Acquired patents | | 948 | 1.107 |
| Development projects in progress | | 361 | 277 |
| Other intangible assets | | 285 | 245 |
| **Intangible assets** | 9 | **1.798** | **1.897** |
| Land and buildings | 10 | 28 | 30 |
| Other fixtures and fittings, tools and equipment | 10 | 12 | 20 |
| **Tangible assets** | | **40** | **50** |
| Investments in subsidiaries | 11 | 6.661 | 6.256 |
| Investments in associates | 12 | 0 | 0 |
| Other investments | 13 | 8 | 10 |
| Deferred tax assets | 19 | 469 | 314 |
| **Financial assets** | | **7.138** | **6.580** |
| **Total non-current assets** | | **8.976** | **8.527** |

## Balance sheet at 31 December 2019 (Fortsat)

| | Note | 2019<br>MDKK | 2018<br>MDKK |
|---|---|---|---|
| **Assets** | | | |
| Finished goods and goods for resale | | 34 | 28 |
| **Inventories** | | **34** | **28** |
| Trade receivables | 14 | 515 | 505 |
| Contract work in progress | 15 | 793 | 388 |
| Receivables from subsidiaries | 16 | 1.475 | 1.241 |
| Other receivables | | 57 | 108 |
| Prepayments | 17 | 109 | 53 |
| **Receivables** | | **2.949** | **2.295** |
| **Cash** | | **17** | **25** |
| **Total current assets** | | **3.000** | **2.348** |
| **Total assets** | | **11.976** | **10.875** |

## Balance sheet at 31 December 2019

| | Note | 2019<br>MDKK | 2018<br>MDKK |
|---|---|---|---|
| **Equity and liabilities** | | | |
| Share capital | | 500 | 500 |
| Reserve for development projects | | 451 | 273 |
| Retained earnings | | 3.851 | 3.586 |
| Hedging reserve | | -4 | 2 |
| **Equity** | 18 | **4.798** | **4.361** |
| Other provisions | 20 | 181 | 222 |
| **Total provisions** | | **181** | **222** |
| Prepayments received from customers | | 225 | 202 |
| Other payables | | 25 | 0 |
| **Total non-current liabilities** | 21 | **250** | **202** |

## Balance sheet at 31 December 2019 (Fortsat)

| | Note | 2019<br>MDKK | 2018<br>MDKK |
|---|---|---|---|
| **Equity and liabilities** | | | |
| Banks | | 4 | 10 |
| Prepayments received from customers | | 548 | 493 |
| Trade payables | | 938 | 761 |
| Contract work in progress | 15 | 514 | 351 |
| Payables to subsidiaries | | 4.457 | 3.929 |
| Corporation tax | | 55 | 28 |
| Other payables | 22 | 230 | 518 |
| Deferred income | | 1 | 0 |
| **Total current liabilities** | | **6.747** | **6.090** |
| **Total liabilities** | | **6.997** | **6.292** |
| **Total equity and liabilities** | | **11.976** | **10.875** |

| | Note |
|---|---|
| **Other notes** | |
| Staff | 2 |
| Contingencies, etc. | 23 |
| Mortgages and collateral | 24 |
| Financial instruments | 25 |
| Related parties and ownership structure | 26 |
| Subsequent events | 27 |

## 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 2019 | 500 | 273 | 3.586 | 2 | 4.361 |
| Value adjustment of hedging transactions | 0 | 0 | 0 | -7 | -7 |
| Net profit/loss for the year | 0 | 178 | 263 | 0 | 441 |
| Tax regarding changes in equity | 0 | 0 | 0 | 1 | 1 |
| **Equity at 31 December 2019** | **500** | **451** | **3.851** | **-4** | **4.798** |

| | Share capital | Reserve for develop-ment projects | Retained earnings | Hedging reserve | Total |
|---|---|---|---|---|---|
| | MDKK | MDKK | MDKK | MDKK | MDKK |
| Equity 1. januar 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 31. december 2018** | **500** | **273** | **3.586** | **2** | **4.361** |

## Notes

| | 2019 | 2018 |
|---|---|---|
| | MDKK | MDKK |
| **1 Revenue** | | |
| Income recognised in accordance with the point-in-time principle | 244 | 616 |
| Income recognised in accordance with the percentage-of-completion method | 3.346 | 2.935 |
| **Total revenue** | **3.590** | **3.551** |
| | | |
| Geographical breakdown: | | |
| North America | 50 | 57 |
| South America | 1.244 | 98 |
| Europe, North Africa & Russia | 1.008 | 1.459 |
| Sub-Saharan & Middle east | 547 | 1.174 |
| Asia | 387 | 465 |
| Subcontinental India | 341 | 292 |
| Australia | 13 | 6 |
| **Total revenue** | **3.590** | **3.551** |
| | | |
| Segment reporting: | | |
| Projects | 2.391 | 2.349 |
| Products | 870 | 184 |
| Service | 292 | 971 |
| **Cement** | **3.553** | **3.504** |
| | | |
| Projects | 25 | 42 |
| Products | 9 | 0 |
| Service | 3 | 5 |
| **Mining** | **37** | **47** |
| | | |
| **Total revenue** | **3.590** | **3.551** |

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

## 1 Revenue (Fortsat)

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 payment guarantees to minimise our risk during execution.

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

# Notes

## 1 Revenue (Fortsat)

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

| | | 2019 | 2018 |
|---|---|---|---|
| | | MDKK | MDKK |
| **2** | **Staff** | | |
| | Wages and Salaries | 707 | 722 |
| | Pensions | 21 | 28 |
| | Other social security expenses | 13 | 38 |
| | | **741** | **788** |
| | Staff cost capitalised as part of development projects | -71 | -75 |
| | | **670** | **713** |
| | including remuneration to the Executive and Supervisory Boards of: | | |
| | Base salary (including pension) | 14 | 13 |
| | Cash bonus | 0 | 5 |
| | Expensed share-based payments | 1 | 5 |
| | Benefits/car | 1 | 1 |
| | Severance | 9 | 0 |
| | **Executive Board** | **25** | **24** |
| | Reinvoiced or paid by other group companies | -25 | -20 |
| | Board of Directors fee (incl. paid by other group companies) | 6 | 5 |
| | | **6** | **9** |
| | Average number of employees | 900 | 912 |

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

# Notes

| | | 2019 | 2018 |
|---|---|---|---|
| | | MDKK | MDKK |
| **3** | **Other operating income** | | |
| | Other operating income | 351 | 470 |
| | Gain from sales of investments | 0 | 39 |
| | | **351** | **509** |

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.

| | | 2019 | 2018 |
|---|---|---|---|
| **4** | **Income from investments in subsidiares** | | |
| | Dividend from subsidiaries | 63 | 110 |
| | | **63** | **110** |

| | | 2019 | 2018 |
|---|---|---|---|
| **5** | **Financial income** | | |
| | Fair value adjustment of shares | 6 | 3 |
| | Other financial income | 5 | 1 |
| | Foreign exchange gains | 47 | 181 |
| | Derivatives | 36 | 60 |
| | | **94** | **245** |

| | | 2019 | 2018 |
|---|---|---|---|
| **6** | **Financial costs** | | |
| | Fair value adjustment of shares | 3 | 10 |
| | Interest paid to subsidiaries | 27 | 19 |
| | Other financial costs | 0 | 3 |
| | Foreign exchange losses | 47 | 228 |
| | Derivatives | 46 | 46 |
| | | **123** | **306** |

## Notes

| | | 2019 | 2018 |
|---|---|---|---|
| | | MDKK | MDKK |
| 7 | **Tax on profit/loss for the year** | | |
| | Current tax for the year | 125 | 111 |
| | Deferred tax for the year | -104 | -65 |
| | Adjustment of tax concerning previous years | 42 | -12 |
| | Adjustment of deferred tax concerning previous years | -50 | 4 |
| | | **13** | **38** |
| | which breaks down as follows | | |
| | Tax on profit/loss for the year | 14 | 38 |
| | Tax on changes in equity | -1 | 0 |
| | | **13** | **38** |

| | | 2019 | 2018 |
|---|---|---|---|
| 8 | **Distribution of profit** | | |
| | Reserve for development projects | 178 | 159 |
| | Retained earnings | 263 | 124 |
| | | **441** | **283** |

## 9 Intangible assets

| | Completed develop-ment projects | Acquired patents | Develop-ment projects in progress | Other intangible assets | Total |
|---|---|---|---|---|---|
| | MDKK | MDKK | MDKK | MDKK | MDKK |
| Cost at 1 January 2019 | 1.098 | 2.966 | 277 | 519 | 4.860 |
| Additions for the year | 0 | 36 | 241 | 0 | 277 |
| Disposals for the year | -77 | 0 | 0 | -4 | -81 |
| Transfers for the year | 72 | 0 | -157 | 85 | 0 |
| Cost at 31 December 2019 | 1.093 | 3.002 | 361 | 600 | 5.056 |
| Impairment losses and amortisation at 1 January 2019 | 829 | 1.859 | 0 | 274 | 2.962 |
| Depreciation for the year | 125 | 195 | 0 | 44 | 364 |
| Reversal of depreciations of assets disposed | -65 | 0 | 0 | -3 | -68 |
| Impairment losses and amortisation at 31 December 2019 | 889 | 2.054 | 0 | 315 | 3.258 |
| **Carrying amount at 31 December 2019** | **204** | **948** | **361** | **285** | **1.798** |

As of 31 December 2019, the carrying value of the intangible assets with an estimated economic life time of 20 years amounts to MDKK 341 (2018: MDKK 358).

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 2019.

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 2019 MDKK 197 is included in administration costs and MDKK 167 as production costs in the financial statement.

## Notes

### 10 Tangible assets

| | Land and buildings | Other fixtures and fittings, tools and equipment | Total |
|---|---|---|---|
| | MDKK | MDKK | MDKK |
| Cost at 1 January 2019 | 76 | 179 | 255 |
| Additions for the year | 0 | 3 | 3 |
| Disposals for the year | 0 | -2 | -2 |
| Cost at 31 December 2019 | 76 | 180 | 256 |
| Impairment losses and depreciation at 1 January 2019 | 46 | 158 | 204 |
| Depreciation for the year | 2 | 12 | 14 |
| Reversal of impairment and depreciation of sold assets | 0 | -2 | -2 |
| Impairment losses and depreciation at 31 December 2019 | 48 | 168 | 216 |
| **Carrying amount at 31 December 2019** | **28** | **12** | **40** |

Depreciation for year 2019 MDKK 14 is included in administration costs in the financial statement.

| | 2019 | 2018 |
|---|---|---|
| | MDKK | MDKK |
| **11 Investments in subsidiaries** | | |
| Cost at 1 January 2019 | 6.703 | 5.487 |
| Additions for the year | 30 | 1.532 |
| Disposals for the year | 0 | -316 |
| Cost at 31 December 2019 | 6.733 | 6.703 |
| Revaluations at 1 January 2019 | -447 | -852 |
| Disposals for the year | 0 | 256 |
| Reversals of impairment changes for the year | 387 | 170 |
| Impairment changes for the year | -12 | -21 |
| Revaluations at 31 December 2019 | -72 | -447 |
| **Carrying amount at 31 December 2019** | **6.661** | **6.256** |

As at 31 December 2019, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment for 2019 of MDKK 12 (2018: MDKK 21). Further, the test showed reversal of prior year's impairment of entities in USA, Brazil and Iran of total MDKK 387 (2018: MDKK 170)

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.

# Notes

## 11 Investments in subsidiaries (Fortsat)

Investments in subsidiaries, associates and joint ventures are specified as follows:

| Name | Registered office | Ownership interest | Equity | Profit/loss for the year |
|---|---|---|---|---|
| FLS Maroc | Morocco | 100% | -49 | -11 |
| FLSmidth (Pvt.) Ltd. | Pakistan | 100% | 2 | |
| FLSmidth (Thailand) Co. Ltd. | Thailand | 100% | 9 | |
| FLSmidth (UK) Limited | United Kingdom | 100% | 405 | 27 |
| FLSmidth A/S (Jordan) Ltd. | Jordan | 100% | -2 | -5 |
| FLSmidth AB | Sweden | 100% | | |
| FLSmidth Argentina S.A. | Argentina | 100% | | |
| FLSmidth Caucasus Limited (LLC) | Armenia | 100% | 2 | 1 |
| FLSmidth Co. Ltd. | Vietnam | 100% | 14 | |
| FLSmidth GmbH | Austria | 100% | 191 | 30 |
| FLSmidth Iranian (PJSCo) | Iran | 100% | 8 | 11 |
| FLSmidth Kenya Limited | Kenya | 100% | -1 | 4 |
| FLSmidth Limited | Ghana | 100% | 43 | 19 |
| FLSmidth LLP | Kazakhstan | 100% | 96 | 34 |
| FLSmidth Ltda. | Brazil | 100% | 154 | 26 |
| FLSmidth Mekanik SistemlerLtd. Sti | Turkey | 100% | 3 | |
| FLSmidth Milano S.R.L. | Italy | 100% | 79 | -1 |
| FLSmidth Mongolia | Mongolia | 100% | 48 | 8 |
| FLSmidth MAAG Gear AG | Switzerland | 100% | 72 | -7 |
| FLSmidth MAAG Gear Sp. z o.o. | Poland | 100% | 113 | 25 |
| FLSmidth Nepal Private Limited | Nepal | 100% | 1 | -1 |
| FLSmidth Panama Inc. | Panama | 100% | | |
| FLSmidth Philippines, Inc. | Philippines | 100% | 6 | -3 |
| FLSmidth Qingdao Ltd. | China | 100% | 135 | 44 |
| FLSmidth Rusland Holding A/S | Denmark | 100% | 13 | |
| FLSmidth Rus OOO | Russia | 100% | 42 | 1 |
| FLSmidth S.A. | Spain | 100% | 45 | -1 |
| FLSmidth SAS | Colombia | 100% | -24 | -31 |
| FLSmidth S.A. | Ecuador | 100% | | |
| FLSmidth Sales and Services Limited | Nigeria | 100% | 1 | |
| FLSmidth SAS | France | 100% | 26 | |

# Notes

## 11 Investments in subsidiaries (Fortsat)

| Name | Registered office | Ownership interest | Equity | Profit/loss for the year |
|---|---|---|---|---|
| FLSmidth Shanghai Ltd. | China | 100% | 53 | 17 |
| FLSmidth Spol. s.r.o. | Czech Republic | 100% | 48 | 5 |
| FLSmidth Ventomatic SpA | Italy | 100% | 459 | 45 |
| FLSmidth MAAG Gear S.p | Italy | 100% | 85 | -3 |
| FLSmidth Zambia Ltd. | Zambia | 100% | | |
| NHI-Fuller (Shenyang) Mi | China | 50% | 21 | 1 |
| P.T. FLSmidth Constructio | Indonesia | 67% | 7 | |
| Pfister Holding GmbH | Germany | 100% | 10 | 2 |
| PT FLSmidth Indonesia | Indonesia | 100% | 55 | 15 |
| Saudi FLSmidth Co. | Saudi Arabia | 100% | 5 | -1 |
| The Pennies & Pounds Hc | Philippines | 33% | | |
| FLSmidth Tyskland A/S | Denmark | 100% | 1.259 | -8 |
| FLS Germany Holding Gm | Germany | 100% | 1.691 | -30 |
| FLSmidth Hamburg GmbH | Germany | 100% | 18 | 22 |
| FLSmidth Pfister GmbH | Germany | 100% | 48 | 52 |
| FLSmidth Real Estate Gml | Germany | 100% | 4 | 1 |
| FLSmidth Wadgassen Gm | Germany | 100% | 158 | -67 |
| FLSmidth Wadgassen Ltd. | Russia | 100% | 3 | 3 |
| FLSmidth Wiesbaden Gml | Germany | 100% | 70 | 28 |
| FLSmidth Minerals Holdin | Denmark | 100% | 1.210 | 17 |
| Euroslot KDSS (Pty.) Ltd. | South Africa | 100% | | |
| FLSmidth Sociedade LDA. | Angola | 100% | | |
| FLSmidth Mozambique Li | Mozambique | 100% | | |
| FLSmidth Roymec (Pty) Lt | South Africa | 100% | 16 | -5 |
| FLSmidth (Pty) Ltd. | Botswana | 74% | 17 | -2 |
| FLSmidth South Africa (Pt | South Africa | 75% | -18 | -14 |
| FLSmidth Ltd. | Canada | 100% | 234 | 13 |
| FLSmidth Private Limited | India | 100% | 725 | -22 |
| FLSmidth Pty. Ltd. | Australia | 100% | 745 | 43 |
| DMI Holdings Pty. Ltd. | Australia | 100% | | |
| DMI Australia Pty. Ltd. | Australia | 100% | 4 | |
| ESSA Australia Limited | Australia | 100% | | |
| Fleet Rebuild Pty. Ltd. | Australia | 100% | 41 | |
| Mayer Bulk Group Pty. Ltd | Australia | 100% | 40 | |
| FLSmidth Mayer Pty. Ltd. | Australia | 100% | 24 | |

# Notes

## 11 Investments in subsidiaries (Fortsat)

| Name | Registered office | Ownership interest | Equity | Profit/loss for the year |
|---|---|---|---|---|
| Mayer Int. Machines SA P | South Africa | 100% | | |
| FLSmidth ABON Pty. Ltd. | Australia | 100% | 329 | 72 |
| FLSmidth Krebs Australia | Australia | 100% | 27 | |
| FLSmidth M.I.E. Enterpris | Australia | 100% | 174 | |
| Ludowici Pty. Limited | Australia | 100% | 1.008 | |
| Ludowici Australia Pty. Lt | Australia | 100% | | |
| Ludowici China Pty Limite | Australia | 100% | | |
| Ludowici Hong Kong Limi | Hong Kong | 100% | 29 | |
| Yantai Ludowici Mineral E | China | 100% | 19 | |
| Rojan Advanced Ceramics | Australia | 100% | | |
| Ludowici Hong Kong Inve | Hong Kong | 100% | -8 | -2 |
| Ludowici Packaging Austr | Australia | 100% | | |
| Ludowici Packaging Limit | New Zealand | 100% | | |
| FLSmidth S.A. | Chile | 100% | 549 | -93 |
| FLSmidth S.A. de C.V. | Mexico | 100% | 164 | 16 |
| FLS US Holdings, Inc. | United States | 100% | 3.514 | -12 |
| FLSmidth Inc. | United States | 100% | | |
| Fuller Company | United States | 100% | | |
| FLSmidth Dorr-Oliver Eim | United States | 100% | | |
| FLSmidth Dorr-Oliver Inc. | United States | 100% | 14 | |
| FLSmidth Dorr-Oliver Int. | United States | 100% | | |
| Ludowici Mineral Equip Ir | United States | 100% | | |
| Phillips Kiln Services (Indi | India | 50% | | -9 |
| SLS Corporation | United States | 100% | | |
| FLSmidth (Pty.) Ltd. | South Africa | 100% | 658 | -11 |
| FLSmidth Paraguay S.A. | Paraguay | 100% | | |
| IMP Group Pty Ltd | Australia | 100% | 334 | 2 |
| Intertek Robotic Laborato | Australia | 50% | | |
| IMP Automation Canada | Canada | 100% | 9 | 2 |
| IMP Holding Company (P | South Africa | 75% | 48 | 6 |
| IMP Laboratory Managen | South Africa | 75% | | |
| IMP Automated Laborato | South Africa | 75% | | |
| IMP Laboratory Support S | South Africa | 75% | | |
| IMP Automation (Pty) Ltd | South Africa | 75% | | |
| IMP Automation South Af | South Africa | 75% | | |

## Notes

### 11 Investments in subsidiaries (Fortsat)

| Name | Registered office | Ownership interest | Equity | Profit/loss for the year |
|---|---|---|---|---|
| IMP Mineral Laboratory S | South Africa | 75% | | |
| IMP Automation Africa (P | South Africa | 75% | | |
| Bonacryl South Africa (Pty | South Africa | 75% | | |
| Stand 30 Christopher Stre | South Africa | 75% | | |
| Petrichor Accounting Serv | South Africa | 75% | | |
| Petrichor Concepts (Pty) l | South Africa | 75% | | |
| Petrichor Marketing (Pty) | South Africa | 75% | | |
| | | | 15.332 | 237 |

* Associate
** Joint Venture
All other enterprises are Group enterprises

| | 2019 | 2018 |
|---|---|---|
| | MDKK | MDKK |
| **12 Investments in associates** | | |
| Cost at 1 January 2019 | 8 | 8 |
| Cost at 31 December 2019 | 8 | 8 |
| Revaluations at 1 January 2019 | -8 | -8 |
| Revaluations at 31 December 2019 | -8 | -8 |
| **Carrying amount at 31 December 2019** | **0** | **0** |

**13 Financial assets**

| | Other investments |
|---|---|
| | MDKK |
| Cost at 1 January 2019 | 22 |
| Additions for the year | 0 |
| Cost at 31 December 2019 | 22 |
| Impairment losses at 1 January 2019 | 11 |
| Impairment losses for the year | 3 |
| Impairment losses at 31 December 2019 | 14 |
| **Carrying amount at 31 December 2019** | **8** |

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.

## 14 Receivables

### Ageing:

| | | |
|---|---|---|
| Not due for payment | 303 | 345 |
| Overdue up to 60 days | 143 | 82 |
| Overdue between 60-180 days | 41 | 53 |
| Overdue between 180-360 days | 18 | 7 |
| Overdue more than 1 year | 8 | 17 |
| **Trade receivables at 31 December 2019** | **515** | **504** |

| | | |
|---|---|---|
| Trade receivables not due for payment with retentions on contractual terms | 126 | 100 |

### Write-down of trade receivables:

| | | |
|---|---|---|
| Write-down at 1 January 2019 | 23 | 19 |
| Additions | 7 | 8 |
| Reversals | -3 | -4 |
| Realised | -4 | 0 |
| **Write-down at 31 December 2019** | **23** | **23** |

# Notes

| | 2019 | 2018 |
|---|---|---|
| | MDKK | MDKK |
| **15 Contract work in progress** | | |
| Sales price value of production for the period | 7.804 | 6.030 |
| Payments received on account | -7.011 | -5.642 |
| | **793** | **388** |
| Recognised in the balance sheet as follows: | | |
| Contract work in progress recognised in assets | 793 | 388 |
| Prepayments received recognised in debt | -514 | -351 |
| | **279** | **37** |

## 16 Receivables from subsidiaries

Receivables from affiliated companies include receivable dividend from prior years at the amount of MDKK 0 (2018: MDKK 0).

The receivables include cash pool accounts, group trade receivables and a non interest bearing balance of MDKK 0 (2018: MDKK 38) with affiliated companies.

## 17 Prepayments

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

# Notes

## 18 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** |

## 19 Deferred tax

| | 2019 MDKK | 2018 MDKK |
|---|---|---|
| Deferred tax at 1 January 2019 | 314 | 253 |
| Movements via the income statement | 104 | 65 |
| Movements via equity | 1 | 0 |
| Changes in relation to previous years | 50 | -4 |
| **Deferred tax at 31 December 2019** | **469** | **314** |

# Notes

| | 2019 | 2018 |
|---|---|---|
| | MDKK | MDKK |
| **20 Other provisions** | | |
| Balance at beginning of year at 1 January 2019 | 222 | 384 |
| Provision in year | 70 | 203 |
| Used during the year | -70 | -216 |
| Reversals during the year | -41 | -149 |
| **Balance at 31 December 2019** | **181** | **222** |

| | 2019 | 2018 |
|---|---|---|
| The expected due dates of other provisions are: | | |
| Within one year | 113 | 171 |
| Between 1 and 5 years | 68 | 51 |
| | **181** | **222** |

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.

## 21 Long term debt

| | Debt at 1 January 2019 | Debt at 31 December 2019 | Instalment next year | Debt outstanding after 5 years |
|---|---|---|---|---|
| | MDKK | MDKK | MDKK | MDKK |
| Prepayments received from customers | 202 | 225 | 0 | 0 |
| Other payables | 0 | 25 | 0 | 0 |
| | **202** | **250** | **0** | **0** |

## Notes

### 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 (2018: mDKK 11).

### 23 Contingencies, etc.

| | 2019<br>MDKK | 2018<br>MDKK |
|---|---|---|
| Guarantees | 4.980 | 4.721 |
| Rental agreements | 14 | 7 |
| Operational lease | 5 | 3 |
| | **4.999** | **4.731** |

The Company has through its banks provided usual security in the form of performance guarantees etc. for contracts and supplies. At the end of 2019 the total number of performance and payment guarantees issued amounted to DKK 1.199m (2018: 1.316m). 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 2019, 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 2019 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 | 2019 | 2018 |
|---|---|---|
| | MDKK | MDKK |
| AUD | -91 | -68 |
| CHF | -5 | 0 |
| USD | -357 | -331 |
| ZAR | -90 | -64 |
| INR | -55 | -61 |
| MXN | -19 | -22 |
| GBP | -12 | -6 |
| CAD | -28 | -13 |
| CNY | 210 | 185 |
| Other currencies | -53 | 2 |
| | **-500** | **-378** |

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

The book value of receivables and payables at 31 December 2019 largely corresponds to the fair value.

# Notes

## 26 Related parties and ownership structure

### Transactions

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.

In 2018, FLSmidth Inc. tranfered the business assets related to cemenet project business as operated by FLSmidth Inc. regarding projects within the Cement industry outside the United States to FLSmidth A/S.

In 2018, FLSmidth A/S transfered all its shares in FLSmidth Global Field Services ApS to FLSmidth Operation & Maintenance A/S at a value of MDKK 37. The transfer of shares created a gain on sale on of subsidiearies of MDKK 27 that in 2018 was presented as part of income from investment in subsidiaries.

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

| | 2019 | 2018 |
|---|---|---|
| | MDKK | MDKK |
| Revenue | 220 | 300 |
| Cost of production | -241 | -637 |
| Royalties | 494 | 557 |
| Group fees | 477 | 576 |
| Group cost | -204 | -392 |
| Interest cost | -27 | -19 |

### 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 2019 is available on www.flsmidth.com:

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

# Notes

## 27 Subsequent events

In early 2020, the COVID-19 outbreak is escalating globally and impacting communities and businesses as well as financial markets negatively. The outbreak is considered a subsequent event, which has not impacted the financial position of the Company at 31 December 2019.