FLSmidth Global Services A/S

Ramsingsvej 5

2500 Valby

CVR no. 19 09 43 08

Annual report for 2018

Adopted at the annual general meeting on 3 July 2019

Peter Thomsen
chairman

Table of contents

Statement by management on the annual report

The board of directors and executive management have today discussed and approved the annual report of FLSmidth Global Services 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, 3 July 2019

Executive management

Anders Benfeldt
CEO

Board of directors

Pernille Friis Andersen
chairman

Jens Schmidt Antonsen

Anders Benfeldt

Peter Thomsen

Independent auditor's report

To the shareholder of FLSmidth Global Services A/S

Opinion

We have audited the financial statements of FLSmidth Global Services 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.

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 management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover 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 management's review and, in doing so, consider whether 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 management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that 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 management's review.

Copenhagen, 3 July 2019

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

Jens Thordahl Nøhr	Kennet Hartmann
State Authorised Public Accountant	State Authorised Public Accountant
mne32212	mne40036

Company details

FLSmidth Global Services A/S
Ramsingsvej 5
2500 Valby

Telephone:	36183780
Fax:	36456415
Website:	www.flsmidth.com
CVR-no.	19 09 43 08
Financial year:	1 January - 31 December 2018
Incorporated:	28 December 1995
Domicile:	Copenhagen

Board of directors
Pernille Friis Andersen, chairman
Jens Schmidt Antonsen
Anders Benfeldt
Peter Thomsen

Executive Board
Anders Benfeldt, CEO

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
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	231,195	306,583	410,954	411,415	420,431
Gross profit	123,290	-204,522	47,039	69,284	-61,334
Operating profit/loss	-140	-255,801	-4,447	9,792	-104,921
Net financials	-24,685	-26,222	-132,668	-10,439	15,122
Profit/loss for the year	-155,438	-220,230	-126,402	-3,676	-76,023
Balance sheet					
Balance sheet total	728,501	330,972	516,048	731,499	557,823
Equity	89,815	-128,371	-60,801	91,043	2,827
Number of employees	838	957	978	955	1,165
Financial ratios					
Gross margin	53.3%	-66.7%	11.4%	16.8%	-14.6%
EBIT margin	-43.2%	-87.4%	-1.2%	-2.4%	-25.0%
Solvency ratio	12.3%	-38.8%	-11.8%	12.4%	0.5%
Return on equity	806.3%	232.8%	-835.9%	-7.8%	-187.5%

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 Global Services A/S' primary activities are operations and maintenance of cement plants and sale of engineering services.

Business review

The company's income statement for the year ended 31 December 2018 shows a loss of TDKK 155,438, and the balance sheet at 31 December 2018 shows equity of TDKK 89,815. The overall results is lower than expected.

In March 2018 the company signed a 1 year Advisory contract with Xuan Thanh Cement in Vietnam providing onsite O&M service with 5 advisors on the client's 12,500 TPD FLSmidth Cement Line.

In May 2018 an agreement for On-line and telephone support was signed with Mongolyn Alt (MAK) for the client's 3000 TPD FLSmidth cement production line.

In Egypt the contracts with ACC and Ramliya were negatively impacted by inventory write-downs and provisions for employee liabilities.

Furthermore, the NCC contract was suspended and claims from both parties are currently being assessed in an arbitration case in Switzerland. The expectations to the outcome positive, however uncertain at this point in time.

As at December 2018, the cost price of the investment in Angola was tested for impairment. The impairment test showed an impairment for 2018 of 80mDKK.

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. This report also constitute FLSmidth Global Services' statutory reporting on CSR cf. §99a and can be acessed through the following link:
https://www.flsmidth.com/en-gb/company/sustainability/sustainability-reports

Statutory report on the underrepresented gender

At the end of 2018, women accounted for 0% (end 2017: 0%) of the members of the Board of Directors elected at the Annual General Meeting for FLSmidth Global Sevices A/S, not fulfilling the FLSmidth Group target that minimum 25% of the members elected at the annual general meeting should be female at the end of 2019. The target was not achieved because there was no rotations in the Board of Directors in 2018, however, the target has been achieved at the start of 2019. Currently, the Board of Directors consists of 3 male and 1 female members elected by the general assembly.

With one member in Management, the company does not have equal diversity in gender. It is the company’s objective to have the best qualified Management without discriminating gender and nationalities. Most of FLSmidth Global Services A/S’ employees are situated globally with a local Head of Operations, which naturally reflects a multitude of cultures and nationalities.

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.

For Management Claus Toubøl has been replaced by Anders Benfeldt.

Management's review

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.

To take benefit of optimizing cooperation and steamlining og business systems initiatives will be taken in 2019 to merge two service companies FLSmidth Operation & Maintenance A/S and FLSmidth Global Fields Services ApS. The name of the going company has changed to FLSmidth Global Services A/S as of 1th of January 2019.

Outlook for 2019

The level of activities is expected to be higher than in 2018.

The results for 2019 are expected to be positive due to profitable contracts.

Accounting policies

The annual report of FLSmidth Global Services 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 recognition and measurement of revenue from costumer contracts in accordance with IFRS 15. Following the change, revenue from operation and maintenance contracts will continue to be recognised over time, as the contract obligations towards the customers will be fullfilled over the course of contract. The measurement towards completion for the operation and maintenance contracts has however changed from a produced output basis to a cost-to-cost basis.

The principles from IFRS 15 were adopted using the modified retrospective method. The effect of the change is an increased equity with before tax 26 mDKK at 1 January 2018.

The annual report for 2018 is presented in TDKK

Pursuant to sections §112 subsection 1 and §86 subsection 4 of the Danish Financial Statements Act, the Annual Report of FLSmidth Global Services 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.

Accounting policies

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.

Income statement

Revenue

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.

In production costs an impairment of intercompany receivable of 192 MDKK from trading is included.

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.

Other operating expenses

Other operating expenses comprise items of a secondary nature relative to the company's activities.

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 NLS Supervision Company Tunesia is included.

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.

Accounting policies

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 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.

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.

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.

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.

Accounting policies

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 is not designated as or does 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	$\dfrac{\text{Gross profit x 100}}{\text{Revenue}}$
EBIT margin	$\dfrac{\text{Profit/loss before financials x 100}}{\text{Revenue}}$
Solvency ratio	$\dfrac{\text{Equity at year-end x 100}}{\text{Total assets at year-end}}$
Return on equity	$\dfrac{\text{Net profit for the year x 100}}{\text{Average equity}}$

Income statement 1 January 2018 - 31 December 2018

	Note	2018 TDKK	2017 TDKK
Revenue	1	**231,195**	**306,583**
Cost of productions		-107,905	-511,105
Gross profit		**123,290**	**-204,522**
Sales and distribution costs		-16,926	0
Administrative costs		-106,504	-51,279
Operating profit/loss		**-140**	**-255,801**
Other operating income	3	34,694	0
Impairment of investment in subsidiaries and associates	9	-80,000	-12,001
Other operating costs		-54,340	0
Profit/loss before financial income and expenses		**-99,786**	**-267,802**
Financial income	4	36,626	164,118
Financial costs	5	-61,311	-190,340
Profit/loss before tax		**-124,471**	**-294,024**
Tax on profit/loss for the year	6	-30,967	73,794
Net profit/loss for the year		**-155,438**	**-220,230**
Retained earnings		-155,438	-220,230
		-155,438	**-220,230**

Balance sheet at 31 December 2018

	Note	2018	2017
		TDKK	TDKK
Assets			
Completed development projects		0	0
Intangible assets	8	**0**	**0**
Investments in subsidiaries	9	78,794	357
Investments in associates	10	0	0
Other investments	11	50	50
Deposits	11	339	236
Deferred tax assets	15	0	52,318
Financial assets		**79,183**	**52,961**
Total non-current assets		**79,183**	**52,961**
Finished goods and goods for resale		115,846	99,240
Inventories		**115,846**	**99,240**
Trade receivables		74,132	33,855
Receivables from affiliated companies		298,429	4,357
Other receivables		65,523	69,407
Corporation tax		33,867	0
Prepayments	13	8,081	0
Receivables		**480,032**	**107,619**
Cash		**53,440**	**71,152**
Total current assets		**649,318**	**278,011**
Total assets		**728,501**	**330,972**

Balance sheet at 31 December 2018

	Note	2018 TDKK	2017 TDKK
Equity and liabilities			
Share capital		3,500	2,500
Revaluation reserve		-28,272	-31,874
Retained earnings		114,587	-98,997
Equity	14	**89,815**	**-128,371**
Provision for deferred tax	15	1,694	0
Other provisions	16	146,880	10,291
Total provisions		**148,574**	**10,291**
Long-term prepayments from customers		5,708	0
Total non-current liabilities		**5,708**	**0**
Prepayments received from customers		1,589	13,758
Trade payables		18,652	17,355
Contract work in progress	12	13,157	1,059
Payables to affiliated companies		345,981	326,232
Corporation tax		15,516	6,273
Other payables	17	83,493	84,375
Deferred income		1,410	0
Other provisions, short term		4,606	0
Total current liabilities		**484,404**	**449,052**
Total liabilities		**490,112**	**449,052**
Total equity and liabilities		**728,501**	**330,972**

Other notes

Staff	2
Significant events occuring after end of reporting period	18
Contingencies, etc.	19
Mortgages and collateral	20
Related parties and ownership structure	21

Statement of changes in equity

	Share capital	Revaluation reserve	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2018	2,500	-31,874	-98,996	-128,370
Net effect from change of accounting policy	0	0	26,056	26,056
Tax regarding changes in equity	0	0	-6,035	-6,035
Adjusted equity at 1 January 2018	2,500	-31,874	-78,975	-108,349
Exchange adjustments	0	3,602	0	3,602
Cash capital increase	1,000	0	349,000	350,000
Net profit/loss for the year	0	0	-155,438	-155,438
Equity at 31 December 2018	**3,500**	**-28,272**	**114,587**	**89,815**

Notes

		2018	2017
		TDKK	TDKK
1	**Revenue**		
	Income recognised in accordance with over time principle	231,195	306,583
	Total revenue	**231,195**	**306,583**
	Geographical breakdown:		
	South America	45,716	
	Europe, North Africa & Russia	136,711	
	Sub-Saharan & Middle east	36,074	
	Asia	4,419	
	Subcontinental India	8,275	
	Total revenue	**231,195**	**306,583**
	Segment reporting:		
	Service	231,195	306,583
	Cement	**231,195**	**306,583**
	Total revenue	**231,195**	**306,583**

Service:

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

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

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

Notes

1 Revenue (continued)

retrofits are very similar to the pattern for projects and products.

	2018	2017
	TDKK	TDKK
2 Staff		
Wages and salaries	98,783	84,851
Pensions	3,730	465
Other staff expenses	1,243	8,579
	103,756	**93,895**
Average number of employees	838	957

According to section 98 B(3) of the Danish Financial Statements Act, renumeration to the Executive Board has not been disclosed.

No specific remuneration is paid to the compay's management and Board of directors.

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

3 Other operating income

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.

Notes

		2018	2017
		TDKK	TDKK
4	**Financial income**		
	Interest income from financial assets	5,080	0
	Other financial income	0	1,328
	Foreign exchange gains	31,546	162,790
		36,626	**164,118**

		2018	2017
5	**Financial costs**		
	Interest paid to subsidiaries	3,454	6,741
	Other financial costs	0	3,185
	Foreign exchange losses	32,357	180,279
	Exchange loss	0	135
	Interest to Tax authorities	25,500	0
		61,311	**190,340**

Within the foreign income, there is included finance costs of DKK 25,500k which is a provision for interest relating to ongoing tax case in Egypt.

		2018	2017
6	**Tax on profit/loss for the year**		
	Current tax for the year	-23,318	-14,208
	Deferred tax for the year	17,800	-42,765
	Adjustment of tax concerning previous years	-12,815	0
	Adjustment of deferred tax concerning previous years	29,800	-16,821
	Tax provision	19,500	0
		30,967	**-73,794**

7 Distribution of profit

Retained earnings	-155,438	-220,230
	-155,438	**-220,230**

8 Intangible assets

	Completed development projects	Total
	TDKK	TDKK
Cost at 1 January 2018	2,366	2,366
Cost at 31 December 2018	2,366	2,366
Impairment losses and amortisation at 1 January 2018	2,366	2,366
Impairment losses and amortisation at 31 December 2018	2,366	2,366
Carrying amount at 31 December 2018	**0**	**0**

Notes

		2018	2017
		TDKK	TDKK
9	**Investments in subsidiaries**		
	Cost at 1 January 2018	12,852	13,587
	Net effect from merger and acquisition	43,484	0
	Additions for the year	114,953	0
	Disposals for the year	0	-735
	Cost at 31 December 2018	171,289	12,852
	Revaluations at 1 January 2018	-12,495	-586
	Impairment changes for the year	-80,000	-11,909
	Revaluations at 31 December 2018	-92,495	-12,495
	Carrying amount at 31 December 2018	**78,794**	**357**

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 80 in Angola (2017: MDKK 12).

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.

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

Notes

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
NL Supervision Company Tunesia	Tunesia	95%	-18,269	-5,474
NL Supervision Company Nigeria LLC	Nigeria	75%	523	-12
NL Supervision Company Angola, LDA.	Angola	90%	34,497	21,160
FLSmidth Global Field Services ApS	Denmark	100%	43,484	7,900

Notes

	2018	2017
	TDKK	TDKK
10 Investments in associates		
Cost at 1 January 2018	91	91
Cost at 31 December 2018	91	91
Revaluations at 1 January 2018	-91	-91
Revaluations at 31 December 2018	-91	-91
Carrying amount at 31 December 2018	**0**	**0**

Investments in associates are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
FLSmidth Sales and Services Limited Nigeria	Nigeria	25%	127	193

11 Financial assets

	Other investments	Deposits
	TDKK	TDKK
Cost at 1 January 2018	87	236
Additions for the year	0	103
Cost at 31 December 2018	87	339
Revaluations at 1 January 2018	-37	0
Revaluations at 31 December 2018	-37	0
Carrying amount at 31 December 2018	**50**	**339**

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
	TDKK	TDKK
12 Contract work in progress		
Sales price value of production for the period	550,250	1,044,541
Payments received on account	-563,407	-1,029,724
	-13,157	**14,817**
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	0	14,817
Prepayments received recognised in debt	-13,157	-1,059
	-13,157	**13,758**

13 Prepayments

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

14 Equity

The share capital consist of 3,500 shares of a nominel value of TDKK 1. No shares carry any special rights

The share capital has developed as follows:

	2018	2017	2016	2015	2014
	TDKK	TDKK	TDKK	TDKK	TDKK
Share capital at 1 January 2018	2,500	1,500	1,500	1,500	1,500
Additions for the year	1,000	1,000	0	0	0
Share capital	**3,500**	**2,500**	**1,500**	**1,500**	**1,500**

15 Deferred tax

	2018	2017
	TDKK	TDKK
Deferred tax at 1 January 2018	52,318	-7,147
Exchange rate adjustment	271	-142
Changes in deferred tax related to changes in accounting policy due to IFRS 15	-6,035	0
Other adjustment	-649	16,843
Changes for the year	-17,800	42,764
Adjustment prior year	-29,799	0
Provision for deferred tax at 31 December 2018	**-1,694**	**52,318**

Notes

		2018	2017
		TDKK	TDKK
16	**Other provisions**		
	Balance at beginning of year at 1 January 2018	10,291	27,462
	Provision in year	139,003	0
	Used during the year	-2,414	-17,171
	Balance at 31 December 2018	**146,880**	**10,291**
	The expected due dates of other provisions are:		
	Within one year	0	10,291
	Between 1 and 5 years	146,880	0
		146,880	**10,291**

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. Provision mainly related to write down equilavent to recoverable amount of interest mainly remaining to Egypt and Libya.

17 Other payables

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

Notes

18 Significant events occuring after end of reporting period

To take benefit of optimizing cooperation and steamlining og business systems initiatives will be taken in 2019 to merge two service companies FLSmidth Operation & Maintenance A/S and FLSmidth Global Fields Services ApS. The name of the going company has changed to FLSmidth Global Services A/S as of 1th of January 2019.

19 Contingencies, etc.

Operational lease	1,100	0
	1,100	**0**

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 Global Services 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.

During 2018, the NCC contract was suspended and claims from both parties are currently being assessed in an arbitration case in Switzerland. The expectations to the outcome are positive, however uncertain point in time.

20 Mortgages and collateral

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

21 Related parties and ownership structure

Transactions

FLSmidth & Co. A/S has committed to provide liquidity and/or capital support so FLSmidth Global Services A/S necessary to maintain continuous operation in 2019.

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	3mDKK
Cost of production	-2mDKK
Group cost	-8mDKK
Interest cost	-3mDKK

Consolidated financial statements

FLSmidth Global Services 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