FLSmidth Global Services A/S

Ramsingsvej 5

2500 Valby

Valby

CVR no. 19 09 43 08

Annual report for 2021

Adopted at the annual general meeting on 30 June 2022

Morten Loll Larsen
chair

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Company details

FLSmidth Global Services A/S
Ramsingsvej 5
2500 Valby
Valby

Telephone:	36183780
Fax:	36456415
Website:	www.flsmidth.com
CVR-no.	19 09 43 08
Financial year:	1 January - 31 December 2021
Incorporated:	28 December 1995
Domicile:	Copenhagen

Board of directors
Tove Møller Nielsen, chair
Carsten Pustelnik
Morten Loll Larsen

Executive Board
Morten Loll Larsen, CEO

Auditors
EY Godkendt Revisionspartnerselskab
Dirch Passers Allé 36
2000 Frederiksberg

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 2021.

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 2021 and of the results of the company's operations for the financial year 1 January - 31 December 2021.

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 by the company in general meeting.

Valby, 30 June 2022

Executive management

Morten Loll Larsen
CEO

Board of directors

Tove Møller Nielsen chair	Carsten Pustelnik	Morten Loll Larsen

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 2021, 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 2021 and of the results of the company's operations for the financial year 1 January - 31 December 2021 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Management's responsibilities for the financial statements

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

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

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Independent auditor's report

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

Statement on 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, 30 June 2022

EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

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

Financial highlights

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

	2021	2020	2019	2018	2017
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	314.990	399.693	425.011	231.195	306.583
Gross profit	-21.626	18.086	8.660	123.290	-204.522
Profit/loss before amortisation/depreciation and impairment losses	-69.709	-39.244	-81.641	-140	-255.801
Net financials	-13.899	1.308	2.590	-24.685	-26.222
Profit/loss for the year	-74.106	-47.014	-73.681	-126.828	-220.230
Balance sheet					
Balance sheet total	261.646	424.857	417.240	728.501	330.972
Equity	74.462	19.082	65.727	118.425	-128.371
Number of employees	380	807	804	838	957
Financial ratios					
Gross margin	-6,9%	4,5%	2,0%	53,3%	-66,7%
EBIT margin	-17,4%	-11,2%	-20,4%	-30,8%	-87,4%
Solvency ratio	28,5%	4,5%	15,8%	16,3%	-38,8%
Return on equity	-158,4%	-110,9%	-80,0%	2.550,3%	232,8%

Key figures for 2018-2020 have been adjusted. Refer to accounting policy.

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

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

Management's review

Business acitivities

FLSmidth Global Services A/S's primary activities are asset management in the cement industry and advisory contracts for projects in the mining and cement industry, including man power services

Financial review

The company's income statement for the year ended 31 December 2021 shows a loss of TDKK 74.106, and the balance sheet at 31 December 2021 shows equity of TDKK 74.462.

The 2021 performance is not satisfactory, but a result of the closing of the Wadi El Nil project in Egypt and the ongoing transition away from O&M contracts.

FLSmidth Global Services A/S has activities in following branches:
- NL Supervision Company A/S - Libya Branch
- FLSmidth Global Services A/S - Egypt Branch
- FLSmidth Global Services A/S - Uruguayan Branch
- FLSmidth Global Services A/S - Kuwait Branch
- FLSmidth Global Services A/S - Pakistan Branch
- FLSmidth Global Services A/S - Bangladesh Branch
- FLSmidth Global Services A/S - Marocco Branch

Impact of correction related to material mistakes

While preparing the 2021 Annual Report, it was observed that the financials from previous years were negatively impacted by inclusion of provisions for negative net assets in certain of the Companys branches. The mentioned branches are consolidated into the Company line-by-line, thus all losses are already included, and no further provisions are required.

Management have assessed the impact of the included provisions as material for the financial position of the Company and consequently adjusted the results after tax for the years 2018, 2019 and 2020 by respectively DKK 28,6 million, DKK -13,5 million and DKK 18,3 million.

As of December 31, 2020, the above changes results in increased Trade receivables of DKK 5 million, reduced Deferred Tax Asset of DKK 6,6 million and reduced Other provisions of 35 million.

Market trends

Mining Market

The mining industry has remained largely resilient during the course of 2021 aided by high commodity prices and solid industry fundamentals. The global mining market is expected to grow over the coming years and the long-term outlook remains positive driven by global economic development and increased demand for minerals required the green transition.

During 2021, copper prices hit an all-time high of more than USD 10,000 per tonne, driven by expectations of a post-pandemic recovery and increased demand for commodities to support global economic development and the green transition. Concerns about debt problems of Chinese property developers, along with efforts to limit Chinese steel production added pressure on the iron ore price during the second half of the year. Prices have though remained at highly profitable production margins. Prices for most other minerals have stayed high throughout the year.

The outlook for investments in mining remains positive. The sustainability agenda continues to gather steam with the large mining companies aligning their business models to the Paris Agreement. Miners are generating good cash flows and are well capitalised to invest following low capex levels in recent years.

Cement Market
There is growing demand for green solutions in the cement industry. While the short-term industry outlook remains unchanged with significant overcapacity, we expect a mid-term recovery fuelled by large economic stimulus packages requiring green and carbon neutral infrastructure.

During 2021, the cement industry started to recover with improved service activity. After easing travel restrictions during the year, the increase in infection numbers towards the end of the year has put renewed strain on site visits due to preventative measurements taken by authorities and plant operators. At the same time, the global construction supply chain challenge has triggered higher costs, labour and materials shortages as well as delays across regions. In addition, energy costs are surging on global shortages of gas and coal. While this threatens to derail the emerging recovery for the cement industry, it also reinforces the need for greener solutions and alternative fuels.

Overall, we see increased demand for solutions that can decarbonise and debottleneck cement plants. Demand for new capacity remains subdued, and the pandemic situation casts added uncertainty over the speed of recovery in the cement industry.

Special risks apart from generally occurring risks in the industry

FLSmidth’s risk management framework is outlined on the company website: www.flsmidth.com/en-gb/company/investors/governance/managing-risks.

The Board of Directors has the overall responsibility for deciding the Group’s risk appetite and reviews the Group’s top risks and key mitigation strategies annually.

This year’s risk review resulted in the identification of 10 top risks and opportunities that have the potential to significantly impact the entire business and organisation. The top risks - supply chain, cyber security, compliance and geopolitical - were all different from 2020.

During 2021, the world economy has been faced with logistics and supply chain challenges. As a global company this has impacted FLSmidth too. We have, however, been successful in mitigating most of the impact based on our flexibility to switch between suppliers and our regionalised sourcing and setup for the service business. Also, artificial intelligence has been a key lever to continuously track the fastest and cheapest transport routes.

Compliance was another identified risk in 2021 with a high potential impact. Investors and other stakeholders increasingly expect companies to account for not only their own operations but suppliers’ and customers’ actions too. A specific focus area is modern slavery and the risk from unknowingly supporting the use of forced labour as part of the extended supply chain. We proactively manage this risk through due diligence, and we show our commitment by seeking full and progressive alignment with the UN Guiding Principles on Business and Human Rights.

Attracting and retaining employees was the second highest risk in 2020 and fifth highest risk in 2021. The industries we operate in are challenged by the ability to attract enough high skilled and high-performing staff. However, the pending thyssenkrupp Mining business acquisition holds great potential to solve the talent challenge in our Mining business, as this acquisition will onboard more than 2,000 skilled employees.

Last year’s top identified risks were Cement Market conditions and Projects. Our Cement business reshaping efforts coupled with the increasing demand for sustainability offerings have helped to significantly mitigate and reduce this risk. In Mining, our focus on increased standardisation and modularisation, balancing project scope with profitability and the integration of engineering departments into the business have all contributed to confining project related risks. This is crucial as we concurrently see a more litigious environment developing with customers being more willing to activate remedies in contracts to their advantage. In response to this trend, we are tightening up our terms and conditions to help mitigate the financial impact.

Risk management

The Treasury Policy aims to reduce the most significant currency risks to better predict the impact on the income statement as well as the cash flows to be paid or received and to protect the EBITDA of the individual entities from changes in exchange rates. The risks are managed through hedging activities by entering commonly used derivatives such as forward contracts. The currency risks, which is transaction risk, arise primarily from purchase and sale in foreign currencies compared to the functional currency of each of the Group entities.

The Treasury Policy sets forth thresholds and requirements for the hedging strategy to be applied. Hedge accounting is applied for the largest project transactions. For other project transactions, the currency risk is either not hedged or economically hedged, dependent on the significance of the risk.

We are, to a large extent, carrying out transactions in EUR and USD as these currencies are preferred in the Mining and Cement industries. EUR against DKK is currently not considered an exposure due to the Danish Kroner being pegged to the Euro.

Credit risks

We are exposed to credit risks arising from cash and cash equivalents, derivatives and receivables including work in progress.

The Treasury Policy sets forth authority limits for the credit risk exposure related to cash and cash equivalents as well as derivatives. The limits are based on the counterparty credit rating.

We have entered into netting agreements with the counterparties used for trading of derivatives, which means that the credit risk for derivatives is limited to the net assets per counterparty.

We aim at using banks of high quality in the countries we operate in. However, due to the nature of our business and operations in emerging markets, we are sometimes exposed to banks where the credit rating and quality can be lower than what we typically see in developed countries.

Management's review

Statutory corporate social responsibility report

Concurrently with the Group Annual Report, FLSmidth has published its 2021 Sustainability Report, covering non-financial performance related to the environmental and social impacts.

The 2021 Sustainability Report is in full compliance with Section 99a of the Danish Financial Statements Act, and also serves as the Communication on Progress to the United Nations Global Compact.

The report for 2021 is available on:
https://www.flsmidth.com/en-gb/company/sustainability/sustainability-reports

Policies on the underrepresented gender

At the end of 2021, women accounted for 33% (end 2020: 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.

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.

Statement of policy for data ethics

During 2021, FLSmidth issued its Policy on Data Ethics. The policy addresses the data ethic principles applied by FLSmidth and describes the approach to data processing covering all data types. When using artificial intelligence and the like, we strive to ensure that the results are not discriminatory or biased. The short- and long term consequences of data processing activities, especially when new technology is applied, are considered and the impact on the data subjects are taken into account. Security of data is important to us. FLSmidth adheres to the six fundamental ethical values developed by the expert group on data ethics to the Danish Data Ethics Council. Group Legal is the owner of the policy.

For FLSmidth A/S’ statutory reporting cf. §99d, please refer to our Group report available at:
www.flsmidth.com/data-ethics

Significant events occurring after the end of the financial year

FLSmidth Group is closely following the situation in Ukraine and the sanctions made by EU, USA and other western countries towards Russia. Although the mining and cement industries are currently not subject to sanctions, FLSmidth has suspended new business in Russia and Belarus and will wind down our activities in Russia. We are, however, obliged to fulfil our legal obligations with regards to ongoing activities to the extent possible. FLSmidth Global Services A/S has no material activities in Russia.

We will follow any new sanctions as they are announced on an ongoing basis.

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

Outlook for 2022

The outlook for the mining industry remains positive driven by global economic development and increased demand for minerals required for the green transition. For 2022, the Mining business revenue and net result is expected to grow. Mining margin is expected to be impacted by a higher share of capital revenue, higher logistics costs and inflation.

The short-term outlook for the cement industry remains impacted by overcapacity and slow recovery. Following a year of reshaping, we expect the Cement business to return to positive net result in 2022. Cement net result margin is expected to be impacted by higher logistics costs and inflation.

Mid-term recovery is expected in the cement industry driven by increased demand for sustainability solutions.

Guidance for 2022 is a revenue in the range of 120-140m DKK and a result before tax, but excluding impairments of investments in subsidiaries in the range of a loss of 5–15m DKK. The expected loss is mainly driven by the transition away from O&M contracts, which already started in 2021.

Guidance for 2022 is subject to uncertainty due to the pandemic, global supply chain situation and geopolitical turmoil.

Accounting policies

The annual report of FLSmidth Global Services A/S for 2021 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 2021 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 excluded in accordance with §96 subsection 3.

Impact of correction related to material mistakes

While preparing the 2021 Annual Report, it was observed that the financials from previous years were negatively impacted by inclusion of provisions for negative net assets in certain of the Companys branches. The mentioned branches are consolidated into the Company line-by-line, thus all losses are already included, and no further provisions are required.

Management have assessed the impact of the included provisions as material for the financial position of the Company and consequently adjusted the results after tax for the years 2018, 2019 and 2020 by respectively DKK 28,6 million, DKK -13,5 million and DKK 18,3 million.

As of December 31, 2020, the above changes results in increased Trade receivables of DKK 5 million, reduced Deferred Tax Asset of DKK 6,6 million and reduced Other provisions of 35 million.

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.

Accounting policies

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 installments 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.

Income statement

Revenue

Revenue is recognized based on IFRS 15.

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.

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 expenses comprise expenses incurred in the year related to management, administrative staff, office premises, office expenses, depreciation, etc.

Accounting policies

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 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 that relate 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, liabilities and foreign currency transactions, amortisation of financial assets and liabilities and surcharges and allowances under the Danish Tax Prepayment 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.

Balance sheet

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 acquisition 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.

Accounting policies

Impairment of non-current assets

The carrying amount of investments in subsidiaries, associates and participating interests is tested annually for impairment, other than what is reflected through normal amortisation and depreciation.

Where there is evidence of impairment, an impairment test is performed for each individual asset or group of assets. Write-down is made to the lower of the recoverable amount and the carrying amount.

The recoverable amount is the higher of the net present value and the value in use less expected costs to sell. The net present value 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 expected selling price less direct costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Receivables

Receivables are measured at amortised cost.

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

Accounting policies

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 - except for provisions for deferred tax - are measured at net asset value.

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 is measured at net realisable value.

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.

Accounting policies

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 instruments are considered cash flow hedges, any unrealised value adjustments are taken directly to a fair value reserve under ‘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 translated 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 the fair value reserve under ‘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.

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	$\frac{\text{Equity, end of year x 100}}{\text{Total assets at year-end}}$
Return on equity	$\frac{\text{Profit/loss from ordinary operations after tax x 100}}{\text{Average equity}}$

Income statement 1 January 2021 - 31 December 2021

	Note	2021 TDKK	2020 TDKK
Revenue	1	**314.990**	**399.693**
Cost of productions	2	-336.616	-381.607
Gross profit		**-21.626**	**18.086**
Sales and distribution costs	2	-12.257	-48.058
Administrative costs	2	-35.826	-9.272
Operating profit/loss		**-69.709**	**-39.244**
Other operating income	3	15.167	28.336
Impairment and reversals of impairment of investments in subsidiaries and associates	8-9	0	-4.000
Other operating costs	3	-407	-30.022
Profit/loss before financial income and expenses		**-54.949**	**-44.930**
Financial income	4	14.817	26.447
Financial costs	5	-28.716	-25.139
Profit/loss before tax		**-68.848**	**-43.622**
Tax on profit/loss for the year	6	-5.258	-3.392
Net profit/loss for the year		**-74.106**	**-47.014**
Retained earnings		-74.106	-47.014
		-74.106	**-47.014**

Balance sheet at 31 December 2021

	Note	2021	2020
		TDKK	TDKK
Assets			
Investments in subsidiaries	8	27.989	27.989
Investments in associates	9	2.886	2.886
Deposits	10	29	36
Deferred tax assets	14	19.048	25.408
Financial assets		**49.952**	**56.319**
Total non-current assets		**49.952**	**56.319**
Finished goods and goods for resale		296	66.289
Inventories		**296**	**66.289**
Trade receivables		46.113	79.185
Contract work in progress	11	4.015	0
Receivables from Group enterprises		126.319	167.861
Other receivables		1.798	5.390
Corporation tax		4.680	618
Prepayments	12	2.957	3.760
Receivables		**185.882**	**256.814**
Cash		**25.516**	**45.435**
Total current assets		**211.694**	**368.538**
Total assets		**261.646**	**424.857**

Balance sheet at 31 December 2021

	Note	2021	2020
		TDKK	TDKK
Equity and liabilities			
Share capital		3.625	3.500
Revaluation reserve		-2.434	-6.920
Retained earnings		73.271	22.502
Equity	13	**74.462**	**19.082**
Other provisions	15	44.365	70.337
Total provisions		**44.365**	**70.337**
Prepayments received from customers		1.485	0
Total non-current liabilities		**1.485**	**0**

Balance sheet at 31 December 2021 (continued)

	Note	2021 TDKK	2020 TDKK
Equity and liabilities			
Prepayments received from customers		7.028	7.163
Trade payables		7.738	8.790
Contract work in progress	11	6.589	51.125
Payables to Group enterprises		89.541	209.675
Corporation tax		0	23.050
Other payables	16	30.438	35.635
Total current liabilities		**141.334**	**335.438**
Total liabilities		**142.819**	**335.438**
Total equity and liabilities		**261.646**	**424.857**

Other notes

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Statement of changes in equity

	Share capital	Revaluation reserve	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2021	3.500	-6.920	-10.928	-14.348
Net effect from correction of material error	0	0	33.430	33.430
Adjusted equity at 1 January 2021	3.500	-6.920	22.502	19.082
Exchange adjustments	0	4.486	0	4.486
Cash capital increase	125	0	124.875	125.000
Net profit/loss for the year	0	0	-74.106	-74.106
Equity at 31 December 2021	**3.625**	**-2.434**	**73.271**	**74.462**

	Share capital	Revaluation reserve	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity 1. januar 2020	3.500	-7.289	54.436	50.647
Net effect from correction of material error	0	0	15.080	15.080
Adjusted equity 1. januar 2020	3.500	-7.289	69.516	65.727
Exchange adjustments	0	369	0	369
Net profit/loss for the year	0	0	-47.014	-47.014
Equity 31. december 2020	**3.500**	**-6.920**	**22.502**	**19.082**

Notes

		2021	2020
		TDKK	TDKK
1	**Revenue**		
	Income recognised in accordance with over time principle	314.990	399.693
	Total revenue	**314.990**	**399.693**
	Geographical breakdown:		
	North America	26.099	18.560
	South America	8.058	1.395
	Europe, North Africa & Russia	235.756	322.180
	Sub-Saharan & Middle east	26.857	50.509
	Asia	9.691	4.196
	Subcontinental India	7.846	2.247
	Australia	683	606
	Total revenue	**314.990**	**399.693**
	Segment reporting:		
	Service	297.141	381.199
	Cement	**297.141**	**381.199**
	Service	17.849	18.494
	Mining	**17.849**	**18.494**
	Total revenue	**314.990**	**399.693**

Service:

Service comprises various service elements to support the life-cycle offerings portfolio. The sale can consist of service hours or 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

Notes

1 Revenue (continued)

recognised over time as the services are provided to the customer based on the cost-to-complete 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-complete method. The payment pattern for upgrades and retrofits are very similar to the pattern for projects and products.

2 Staff

	2021	2020
	TDKK	TDKK
Wages and salaries	102.240	179.343
Pensions	1.818	3.913
Other staff expenses	696	379
Total staff costs	**104.754**	**183.635**
Average number of employees	380	807

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

No specific remuneration is paid to the company'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 and costs

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

Notes

	2021	2020
	TDKK	TDKK
4 Financial income		
Other financial income	807	708
Interest received from associates	0	6
Foreign exchange gains	5.017	21.653
Interest from Tax authorities	8.400	0
Fair value adjustments of financial instruments	593	4.080
	14.817	**26.447**

	2021	2020
5 Financial costs		
Other financial costs	0	287
Interest paid to Group enterprises	1.378	1.086
Foreign exchange losses	8.803	22.072
Interest to Tax authorities	17.520	0
Fair value adjustments of financial instruments	1.015	1.694
	28.716	**25.139**

	2021	2020
6 Tax on profit/loss for the year		
Current tax for the year	-711	12.392
Deferred tax for the year	13.376	-22.409
Adjustment of tax concerning previous years	-10.313	8.080
Adjustment of deferred tax concerning previous years	-8.613	-144
Impairment tax assets	6.097	0
Tax of ordinary income or loss	**-164**	**-2.081**
Witholding taxes	5.422	5.473
	5.258	**3.392**

		2021	2020
		TDKK	TDKK
7	**Distribution of profit**		
	Retained earnings	-74.106	-47.014
		-74.106	**-47.014**

Notes

		2021	2020
		TDKK	TDKK
8	**Investments in subsidiaries**		
	Cost at 1 January 2021	127.804	127.804
	Cost at 31 December 2021	127.804	127.804
	Revaluations at 1 January 2021	-99.815	-95.815
	Impairment changes for the year	0	-4.000
	Revaluations at 31 December 2021	-99.815	-99.815
	Carrying amount at 31 December 2021	**27.989**	**27.989**

As at 31 December 2021, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed no need for impairment in 2021 (2020: MDKK 4).

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 to eight 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 cash generating units.

Management is of the belief that the key assumptions are achievable

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
NL Supervision Company Tunesia	Tunesia	95%	-37.206	-2.674
NL Supervision Company Angola, LDA.	Angola	90%	38.174	-1.114
ISIRNEL S.A.	Uruguay	100%	411	411

	2021	2020
	TDKK	TDKK
9 Investments in associates		
Cost at 1 January 2021	3.014	3.014
Cost at 31 December 2021	3.014	3.014
Revaluations at 1 January 2021	-128	-128
Revaluations at 31 December 2021	-128	-128
Carrying amount at 31 December 2021	**2.886**	**2.886**

Investments in associates are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
FLSmidth Rusland Holding A/S	Denmark	10%	12.691	-22
FLSmidth S.A.	Spain	6%	52.944	5.477
FLSmidth Sales and Services Limited	Nigeria	25%	486	1.160

Notes

10 Financial assets

	Deposits
	TDKK
Cost at 1 January 2021	36
Exchange adjustment	-25
Additions for the year	18
Cost at 31 December 2021	29
Carrying amount at 31 December 2021	**29**

	2021	2020
	TDKK	TDKK
11 Contract work in progress		
Sales price value of production for the period	1.375.632	1.118.825
Payments received on account	-1.378.206	-1.169.950
	-2.574	**-51.125**
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	4.015	0
Contract work in progress recognised in liabilities	-6.589	-51.125
	-2.574	**-51.125**

Prepayments from customers amount to TDKK 8.513

12 Prepayments

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

Notes

13 Equity

The share capital consist of 3,625 shares of a nominel value of TDKK 1. No shares carry any special rights

The share capital has developed as follows:

	2021	2020	2019	2018	2017
	TDKK	TDKK	TDKK	TDKK	TDKK
Share capital at 1 January 2021	3.500	3.500	2.500	1.500	1.500
Additions for the year	125	0	1.000	1.000	0
Share capital	**3.625**	**3.500**	**3.500**	**2.500**	**1.500**

14 Deferred tax

	2021	2020
	TDKK	TDKK
Deferred tax at 1 January 2021	25.408	3.787
Exchange rate adjustment	4.500	-932
Changes for the year	-13.376	22.409
Changes for previous year	8.613	144
Impairment of tax assets	-6.097	0
Provision for deferred tax at 31 December 2021	**19.048**	**25.408**

	2021	2020
	TDKK	TDKK
15 Other provisions		
Balance at beginning of year at 1 January 2021	70.337	53.685
Exchange adjustment	2.328	-4.234
Provision in year	20.200	41.314
Used during the year	-48.500	-20.428
Balance at 31 December 2021	**44.365**	**70.337**
The expected due dates of other provisions are:		
Within one year	625	1.978
Between 1 and 5 years	43.740	68.359
	44.365	**70.337**

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 investment mainly related to Egypt and Libya.

Notes

	2021	2020
	TDKK	TDKK

16 Other payables

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

17 Contingent liabilities

	2021	2020
Rental agreements	131	128
	131	**128**

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.

18 Mortgages and collateral

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

19 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.

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

	2021	2020
Revenue	102mDKK	76mDKK
Cost of production	-101mDKK	-69mDKK
Group income	0mDKK	3mDKK
Group cost	36mDKK	-61mDKK
Interest cost	-1mDKK	- 1mDKK
Other operating items	19mDKK	0mDKK

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 2021 is available on www.flsmidth.com:

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

20 Significant events occurring after end of reporting period

FLSmidth Group is closely following the situation in Ukraine and the sanctions made by EU, USA and other western countries towards Russia. Although the mining and cement industries are currently not subject to sanctions, FLSmidth has suspended new business in Russia and Belarus and will wind down our activities in Russia. We are, however, obliged to fulfil our legal obligations with regards to ongoing activities to the extent possible. FLSmidth Global Services A/S has no material activities in Russia.

We will follow any new sanctions as they are announced on an ongoing basis.

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