FLSmidth

1 January - 31 December 2018
(Company announcement no. 2)

WE DISCOVER POTENTIAL

# ANNUAL REPORT 2018

| ROCE | CFFO (DKKm) |
|---|---|
| 11.0% | 385 |
| Up from 10.4% | Down from 1,065 |

| EBITA margin | Order intake (DKKm) |
|---|---|
| 8.5% | 21,741 |
| Up from 8.4% | Up from 19,170 |

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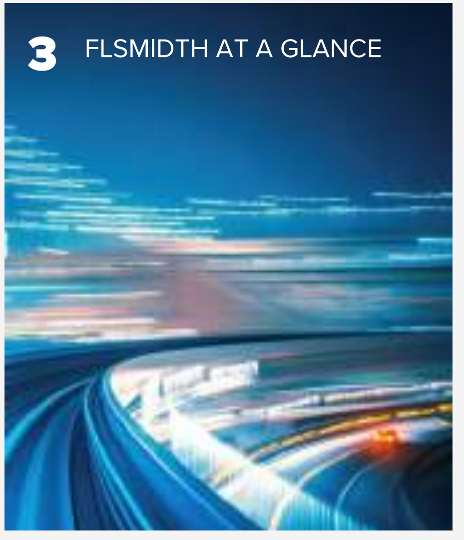




## MANAGEMENT REVIEW



## FINANCIAL STATEMENTS

# FLSMIDTH AT A GLANCE

FLSmidth is a leading supplier of productivity - enhancing solutions to the global cement and mining industries. Through our unique combination of engineering, products and services, we help our customers increase their production output, decrease operating costs and reduce environmental impact.

We are the market leader in the premium segment of the cement industry. We have the most complete offering and the strongest brand. In mining, we are amongst the market leaders with one of the strongest brands and broadest offerings. We have a proven track record of quality and reliability.

**We are**
A supplier of everything from single machinery to complete cement and minerals processing plants, including services before, during and after the construction.

**60+**

**Countries**
A truly global company with local presence in more than 60 countries and operations in more than 100 countries.

**11,368**

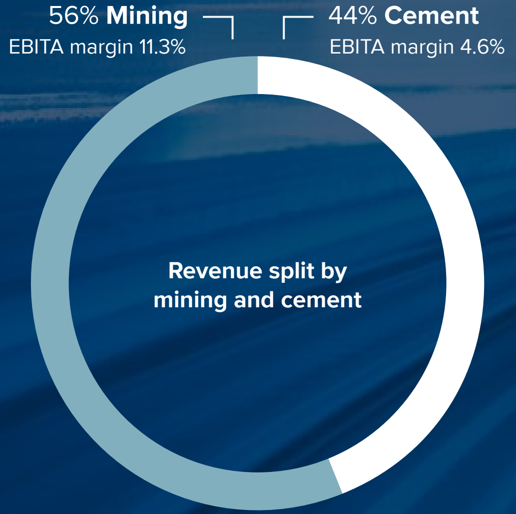
**Employees**
Our in-house resources are primarily engineers who develop, plan, design, install and service equipment, with most of the manufacturing being outsourced.

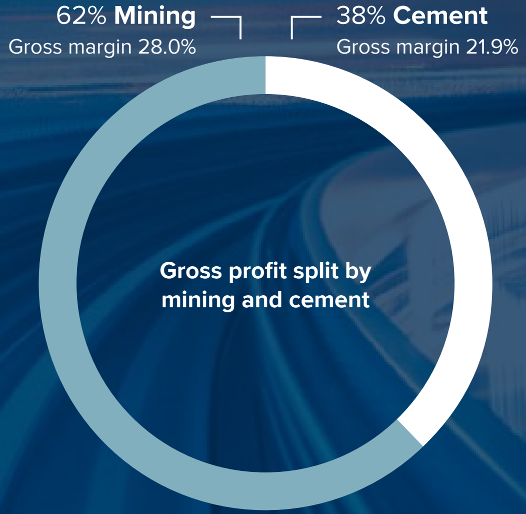
**Our vision**
We drive success through sustainable productivity enhancement

**Our brand promise**
We discover potential

# FLSMIDTH 2018 IN NUMBERS

| ROCE | EBITA margin | Order intake (DKKm) | Net working capital ratio | CFFO (DKKm) |
|---|---|---|---|---|
| 11.0% | 8.5% | 21,741 | 11.7% | 385 |
| up from 10.4% | up from 8.4% | up from 19,170 | up from 10.2% | down from 1,065 |




# MAIN CONCLUSIONS 2018

**Strongest order intake in six years driven by mining. Revenue growth resumed in 2018 following several years of market headwind. Significant improvement in profit for the year. Modest free cashflow and slightly higher net debt.**

## GROWTH

The order intake increased 13% to DKK 21.7bn – in particular driven by stronger demand in Mining as a result of improved sentiment and increasing CAPEX budgets in the mining industry. Revenue increased 4% to DKK 18.8bn. In general, revenue is lagging order intake by roughly one year.

## PROFIT

The EBITA margin increased to 8.5% in 2018 (2017: 8.4%). Group operating leverage was largely offset by a lower gross margin in Cement. Profit for the year increased significantly, as financial items, taxes and discontinued activities had a considerable less negative impact than in 2017.

## CAPITAL

ROCE increased to 11.0% as a result of the higher EBITA and lower capital employed. Cash flow from operating activities was impacted by significant negative developments in discontinued activities, and the free cash flow amounted to DKK 100m. Net interest-bearing debt increased to DKK 1.9bn, and the financial gearing (NIBD/EBITDA) increased to 1.1, substantially below the long-term target of maximum two times EBITDA.

### Shareholder return

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 9 per share be distributed for 2018 (2017: DKK 8), corresponding to a dividend yield of 3.1% (2017: 2.2%). Total shareholder return (share price appreciation and dividend paid) was -17% in 2018 (2017: 25%).

## OPERATIONS

On 1 July 2018, we implemented a new operating structure consisting of two industries, Cement and Mining, and seven geographical regions. The transition to the new structure is progressing according to plans and benefits of the new way of working are expected to become more visible in 2019.

## KEY PERFORMANCE INDICATORS

All key performance indicators developed favourably in 2018 except for net working capital and DIFOT. Net working capital increased towards the end of the year due to high project activity.

### KEY PERFORMANCE INDICATORS 2018
(part of managements incentive programmes)

| Financial | 2018 | 2017 |
|---|---|---|
| Order intake (DKK) | 21,741m | 19,170m |
| Revenue (DKK) | 18,750m | 18,000m |
| ROCE | 11.0% | 10.4% |
| Net working capital % (end) | 11.7% | 10.2% |
| EBITA margin | 8.5% | 8.4% |

| Non-financial | 2018 | 2017 |
|---|---|---|
| Safety (TRIFR)[1] | 3.0 | 3.2 |
| Quality (DIFOT)[2] | 87% | 88% |

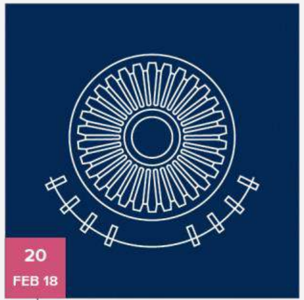
1) TRIFR = Total recordable injury frequency rate

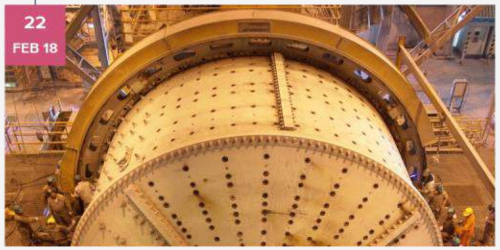
2) DIFOT = Delivery in full on time

# KEY EVENTS 2018


FLSmidth and Goldcorp win mining award for co-developing solution to improve tailings management and increase water recovery.

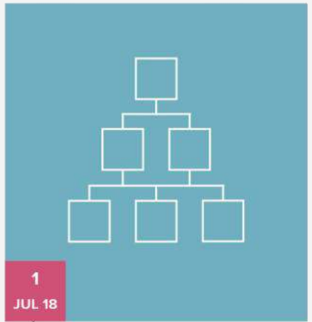
FLSmidth launches SAGwise™ total process control – an advanced process optimisation solution with less than six months return on investment for the customer.




Fourth copper concentrator order in Kazakhstan and first large mining order since 2015.

FLSmidth realigns its organisation to capture growth through enhanced digitalization and productivity offerings.





**Manufacturing Performance Award**
FLSmidth awarded 1st place in The Portland Cement Association's 2018 Chairman's Manufacturing Performance Awards' for our latest cyclone design.

FLSmidth was awarded two large cement plant orders in Central America worth more than EUR 250 million.



FLSmidth significantly improved its ESG (Environmental, Social and Governance) rating from MSCI, a top tier research provider for institutional investors. ESG is a metric used by investors looking to invest in sustainable companies. FLSmidth received an AA rating (on a scale of AAA-CCC).

**World's largest roller mill**
The inauguration of the world's largest vertical roller mill (VRM) for cement grinding completes a smooth commissioning process at Shah Cement in Bangladesh.

# LETTER TO OUR SHAREHOLDERS

**The market is evolving and our customers have become more demanding in terms of performance requirements. This plays well into the strengths of FLSmidth as a premium supplier of sustainable productivity enhancements. Our strong position, combined with an improving mining market, led to growing revenue and order intake in 2018.**

With 2018 showing the highest order intake in six years, we are, evidently, well positioned to help our customers meeting the ever-increasing demand for minerals and cement. However, the flip side of growing commodity consumption is an increasing impact on the environment – unless the industry changes the way it works.

As a leading player in the mining and cement industries, we share the responsibility for driving the transition and progress towards a more sustainable tomorrow – together with our customers, suppliers and business partners.

Through innovation, digitalization and process expertise, we help our customers save money by using less energy, less resources, and through safer operations. License to operate is one of the biggest risks facing the mining industry. In partnership with a leading gold producer, we have developed the EcoTailsTM solution that significantly reduces the need for water in minerals processing.

**Over the past years we have strengthened our product line management and consolidated offices and administrative functions at the regional level. These initiatives enabled us to take the final step during 2018 to become one integrated company.**

# LETTER TO OUR SHAREHOLDERS

**– CONTINUED**

**Improving market conditions in Mining**
Following several difficult years, the mining industry stepped up investments in 2018, which translated to a 24% increase in our Mining order intake and an expanding order backlog that will support revenue growth. Whilst macro uncertainty is high, mining industry fundamentals remain encouraging and point to a continued need to invest in the long-term.

**Focus on internal efficiency in Cement**
The cement market is stable with few large projects and fierce competition. FLSmidth is the clear technology leader and the market leader in the premium segment. However, with no improvements in pricing levels, our key focus is on internal efficiency. During 2018, we took actions to lower our cost base and improve Cement profitability through redundancies and continued standardisation efforts.

In 2018, Jan Kjærsgaard joined FLSmidth as President of the Cement Industry and a member of Group Executive Management. With his strong industrial experience, we are confident that he has the right competencies to drive internal effeciency and growth in cement products and aftermarket in the years to come.

**Our new operating model**
Our ambition is to be productivity provider number one. To strengthen our position we decided to implement a new operating model in July 2018.

The new operating model builds on a strong industry set-up in Mining and Cement, owning our full product portfolio and lifecycle offering. The two industries are supported by seven regions that are responsible for all sales and service activities to customers in the respective regions.

The changed way of working enables us to uncover an untapped growth potential by moving closer to and having one face to the customer, whilst having a strong, united life-cycle focus on our products and solutions. The benefits for our customers are that their FLSmidth sales contact is located close by and can act as an interface to our global technology centres. The decentralised service organisation gives the customers faster response time at lower cost and makes doing business with us simpler.

Our customers demand the best solutions available, and we have the most complete offering in the market, covering all steps in the process from pit to plant. The new organisation enables us to reduce internal complexity and to take a full lifecycle perspective on our solutions. This is particularly important as digital developments become more integrated in all aspects of our business.

**Digital powers productivity**
Digitalization is speeding up the ever-ongoing process of improving productivity and sustainability. During the last decade, data analytics have become increasingly important for optimising processes.

**To fast-track our efforts, we created a central digital organisation to support the development of new digital solutions and ways of working in both Mining and Cement.**

FLSmidth has for many years offered automation solutions, but there is a need to accelerate the development of more digital solutions. To lead this development we recruited Mikael Lindholm who joined FLSmidth in 2018 as a member of Group Executive Management. Mikael has a background leading Internet of Things in telecommunication and has brought strong external experience to FLSmidth.

There are digital tools for almost every process, but they are not necessarily the right tool for every problem. In fact, what matters is not a great digital strategy, but a solid business strategy in the digital age. For FLSmidth, it centres around productivity and it is the combination of our experience, our people, and digital tools that creates value for our customers.

On behalf of the Board of Directors and Group Executive Management, we would like to thank our employees, partners and shareholders for their contribution and commitment.

Vagn Sørensen, Chairman

Thomas Schulz, CEO

# LONG-TERM FINANCIAL TARGETS

**Our primary financial target is to maximise the long-term return on capital employed (ROCE). ROCE depends on how efficiently we manage to balance growth, profit and capital requirements.**

## RETURN ON CAPITAL EMPLOYED

Return on capital employed depends on growth, profit and capital efficiency. In practice, and for operational purposes, this means growth in order intake and revenue, expansion of the EBITA margin and optimisation of net working capital.

Financial KPIs used in management's short and long-term incentive programs are all directly or indirectly related to ROCE, including: order intake, EBITA margin and net working capital ratio.

## CAPITAL STRUCTURE TARGETS

The three long-term financial targets related to our capital structure are: net interest-bearing debt/EBITDA, equity ratio and pay-out ratio. We are currently well within target with respect to NIBD/EBITDA and equity ratio. The pay-out ratio has been above 50% in some years due to a combination of good cash generation and exceptional items impacting the net profit.

### LONG-TERM FINANCIAL TARGETS

Long-term financial targets for FLSmidth subject to normalised market conditions:

| | |
|---|---|
| Annual growth in revenue | Above market average |
| EBITA margin | 10-13% |
| ROCE[1] | >20% |
| Financial gearing (NIBD/EBITDA) | <2 |
| Equity ratio | >30% |
| Pay-out ratio | 30-50% of the profit for the year |

1) ROCE: Return on capital employed calculated on a before-tax basis as EBITA divided by average capital employed including goodwill

### RETURN ON CAPITAL EMPLOYED TARGET

Achieving 20% ROCE assuming DKK 15bn capital employed:

| | EBITA margin | Revenue (DKK) |
|---|---|---|
| Low end of EBITA margin range | 10% | 30bn |
| | 11% | 27bn |
| | 12% | 25bn |
| High end of EBITA margin range | 13% | 23bn |

**In 2018, we changed our operating model to drive and accelerate growth. This was an important step in the journey towards achieving our long-term target of a 20% return on capital employed. Through a combination of revenue growth and cost management, we will generate operating leverage to improve profitability and returns.**

**We remain confident that we can bring our EBITA margin back to the 10-13% targeted range within the not too distant future. We will, however, continue to invest in growth; including investments in innovation & digitalization and sales people.**

# GUIDANCE

## GUIDANCE FOR 2019

FLSmidth guides for revenue of DKK 19-21bn and an EBITA margin of 9-10% for the full-year 2019. The return on capital employed (ROCE) is expected to be 12-14%.

**Guidance for revenue of DKK 19-21bn and an EBITA margin of 9-10% in 2019.**

The guidance is based on higher expected revenue from Mining capital business, following strong order intake in 2018. The incremental revenue will come with slightly lower gross margin than group average, as it to a large extent will be driven by project revenue.

Also, the Cement EBITA margin is expected to improve because of internal efficiencies from standardisation, value engineering and workforce reduction which took place in the second half of 2018.

To further strengthen our technology leadership, we expect to increase our investment in innovation & digitalization. We will also continue to recruit sales people to cover our white spots.

Cash flow from investments (excluding mergers, acquisitions and divestments) is expected to be close to, or slightly above, the level of depreciation and amortisation (excluding effects of purchase price allocations).

Additionally, the guidance for 2019 is based on the following assumptions:

- Prevailing foreign exchange rates
- Stable demand for mining equipment and projects and a stable aftermarket
- Market conditions remaining unchanged in the cement industry, meaning only a small number of large projects available for tender, competition remaining intense and a stable aftermarket
- No one-off costs planned for 2019
- Effects from IFRS 16 (leases) are expected to be minor and are included in the guidance

## KEY PERFORMANCE INDICATORS FOR 2019

The financial key performance indicators that are part of management's incentive programmes for 2019 are identical to those of 2018: order intake, EBITA margin and net working capital ratio.

**Key performance indicators for 2019:**

- **Order intake**
- **EBITA margin**
- **Net working capital ratio**

### REALISED VS. GUIDANCE 2018

| DKK | Realised 2018 | Guidance 2018 |
|---|---|---|
| Revenue | DKK 18.8bn | DKK 18-20bn |
| EBITA margin | 8.5% | 8-10% |
| ROCE | 11.0% | 10-12% |

### GUIDANCE 2019

| DKK | Realised 2018 | Guidance 2019 |
|---|---|---|
| Revenue | DKK 18.8bn | DKK 19-21bn |
| EBITA margin | 8.5% | 9-10% |
| ROCE | 11.0% | 12-14% |

# GROUP FINANCIAL HIGHLIGHTS 5-YEAR SUMMARY

| DKKm | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | |
| Revenue | 20,499 | 19,682 | 18,192 | 18,000 | 18,750 |
| Gross profit | 5,125 | 4,946 | 4,581 | 4,597 | 4,693 |
| EBITDA before special non-recurring items | 2,106 | 1,878 | 1,588 | 1,732 | 1,826 |
| EBITA | 1,823 | 1,582 | 1,289 | 1,515 | 1,585 |
| EBIT | 1,416 | 1,141 | 881 | 1,115 | 1,220 |
| Financial items, net | (137) | (256) | (54) | (311) | (161) |
| EBT | 1,279 | 885 | 827 | 796 | 1,059 |
| Profit for the year, continuing activities | 881 | 603 | 590 | 417 | 811 |
| Loss for the year, discontinued activities | (68) | (178) | (68) | (343) | (176) |
| Profit for the year | 813 | 425 | 522 | 74 | 635 |
| **ORDERS** | | | | | |
| Order intake (gross), continuing activities | 17,267 | 18,490 | 18,303 | 19,170 | 21,741 |
| Order backlog, continuing activities | 17,726 | 14,858 | 13,887 | 13,654 | 16,218 |
| **EARNING RATIOS** | | | | | |
| Gross margin | 25.0% | 25.1% | 25.2% | 25.5% | 25.0% |
| EBITDA margin before special non-recurring items | 10.3% | 9.5% | 8.7% | 9.6% | 9.7% |
| EBITA margin | 8.9% | 8.0% | 7.1% | 8.4% | 8.5% |
| EBIT margin | 6.9% | 5.8% | 4.8% | 6.2% | 6.5% |
| EBT margin | 6.2% | 4.5% | 4,5% | 4.4% | 5.6% |
| **CASH FLOW** | | | | | |
| Cash flow from operating activities (CFFO) | 1,298 | 538 | 1,447 | 1,065 | 385 |
| Acquisitions of property, plant and equipment | (366) | (139) | (203) | (174) | (288) |
| Cash flow from investing activities (CFFI) | (598) | 750 | (194) | (113) | (285) |
| Free cash flow | 700 | 1,288 | 1,253 | 952 | 100 |
| Free cash flow adjusted for acquisitions and disposals of enterprises and activities | 884 | 415 | 1,253 | 846 | (15) |

| DKKm | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **BALANCE SHEET** | | | | | |
| Net working capital | 2,276 | 2,583 | 2,099 | 1,833 | 2,200 |
| Net interest-bearing debt (NIBD) | (4,593) | (3,674) | (2,525) | (1,545) | (1,922) |
| Total assets | 26,352 | 24,362 | 24,112 | 22,364 | 21,743 |
| Equity | 7,761 | 7,982 | 8,462 | 8,038 | 8,266 |
| Dividend to shareholders, proposed | 461 | 205 | 307 | 410 | 461 |
| **FINANCIAL RATIOS** | | | | | |
| CFFO / Revenue | 6.3% | 2.7% | 8.0% | 5.9% | 2.1% |
| Cash conversion | 62.4% | 36.4% | 142.2% | 75.9% | -1.2% |
| Book-to-bill | 84.2% | 93.9% | 100.6% | 106.5% | 116.0% |
| Order backlog / Revenue | 86.5% | 75.5% | 76.3% | 75.9% | 86.5% |
| Return on equity | 11.1% | 5.4% | 6.3% | 0.9% | 7.8% |
| Equity ratio | 29.5% | 32.8% | 35.1% | 35.9% | 38.0% |
| ROCE, average | 12.1% | 10.3% | 8.5% | 10.4% | 11.0% |
| Net working capital ratio, end | 11.1% | 13.1% | 11.5% | 10.2% | 11.7% |
| NIBD/EBITDA | 2.2 | 2.0 | 1.6 | 0.9 | 1.1 |
| Capital employed, average | 15,040 | 15,162 | 15,157 | 14,533 | 14,338 |
| Number of employees | 14,765 | 12,969 | 12,187 | 11,716 | 11,368 |
| **SHARE RATIOS** | | | | | |
| Cash flow per share, diluted | 26.3 | 11.0 | 29.5 | 21.4 | 7.7 |
| Earnings per share (EPS), diluted | 16.4 | 8.6 | 10.6 | 1.5 | 12.8 |
| Dividend yield | 3.3 | 1.7 | 2.0 | 2.2 | 3.1 |
| Dividend per share | 9 | 4 | 6 | 8 | 9 |
| Share price | 272.3 | 240.0 | 293.0 | 361.3 | 293.1 |
| Number of shares (1,000), end | 51,250 | 51,250 | 51,250 | 51,250 | 51,250 |
| Market capitalisation | 13,955 | 12,300 | 15,016 | 18,517 | 15,021 |

The financial ratios have been computed in accordance with the guidelines of the Danish Finance Society. Please refer to note 7.8 for definitions of terms.

Numbers for 2014-2017 have not been adjusted to reflect new accounting policies, IFRS 9 and IFRS 15, adopted 1 January 2018.

# INDUSTRY TRENDS AND DRIVERS

## DEMAND DRIVERS

Demand for minerals and cement are driven by economic growth and growing populations. As countries develop, they experience increasing urbanisation and a need to invest in infrastructure.

Demand for minerals, such as copper, are also driven by other factors, including industrial machinery and the renewable energy agenda. Electric cars, high-speed trains and offshore windfarms are examples of trends that drive increased consumption of copper.

## SUPPLY TRENDS

Limestone, clay and other basic materials used in cement production are widely accessible around the world. The most common supply constraint in cement is access to financing (hard currency). In some cases, energy and having access to an educated workforce represent constraints as well.

Producers of minerals, such as copper, face several other challenges too, such as water scarcity, declining ore grades, increased operational complexity, regulation, and environmental and social license to operate. Adding to this, recent years have seen a lack of exploration success in copper, which means that production must be scaled up at existing mines to accommodate demand.

## INDUSTRY TRENDS

The previous mining upturn that ended in 2011 was part of a capacity cycle (focus on adding new capacity). At present, most miners and cement producers are focused on productivity, i.e. optimising existing equipment to increase production and to reduce costs of operation. This means an increased demand for full-service suppliers, such as FLSmidth, who have in-house process- and product knowledge and a strong focus on innovative and digital solutions.

Attention to sustainability, including health, safety and environment, is growing. Higher living standards, the role of social media and increased importance of ESG (Environmental, Social and Governance) in investment decisions is driving demand for more sustainable solutions.

### DEMAND DRIVERS

- Growing wealth
- Growing populations
- Urbanization
- Electrification and renewable energy

### SUPPLY TRENDS

- Scarcity of natural resources
- Depleting ore grades
- Increased technical complexity
- More remote locations

### INDUSTRY TRENDS

- Sustainability
- Productivity
- Digitalization
- Innovation
- Full service supply

# MINING MARKET DEVELOPMENT

**2018 was the first year of a significant increase in mining capital expenditures since 2012. In 2017, miners increased the level of discretionary operating expenditures, and demand for minerals equipment and brownfield expansion picked up towards the end of 2017. The positive momentum continued throughout 2018.**

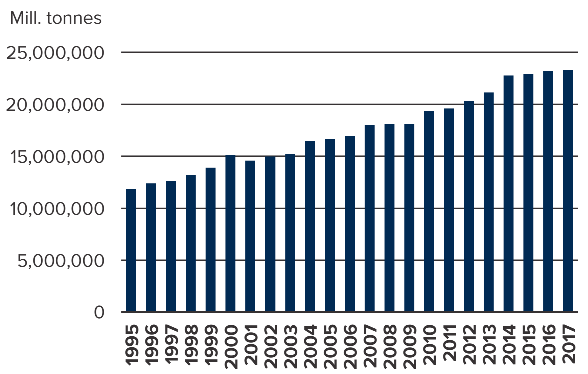
Following relatively strong growth in mining capex in 2018, a continued positive momentum is expected for 2019, albeit more modest growth rates. Demand still relates primarily to replacement and brownfield projects. Greenfield activity remains limited with only few large project opportunities in the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

Contrary to the positive mining capex trend, commodity prices were challenged in 2018. Following strong metal price increases in 2016-2017, the IMF metal price index ended 2018 down 10%. The copper price declined more than 15% over the summer, and, except for a slight comeback in September, remained depressed for the remainder of the year. The Chilean Copper Commission, Cochilco, sees the copper price "caught below a technical barrier" due to uncertainty about the outcome of current trade negotiations between the US and China and deceleration of the Chinese economy, which creates uncertainty related to future copper consumption.

Having stabilised at above 6,000 USD/mt, the copper price remains well above the cash cost of most producers. The current price level should be sufficient to encourage brownfield expansion and productivity enhancing investments. Greenfield investments take several years from exploration to production and are typically based on anticipated future prices, rather than current prices, and the mid- to long-term fundamentals for copper remain strong.

World copper mine production is estimated to have increased by about 3% in the first eight months of 2018.

**GLOBAL COPPER CONSUMPTION**
(SOURCE: BLOOMBERG)

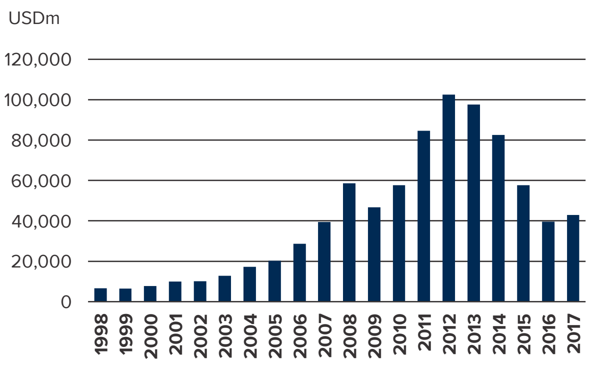



World refined copper balance projections indicate a small deficit in both 2018 and 2019 (ICSG, 21 November 2019).

The mining aftermarket showed continued positive developments in 2018, but grew at a much slower rate than the market for new equipment. We expect the mining aftermarket to be largely stable in 2019. Mid- to long-term, growing mine production is creating a larger installed base to service, but at the same time miners are pursuing ways to operate equipment more efficiently.

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

**CAPEX TREND IN MINING**
(BASED ON 31 MINING COMPANIES)
(SOURCE: BLOOMBERG)



# CEMENT MARKET DEVELOPMENT

**The cement market was overall unchanged in 2018 and is expected to show a stable development in the short-term. The market remains very competitive with stable pricing at a low level.**

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

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

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

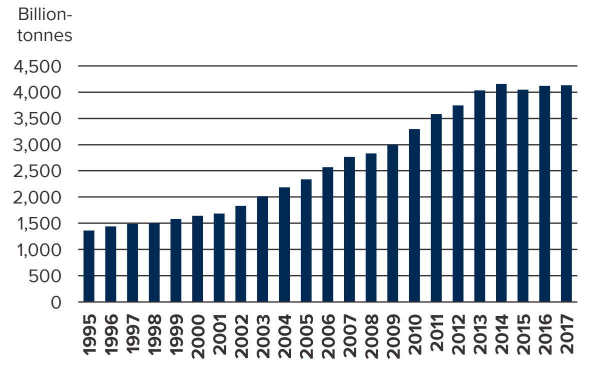
FLSmidth's cement aftermarket has been under slight pressure in the past one and a half years due to a lack of first-time spare packages related to new cement plants, and the scaling down of operation & maintenance contracts in Africa. Apart from this, the cement market showed largely stable developments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

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

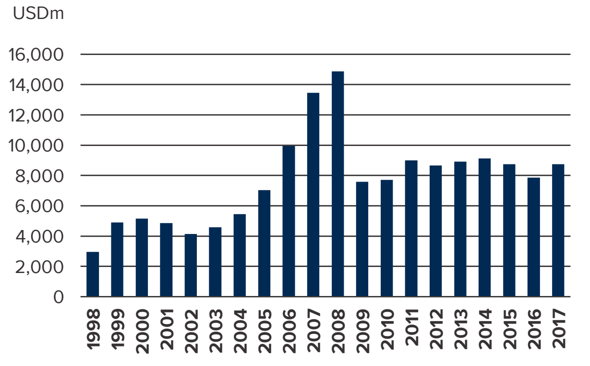
The Indian cement market was one of the few bright spots in 2018.

Despite a strong US economy and a pent-up need to maintain and update infrastructure, North America showed no signs of adding significant new capacity, but interest in smaller upgrades, retrofits and single equipment remains.

**GLOBAL CEMENT CONSUMPTION**
(SOURCE: BLOOMBERG AND THE GLOBAL CEMENT REPORT)



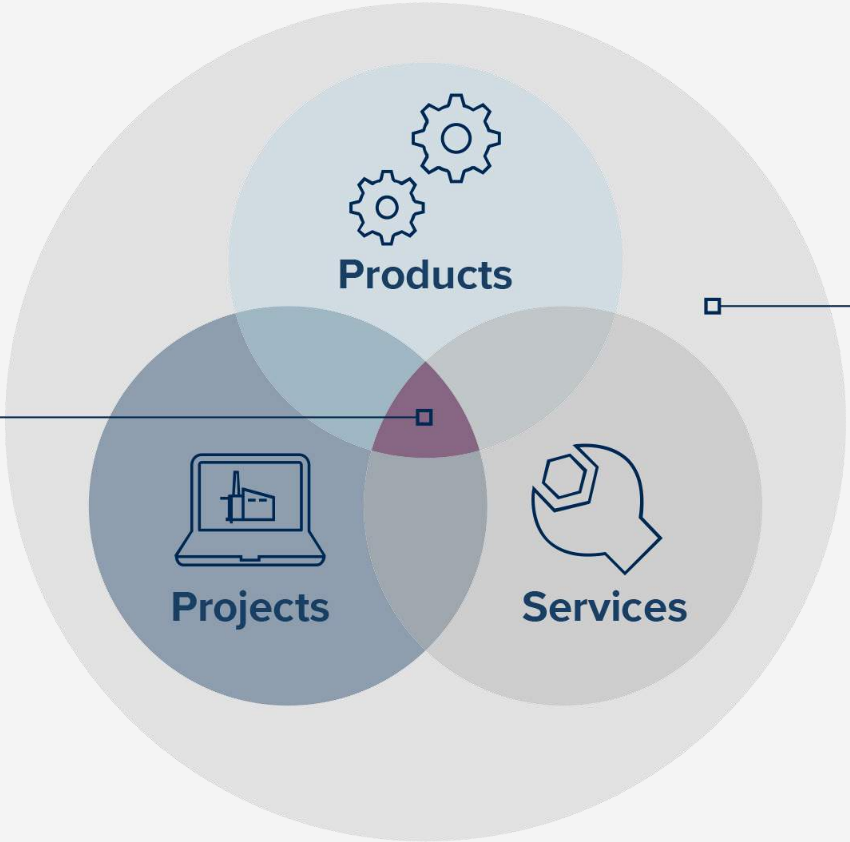

**CAPEX TREND IN CEMENT**
(BASED ON 14 CEMENT COMPANIES)
(SOURCE: BLOOMBERG)



# STRATEGY AND BUSINESS MODEL

## BUSINESS MODEL
A UNIQUE COMBINATION OF PROJECTS, PRODUCTS AND SERVICES

**Productivity provider #1**




**Customer and sustainability benefits**

- Increasing output and quality
- Reducing total cost of ownership
- Increasing productivity
- Increasing resource utilisation
- Obtaining permits and social license to operate

**FLSmidth key competencies**

- Process and product knowledge to optimise operations
- Guaranteed equipment uptime and performance
- Proactive and predictive maintenance
- Minimising environmental impact
- Local service and support presence

## STRATEGY

FLSmidth aims to be **the leading supplier of productivity enhancing solutions to the global mining and cement industries**, and we are already well-positioned in this endeavour.

We help our customers **increase production, decrease operating costs and reduce their environmental impact.** Through a life cycle approach, we enable our customers to lower their total cost of ownership.

### Life cycle provider

Our key to productivity is a full flow-sheet of premium sustainable technologies, combined with strong process know-how and a broad range of services.

### Full flow-sheet of premium technologies

Our many years of experience with automation and control systems position us as a market leader in analysing and understanding performance data. We sell more than equipment, plants and services. We deliver productivity, and the benefits to the customer are clear: More reliable operations, increased uptime, and proactive, predictive and even prescriptive maintenance.

Our offering extends beyond the typical equipment warranty. We bundle equipment to offer uptime or performance guarantees on solutions or even complete plants. To the customer, this equals a guaranteed return on investment, and FLSmidth has an excellent track record of reliability, quality and project follow-through.

## TOWARDS A SUSTAINABLE TOMORROW

Cement and minerals are vital for economic, social and technological development. Urbanisation and industrialisation drive the need for infrastructure and improved standards of living. This creates an increasing global demand for cement and for minerals such as copper and gold. However, greater scarcity of resources such as energy, water and raw materials is leading to more complex and costly operations, that challenge the performance of mining and cement companies.

This calls for innovation, digitalization and high-end technical solutions, which are where FLSmidth has a leading position and a strong competitive edge.

### Our values

Based on our values; **competence, co-operation and responsibility**, we earn the trust and respect of our customers, business partners, suppliers, employees and shareholders in the communities in which we live and operate.

In working with our customers, we activate our knowledge and experience to bring better solutions to light. Through enhanced productivity, we contribute to the sustainable development of societies with the lowest possible environmental impact.

## GLOBAL PRESENCE AND CUSTOMER BASE

With a local presence in more than 60 countries and customers in more than 100 countries, FLSmidth is truly a global company. The geographical footprint reflects our diversified customer base, composed primarily of global and regional mining and cement companies who invest in new capacity or in expanding, upgrading, maintaining and servicing existing production facilities.

FLSmidth has vast experience in working with a broad range of customers around the world. Our mining customers consist of both major and mid-tier miners. The latter account for a relatively large amount of our mining project sales, whereas major miners account for a considerable share of our mining aftermarket business.

Both global cement majors and local or regional mid-sized players are typical customers of FLSmidth, though the latter account for most of our cement project sales, whereas global cement majors account for a considerable share of our cement aftermarket business.

Being close to the customer is key in the aftermarket. Combining local presence with global support and expertise makes it possible to deliver premium solutions where our customers need them. Our large number of local sales and service offices ensures frequent customer interaction and high speed of delivery. We continue to open new sales and service offices around the world to cover white spots. In 2018, we changed the organisational structure to further localise sales and service activities (see page 21).

# FLSMIDTH IN THE WORLD

**7**

Regional Headquarters

**3**

Global project and/ or technology centres

**76**

Local sales and service offices

**6**

Service Super Centres in mining clusters

**23**

In-house workshops (70-80% outsourced)

## USA

Mining technology center

## DENMARK

Global Headquarters & Cement project and technology center

## INDIA

Shared service and project center

# STRATEGIC FOCUS AREAS

**To further strengthen our position as Productivity Provider #1 we need to stay ahead of our game and continue to challenge the status quo. Our key strategic focus areas help us do that.**

## LONG TERM

### CUSTOMERS

Our customers are our main partners. We build strong customer partnerships through mutual trust and shared values. We earn our customers' trust through local presence, a 'one point of contact' approach, and reliable project follow-through.

### SUSTAINABILITY

We develop eco-efficient products and solutions that help customers lower their energy costs and emissions; increase their production; and obtain permits for new plants. This helps to support sustainable development locally as well as globally.

### INNOVATION & DIGITALIZATION

We are taking digitalization in mining and cement to the next level. Innovation and digitalization represent a huge economic opportunity for our customers. We will leverage our process know-how and installed base to deliver new innovative and digital solutions to enhance customer productivity.

## SHORT TERM

### EXPAND LIFE CYCLE OFFERINGS

Our product line management is based on a product life-cycle perspective, which helps us identify new value-adding spare and wear parts. We have grown our wear parts business in recent years but wear parts still represent a substantial growth potential.

### LEVERAGE PRODUCT PORTFOLIO

We have a strong portfolio of niche products with significant growth potential. Some can expand geographically while others are already market-leading and have potential for expansion into adjacent industries.

### STANDARDISATION

We seek to reduce costs and complexity through standardisation, without compromising functionality and performance. We apply value engineering in our product development, and through the early involvement of R&D and sales we simplify and align product specifications.

## CUSTOMERS

As a consequence of recent years' market developments, we have been compelled to take out costs, but at the same time we have consistently given priority to maintaining a strong and competent sales force, keeping in mind that our customer relationships during the downturn define our success in the industry's recovery cycle. We have primarily adjusted our administrative functions, while making fewer changes to our sales force. As a result, a much greater share of our employees today has direct customer contact.

**A much greater share of our employees today has direct customer contact.**

We have continued to open new sales and service offices around the world to cover white spots and overcome the barriers of rising protectionism and nationalism. In 2018, we changed the organisational structure to further localise our sales and service activities (see page 21).

We measure our customer loyalty, and the results clearly shows that we have a strong brand in both the mining and the cement industries. Our customers recognise us for our high quality and reliability, which is also reflected in our internal quality KPI, DIFOT (Delivery in full on time). Having risen from 84% in 2016 to 88% in 2017, DIFOT did however decline to 87% in 2018.

Our customer satisfaction measures have shown that there is also room for improvement. It should be easier to do business with FLSmidth, and we are confident that our new operating model will deliver exactly that.

## SUSTAINABILITY

FLSmidth has a relatively asset light business model, which means that our in-house environmental footprint is very modest compared to that of our customers. As an example, one of the large cement producers has a carbon footprint 4000 times that of FLSmidth. This does not mean we stop focusing on our in-house footprint, but it means we can have a much greater impact by helping our customers reduce their footprint.

**We can have a much greater impact by helping our customers reduce their carbon footprint.**

Hence, sustainability at FLSmidth is closely tied to our customers need for more sustainable and efficient operations. We can help our customers reduce fossil fuel and electricity consumption while at the same time lowering their cost of operation. We can deliver new solutions that enable them to obtain permits and a social license to operate, while at the same time reducing the environmental footprint.

*Read more about sustainability at FLSmidth on page 44.*

## INNOVATION & DIGITALIZATION

Sustainability at FLSmidth is closely linked to our efforts on innovation and digitalization. Greater scarcity of resources such as energy, water and raw materials leads to more complex and costly operations, that challenges the performance of mining and cement companies. This calls for innovation, digitalization and high-end technical solutions, which is where FLSmidth has a leading position and a strong competitive edge.

Mining and cement have historically been conservative industries, but the needs of our customers are changing more rapidly today than ever before. Our customers hunt for productivity and higher returns makes them more receptive to innovation and new ways of working, including mounting interest in digitalization.

We have a strong digital position owing to our extensive experience in automating cement plants, and we are now taking digitalization to a new level with the ambition of making our products and solutions intelligent and self-learning.

**We are now taking digitalization to a new level with the ambition of making our products and solutions intelligent and self-learning**

On 1 May 2018, Mikael Lindholm joined FLSmidth as Chief Digital Officer and a member of our Group Executive Management. Mikael's primary responsibility is to navigate and accelerate the journey of digitalization at FLSmidth. Digitalization offers a huge potential, but first and foremost we see it as a business enabler. It will become a natural and integral part of our current product portfolio and will only to a limited extent become a new and independent business area.

*Read more about innovation and digitalization at FLSmidth on page 37.*

## EXPAND LIFE CYCLE OFFERING

Over the years, we have successfully built a large service business focusing on spare parts, upgrades and maintenance. However, there is also a high-potential business area that we only started addressing a few years back: the market for wear parts, which accounts for a large share of the overall aftermarket.

Although wear parts are more exposed to competition than spare parts, they represent a big potential for profitable growth, enabling us to offer complete life-cycle solutions and become our customers' preferred business partner. Wear parts also allow for more frequent customer contact which could have a positive knock-on effect on other parts of the business.

FLSmidth increased its order intake from wear parts in 2018, including mill liners and FerroCer© impact wear panels. Results have shown that the FerroCer© wear panels last ten times longer than any other wear panels on the market.

We expect that our digitalization efforts will help pave the way for growing our wear parts business in the years to come, as customers increasingly buy solutions rather than single parts and equipment.

**We expect that our digitalization efforts will help pave the way for growing our wear parts business in the years to come.**

The more we can help our customers with proactive, predictive and even prescriptive maintenance, the more likely it is that they will buy our wear parts too.

## LEVERAGE PRODUCT PORTFOLIO

At the FLSmidth capital markets day in June 2017, management showed examples of products that offer particularly attractive growth potential. For products such as pumps, we see a potential for expanding existing markets, while for other products we see opportunities for sales in adjacent markets. One example, is our fully automated packaging systems for the cement industry; this can be adapted and sold to the building materials and petrochemicals industries.

We have been partly successful in growing our product sales, but we have not unleashed the full potential of our strong product brands. We believe that our new operational model is the ideal platform for further strengthening product sales in the coming years.

**We believe that the new operational model is the ideal platform for further strengthening product sales in the coming years.**

## STANDARDISATION

In 2018, we continued our efforts to standardise FLSmidth's product portfolio. Through value engineering and modularisation, we rethink the designs of our products to reduce cost and complexity without compromising quality and functionality.

As an example of our standardisation efforts, we have reduced the complexity related to vertical roller mills in cement by more than 50% (measured by a reduced number of parts and systems), while at the same time increasing our offering to the market by more than 50% (measured in terms of solutions and options), reducing our procurement costs through standardisation represents a huge potential.

**Reducing our procurement costs through standardisation represents a huge potential.**

Production costs account for about 75% of our overall revenue, of which 70-80% relates to procurement from sub-contractors. Designing our products smarter enables us to take a big chunk out of our procurement costs, and we achieve other benefits such as reduced engineering hours, enhanced product reliability and simpler maintenance procedures – to the benefit of our customers and ourselves.

We are still far from the finishing line, but the standardisation programme has yielded substantial results already.

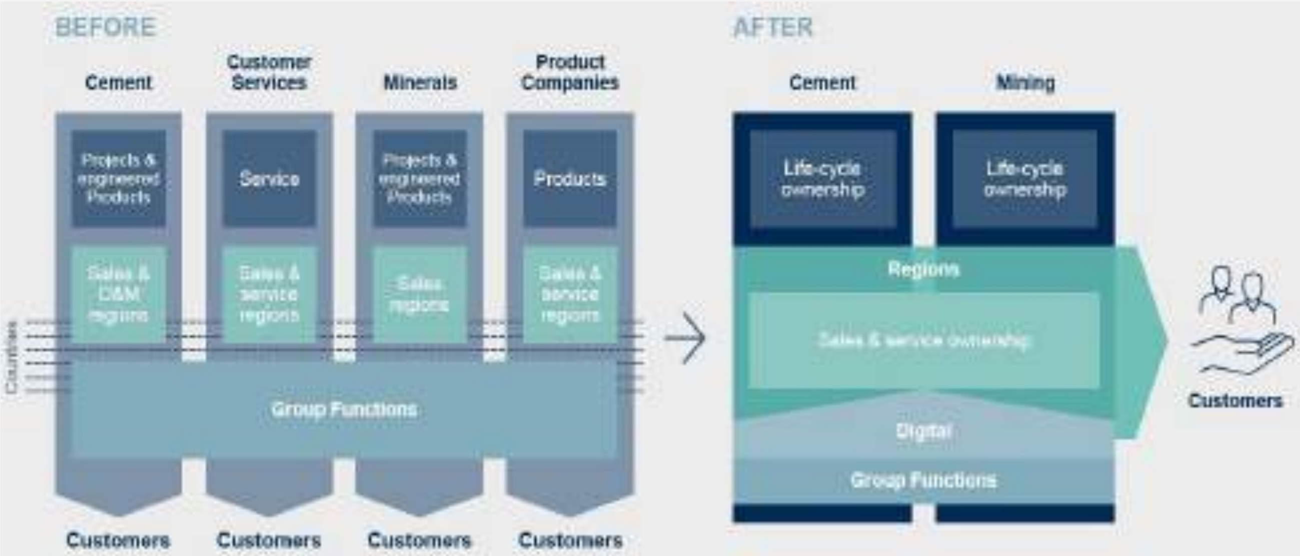
# NEW STRUCTURE TO DRIVE GROWTH

## NEW ORGANISATION HAS BEEN OPERATIONAL SINCE 1 JULY 2018

On 1 july 2018, FLSmidth's organisation transitioned from four divisions to two industries – Cement and Mining – supported by a regional setup to strengthen customer focus and life-cycle solutions, combined with a new central digital organisation. The new organisational structure has proven its worth and feedback from customers and employees has been positive.

In the new structure, customer relations have been decentralised to seven regions, while technology ownership for the full life-cycle offering is anchored in the two industries. This has created a productivity-driven organisation with a strong, unified digital approach and fewer touchpoints. An organisation which will continue to strengthen FLSmidth's local presence, customer-orientation, and life-cycle offering in order to capture growth.

In short:
- The two industries, Cement and Mining, are developing and driving the life-cycle offering and product portfolio.
- The industries are supported by seven Regions:
  - North America,
  - South America,
  - Europe, North Africa & Russia/CIS,
  - Sub-Saharan Africa & Middle East,
  - Asia;
  - Subcontinental India and
  - Australia
- The Regions are responsible for customer relations, sales and service for both Industries.
- A central digital organisation is driving a unified approach to digitalization.
- Group functions are providing shared services to the entire organisation, including engineering, procurement, IT, HR, legal, communication and finance.




**Changes to Group Executive Management and to financial reporting**

From 1 July 2018, Group Executive Management has consisted of Thomas Schulz*) (Group CEO), Lars Vestergaard*) (Group CFO), Jan Kjaersgaard (Cement President), Manfred Schaffer (Mining President) and Mikael Lindholm (Chief Digital Officer).

The financial reporting was aligned with the organisational structure from the third quarter 2018 interim report. The new reporting segments are Cement and Mining. Restated financial figures, adjusted for discontinued activities, have been provided.

*) Registered with the Danish Business Authority



FLSMIDTH

# INDUSTRY SYNERGIES

**Though cement and mining are distinct industries, there are considerable commonalities and synergies between the two.**

### Scale benefits and shared services

In addition to traditional scale benefits such as shared global infrastructure, supply chain, IT, Finance and HR, FLSmidth has around 1,200 engineers in Chennai, India of which 900 are serving the global organisation with project engineering for both mining and cement.

The main part of a typical project is relatively standardised engineering, which allows for sharing and moving resources between mining and cement projects. India and China host the Group's shared assembly and production facilities.

### Shared know how

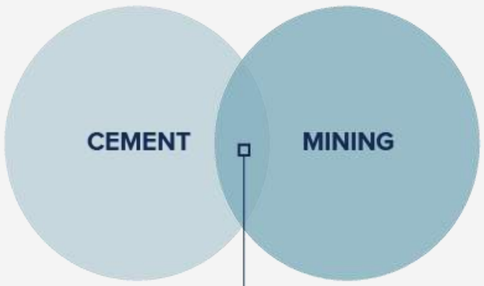
A significant advantage of having mining and cement business under the same roof is the technology overlap. Many of the products used in the two industries are similar, including crushing, grinding, material handling, automation and air pollution control systems. This allows for shared strategic procurement and to some extent co-innovation. Further, the project management skills needed in mining and cement (process knowhow, risk management, project execution, etc.) are largely the same and best practices are shared between the two businesses.

### Cyclical industries

Although they do not follow exactly the same cycle, mining and cement are both cyclical industries by nature, particularly regarding investments in new capacity. FLSmidth has a dynamic business model with mostly outsourced manufacturing and a flexible cost structure, which allows us to manoeuvre safely through the cycles.

**FLSmidth has a dynamic business model with mostly outsourced manufacturing and a flexible cost structure, which allows us to manoeuvre safely through the cycles.**

A high share of service business (50-60%) reduces the cyclicality of the entire Group as the service business is more resilient and stable by nature.




**Scale benefits**

- Shared global infrastructure
- Shared global supply chain

**Shared services**

- Engineering
- Procurement
- IT
- Finance
- HR

**Know-how**

- Project execution
- Engineering capabilities
- Strategic procurement
- Aftermarket services
- Operation & Maintenance
- Automation & Control
- Brand name/Track-record
- Technology

# FLSMIDTH IN MINING

## In mining, we are amongst the market leaders with one of the strongest brands and broadest offerings.

FLSmidth is recognised as a supplier of premium technology to the global mining industry. We offer a complete array of products, systems and services, ranging from single engineered or standardised equipment, such as crushers, ball mills, pumps, gravity concentrators, thickeners and flotation cells to bundled equipment, full production plants and maintenance solutions.

We can help increase customer productivity of the complete "pit to plant" operation by integrating upstream mining with downstream processing. Our broad offering ranges all the way from 'in-pit-crushing-and-conveying' (IPCC) to recovery and refining of the minerals and tailings management.

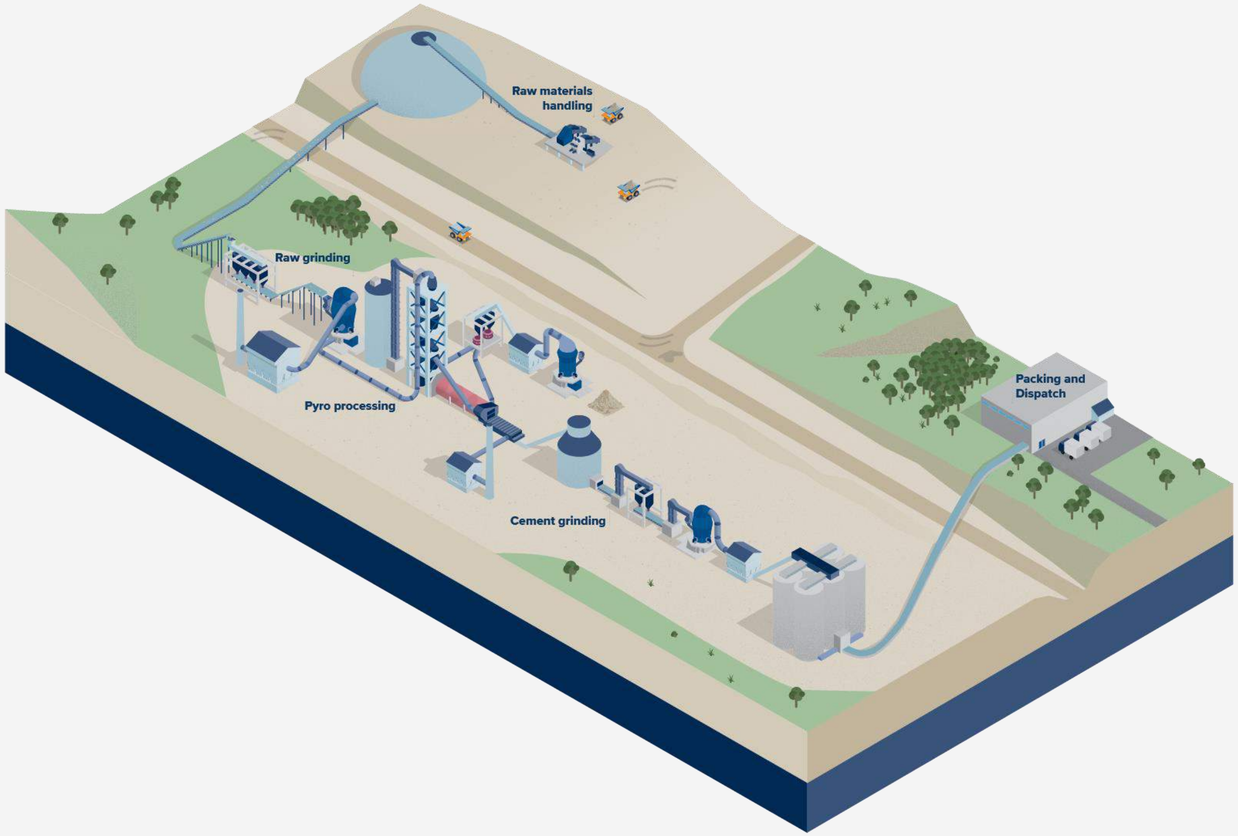

Within the mining value chain, FLSmidth is mostly active in material handling, comminution (crushing, grinding & sizing) and separation. In Salt Lake City, USA, we have a laboratory with state-of-the-art materials testing capabilities used to analyse ore samples from our customers' mines. This ensures an early dialogue with the customer and not least, an in-depth knowledge of their material, including the material hardness and the minerals concentration, which is used to determine the optimal grinding and separation process.

The premium market segment is the primary focus of FLSmidth, but we acknowledge the emerging role of certain mid-market products. We have, therefore, entered the mid-market segment through a FLSmidth-controlled joint venture with the Chinese mining equipment supplier, Northern Heavy Industries. The focus, so far, is on design and supply of crushing equipment for the mid-market, which is expected to grow in the future.

That said, the current mining cycle is a productivity cycle which clearly favours premium suppliers, who have the flowsheet, process knowledge and service mindset to help customers optimise existing production facilities.

# FLSMIDTH IN CEMENT

**FLSmidth is the market leader in the premium segment of the cement industry. We have the most complete offering, the strongest brand, and have delivered more cement plants than any other supplier in the industry.**




We supply the widest array of products, systems and services, ranging from single engineered and customised equipment, such as mills, kiln systems and clinker coolers, to more standardised feeding and packaging products and all the way to complete cement plants coupled with an operation and maintenance contract.

Years ago, the cement market divided into a premium and a mid-market. The premium market consists of customers valuing lower total cost of ownership, more flexible and environmentally friendly cement plants and local construction. FLSmidth caters to the premium market with equipment, services and complete plants and is clearly the market leader in this segment, mostly competing with German suppliers.

The mid-market is characterised by customers preferring the lowest initial investment. This market is dominated by Asian suppliers. When Asian suppliers sell a complete cement plant (outside of China) the customer will most often require that the key equipment for the plant is delivered by a premium original equipment manufacturer (OEM). It is FLSmidth's ambition to be the preferred OEM for such deals. To that end, we are consequently working on offering not only the best complete cement plants, but to become the preferred brand for all key equipment in a cement plant. For example, we have strongly improved our cement mill performance in recent years, which has resulted in a market-leading position and significantly increased cement mill orders.

In some cases, customers require a combination of low cost (mid-market) construction combined with premium engineering and procurement. FLSmidth has partnered with Asian suppliers to accommodate such customer requests.

In reality, Asian suppliers are peers and partners as well as good customers of FLSmidth.

## Our 'full flow-sheet' offering to the mining and cement industries is based on 136 years of engineering and technology leadership coupled with strategic acquisitions of key products and innovations

### FLSMIDTH IN THE MINING VALUE CHAIN

| EXPLORATION | DEVELOPMENT | EXTRACTION | MINERALS MATERIAL HANDLING | COMMINUTION | BENEFICIATION & RECOVERY | REFINING & SMELTING |
|---|---|---|---|---|---|---|
| Exploration for mineral resources<br>▪ Remote sensing<br>▪ Geophysical / geochemical tests<br>▪ Samples<br><br>Feasibility studies | Drilling and modelling of the ore body<br><br>Selection of appropriate mining technique<br><br>Capital investment in mining infrastructure | Mining of the ore body<br><br>Rock breaking<br><br>Surface mining<br><br>Underground mining | Mined ore minerals transported to and within processing site<br><br>Use of loaders, trucks, crushing stations and mobile conveyors | Mined ore materials are crushed, screened and ground to achieve finer particles<br><br>Particles sized for optimum recovery of mineral species | Flotation, leaching, sedimentation, dewatering and filtration are used to increase the minerals content to an economic level | Refining to increase concentration of mineral metals further.<br>Key techniques:<br>▪ Pyro metallurgy<br>▪ Electrowinning |

← FLSMIDTH → (Development)

← FLSMIDTH → (Minerals material handling to Refining & smelting)

### FLSMIDTH IN THE CEMENT VALUE CHAIN

| CRUSHING | MATERIAL HANDLING | RAW MEAL GRINDING | PYRO PROCESSING | CLINKER COOLING | CLINKER GRINDING | CEMENT HANDLING & PACKING |
|---|---|---|---|---|---|---|
| ▪ Limestone, shale and clay crushing<br>▪ Hammer crushers<br>▪ Impact crushers<br>▪ Roller crushers | ▪ Stackers/ Reclaimers<br>▪ Bucket elevators<br>▪ Pan conveyors | ▪ Raw meal grinding<br>▪ Coal grinding<br>▪ Vertical mills<br>▪ Ball mills<br>▪ Roller presses | ▪ Preheaters<br>▪ Kilns | ▪ Clinker coolers<br>▪ Grate coolers<br>▪ Other coolers | ▪ Clinker grinding<br>▪ Roller presses<br>▪ Cement mills | ▪ Truck loaders<br>▪ Packers and palletisers<br>▪ Silo equipment |

← FLSMIDTH →

# FINANCIAL DEVELOPMENTS

# GROUP FINANCIAL DEVELOPMENTS Q4 2018

## GROWTH

*Order intake in Q4 decreased 7% due to absence of large orders. Revenue increased 10%, driven by Mining.*

### Order intake and order backlog

Order intake in Q4 decreased 7% to DKK 4,503m (Q4 2017: DKK 4,836m). Q4 2018 contained no large orders, whereas the comparison quarter included a large announced cement order of more than DKK 750m.

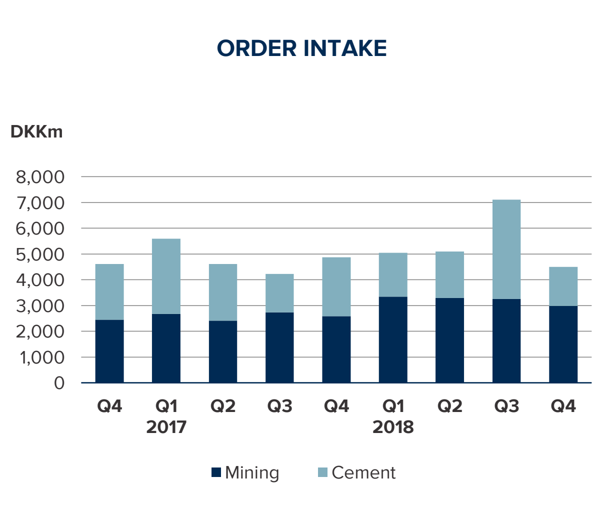
Adjusting for the difference in large orders, the order intake increased about 10% compared to Q4 last year, driven by the Mining capital business. Organic growth in Mining was 5% and the acquisition of part of Sandvik Mining Systems had a 13% positive impact on Mining order intake.

Order intake in Cement declined 33% on Q4 last year, entirely explained by the difference in large orders.

Foreign exchange translation effects had a negative impact of 2% and the acquisition of part of Sandvik Mining Systems had an 8% positive impact on group order intake.

## GROUP (Continuing activities)

| (DKKm) | Q4 2018 | Q4 2017 | Change (%) | 2018 | 2017 | Change (%) |
|---|---|---|---|---|---|---|
| **Order intake (gross)** | **4,503** | **4,836** | **-7%** | **21,741** | **19,170** | **13%** |
| - Hereof service order intake | 2,680 | 2,693 | 0% | 10,907 | 10,710 | 2% |
| - Hereof capital order intake | 1,823 | 2,143 | | 10,834 | 8,460 | |
| **Order backlog** | **16,218** | **13,654** | **19%** | **16,218** | **13,654** | **19%** |
| **Revenue** | **5,450** | **4,943** | **10%** | **18,750** | **18,000** | **4%** |
| - Hereof service revenue | 2,613 | 2,583 | 1% | 10,208 | 10,473 | -3% |
| - Hereof capital revenue | 2,837 | 2,360 | 20% | 8,542 | 7,527 | 13% |
| **Gross profit** | **1,312** | **1,234** | **6%** | **4,693** | **4,597** | **2%** |
| Gross profit margin | 24.1% | 25.0% | | 25.0% | 25.5% | |
| **SG&A cost** | **(730)** | **(741)** | **-1%** | **(2,867)** | **(2,865)** | **0%** |
| SG&A ratio | 13.4% | 15.0% | | 15.3% | 15.9% | |
| **EBITDA before special non-recurring items** | **582** | **493** | **18%** | **1,826** | **1,732** | **5%** |
| EBITDA margin before special non-recurring items | 10.7% | 10.0% | | 9.7% | 9.6% | |
| **EBITA** | **511** | **465** | **10%** | **1,585** | **1,515** | **5%** |
| EBITA margin | 9.4% | 9.4% | | 8.5% | 8.4% | |
| **EBIT** | **419** | **372** | **13%** | **1,220** | **1,115** | **9%** |
| EBIT margin | 7.7% | 7.5% | | 6.5% | 6.2% | |
| Number of employees | 11,253 | 11,578 | -3% | 11,253 | 11,578 | -3% |



### Order intake developments in Q4 2018

| Growth (vs. Q4 2017) | Mining | Cement | FLSmidth Group |
|---|---|---|---|
| Organic | 5% | -32% | -13% |
| Acquisition | 13% | 0% | 8% |
| Currency | -3% | -1% | -2% |
| **Total growth** | **15%** | **-33%** | **-7%** |

Order backlog for the Group decreased to DKK 16,218m (Q3 2018: DKK 17,228m). 70% of the backlog is expected to be converted to revenue in 2019, 18% in 2020, and 12% in 2021 and beyond.

### Revenue

Revenue increased 10% to DKK 5,450m in Q4 2018 (Q4 2017: DKK 4,943m). Foreign exchange translation effects had a 2% negative impact and acquisitions a 3% positive impact on revenue. Organic growth was 9%, all attributable to Mining, whereas organic Cement revenue was flat.

### Revenue developments in Q4 2018

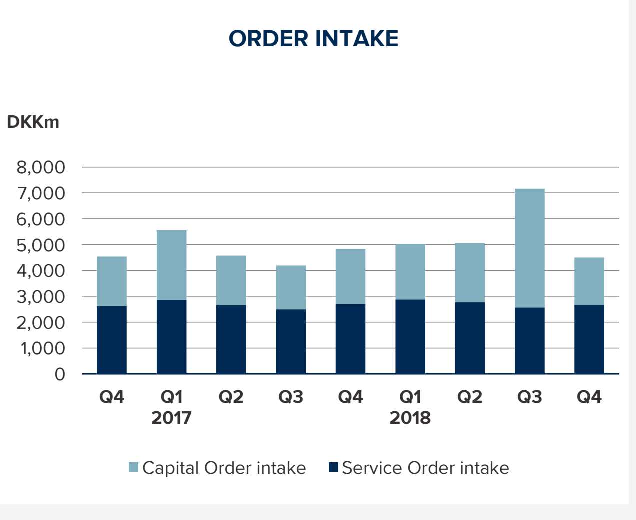
| Growth (vs. Q4 2017) | Mining | Cement | FLSmidth Group |
|---|---|---|---|
| Organic | 14% | 0% | 9% |
| Acquisition | 5% | 0% | 3% |
| Currency | -2% | -1% | -2% |
| **Total growth** | **17%** | **-1%** | **10%** |

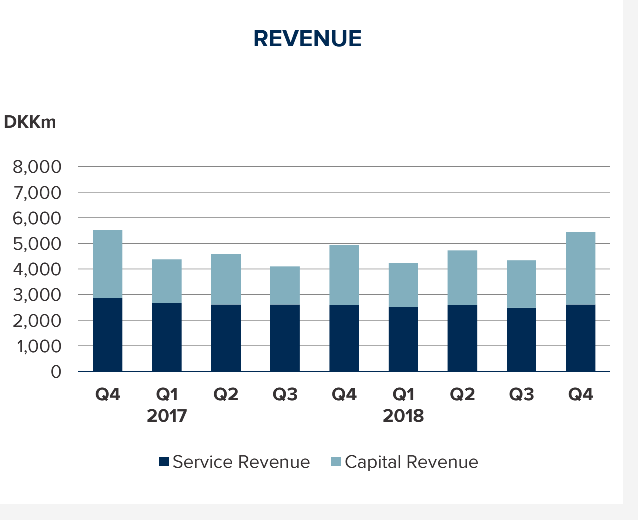
Following several quarters of strong Mining order intake, Mining revenue picked up in Q4 2018, due to significant progress on projects. The fourth quarter is historically a seasonally strong revenue quarter.

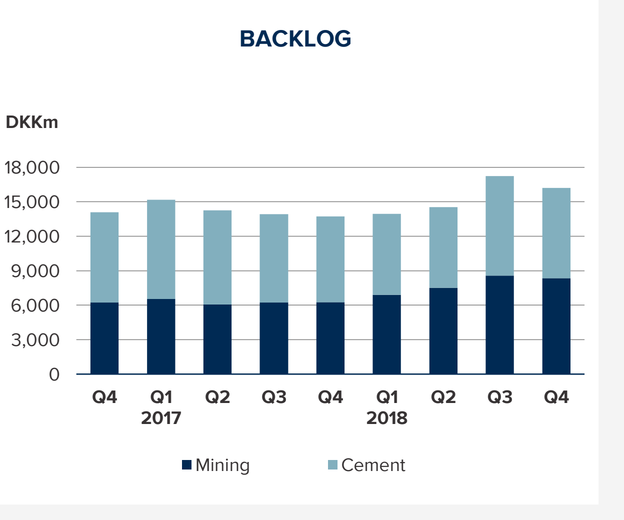
### Service developments

Service order intake was largely unchanged at DKK 2,680m in Q4 (Q4 2017: DKK 2,693m), equivalent to 60% of the total order intake (Q4 2017: 56%) and representing stable developments in both Mining and Cement.

Service revenue increased 1% to DKK 2,613m in Q4 (Q4 2017: DKK 2,583m), equivalent to 48% of the total revenue (Q4 2017: 52%).



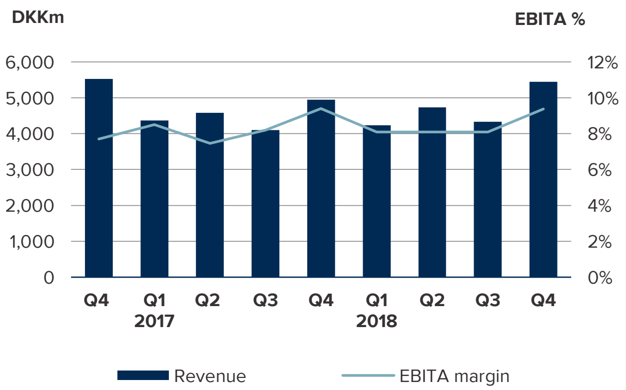
## PROFIT

*Operating profit increased in Q4 due to higher revenue. The EBITA margin of 9.4% was, however, unchanged compared to Q4 last year, due to a higher share of lower-margin project revenue.*

Gross profit increased 6% to DKK 1,312m (Q4 2017: DKK 1,234m), due to higher revenue. The gross margin, however, fell to 24.1% (Q4 2017: 25.0%) because of a different business mix in Cement with a high share EPC and operation and maintenance contracts, carrying relatively low contribution margins.

Q4 2018 saw total research and development costs of DKK 87m (Q4 2017: DKK 54m), representing 1.6% of revenue (Q4 2017: 1.1%), of which DKK 36m was capitalised and the balance expensed as production costs. The increase in R&D costs related to several projects, of which two of the larger projects concerned digital infrastructure and comminution technology. In addition, project-financed developments are taking place in cooperation with customers.

### REVENUE AND EBITA MARGIN



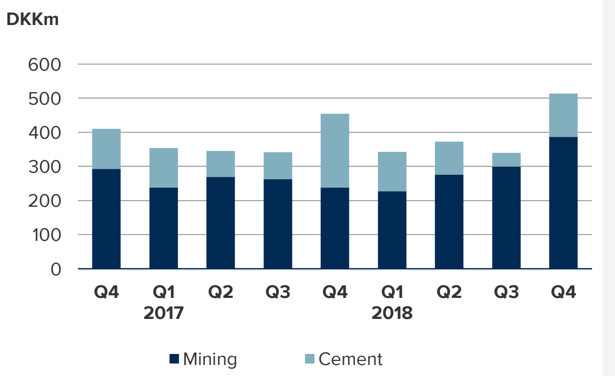

Sales, general and administrative costs and other operating items declined 1% to DKK 730m compared to the same quarter last year (Q4 2017: DKK 741m). The cost percentage was 13.4% of revenue (Q3 2017: 15.0%).

Special non-recurring items in Q4 2018 amounted to DKK-5m (Q4 2017: DKK 55m). The fourth quarter of 2017 included a gain on the acquisition of part of Sandvik Mining Systems which resulted in recognition of negative goodwill of DKK 55m.

EBITA increased 10% to DKK 511m (Q4 2017: DKK 465m) due to the increase in revenue, whilst the EBITA margin was stable at 9.4% (Q4 2017: 9.4%).

Amortisation of intangible assets amounted to DKK -92m (Q4 2017: DKK -93m). The effect of purchase price allocations amounted to DKK -40m (Q4 2017: DKK -55m) and other amortisation to DKK -52m (Q4 2017: DKK -38m). Earnings before interest and tax (EBIT) increased 13% to DKK 419m (Q4 2017: 372m).

### EBITA




Net financial items amounted to DKK -93m (Q4 2017: DKK -82m), of which foreign exchange and fair value adjustments amounted to DKK -78m (Q4 2017: DKK -46m) and net interest amounted to DKK -15m (Q4 2017: DKK -17m).

Tax for Q4 2018 totalled DKK -21m (Q4 2017: DKK -230m and included differences to the Group's tax assets valued at nil of DKK 110m. Tax in Q4 2017 included differences to the Group's tax assets valued at nil of DKK –74m and a US tax rate reduction of DKK -105m.

Profit from continuing activities increased to DKK 305m (Q4 2017: DKK 52m), due to higher operating income and lower tax than Q4 2017.

Loss from discontinued activities related to redundancies and loss-making projects and amounted to DKK -136m (Q4 2017: DKK -237m). The comparison quarter was negatively impacted by provisions related to settlement of a dispute with a customer. Discontinued activities predominantly relate to the bulk material handling activities that were announced for sale in connection with the third quarter interim report in 2015. On 9 January, FLSmidth announced that it has reached an agreement to sell its non-mining bulk material handling business. The transaction is subject to various conditions and is expected to be closed soon. The structure of the transactions means that FLSmidth retains all risks related to legacy projects, which are expected to be finalised during 2019-2020. Any subsequent changes related to bulk material handling will continue to be reported as discontinued activities.

Profit for the period increased to DKK 169m (Q4 2017: DKK -185m), equivalent to DKK 3.6 per share (diluted) (Q4 2017: DKK -3.7).

## CAPITAL

*Free cash flow was positive in the fourth quarter but significantly impacted by an increase in net working capital, explained by high project activity.*

**Cash flow and working capital**

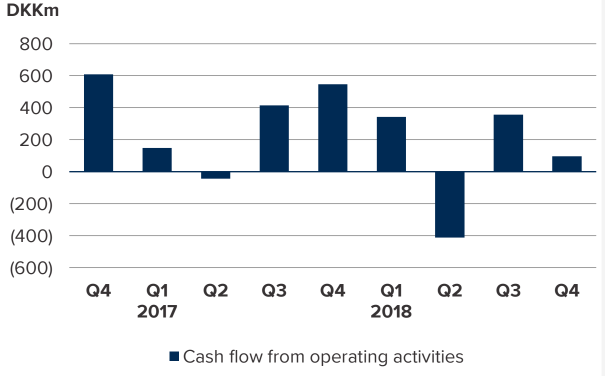
Cash flow from operating activities was DKK 97m in Q4 2018 (Q4 2017: DKK 546m). The reduction compared to Q4 2017 related primarily to net working capital and provisions. Both quarters were impacted by negative operating earnings in discontinued activities.

Net working capital increased to DKK 2,200m at the end of Q4 2018 (end of Q3 2018: DKK 1,809m), representing 11.7% of revenue (Q4 2017: 10.2% of revenue). High project activity led to a build-up of net work in progress in Q4. In addition, the structure of the expected sale of FLSmidth's related bulk material handling business resulted in a DKK 172m net working capital increase, previously reported in the balance sheet as assets classified as held for sale.

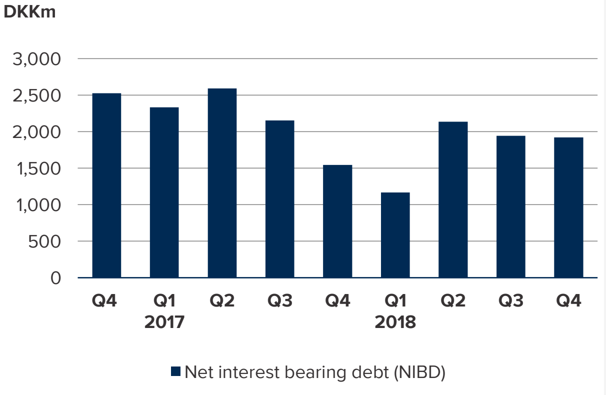
Cash flow from investing activities amounted to DKK -51m (Q4 2017: DKK 56m). Q4 last year was positively impacted by a cash inflow of DKK 108m related to the acquisition of a part of Sandvik Mining Systems.

The free cash flow (cash flow from operating and investing activities) in Q4 amounted to DKK 46m (Q4 2017: DKK 602m).

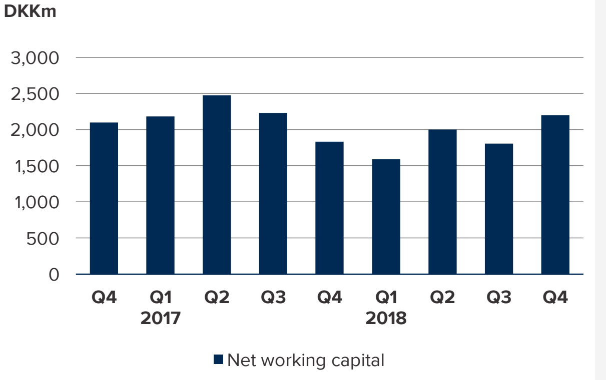
CASH FLOW




NET INTEREST-BEARING DEBT




NET WORKING CAPITAL



# BUSINESS SEGMENTS

# MINING

## FINANCIAL PERFORMANCE IN Q4 2018

Order intake in Q4 2018 increased 15% to DKK 2,980m (Q4 2017: DKK 2,589m). The increase was driven by capital order intake; in particular from South America. Acquisitions had a 13% positive impact and currency a 3% negative impact on order intake compared to the same quarter last year.

Revenue increased 17% to DKK 3,117m in Q4 2018 (Q4 2017: DKK 2,653m), explained by higher capital revenue in particular related to copper projects in South America and Russia/CIS. Currency effects had a 2% negative impact and acquisitions a 5% positive impact on revenue in the quarter.

Gross profit, before allocation of shared cost increased 23% to DKK 853m (Q4 2017: DKK 695m), and the corresponding gross margin increased to 27.4% (Q4 2017: 26.2%) due to better market conditions and a slightly more favourable business mix.

EBITA increased 63% to DKK 387m (Q4 2017: DKK 238m), and the EBITA margin increased to 12.4%, (Q4 2017: 9.0%), reflecting the higher revenue and gross margin.

## FINANCIAL PERFORMANCE IN 2018

Order intake increased 24% to DKK 12,866m in 2018 (2017: DKK 10,403m), explained by significant higher demand for equipment and brownfield projects and an 8% increase in service orders. Acquisitions had a 7% positive impact and currency a 7% negative impact on order intake, compared to the same quarter last year.

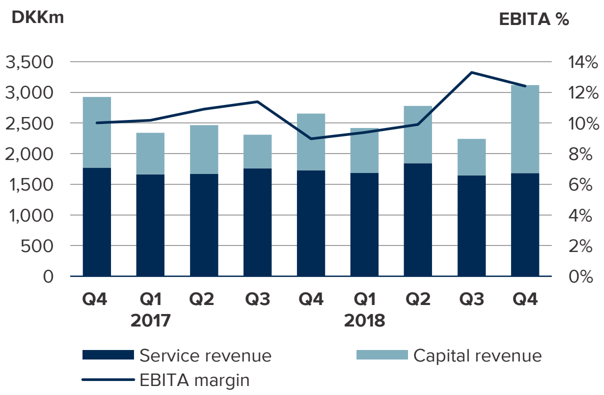
Revenue in 2018 increased 8% to DKK 10,557m (2017: DKK 9,769m), and increased 11% organically. Revenue is still considerably below the order intake in 2018 because of the time lag between orders and revenue, particularly in the capital business which has been the main driver behind the recent increase in Mining orders.

EBITA increased 18% to DKK 1,189m (2017: DKK 1,008m) as a result of the higher revenue. The EBITA margin increased to 11.3% explained by operating leverage.

## MINING

| (DKKm) | Q4 2018 | Q4 2017 | Change (%) | 2018 | 2017 | Change (%) |
|---|---|---|---|---|---|---|
| **Order intake (gross)** | **2,980** | **2,589** | **15%** | **12,866** | **10,403** | **24%** |
| - Hereof service order intake | 1,707 | 1,714 | 0% | 7,441 | 6,974 | 7% |
| - Hereof capital order intake | 1,273 | 875 | 45% | 5,425 | 3,429 | 58% |
| **Order backlog** | **8,350** | **6,261** | **33%** | **8,350** | **6,261** | **33%** |
| **Revenue** | **3,117** | **2,653** | **17%** | **10,557** | **9,769** | **8%** |
| - Hereof service revenue | 1,681 | 1,729 | -3% | 6,858 | 6,821 | 1% |
| - Hereof capital revenue | 1,436 | 924 | 55% | 3,699 | 2,948 | 25% |
| **Gross profit before allocation of shared cost** | **853** | **695** | **23%** | **2,956** | **2,750** | **7%** |
| Gross profit margin before allocation of shared cost | 27.4% | 26.2% | | 28.0% | 28.2% | |
| **EBITA before allocation of shared cost** | **589** | **488** | **21%** | **1,972** | **1,862** | **6%** |
| EBITA margin before allocation of shared cost | 18.9% | 18.4% | | 18.7% | 19.1% | |
| **EBITA** | **387** | **238** | **63%** | **1,189** | **1,008** | **18%** |
| EBITA margin | 12.4% | 9.0% | | 11.3% | 10.3% | |
| **EBIT** | **323** | **175** | **85%** | **937** | **749** | **25%** |
| EBIT margin | 10.4% | 6.6% | | 8.9% | 7.7% | |
| Number of employees | 4,738 | 4,570 | 4% | 4,738 | 4,570 | 4% |

### REVENUE AND EBITA MARGIN






FLSMIDTH

# CEMENT

## FINANCIAL PERFORMANCE IN Q4 2018

Order intake in Q4 2018 decreased 33% to DKK 1,524m (Q4 2017: DKK 2,277m), explained entirely by the difference in large orders compared to Q4 2017. The fourth quarter of 2017 included a large order worth around DKK 750m. Q4 2018 included no large orders. Large cement orders are lumpy by nature.

Revenue decreased 1% to DKK 2,335m in Q4 2018 (Q4 2017: DKK 2,352m), explained by negative currency impact.

Gross profit, before allocation of shared cost decreased 17% to DKK 475m (Q4 2017: DKK 573m), and the corresponding gross margin fell to 20.4% (Q4 2017: 24.4%). The lower gross margin was explained by a different business mix with a high share EPC and operation and maintenance contracts, carrying relatively low contribution margins.

EBITA decreased 41% to DKK 127m (Q4 2017: DKK 216m), mainly as a consequence of the lower gross margin. The EBITA margin fell to 5.4%, (Q4 2017: 9.2%).

## FINANCIAL PERFORMANCE IN 2018

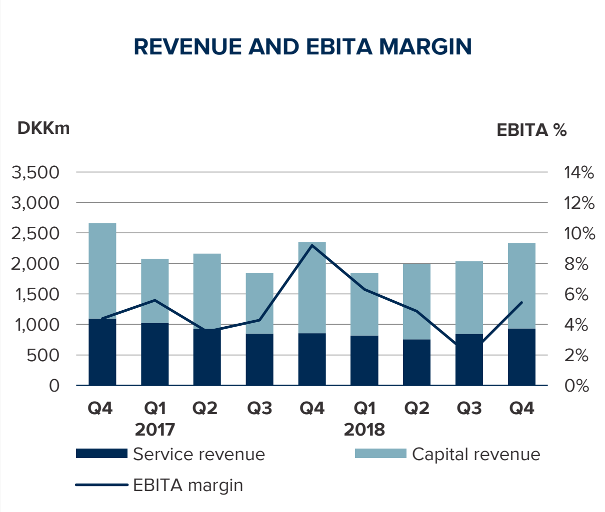
Order intake of DKK 8,881m in 2018 was largely unchanged from the previous year (2017: DKK 8,889m), but increased 3% when adjusted for currency. The order intake was composed of a significant amount of small and medium-sized orders as well as one significant order for two cement plants in Central America.

Revenue in 2018 declined 3% to DKK 8,204m (2017: DKK 8,430m) but was unchanged from last year when adjusted for currency.

EBITA decreased 22% to DKK 381m (2017: DKK 487m) as a result of a lower contribution margin as well as higher SG&A costs related to internal efficiency improvements, and the corresponding EBITA margin decreased to 4.6% (2017: 5.8%).

## CEMENT

| (DKKm) | Q4 2018 | Q4 2017 | Change (%) | 2018 | 2017 | Change (%) |
|---|---|---|---|---|---|---|
| **Order intake (gross)** | **1,524** | **2,277** | **-33%** | **8,881** | **8,889** | **0%** |
| - Hereof service order intake | 973 | 979 | -1% | 3,466 | 3,735 | -7% |
| - Hereof capital order intake | 551 | 1,298 | -58% | 5,415 | 5,154 | 5% |
| **Order backlog** | **7,872** | **7,473** | **5%** | **7,872** | **7,473** | **5%** |
| **Revenue** | **2,335** | **2,352** | **-1%** | **8,204** | **8,430** | **-3%** |
| - Hereof service revenue | 932 | 853 | 9% | 3,350 | 3,651 | -8% |
| - Hereof capital revenue | 1,403 | 1,499 | -6% | 4,854 | 4,779 | 2% |
| **Gross profit before allocation of shared cost** | **475** | **573** | **-17%** | **1,796** | **1,888** | **-5%** |
| Gross profit margin before allocation of shared cost | 20.4% | 24.4% | | 21.9% | 22.4% | |
| **EBITA before allocation of shared cost** | **321** | **427** | **-25%** | **1,070** | **1,223** | **-13%** |
| EBITA margin before allocation of shared cost | 13.7% | 18.2% | | 13.0% | 14.5% | |
| **EBITA** | **127** | **216** | **-41%** | **381** | **487** | **-22%** |
| EBITA margin | 5.4% | 9.2% | | 4.6% | 5.8% | |
| **EBIT** | **99** | **186** | **-47%** | **268** | **346** | **-23%** |
| EBIT margin | 4.2% | 7.9% | | 3.3% | 4.1% | |
| Number of employees | 5,087 | 5,359 | -5% | 5,087 | 5,359 | -5% |



# QUARTERLY KEY FIGURES

| DKKm | 2016 | | | | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| INCOME STATEMENT | | | | | | | | | | | | |
| Revenue | 3,758 | 4,135 | 4,774 | 5,525 | 4,371 | 4,585 | 4,101 | 4,943 | 4,235 | 4,730 | 4,335 | 5,450 |
| - Hereof service revenue | 2,328 | 2,445 | 2,601 | 2,870 | 2,675 | 2,613 | 2,609 | 2,583 | 2,507 | 2,599 | 2,489 | 2,613 |
| **Gross profit** | **1,038** | **1,078** | **1,164** | **1,301** | **1,134** | **1,164** | **1,065** | **1,234** | **1,074** | **1,181** | **1,126** | **1,312** |
| SG&A costs and other operating items | (726) | (738) | (743) | (786) | (698) | (759) | (667) | (741) | (678) | (741) | (718) | (730) |
| **EBITDA before special non-recurring items** | **312** | **340** | **421** | **515** | **436** | **405** | **398** | **493** | **396** | **440** | **408** | **582** |
| Special non-recurring items | 0 | 0 | (9) | (21) | 0 | 0 | (4) | 55 | 3 | 0 | 0 | (5) |
| Depreciations and write-downs of property, plant and equipment | (66) | (67) | (68) | (68) | (64) | (63) | (58) | (83) | (56) | (59) | (58) | (66) |
| **EBITA** | **246** | **273** | **344** | **426** | **372** | **342** | **336** | **465** | **343** | **381** | **350** | **511** |
| Amortisation of intangible assets | (93) | (96) | (101) | (118) | (100) | (105) | (102) | (93) | (95) | (82) | (96) | (92) |
| **EBIT** | **153** | **177** | **243** | **308** | **272** | **237** | **234** | **372** | **248** | **299** | **254** | **419** |
| Financial income/costs, net | (38) | (32) | 14 | 2 | (34) | (94) | (101) | (82) | (35) | (16) | (17) | (93) |
| **EBT** | **115** | **145** | **257** | **310** | **238** | **143** | **133** | **282** | **213** | **283** | **237** | **326** |
| Tax for the period | (36) | (45) | (70) | (86) | (60) | (51) | (38) | (230) | (66) | (95) | (66) | (21) |
| **Profit/loss on continuing activities for the period** | **79** | **100** | **187** | **224** | **178** | **92** | **95** | **52** | **147** | **188** | **171** | **305** |
| Profit/loss on discontinued activities for the period | (6) | (3) | (17) | (42) | (17) | (17) | (72) | (237) | (11) | (20) | (9) | (136) |
| **Profit/loss for the period** | **73** | **97** | **170** | **182** | **161** | **75** | **23** | **(185)** | **136** | **168** | **162** | **169** |
| Effect of purchase price allocation | (60) | (60) | (60) | (60) | (55) | (55) | (55) | (55) | (40) | (40) | (40) | (40) |
| *Gross margin* | *27.6%* | *26.1%* | *24.4%* | *23.5%* | *25.9%* | *25.4%* | *26.0%* | *25.0%* | *25.4%* | *25.0%* | *26.0%* | *24.1%* |
| *EBITDA margin before special non-recurring items* | *8.3%* | *8.2%* | *8.8%* | *9.3%* | *10.0%* | *8.8%* | *9.7%* | *10.0%* | *9.4%* | *9.3%* | *9.4%* | *10.7%* |
| *EBITA margin* | *6.5%* | *6.6%* | *7.2%* | *7.7%* | *8.5%* | *7.5%* | *8.2%* | *9.4%* | *8.1%* | *8.1%* | *8.1%* | *9.4%* |
| *EBIT margin* | *4.1%* | *4.3%* | *5.1%* | *5.6%* | *6.2%* | *5.2%* | *5.7%* | *7.5%* | *5.9%* | *6.3%* | *5.9%* | *7.7%* |
| | | | | | | | | | | | | |
| Cash flow from operating activities | (60) | 155 | 744 | 608 | 149 | (44) | 414 | 546 | 343 | (412) | 357 | 97 |
| Cash flow from investing activities | (12) | (95) | (43) | (44) | (35) | (65) | (69) | 56 | (42) | (83) | (109) | (51) |
| | | | | | | | | | | | | |
| Net working capital | 2,410 | 2,610 | 2,251 | 2,099 | 2,182 | 2,477 | 2,232 | 1,833 | 1,590 | 2,003 | 1,809 | 2,200 |
| | | | | | | | | | | | | |
| Order intake, continuing activities (gross) | 5,281 | 4,345 | 4,133 | 4,544 | 5,561 | 4,580 | 4,193 | 4,836 | 5,018 | 5,056 | 7,164 | 4,503 |
| - Hereof service order intake | 2,341 | 2,432 | 2,647 | 2,616 | 2,868 | 2,653 | 2,501 | 2,693 | 2,885 | 2,773 | 2,569 | 2,680 |
| Order backlog, continuing activities | 15,792 | 15,914 | 15,174 | 13,887 | 14,998 | 14,115 | 13,799 | 13,654 | 13,874 | 14,454 | 17,228 | 16,218 |

| DKKm | 2016 | | | | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| SEGMENT REPORTING | | | | | | | | | | | | |
| **Mining** | | | | | | | | | | | | |
| Revenue | 2,237 | 2,270 | 2,506 | 2,926 | 2,338 | 2,468 | 2,310 | 2,653 | 2,418 | 2,780 | 2,242 | 3,117 |
| - Hereof service revenue | 1,456 | 1,495 | 1,665 | 1,772 | 1,659 | 1,672 | 1,761 | 1,729 | 1,689 | 1,844 | 1,644 | 1,681 |
| Gross profit before allocation of shared costs | 633 | 628 | 651 | 777 | 666 | 717 | 672 | 695 | 653 | 739 | 711 | 853 |
| EBITA before allocation of shared costs | 408 | 381 | 416 | 531 | 442 | 469 | 463 | 488 | 434 | 493 | 456 | 589 |
| EBITA | 189 | 169 | 217 | 293 | 238 | 269 | 263 | 238 | 227 | 276 | 299 | 387 |
| EBIT | 127 | 106 | 151 | 220 | 174 | 202 | 198 | 175 | 165 | 221 | 228 | 323 |
| *Gross margin before allocation of shared costs* | *28.3%* | *27.7%* | *26.0%* | *26.6%* | *28.5%* | *29.1%* | *29.1%* | *26.2%* | *27.0%* | *26.6%* | *31.7%* | *27.4%* |
| *EBITA margin before allocation of shared costs* | *18.2%* | *16.8%* | *16.6%* | *18.1%* | *18.9%* | *19.0%* | *20.0%* | *18.4%* | *18.0%* | *17.8%* | *20.3%* | *18.9%* |
| *EBITA margin* | *8.4%* | *7.4%* | *8.7%* | *10.0%* | *10.2%* | *10.9%* | *11.4%* | *9.0%* | *9.4%* | *9.9%* | *13.3%* | *12.4%* |
| *EBIT margin* | *5.7%* | *4.7%* | *6.0%* | *7.5%* | *7.4%* | *8.2%* | *8.6%* | *6.6%* | *6.8%* | *7.9%* | *10.2%* | *10.4%* |
| | | | | | | | | | | | | |
| Order intake (gross) | 2,107 | 2,673 | 2,390 | 2,451 | 2,670 | 2,407 | 2,737 | 2,589 | 3,339 | 3,297 | 3,250 | 2,980 |
| - Hereof service order intake | 1,544 | 1,684 | 1,643 | 1,637 | 1,863 | 1,788 | 1,609 | 1,714 | 2,084 | 1,948 | 1,702 | 1,707 |
| Order backlog | 6,528 | 6,782 | 6,528 | 6,233 | 6,529 | 6,064 | 6,230 | 6,261 | 6,900 | 7,526 | 8,579 | 8,350 |
| | | | | | | | | | | | | |
| **Cement** | | | | | | | | | | | | |
| Revenue | 1,547 | 1,916 | 2,302 | 2,662 | 2,076 | 2,159 | 1,843 | 2,352 | 1,841 | 1,990 | 2,038 | 2,335 |
| - Hereof service revenue | 868 | 955 | 929 | 1,097 | 1,022 | 928 | 848 | 853 | 818 | 754 | 846 | 932 |
| Gross profit before allocation of shared costs | 414 | 459 | 510 | 544 | 464 | 484 | 367 | 573 | 433 | 456 | 432 | 475 |
| EBITA before allocation of shared costs | 257 | 285 | 313 | 301 | 297 | 249 | 250 | 427 | 304 | 295 | 150 | 321 |
| EBITA | 61 | 99 | 124 | 117 | 116 | 76 | 79 | 216 | 116 | 97 | 41 | 127 |
| EBIT | 29 | 66 | 90 | 72 | 81 | 37 | 42 | 186 | 82 | 71 | 16 | 99 |
| *Gross margin before allocation of shared costs* | *26.8%* | *24.0%* | *22.2%* | *20.4%* | *22.4%* | *22.4%* | *19.9%* | *24.4%* | *23.5%* | *22.9%* | *21.2%* | *20.4%* |
| *EBITA margin before allocation of shared costs* | *16.6%* | *14.9%* | *13.6%* | *11.3%* | *14.3%* | *11.5%* | *13.6%* | *18.2%* | *16.5%* | *14.8%* | *7.4%* | *13.7%* |
| *EBITA margin* | *3.9%* | *5.2%* | *5.4%* | *4.4%* | *5.6%* | *3.5%* | *4.3%* | *9.2%* | *6.3%* | *4.9%* | *2.0%* | *5.4%* |
| *EBIT margin* | *1.9%* | *3.4%* | *3.9%* | *2.7%* | *3.9%* | *1.7%* | *2.3%* | *7.9%* | *4.5%* | *3.6%* | *0.8%* | *4.2%* |
| | | | | | | | | | | | | |
| Order intake (gross) | 3,238 | 1,752 | 1,792 | 2,158 | 2,918 | 2,205 | 1,489 | 2,277 | 1,707 | 1,792 | 3,858 | 1,524 |
| - Hereof service order intake | 795 | 750 | 989 | 979 | 1,008 | 857 | 891 | 979 | 801 | 825 | 867 | 973 |
| Order backlog | 9,395 | 9,300 | 8,823 | 7,850 | 8,650 | 8,197 | 7,697 | 7,473 | 7,057 | 7,003 | 8,653 | 7,872 |

# INNOVATION & DIGITALIZATION

# DIGITAL POWERS PRODUCTIVITY

Digitalization is a major driver for change and disruption in many industries, including within Cement and Mining. While our customers' final products, basic materials and the machinery required to produce them are at a low risk of being completely "digitalized", there will be radical changes to all parts of the business.

At FLSmidth, we leverage digital technologies to empower our business strategy. In other words; digital powers productivity. Digitalization is addressed through three main avenues:

- **Offerings & solutions:** enhance our products, projects and services offerings and leverage digital technologies to provide new solutions
- **Customer journey & experience:** use digital channels and tools to create value in every interaction and enable customers to easily engage with us
- **Digital Foundation:** build digital into our culture and the way we work, optimise and automate processes, create an engaged workforce and improve productivity

Digitalization is speeding up the ever-ongoing process of improving productivity and sustainability. In the past decade, data analytics has become increasingly important to optimise processes. Advances in connectivity, software usability and capacity to store large amounts of data have created a range of potential applications for digitalization, all driving productivity.

We have experienced – and it is proven by studies – that the biggest impact from digitalization for our customers will come from operations management (e.g. improving yield and throughput and reducing production cost) and equipment maintenance (e.g. improving availability and reducing maintenance cost) as the main drivers. Other areas are safety and inventory management. To unlock value, customers are increasingly looking at end-to-end processes and integrating their entire value chain.

As a foundation for new products and services, FLSmidth has launched an IoT platform and field agents which are connecting our equipment. Several commercial products were introduced in 2018, amongst other: SAGwise™ total process control which optimises the performance of grinding mills, PxP Insights™ which is a dashboard that monitors process optimisation performance, as well as condition monitoring & predictive maintenance for large gear boxes. To strengthen internal productivity, we have launched new, intelligent HR and Procurement platforms and deployed 15 software robots to manage repetitive tasks and improve quality.

FLSmidth combines its knowledge in products, projects and services to leverage the digital opportunity: we use our full flowsheet knowledge to offer data-driven process improvement and combine our machine and service knowledge to improve uptime and extend service coverage of our equipment. Our process optimisation solutions have been in the market for decades and deliver tangible results. Based on our existing automation offering, we provide driver-less operations for more and more production processes.

**We use our full flowsheet knowledge to offer data-driven process improvement and combining our machine and service knowledge to improve uptime and extend service coverage of our equipment.**

There are digital tools for almost every process, but digital is not necessarily the right tool for every problem. In fact, what matters is not a great digital strategy, but a solid business strategy in the digital age. For FLSmidth, it centres around productivity and it is the combination of our experience, our people and digital tools that creates value for our customers.

### DIGITALIZATION – A KEY ENABLER FOR PRODUCTIVITY

- Embedding digitalization in future innovation is a top priority for FLSmidth
- Our existing automation offering provides a strong foundation
- New technology applications will ensure data-driven productivity improvements

# INNOVATING FOR A SUSTAINABLE TOMORROW

**In 2018, FLSmidth increased its spend on innovation and digitalization 36% to DKK 289m. We develop productivity enhancing solutions that turn our customers' everyday challenges into opportunities. In addition, we cooperate with our customers on project-financed developments. FLSmidth's future financial results rely on existing core technologies and a continuous stream of new developments to enhance the current strong offering.**

Innovation at FLSmidth takes place at three levels: in-house in our technology centres, on-site with customers and through partnerships with third parties.

## IN-HOUSE INNOVATION

FLSmidth's global technology centres are the backbone of in-house R&D, but product development also takes place locally. Sophisticated laboratories and testing facilities in the USA, India and Denmark allows for in-house pilot projects before new solutions are rolled out to customers in full scale. Fast commercialisation of new products and services is a top priority but FLSmidth is investing in transformational innovations too, that can radically change the way our customers operate.

## ON-SITE INNOVATION

When specific customer requirements and the need for real-live testing go hand in hand, product development takes place directly at customer sites. Examples of such developments include new cyclones for cement preheater towers, systems for tailings management in mining and new solutions for the use of alternative fuels at cement plants.

## INNOVATION THROUGH PARTNERSHIPS

FLSmidth has a strategy to focus on its core business, but sometimes the development of core products require innovation within non-core technologies. In such cases, we will look to partner up with technology experts rather than attempt to 'reinvent the wheel'.

FLSmidth is, at any given point in time, working on a vast number of innovation projects within both mining and cement. Such projects range from small equipment or software updates to large transformational innovations.

The next two pages contains examples of innovations completed in 2018 and the subsequent two pages provide a short update on two of our largest and most significant development projects.

### TOWARDS A SUSTAINABLE TOMORROW

Sustainability at FLSmidth is closely linked to our efforts on innovation and digitalization. Greater scarcity of resources such as energy, water and raw materials is leading to more complex and costly operations, challenging the performance of mining and cement companies. This calls for innovation, digitalization and high-end technical solutions, which is where FLSmidth has a leading position and a strong competitive edge.

**We believe even a small discovery can lead to a great deal more**

## MODULAR REFLUX™ CLASSIFIER PLANT

# Generating value from waste in mining

### TECHNOLOGY

Recovery of valuable (saleable) commodities from mining waste material. For example, recovery of chrome from platinum waste. Modular plant with guaranteed outcome.

### BENEFITS

Outcome-based business & payment model. Up to 50% additional recovery. Quick installation, commissioning and relocation. Low power consumption, environmental impact and significant downstream benefits.

### DEVELOPMENT STAGE

The new modular plant solution has been launched and the first few plants have been sold. Customer interest is growing.

## SAGWISE™

# Total mill process control in mining

### TECHNOLOGY

New generation process control for SAG mills: Controls feed, speed and slurry density. Based on acoustic sensing and operational parameters.

### BENEFITS

Up to a 6% increase in production and 3-6% lower power consumption (lower environmental impact). Reduces maintenance cost by decreasing liner damage by up to 45%.

### DEVELOPMENT STAGE

SAGwise™ was recently launched and the first solution has been sold.

## THE FLSMIDTH STRIKE-BAR™ CRUSHER

# The lowest life-cycle costs in cement

### TECHNOLOGY

The latest addition to FLSmidth's family of crushing equipment is based on a strike-bar system, combining the latest technologies with more than 50 years of experience with impact crushers.

### BENEFITS

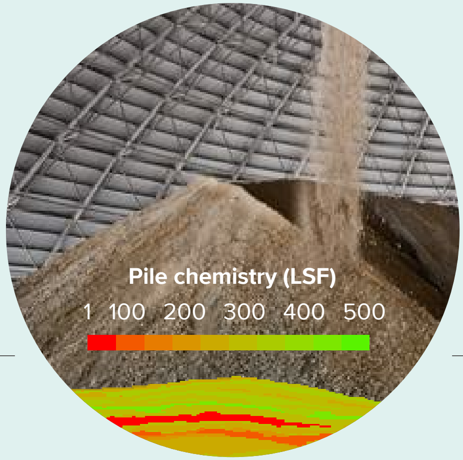
Designed for maximum lifetime and minimum cost of maintenance. Unique hydraulic and spring-positioning system prevents overload and eliminates stoppages.

### DEVELOPMENT STAGE

First Strike-Bar Crusher up and running at Xuan Thanh Cement in Vietnam.

## QCX/BLENDEXPERT-PILE

# Smart management of raw materials in cement




### TECHNOLOGY

Model-based software which optimises homo-genising facilities from quarry to kiln. 3D stacking model gives unique insight into pile chemistry.

### BENEFITS

Tackles difficult and varying raw material quality. Visual representation of the entire pile chemistry improves control from quarry to clinker saving energy and fuel.

### DEVELOPMENT

New model-based version of QCX/BlendExpert-Pile released in December; 100+ old systems next in line for upgrading.

DEVELOPMENT UPDATE

# Rapid Oxidative Leaching (ROL)

FLSmidth's discovery of the ROL technology was first announced in May 2015. This ground-breaking solution overcomes three major challenges in the mining industry (copper in particular); Declining ore grades, increasing levels of arsenic and other impurities, and reduced production from existing SX-EW facilities due to falling recoveries from heap leach when transitioning from oxide to sulfide ores.

We are currently testing concentrates from several interested copper miners at our pilot plant in Salt Lake City, USA, and at a third-party independent laboratory. The purpose of these tests is to establish data for the customers to determine if they would like to move ahead with pre-feasibility studies. During 2017-2018, the concentrates from one customer have been tested and indicated a positive return on investment. We have agreed with this customer to supply equipment and operate a demonstration scale ROL process plant at their facility in South America. This is an important step in scaling up and commercialising the ROL process.

In addition to copper, we have tested ROL with refractory gold (gold not easily recovered by standard methods), and it has proved possible to apply the technology in the laboratory to significantly improve gold recovery. We are currently working with several gold producers in research and development of this process, with the goal of potentially moving on to pilot scale testing in 2019.

### THE CHALLENGE

- Declining ore grades diluting miners' revenue and the economic value of their reserves
- Smelters unable to cope with increasing level of impurities
- Economic stress in the transition from oxide to sulphide ore

### THE REQUIREMENTS

To transform the chalcopyrite ($CuFeS_2$) structure into a binary structure releasing the copper in the mineral into solution.

### THE SOLUTION

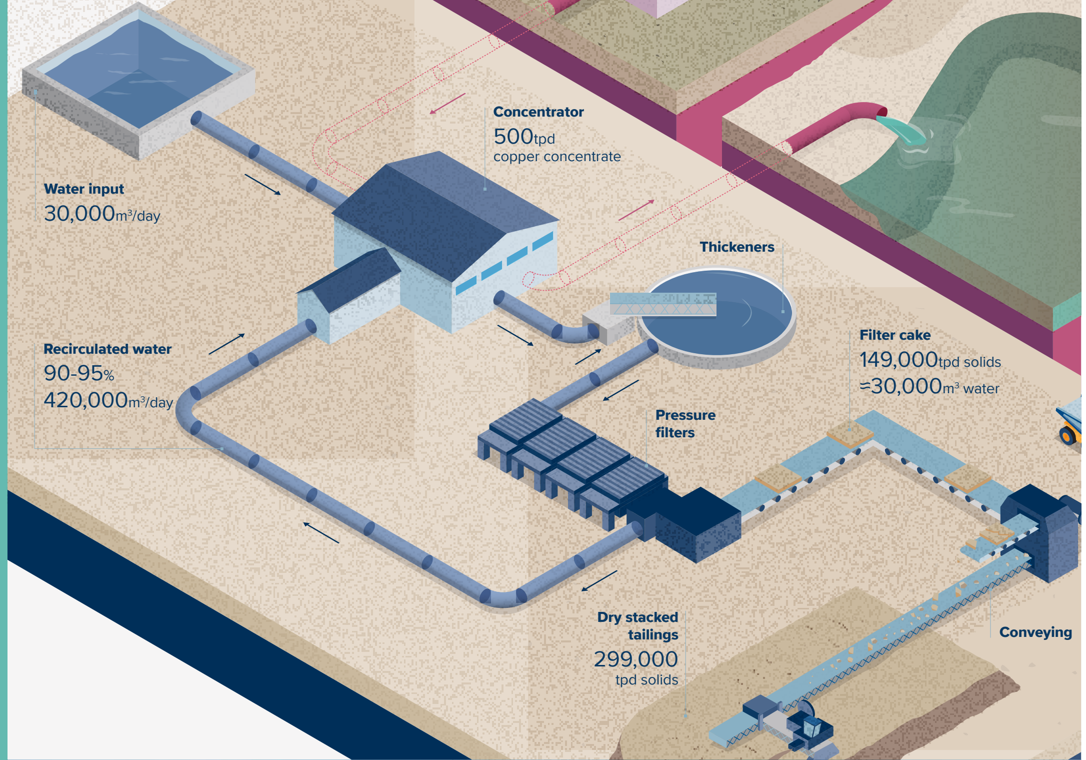
ROL can process low grade concentrates, operates at atmospheric pressure, and integrates with existing equipment. Treats arsenic whereby roasting or smelting can be avoided.

DEVELOPMENT UPDATE

# Dry Stack Tailings

Dry Stack Tailings can recirculate up to 95% of mine process water and eliminates the risks of catastrophic tailings flow when a dam fails. The concept is not new but in recent years, FLSmidth has put significant efforts into improving the technology to make it commercially viable. Part of the R&D took place in cooperation with the major gold miner, Goldcorp, where Goldcorp and FLSmidth has co-developed the EcoTails™ filter technology. This is a process which blends filtered tailings with waste rock, creating a geotechnically stable waste product and eliminating the need to keep conventional slurry tailings contained in a dam and submerged in water. The resulting environmental benefits are: no tailings dam, lower fresh water use, reduced acid rock drainage, a smaller mine footprint, and less overall risk. The EcoTails™ R&D project is in the feasibility testing phase. The next stage is a demonstration scale project. To learn more, watch the video published by Goldcorp here.

In addition to the co-development project with Goldcorp, FLSmidth is continuously working to improve its filter technology, and in 2018, we sold three filtered tailings projects and three of the world's largest paste thickeners.




# CORPORATE MATTERS

# SUSTAINABILITY

**In 2018, we updated our policy framework, including a new sustainability policy that clearly outlines our commitments. We placed increasing focus on diversity and human rights, while at the same time, developing an extensive sustainable supply chain program. Our governance structure proved to be robust in managing our performance, meaning that we know in great detail how we will achieve our goals in both the short and long-term.**

Concurrently with the Annual Report, FLSmidth has published its annual Sustainability Report, covering non-financial performance related to environmental and social impacts. The 2018 Sustainability Report is in full compliance with both Section 99a of the Danish Financial Statements Act and the Global Reporting Initiative (GRI) core requirements, and also serves as the Advanced Communication on Progress to the United Nations Global Compact.

The report is available at:
http://www.flsmidth.com/SustainabilityReport2018

## SUSTAINABILITY AT FLSMIDTH

Sustainable development is a key driver in the industries we serve and our focus on productivity enhancement increases our customers' performance, as well as our own. By focusing on our suppliers, our business and the entire life-cycle of our customers' operations, we can identify where the largest sustainability impacts and cost savings opportunities lie.

## PROGRESS IN 2018

### Safety

Safety is a fundamental element of our culture and we see it as a precondition for success. This is a key aspect of how we deliver our services and strive to be best-in-class.

In 2018, we launched a new safety culture program. The theme of our employee engagement was "Individual responsibility – united responsibility" and included more than 10,000 personal commitments.

The key objective for FLSmidth is to achieve zero harm for all people under its control.

### People

With an enduring aim of being an employer of choice, we recognise the strategic importance of attracting, developing and retaining a highly-qualified, competent and value-based workforce. The foundation of our success is based on the ability of our talented employees to work in an innovative and collaborative environment. We also recognise that embracing a diverse and competent workforce means stronger relationships with our customers in a global marketplace.

In 2018, we published our Diversity and Equality Policy, which commits us to a systematic approach to improve performance. We also developed a series of Diversity and Equality initiatives that we will begin to implement in 2019.

The key objective is to achieve a better level of diversity, equality and inclusion.

### ESG PERFORMANCE

In 2018, FLSMIDTH & CO. A/S received a rating of AA (on a scale of AAA-CCC) in the MSCI environment, social, governance performance ratings assessment. This reflected our commitment and focus on sustainability, most notably regarding safety, compliance and governance.

## Compliance

Having a strong compliance setup is necessary for conducting responsible business. The cement and mining industries entail compliance-related risks. To prepare for and mitigate risks in an optimal way, we continuously work to fully understand and act in compliance with laws and issues related to anti-corruption and sanctions.

In 2018, we expanded our due diligence program to include customers and suppliers, including issues related to their environmental impact assessments and their human rights record. This information is conveyed to our key accounts and is used in an integrated way to assess risks.

The key objective is risk mitigation.

## Environment

We are a supplier to two of the most resource intensive industries on the planet. We firmly believe that sustainability starts at home. In order to offer our customers sustainable solutions, we must always ensure that we address sustainability systematically within our own organisation. That's why our internal impacts are a key part of our culture and day-to-day work.

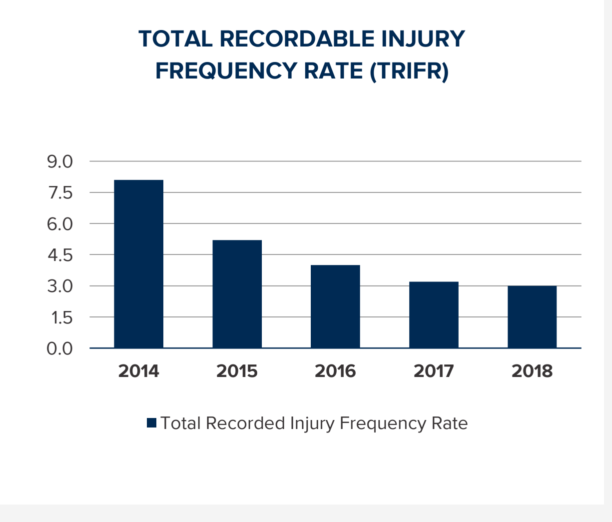
In 2018, we improved the quality and reliability of our data through accounting policies of numerous impacts. We have also further developed our understanding of our carbon footprint beyond the boundaries of the organisation. This will support us in addressing our impacts in a life-cycle perspective.

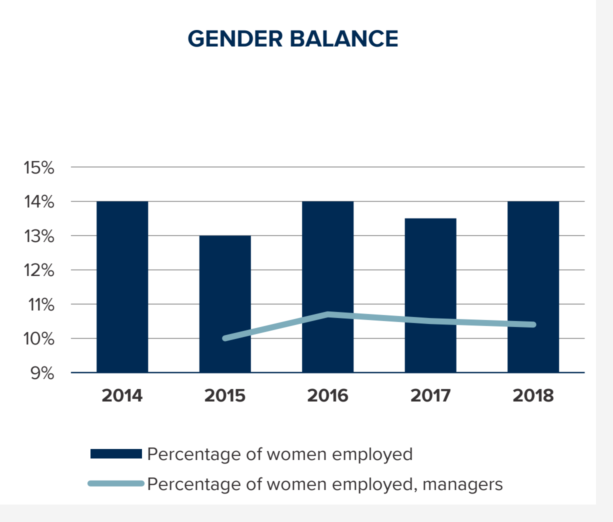
The key objective is to reduce costs and environmental impacts.

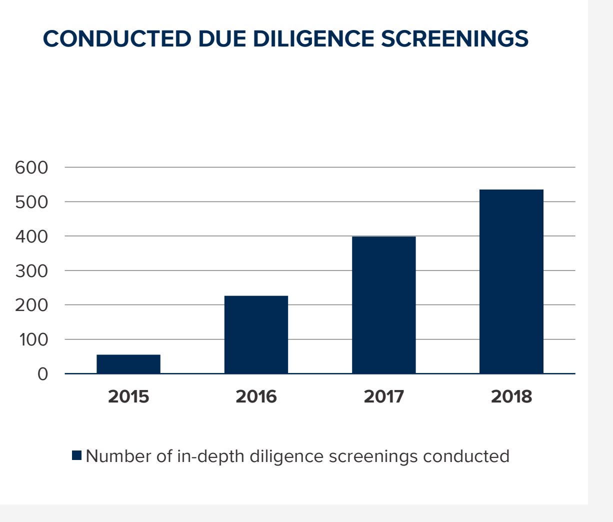
## Supply chain

We value building strong business ties and long-standing relationships with our suppliers and can forge and maintain these bonds through high standards of responsible business conduct. One of our values, responsibility, applies to all aspects of our business – including the parts that originate from external sources. This is especially relevant considering our asset-light business model with approximately 80% of our manufacturing outsourced.

In 2018, we updated our supply chain code of conduct. It conforms to the World Business Council for Sustainable Development guide for suppliers in the cement industry, meaning we can now offer tier 2 visibility to our customers. This policy formed the basis for our new sustainable procurement program. When FLSmidth employees visit a supplier site, they must answer a 30-minute survey that is accessible through their mobile phone on topics related to social, environmental and safety performance. The key objective is risk mitigation.



## Human Rights

Respecting human and labour rights is a basic aspect of conducting responsible business. We place continuous emphasis on this to ensure that we never take good practices for granted and that we recognise that we can always improve on our work with human and labour rights.

In 2018, we published a new Human Right Policy, which includes the external frameworks to which we adhere and outlines our approach to human rights grievance remediation. We carried out human rights risk assessments in India and South Africa with a view of addressing any findings.

The key objective is to stop any human or labour right violation.

| | 2017 | 2018 | 2018 Target | 2019 Targets |
|---|---|---|---|---|
| **SAFETY** | | | | |
| Lost Time Injury Frequency Rate | 1.8 | 1.3 | ≤1.3 | ≤1.2 |
| Total Recordable Injury Frequency Rate | 3.2 | 3.0 | ≤3.2 | ≤2.7 |
| **PEOPLE** | | | | |
| Number of employees having undergone corporate development programs | 541 | 1,031 | 353 | 806 |
| Percent women managers | 10.5% | 10.4% | 11.5% | 11% |
| **COMPLIANCE** | | | | |
| Total number of whistle-blower reports submitted | 51 | 65 | N/A | N/A |
| Numbers of in-depth due diligence screenings conducted | 398 | 535 | 430 | 750 |
| **ENVIRONMENT*** | | | | |
| Absolute carbon emissions, scope 1 & scope 2 (in tonnes) | 64,267 | 60,341 | 62,981 | 57,840 |
| Freshwater withdrawal ($m^3$) | 241,651 | 227,272 | 236,818 | 217,486 |
| **SUPPLY CHAIN** | | | | |
| Number of suppliers screened for social and environmental performance | 113 | 195 | N/A | 300 |
| % Suppliers with negative environmental / social impacts with improvement plans | N/A | 5% / 0% | N/A | 5% / 0% |
| **HUMAN RIGHTS** | | | | |
| Operations subject to human rights reviews or impact assessments (off-site/on-site) | N/A | 20/10 | N/A | 50/15 |
| Employee training on human rights policies or procedures | N/A | N/A | N/A | 100 |

* 2023 target.



FLSmidth

# RISK MANAGEMENT

**Risk is an inherent part of our business and managing risks is a very high priority at FLSmidth. Through a simple, standardised enterprise risk management practice, we strive to minimise the impact of our key risks and protect our reputation, values and integrity.**

**Risk management framework and organisation**
The Group's risk management framework consists of an annual top-down/bottom-up risk mapping allowing for the identification of key risks at group level as well as the key risks, that the organisation is facing. Effective 1 July, the Risk Management organisation has been restructured to fit the new organisational structure consisting of the two industries and seven regions. Each region has total ownership of their risks including the responsibility to ensure that they are adequately managed. This is further supported and controlled by Security Councils and the Risk Committee to ensure alignment and compliance with the responsibilities and mitigation efforts.

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

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

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

See page 49 for elaborating comments regarding the risks, potential impact and mitigation efforts.

**GROUP RISK MAP**

# RISK MANAGEMENT ORGANISATION: ROLES AND RESPONSIBILITIES

| BOARD OF DIRECTORS | GROUP EXECUTIVE MANAGEMENT | GROUP RISK MANAGEMENT | REGIONS | RISK COMMITTEE |
|---|---|---|---|---|
| **Purpose and mandate** | **Purpose and mandate** | **Purpose and mandate** | **Purpose and mandate** | **Purpose and mandate** |
| The Board of Directors has the overall responsibility for determining the group's risk appetite and monitoring the group's exposure to ensure that appetite and exposure are consistent. | Group Executive Management is responsible for the group's Risk Management Policy and are risk sponsors for the organisation ensuring risk management is on the agenda. | Group Risk Management is responsible for risk management facilitation across the organisation and the annual reporting of risks as identified by the organisation and defined in the Risk Management Policy. | The Regions are responsible for the assessment, mitigation and communication of key risks in their regions and for the implementation of relevant risk management processes for these risks. | The Risk Committee is responsible for controlling the risk management activities of the regions to ensure alignment with the two Industries, Mining and Cement, and compliance with their responsibilities and mitigation efforts. |
| **Activities** | **Activities** | **Activities** | **Activities** | **Activities** |
| Reviews and discusses the annual reported risk exposure and mitigation for the group's top risks. | Reviews and discusses the results of the annual risk assessment and ensures that appropriate risk analyses are conducted as an integral part of key decision processes. | Conducts the necessary risk workshops, training and facilitation of mitigating efforts for the organisation and compiles data collected into reports for the organisation. | Calibrate, prioritise and establish mitigation plans and appoint individual risk owners who have the responsibility for key risks to individual risk owners in their region. | Meets bi-annually to review the Regions' mitigation plans for their prioritised top risks and to ensure that all roles adhere to their responsibilities. |

# RISK MITIGATION

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

# CORPORATE GOVERNANCE

**In the Board of Director's opinion, FLSmidth fully complies with all recommendations on corporate governance applicable to Danish listed companies, except for one.**

The following statutory statement (including the Corporate Governance section, the Remuneration Report, as well as the overview of the Board of Directors and Group Executive Management) is provided pursuant to the Danish Financial Statements Act Sections 107a and 107b.

## CAPITAL AND SHARE STRUCTURE

FLSmidth & Co. A/S is listed on NASDAQ Copenhagen. At the end of 2018, FLSmidth had about 37,000 registered shareholders and a free-float of around 85%. Two shareholders had flagged major shareholdings in FLSmidth & Co. A/S at the end of 2018. Lundbeckfond Invest A/S' investment exceeded 10% and Novo Holding A/S' investment exceeded 5%. FLSmidth's holding of treasury shares at the end of 2018 accounted for 2.7% of the share capital.

The Board of Directors is authorised until the next Annual General Meeting to let the Company acquire treasury shares up to a total nominal value of 10% of the Company's share capital in accordance with Section 12 of the Danish Companies Act.

The adoption of a resolution to amend the Company's Articles of Association or to wind up the Company requires that the resolution is passed by not less than two thirds of the votes cast as well as of the share capital represented at the General Meeting.

| CORPORATE GOVERNANCE HIGHLIGHTS | 2018 | 2017 |
|---|---|---|
| Number of registered shareholders (1,000) | 37 | 38 |
| Treasury shares (1,000) | 1,384 (2.7%) | 1,729 (3.4%) |
| Number of shares held by Board and Group Executive Management (1,000) | 35 | 30 |
| Total Board remuneration (DKK) | 6.5m | 6.6m |
| Total Executive Management remuneration (DKK) | 23.6m | 20.7m |
| Number of Board members (elected at the AGM) | 6 | 6 |
| Female representation on Board of Directors (elected at the AGM) | 33% | 33% |
| Independent directors | 100% | 100% |
| Number of board committees | 4 | 4 |
| Number of board meetings held (overall meeting attendance%) | 7 (92%) | 7 (100%) |

## MANAGEMENT STRUCTURE

According to general practice in Denmark, FLSmidth maintains a clear division of responsibility and separation between the Board of Directors and the Group Executive Management. Tasks and responsibilities are defined at an overall level via rules of procedure for the Board of Directors and rules of procedure for the Group Executive Management. In addition, terms of reference apply to the Board committees.

The Group Executive Management is responsible for the day-to-day business of the company, and the Board of Directors oversees the Group Executive Management and handles overall managerial issues of a strategic nature. The Chairman is the Board of Directors' primary liaison with the Group Executive Management.

## THE BOARD OF DIRECTORS

### Composition of the Board of Directors

The Board of Directors is elected at the Annual General Meeting apart from those Board members who are elected pursuant to the provisions of the Danish Companies Act on employee representation.

Board members elected at the Annual General Meeting constitute not less than five and not more than eight members, currently six members, in order to maintain a small, competent and quorate Board. The members of the Board elected at the Annual General Meeting retire at each Annual General Meeting. Re-election may take place. The Nomination Committee identifies and recommends candidates to the Board of Directors.

Pursuant to the provisions of the Danish Companies Act regarding employee representation, FLSmidth's employees are represented on the Board by currently three members, who are elected for terms of four years. The most recent election took place in 2017 and the next one will take place in January 2021.

Immediately after the Annual General Meeting, the Board of Directors elects, among its own members, a Chairman and a Vice chairman. A job and task description has been created and outlines the duties and responsibilities of the Chairman and the Vice chairman.

Board meetings are called and held in accordance with the Board rules of procedure and its annual plan. In general, between six and eight ordinary Board meetings are held every year. However, when deemed necessary, additional meetings may be held. To enhance Board meeting efficiency, the Chairman conducts a planning meeting with the CEO and CFO prior to each Board meeting.

Seven Board meetings were held in 2018. Apart from contemporary business issues, the most important issues dealt with in 2018 were: reorganisation, sustainability, diversity, digitalization, industry and digital strategies and procurement. Seven of nine members of the Board of Directors participated, physically or virtually, in all relevant board and committee meetings in 2018.
To achieve a highly informed debate with the Group Executive Management, the Company strives for a Board membership profile reflecting substantial managerial experience from internationally operating industrial companies.

At least one member of the Board must have CFO experience from a major listed company and all other members must preferably have CEO experience from a major internationally operating and preferably listed company. To the extent possible, all members elected at the Annual General Meeting hold competencies in acquisition and sale of companies, financing and stock market issues, international contracts and accounting. In addition, a majority of the Board members will preferably possess technical expertise on process plants and process technology, including from the cement and/or minerals industries.

All members of the Board elected at the Annual General Meeting are independent as defined by the Committee on Corporate Governance, which is an independent Danish body promoting corporate governance best practice in Danish listed companies.

As part of its annual plan, the Board of Directors performs an annual self-evaluation to evaluate the contribution, engagement and competencies of its individual members. The Chairman is responsible for the evaluation.

### The Nomination Committee

The nomination committee consists of Mr. Vagn Sørensen, Mr. Tom Knutzen and Mr. Marius Kloppers. In 2018, the committee met three times. Its main activities in 2018 involved assessing the composition of the Board of Directors and the nomination of a new director.

**MEETING ATTENDANCE IN 2018**

| Board of directors | Board meetings attended | Audit Committee meetings attended | Compens-ation Committee meetings attended | Nomination Committee meetings attended | Technology Committee meetings attended |
|---|---|---|---|---|---|
| Vagn Ove Sørensen (Chairman) | ••••••• | | ••••• | ••• | |
| Tom Knutzen | ••••••• | •••••• | ••••• | ••• | |
| Caroline Grégoire Sainte Marie | •••••• | ••••• | | | ••• |
| Marius Jacques Kloppers | ••• | | ••••• | ••• | |
| Richard Robinson Smith | ••••••• | | | | ••• |
| Anne Louise Eberhard | ••••••• | •••••• | | | |
| Mette Dobel (employee-elected) | ••••••• | | | | |
| Søren Dickow Quistgaard (employee-elected) | ••••••• | | | | ••• |
| Claus Østergaard (employee-elected) | ••••••• | | | | |

**The Compensation Committee**
The Compensation Committee consists of Mr. Vagn Sørensen, Mr. Tom Knutzen and Mr. Marius Kloppers. The Compensation Committee met five times in 2018 and the committee's main activities in 2018 were related to the approval of incentive plans and overall remuneration schemes for Group Executive Management and the management layer reporting to the Group Executive Management.

**The Audit Committee**
The Audit Committee consists of Mr. Tom Knutzen (Chairman), Ms. Caroline Grégoire Sainte Marie and Ms. Anne Louise Eberhard who are all independent and have considerable insight and experience in financial matters, accounting and auditing in listed companies.

In 2018, the Audit Committee met six times and the committee's main activities in 2018 were to look into specific financial, accounting and auditing matters, as well as paying special attention to cyber security, mergers & acquisitions & divestments, as well as financial management, including systems, costs, risks, internal controls and compliance.

**The Technology Committee**
The Technology Committee consists of three Board members, Mr. Rob Smith (Chairman), Mrs. Caroline Grégoire Sainte Marie and Mr. Søren Dickow Quistgaard. The Technology Committee met three times in 2018. The main tasks in 2018 were to monitor the major development projects across the two industries and to approve the strategic focus areas for the coming years.

## GROUP EXECUTIVE MANAGEMENT

**Composition of the Management**
The officially registered Executive Management of FLSmidth consists of the Group CEO and the Group CFO.

Group Executive Management holds overall responsibility for the day-to-day operations of the Group and consists of five Group Executive Vice Presidents, including the CEO and the CFO. The members of the Group Executive Management are all experienced business executives, each possessing insights and hands-on experience that match the practical issues and challenges currently facing FLSmidth.

The change of operational structure in 2018 prompted changes to the Group Executive Management as well.

Jan Kjaersgaard, aged 52 and a Danish citizen, joined FLSmidth as Head of the Product Companies Division on 1 March 2018. He is now Cement President.

Manfred Schaffer, former head of FLSmidth's Minerals division, has taken on the position as Mining President.

Mikael Lindholm, aged 44 and a Swedish citizen, joined FLSmidth in May 2018 as Chief Digital Officer and a member of the Group Executive Management.

Per Mejnert Kristensen, who was Group Executive Vice President of FLSmidth's former Cement division, has taken on a new role as President of Asia region.

Brian Day, who was Group Executive Vice President of FLSmidth's former Customer Services division, has taken on the role as Head of Regions.

## DIVERSITY IN BOARD AND MANAGEMENT

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

At the end of 2018, women accounted for 33% (end 2017: 33%) of the shareholder-elected Board members, fulfilling the target that minimum 25% of the members elected at the annual general meeting should be female.

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

Due to FLSmidth's global presence in over 50 countries, the total workforce naturally reflects a multitude of cultures and nationalities. The Board of Directors has set a long-term goal according to which global managers (top 70) should to a greater extent reflect the representation of nationalities among all employees and the geographical location of FLSmidth's technology centres in Denmark, the USA and India.

Today 60% of Group Executive Management has another nationality than Danish (2017: 67%), 61% of the total number of global managers (top 70) has another nationality than Danish (2017: 66%), and 91% of the total number of employees (end 2017: 90%).

## PRESENTATION OF FINANCIAL STATEMENTS AND INTERNAL CONTROLS

To ensure a high quality of the Group's financial reporting, the Board of Directors and the Group Executive Management have adopted a number of policies, procedures and guidelines for the presentation of the financial statements and internal controls which the subsidiaries and reporting entities must adhere to, including:

- Continuous monitoring of goals and results achieved measured against approved budgets
- Continuous monitoring of projects including accounting for and handling of risks
- Policies for use of IT, insurance, cash management, procurement, etc.
- Reporting instructions and reporting manual
- Finance manual and closing procedure manual

Responsibility for maintaining sufficient and effective internal controls and risk management in connection with financial reporting lies with the Group Executive Management. The Audit Committee continuously monitors the process of financial reporting and the adequacy and effectiveness of the internal control systems established, including new accounting standards, accounting policies and accounting estimates. The Audit Committee monitors and checks the independence of the external auditor and monitors the planning, execution and conclusions of external audit.

## EMPLOYEES

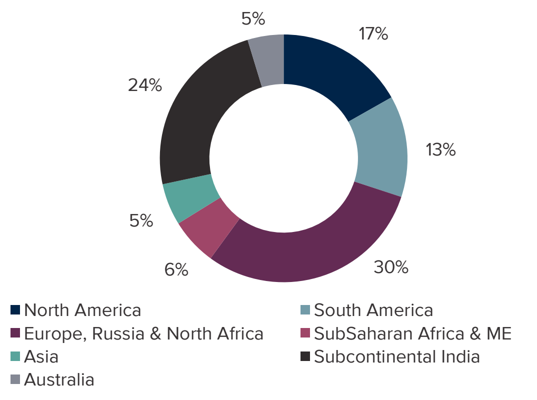
FLSmidth is a learning organisation, and our people are our most valuable resource. 51% of the workforce is below the age of 40. 47% have less than 5 years seniority, which is an indication of the transition FLSmidth has gone through over the past 5 years to become a productivity-driven company.

## COMPLIANCE WITH RECOMMENDATIONS FOR CORPORATE GOVERNANCE

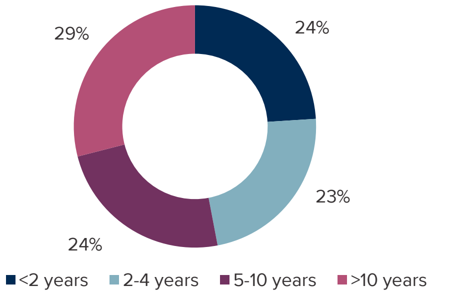
Pursuant to Section 4.3 of the rules for issuers of shares listed on Nasdaq Copenhagen, Danish companies must provide a statement on how they address the recommendations on Corporate Governance issued by the Committee on Corporate Governance in November 2017 based on the 'comply or explain' principle (www.corporategovernance.dk). FLSmidth's position on each specific recommendation is summarised in the corporate governance statement available at: http://www.flsmidth.com/GovernanceStatement2018.

In the Board's opinion, FLSmidth complies with all recommendations on corporate governance applicable to Danish listed companies, except 3.5.1. related to external assistance in connection with evaluation of the performance of the Board of Directors, where the company only complies partially.

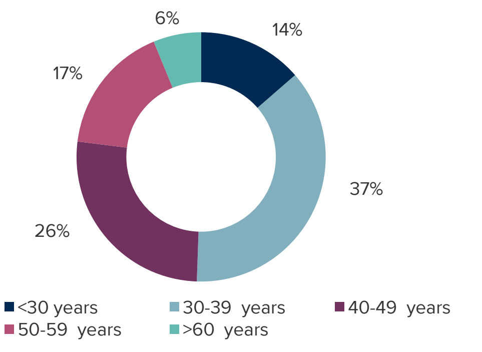
### EMPLOYEES - GEOGRAPHICAL DISTRIBUTION




### EMPLOYEES - LENGTH OF SERVICE




### EMPLOYEES - AGE DISTRIBUTION



# REMUNERATION REPORT 2018

**Following several difficult years of global cyclical downturn which has negatively impacted the variable part of management's pay, a higher base salary led to an increase in total management remuneration in 2018.**

## REMUNERATION OF EXECUTIVE MANAGEMENT

The Board has adopted overall guidelines for incentive pay for the Group Executive Management establishing a framework for variable salary components in order to support the company's short- and long-term goals. The purpose is to ensure that the remuneration structure does not lead to imprudence, short-term behaviour or unreasonable risk acceptance on the part of the Group Executive Management. The Board's Compensation Committee considers from time to time the Group Executive Management's remuneration. There were no changes to the guidelines for incentive pay in 2018.

The total remuneration of the Group Executive Management consists of the following components:

- Base salary (including employer's pension contributions)
- Short-term incentives in the form of a cash bonus (up to 75% of base salary)
- Long-term incentives in the form of performance shares (up to 50% of base salary)
- Severance payment, if any, corresponding to the relevant member's base salary for a maximum period of 24 months
- Customary benefits such as company car, telephone, newspaper, etc.
- Other incentives (supplementary bonus schemes or incentive-based remuneration for special purposes in individual cases and subject to applicable law)

Remuneration agreements for the Executive Management include a right for the company to demand full or partial repayment of variable pay components which have been paid out based on information that subsequently proves to be incorrect.

In the event of dismissal, the Group Executive Management has 18 months' notice and shall receive up to six months' salary on the actual termination of their employment.

**Management has led FLSmidth back on the track of sustainable profitable growth, and the new organisation implemented during 2018 provides a strong foundation for the future, says Mr. Vagn Sørensen, Chairman of the Compensation Committee.**

**Short term incentive Programme (STIP)**

As a consequence of lower target fulfilling, the variable part of Management's salary decreased in 2018 relative to 2017. Payments in 2018 related to the performance in 2017.

In 2018, the allocation of cash bonus was tied to the following key performance indicators:

- Order intake
- EBITA margin
- Net working capital ratio
- Personal Key Performance Indicators

In 2019, the allocation of cash bonus will be tied to the same key performance indicators as applied in 2018.

In the current bonus program, the payment of bonus is contingent upon the Company realising a positive cash flow (CFFO) at group level for the financial year in question.

**Long term incentive programs (LTIP)**
In accordance with the guidelines for incentive pay adopted by the Annual General Meeting in 2015, the historical share option program is being phased out, while a new long-term incentive scheme based on conditional shares (performance shares) was introduced in 2016. Both programs are expensed over three years.

Share option plans (being phased out)
At the end of 2018, a total of 138 key employees and managers are part of the share option plan which currently includes share options issued from 2012 to 2015. Please see note 6.2 for more information.

At the end of 2018, there were a total of 1,024,553 unexercised share options under the incentive plan and their fair value was DKK 56m. The fair value is calculated by means of a Black & Scholes model based on a current share price of 293.1, a volatility of 30. 64% and future annual dividend of DKK 8 per share. The effect of the plan on the income statement in 2018 was DKK -10m (2017: DKK -21m).

The Group's share option plan includes a 'change of control'-clause giving the holders the right to immediately exercise their options in connection with a takeover.

Performance shares (introduced in 2016)
At the end of 2018, FLSmidth had granted a maximum of 404,597 performance share units to 261 key employees. Full vesting after three years will depend on achievement of stretched financial targets related to the EBITA margin and the net working capital ratio. The programme includes a threshold for EBITA. If actual results are lower than the threshold, the entire programme lapses. The effect of the plan on the income statement for 2018 was DKK -35m (2017: DKK -21m).

Key Performance Indicators in 2017-2019
Full vesting of performance shares after three years will depend upon continued employment and on the achievement of stretched financial targets related to:
- EBITA margin
- Net working capital ratio

## REMUNERATION OF THE BOARD OF DIRECTORS

The Board of Directors' total remuneration consists of an annual cash payment for the current financial year, which is submitted for approval at the Annual General Meeting. The Board of Directors' fees are normally pre-approved by the General Meeting for the year in question and then finally approved by the shareholders at the following year's General Meeting in the following year. In approving the final fees, shareholders may take unexpected workload into consideration and increase the preliminarily approved fees for all or some members of the Board of Directors. The Board of Directors' fees do not include incentive-based remuneration.

Cash payment currently consists of a base fee of DKK 450,000 to each Board member, graded in line with additional tasks and responsibilities as follows:
- Ordinary Board members 100% of the base fee
- Board Vice chairman 200% of the base fee
- Board Chairman 300% of the base fee
- Committee Chairman fee DKK 225,000
- Committee members fee DKK 125,000

The Chairman and Vice chairman do not receive payment for committee work.

The fee structure was last adjusted in 2017.

**REMUNERATION FACTS**
- Total remuneration of the Board of Directors in 2018: DKK 6.5m (2017: DKK 6.6m)
- Total remuneration of Executive Management registered with The Danish Business Authority in 2018: DKK 23.6m (2017: DKK 20.7m)

A detailed description of the remuneration of individual members of the Board of Directors and Executive Management is disclosed in note 6.1, which is considered an integrated part of this Remuneration Report.

# GROUP EXECUTIVE MANAGEMENT





| **Name** | **Thomas Schulz** | **Lars Vestergaard** | **Manfred Schaffer** | **Jan Kjaersgaard** | **Mikael Lindholm** |
|---|---|---|---|---|---|
| **Title** | Group Chief Executive Officer. Employed by FLSmidth since 2013. *) | Group Executive Vice President and CFO. Employed by FLSmidth since 2014. *) | Mining President. Employed by FLSmidth since 2014. | Cement President. Employed by FLSmidth since March 2018. | Chief Digital Officer. Employed by FLSmidth since May 2018. |
| **Age** | 53 | 44 | 60 | 52 | 44 |
| **Nationality** | German | Danish | Austrian | Danish | Swedish |
| **Gender** | Male | Male | Male | Male | Male |
| **Education** | MSc (Engineering), PhD (Mining Engineering with dissertation in Mineral Mining and Quarrying) | MSc (Economics and Management) | Mechanical engineering degree, IFL Executive Education, People Development and Business Strategy (IMD) | MSc, (Business Administration) | MSc, (Business Administration) |
| **Number of shares in FLSmidth** | 6,510 | 2,393 | - | - | - |
| **Past experience** | Various managerial positions in Sandvik: Member of Group Executive Management (2011-2013), Chairman of SJL Shaan Bao (2011-2012), President of the Business Area Construction (2011-2012), President, Construction, and SVP, Mining and Construction (2005-2011), Regional President Mining and construction Central Europe (2001-2002), With Svedala, Germany (1998-2001). | Various managerial positions in Carlsberg: Vice President and Chief Information Officer (2013-2014), Chief Financial Officer Carlsberg UK (2009-2013), Vice President, Treasury (2005-2009), and Director, Treasury (2004-2005). Various positions in ISS: Vice President, Treasury (2004) and Assistant Treasurer (2000-2003), Fixed Income Analyst, Jyske Bank (1997-2000). | Group Executive Vice President, Minerals Division, FLSmidth (2015-2018). Group Executive Vice President, Mineral Processing Division, FLSmidth (2014-2015). Various managerial positions in Sandvik: President, Mining Systems (2012-2013), and President, Surface Mining (2006-2012), Voest-Alpine: Various managerial positions (1979-2003). | Chief Executive Officer, Bladt Industries (2014-2018). Various managerial positions in Siemens Wind Power (2004-2014): CEO, business unit EMEA (2011-2014), CEO, Americas (2008-2011). Senior Vice President, Bonus Energy (2001-2004). Managing Director, DS Staalkonstruktion (1999-2001). Group Vice President, Global Product Supply, Aalborg Industries (1997-1999). | Vice President Internet of Things, Telenor Group (2017-2018). Head of Asia-Pacific, Telenor Connexion (2014-2017). Vice President, TAWI (2011-2014). VP Market Expansion & Global Alliances, Telenor Connexion (2008-2011). Project Director, Telenor ASA: (2006-2008). Senior Global Account Manager, Vodafone: (2003-2006). Key Account Manager, Tieto Enator (2001-2003). Management Consultant, Bearingpoint (1998-2001). |
| **Executive positions** | Member of the Board of Directors Norsk Hydro ASA (Norway) | Member of the Board of Directors Royal Unibrew A/S (Denmark) | None | Chairman of the Board of Directors Jupiter Bach A/S (Denmark). Member of the Board of Directors Frontmatec (Denmark) | None |

*) Registered with Erhvervsstyrelsen (The Danish Business Authority)

# BOARD OF DIRECTORS

| Name | **Vagn Ove Sørensen** Chairman | **Tom Knutzen** Vice chairman | **Caroline Gregoire Sainte Marie** | **Marius Jacques Kloppers** | **Richard Robinson Smith** |
|---|---|---|---|---|---|
| **Age** | 59 | 56 | 61 | 56 | 53 |
| **Nationality** | Danish | Danish | French | Australian/South African | German/American |
| **Gender** | Male | Male | Female | Male | Male |
| **Member of the Board since** | 2009, Chairman since 2011 (elected at the AGM). Member of the Nomination and Compensation Committees. | 2012 (elected at the AGM). Chairman of the Audit Committee. Member of the Nomination and Compensation Committees. | 2012 (elected at the AGM). Member of the Audit and the Technology Committees. | 2016 (elected at the AGM). Member of the Nomination and Compensation Committees. | 2016 (elected at the AGM). Chairman of the Technology Committee. |
| **Number of shares in FLSmidth** | 9,501 | 12,500 | 500 | - | 1,000 |
| **Executive and non-executive positions in Denmark** | Chairman of the Boards of Directors of TIA Technology A/S, Zebra A/S. Vice chairman of the Board of Directors of Nordic Aviation Capital A/S. Member of the Board of Directors of CP Dyvig & Co. A/S. Senior Advisor to EQT Partners. | Chairman of the Board of Directors of Tivoli A/S. Member of the Board of Directors of Chr. Augustinus Fabrikker A/S. | None | None | None |
| **Executive and non-executive positions outside Denmark** | Chairman of the Board of Directors of Select Services Partner Plc (UK) and Air Canada (Canada). Member of the Board of Directors of Braganza AS (Sweden), Unilode Aviation Solutions (Switzerland), Royal Caribbean Cruises Ltd. (USA), and VFS Global (Switzerland), Senior Advisor to Morgan Stanley | CEO at Jungbunzlauer Suisse AG (Switzerland) | Member of the Board of Directors of Groupama SA (France), Wienerberger AG (Austria), ELKEM ASA (Norway), FNAC DARTY (France) and CALYOS (Belgium). Founding President of DefInnov (France). Senior advisor HIG European Capital Partners. | None | Senior Vice President & General Manager at AGCO Cooperation (USA) |
| **Experience** | CEO, M&A, Financing & stock markets, International contracts, Accounting | CEO, M&A, Financing & stock markets, International contracts, Accounting, Technology management | CEO, M&A, Financing & stock markets, International contracts, Accounting, Cement industry | CEO, M&A, Financing & stock markets, International contracts, Technology management, Minerals and process industry | M&A, International contracts, Technology management, Digital strategy and industrial operations. |




| **Name** | **Anne Louise Eberhard** | **Mette Dobel** | **Søren Dickow Quistgaard** | **Claus Østergaard** |
|---|---|---|---|---|
| **Age** | 55 | 51 | 40 | 52 |
| **Nationality** | Danish | Danish | Danish | Danish |
| **Gender** | Female | Female | Male | Male |
| **Member of the Board since** | 2017 (elected at the AGM). Member of the Audit Committee. | 2009 (elected by the employees) | 2013 (elected by the employees)<br>Member of the Technology Committee. | 2016 (elected by the employees) |
| **Number of shares in FLSmidth** | 1,000 | 864 | 65 | 429 |
| **Executive and non-executive positions in Denmark** | Member of the Board of Directors of Finansiel Stabilitet SOV. Faculty member at CBS (CBS Executive, Board Education). | None | None | None |
| **Executive and non-executive positions outside Denmark** | None | None | None | None |
| **Experience** | M&A, Financing & stock markets, International contracts, Accounting, Commercial excellence | | | |

# SHAREHOLDER INFORMATION

**Total shareholder return was negative at 17% in 2018, impacted by increased global uncertainty in the fourth quarter of 2018.**

### Capital and share structure

FLSmidth & Co. A/S is listed on Nasdaq Copenhagen. The share capital is DKK 1,025,000,000 (end of 2017: DKK 1,025,000,000) and the total number of issued shares is 51,250,000 (end of 2017: 51,250,000). Each share entitles the holder to 20 votes. The FLSmidth & Co. A/S share is included in some 165 Danish, Nordic, European and global share indices, including the leading Danish stock index C25.

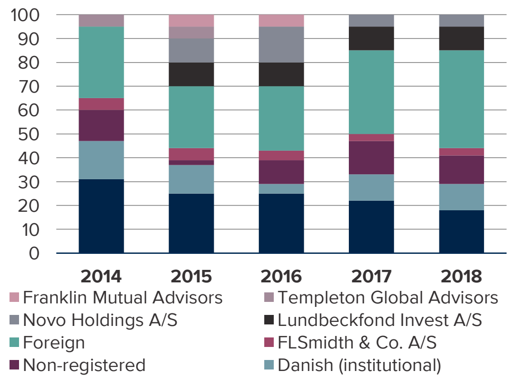
The company had approximately 37,000 shareholders at the end of 2018 (end of 2017: approximately 38,000). In addition, some 2,000 present and former employees hold shares in the company (end of 2017: some 2,000). The FLSmidth & Co. A/S share has a free float of around 85%. At the end of 2018, two shareholders had flagged major shareholdings in FLSmidth & Co. A/S. Lundbeckfond Invest A/S' investment exceeded 10% and Novo Holdings A/S' investment exceeded 5%.

2018 saw an increase in the share of foreign investors to approximately 41% (2017: 35%), off-set by a decrease in the share of Danish private investors to 18% (2017: 22%). The share of Danish institutional investors, including Lundbeckfond Invest A/S and Novo Holdings A/S was stable at to 26% (2017: 26%). FLSmidth's holding of treasury shares declined to 2.7% (2017: 3.4%).

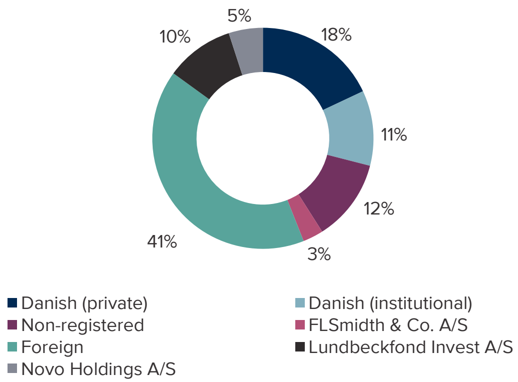
### Return on the FLSmidth share in 2018

The total return on the FLSmidth & Co. A/S share in 2018 was -17% (2017: 25%), calculated as share price appreciation and dividend paid.

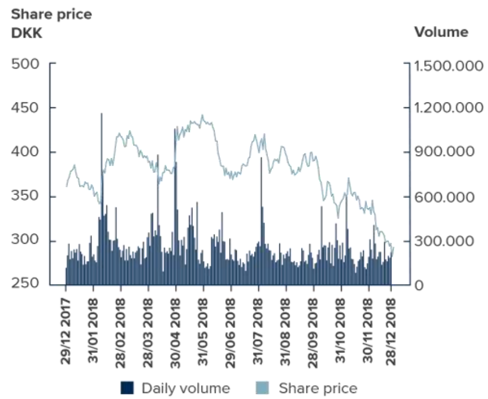
### DEVELOPMENT IN SHAREHOLDER STRUCTURE




### SHAREHOLDER STRUCTURE 2018




### SHARE PRICE DEVELOPMENTS IN 2018






FLSMIDTH

By comparison, the leading Danish stock index C25 declined 13% and "Dow Jones STOXX 600 Basic Resource" index lost 16% in 2018. The share price started the year at 361.3 and ended at 293.1, having ranged between 283 and 442 during the year.

**Capital structure and dividend for 2018**

FLSmidth takes a conservative approach to capital structure, with the emphasis on relatively low debt, gearing and financial risk.

The Board of Directors' priority for capital structure and capital allocation is as follows:

- Well-capitalised (NIBD/EBITDA < 2)
- Stable dividends (30-50% of net profit)
- Invest in organic growth
- Value adding M&As
- Share buyback or special dividend

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 9 per share (2017: DKK 8) corresponding to a dividend yield of 3.1% (2017: 2.2%) and a pay-out ratio of 72% (2017: 539%) be distributed for 2018.

**FLSmidth Investor Relations**

Through the Investor Relations function, the Board of Directors maintains an ongoing dialogue between the company and the stock market and ensures that the positions and views of the shareholders are reported back to the Board.

The purpose of FLSmidth's Investor Relations function is to contribute to ensuring and facilitating that:

- All shareholders have equal and sufficient access to timely, relevant and price-sensitive information
- The share price reflects FLSmidth's underlying financial results and a fair market value
- The liquidity and the day-to-day trading turnover of the FLSmidth share is sufficiently attractive for both short-term and long-term investors
- The shareholder structure is appropriately diversified in terms of geography, investment profile and time horizon.

To achieve these goals, an open and active dialogue is maintained with the stock market both through FLSmidth's website and electronic communication services and via investor presentations, investor meetings, webcasts, teleconferences, roadshows, the Annual General Meeting and Capital Market Days. Management and Investor Relations attended 300 investor meetings and presentations in 2018 (2017: 300) held in cities including Amsterdam, Boston, Brussels, Chicago, Copenhagen, Frankfurt, Geneva, The Hague, Hong Kong, London, Madrid, Milan, New York, Oslo, Paris, Singapore, Stockholm, Tokyo, Toronto and Zurich. FLSmidth & Co. A/S is generally categorised as a capital goods, engineering or industrial company and is currently being covered by 15 stockbrokers, seven of which are based outside Denmark.

For further details regarding analyst coverage, please see the company website (http://www.FLSmidth.com/analysts).

All investor relations materials and investor relations contact information are available to investors at the company website (http://www.FLSmidth.com/investor).

## SHARE AND DIVIDEND KEY FIGURES

| Share and dividend figures | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| CFPS (cash flow per share), DKK (diluted) | 26.3 | 11.0 | 29.5 | 21.4 | 7.7 |
| EPS (earnings per share), DKK (diluted) | 16.4 | 8.6 | 10.6 | 1.5 | 12.8 |
| BVPS (Book value per share), DKK | 158 | 162 | 172 | 162 | 167 |
| DPS (Dividend per share), DKK | 9 | 4 | 6 | 8 | 9 |
| Pay-out ratio (%) | 57 | 49 | 59 | 539 | 72 |
| Dividend yield (dividend as percent of share price end of year) | 3.3 | 1.7 | 2.0 | 2.2 | 3.1 |
| FLSmidth & Co. A/S share price, end of year, DKK | 272.3 | 240.0 | 293.0 | 361.3 | 293.1 |
| Listed number of shares (1,000), end of year | 51,250 | 51,250 | 51,250 | 51,250 | 51,250 |
| Number of shares excl. own shares (1,000), end of year | 49,443 | 48,922 | 48,931 | 49,521 | 49,866 |
| Average number of shares (1,000) (diluted) | 49,518 | 48,996 | 48,985 | 49,690 | 50,051 |
| Market capitalisation, DKKm | 13,955 | 12,300 | 15,016 | 18,517 | 15,021 |



FLSMIDTH

# Why invest in FLSmidth

**Market leader**
FLSmidth is a leading supplier of productivity-enhancing solutions for the growing global mining and cement industries. We have a strong engineering heritage based on more than a century's experience in delivering large projects in all corners of the world.

We have, in recent years, complemented our engineering and process expertise with market leading products and an extensive service setup close to our customers. Aftermarket today accounts for more than 50% of our business and provides a stable and profitable base.

We are the market leader in the premium segment of the cement industry. We have the most complete offering and the strongest brand. In mining, we are amongst the market leaders with one of the strongest brands and broadest offerings. We have a proven track record of quality, reliability and on-time delivery. We invest considerably to retain and extend our strong position though innovation & digitalization and training of our people.

**Unique business model**
Through our unique combination of engineering, products and services, we believe we can outgrow the market by helping our customers increase their production output, decrease operating costs and reduce environmental impact.

In 2018, we implemented a new operating model to strengthen our position as productivity provider number one. The changed way of working enables us to uncover an untapped growth potential by moving closer to and having one face to the customer and by having a strong, united life-cycle focus on our products and offerings. The decentralised service organisation means faster response times for our customers at a lower cost and makes doing business with us simpler. It allows us to make more frequent customer visits and ensures that all FLSmidth offerings are available to all customers.

**Operating leverage**
In recent years, we have streamlined our organisation, including consolidation of offices and administrative functions. Today, we have the capacity to grow revenue without adding costs at the same pace. This operating leverage enables us to expand profit margins as our business grows. We expect to see revenue growth in the coming years, driven by our new operating model, our increased focus on wear parts and, in particular, a continual recovery in the mining industry.

Through value engineering and modularisation, we rethink the designs of our products to reduce costs and complexity without compromising quality and functionality. This will improve our competitiveness over time by driving down costs (less engineering hours, scale procurement, standard parts in inventory) and enabling us to provide better aftermarket support to our customers.

**Exposure to growth industries**
Mining and cement are growth industries, driven by growing wealth, growing populations and the renewable energy agenda. They are, however, also cyclical industries. We have a relatively asset-light business model with outsourced manufacturing and a flexible cost structure, which allows us to manoeuvre safely through the cycles. In addition, we take advantage of the synergies between our mining and cement operations, which includes shared infrastructure, shared engineering resources, shared service technicians, shared project know-how and a significant technology overlap.

Cement and minerals are vital for economic, social and technological development. We have the best performing and most environmentally friendly offerings in the market. An investment in FLSmidth is an investment in the sustainable development of societies all over the world.

**FINANCIAL CALENDAR 2019**

| | |
|---|---|
| 27 Mar 2019 | Annual General Meeting |
| 2 May 2019 | 1st Quarter Interim Report 2019 |
| 7 Aug 2019 | Half-year Interim Report 2019 |
| 29 Oct 2019 | 1st-3rd Quarter Interim Report 2019 |

# FINANCIAL STATEMENTS

## PRIMARY STATEMENTS AND FINANCIAL DEVELOPMENTS



## NOTES

# GROWTH

## Order intake

In 2018, the order intake increased 13% to DKK 21,741m (2017: DKK 19,170m), which is the highest level in six years. The increase was attributable to Mining displaying 24% growth, especially driven by copper, while Cement was unchanged. This was a reflection of the underlying market conditions in both Industries. Currency effects had a 5% negative impact on order intake.

| Growth in order intake (vs. 2017) | Mining | Cement | Group |
|---|---|---|---|
| Organic | 24% | 3% | 15% |
| Acquisition | 7% | 0% | 3% |
| Currency | -7% | -3% | -5% |
| **Total growth** | **24%** | **0%** | **13%** |

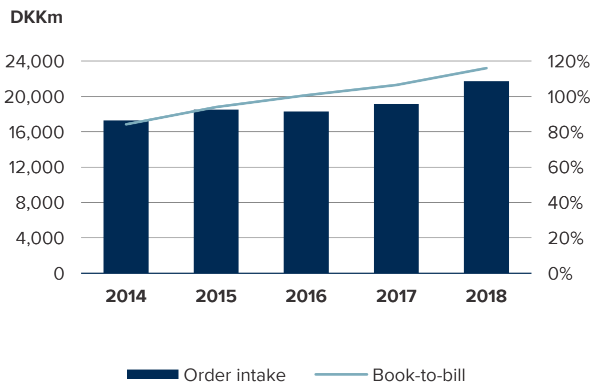
## Order backlog

In 2018, order backlog increased 19% to DKK 16,218m (2017: DKK 13,654m) as a consequence of the strong order intake and high book-to-bill ratio. Order backlog in Mining increased 33%, while order backlog in Cement increased 5%.

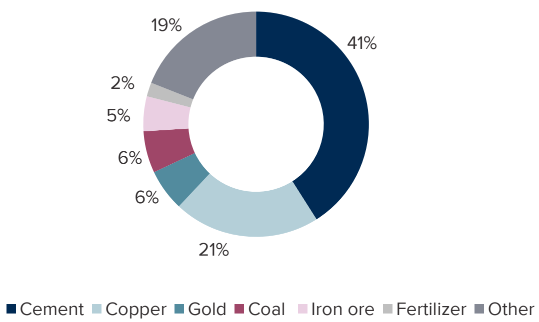
## Order backlog maturity

Based on the order backlog maturity profile, the majority, 70% (2017: 75%) of the order backlog is expected to be converted into revenue in 2019, while 30% (2017: 25%) is expected to be converted to revenue in subsequent years.

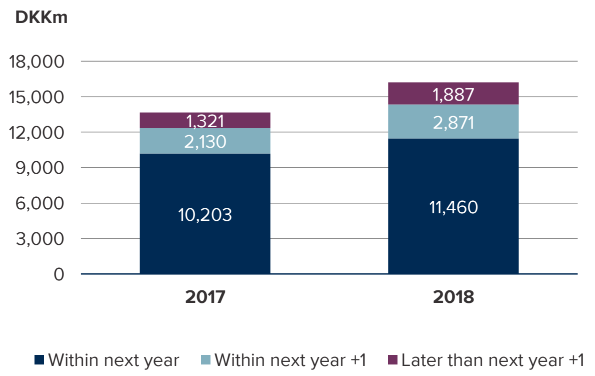
### ORDER INTAKE AND BOOK-TO-BILL




### ORDER INTAKE BY COMMODITY




### BACKLOG MATURITY



# GROWTH

**Revenue**
Revenue increased 4% to DKK 18,750m (2017: DKK 18,000m), explained by 8% growth in Mining and a decrease of 3% in Cement. Currency effects had a 4% negative impact on revenue.

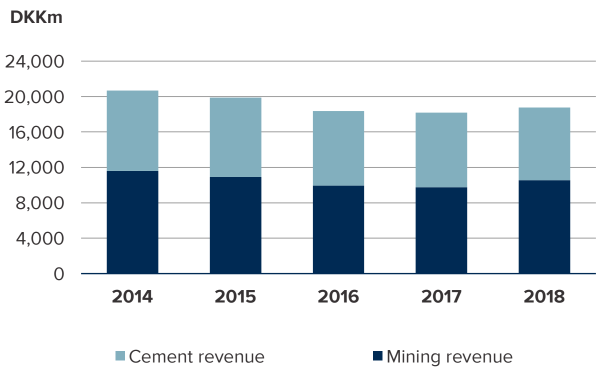
Service business, comprising all aftermarket activities including spare and wear parts, service and operation & maintenance, upgrades and retrofits, accounted for 54% of total revenue (2017: 58%), while the capital business (projects and products) accounted for 46% (2017: 42%).

Revenue related to service business decreased 3%. The decrease was related to Cement and lack of first time spare packages in connection with new cement plants, and scaling down operation & maintenance contracts.

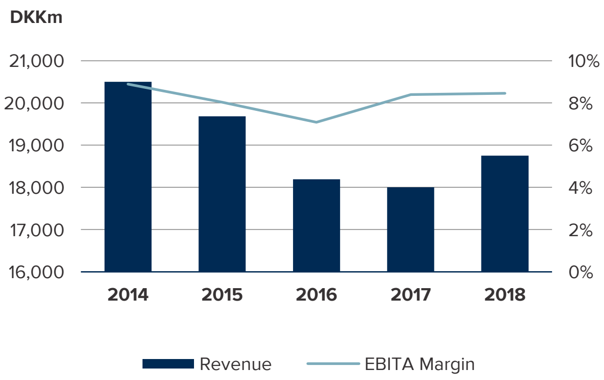
Revenue related to capital business increased 13% in 2018 as a consequence of increasing capital order intake in Mining since the second half of 2017. Demand has in particular been driven by copper projects in South America and Russia/CIS.

| Growth in revenue (vs. 2017) | Mining | Cement | Group |
|---|---|---|---|
| Organic | 11% | 0% | 7% |
| Acquisition | 2% | 0% | 1% |
| Currency | -5% | -3% | -4% |
| **Total growth** | **8%** | **-3%** | **4%** |

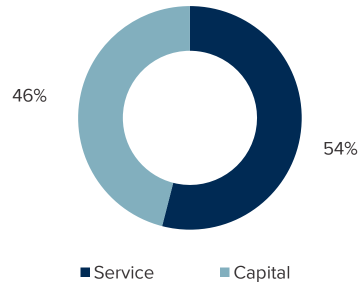
## REVENUE SPLIT BY MINING AND CEMENT




## REVENUE AND EBITA MARGIN




## REVENUE SPLIT BY SERVICE AND CAPITAL



# PROFIT

### Gross profit and margin

The gross profit in 2018 increased 2% to DKK 4,693m (2017: DKK 4,597m), corresponding to a slightly lower gross margin of 25.0% (2017: 25.5%). The gross margin declined due to a higher share of lower-margin capital business.

In 2018, research and development costs were DKK 289m (2017: DKK 212m), of which DKK 128m were capitalised (2017: DKK 54m) and the remainder reported as production costs. The capitalised R&D costs related to several projects, including digital infrastructure, mining and cement comminution technology, as well as ROL and Dry Stack Tailings, as described in the Innovation section.

### SG&A costs

Sales, general and administrative costs and other operating items were unchanged in 2018 representing a cost percentage (SG&A ratio) of 15.3% of revenue (2017: 15.9%). In 2018, SG&A costs included increasing sales costs and costs related to digitalization and efficiency improvements in Cement.

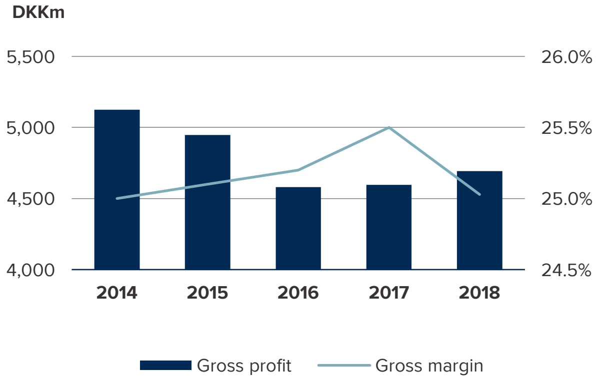
### EBITA and margin

EBITA increased 5% in line with revenue. The EBITA margin was unchanged 8.5% (2017: 8.4%), as EBITA in 2017 included a special non-recurring income of DKK 55m related to the acquisition of part of Sandvik Mining Systems. Conversely, depreciation and impairment of property, plant and equipment were DKK 29m lower in 2018 than the year before.

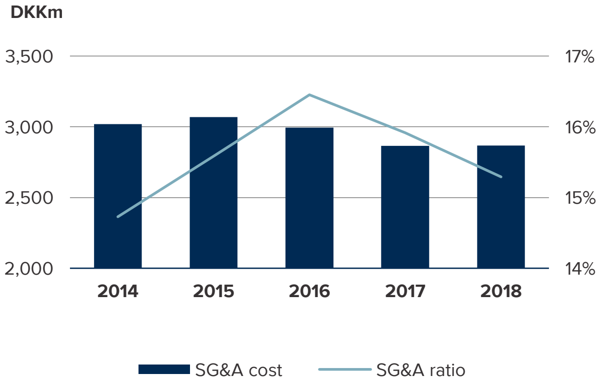
### Financial items

Net financial items amounted to DKK -161m (2017: DKK -311m), of which net interest amounted to DKK -65m (2017: DKK -45m) and foreign exchange adjustments accounted for most of the balance.

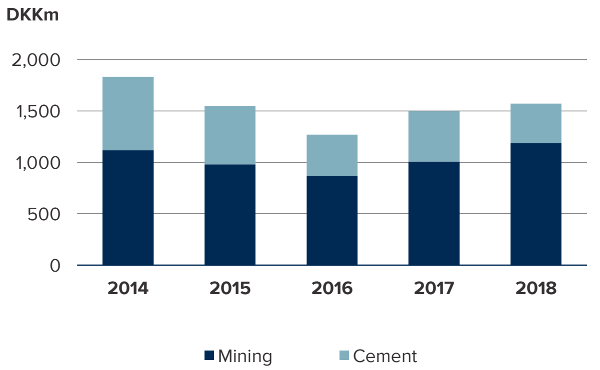
### GROSS PROFIT AND GROSS MARGIN




### SG&A COST AND SG&A RATIO




### EBITA SPLIT BY MINING AND CEMENT



# PROFIT

### Tax
Tax for the year amounted to DKK -248m (2017: DKK -379m), corresponding to an effective tax rate of 23.4% (2017: 47,6%). In 2017, tax for the year was impacted by differences in tax assets valued at nil and changes to the tax regime in USA. In 2018, tax for the year was impacted by revaluation of the USA tax assets.

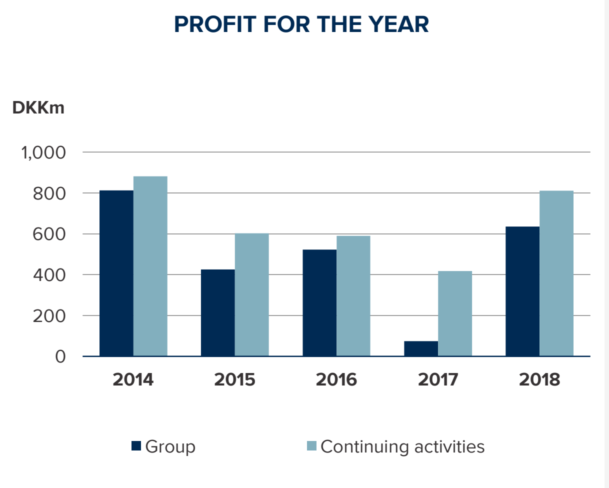
### Profit for the year
Profit for the year increased to DKK 635m (2017: 74m) due to significantly improved results in continuing activities and less negative results in discontinued activities.

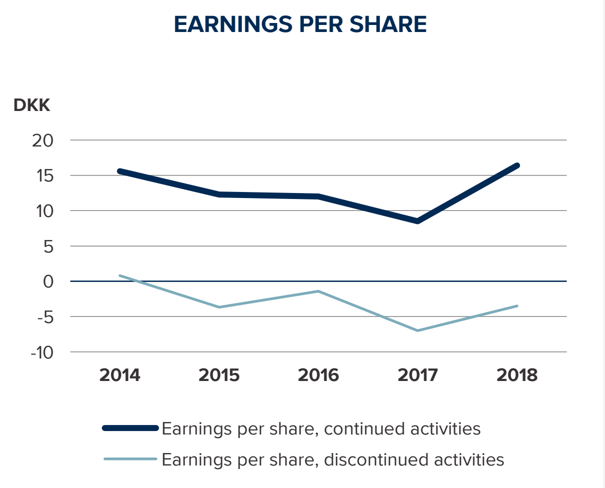
Profit from continuing activities increased to DKK 811m (2017: DKK 417m), explained by a combination of higher EBITA, lower amortisation as well as lower net financial costs and taxes.

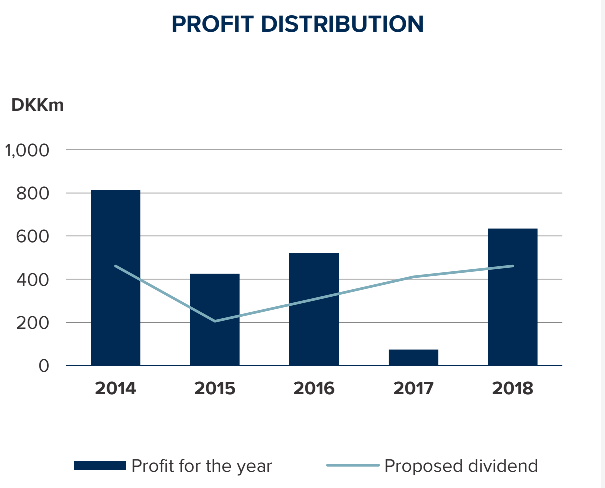
Loss from discontinued activities amounted to DKK -176m (2017: DKK -343m). Discontinued activities were predominantly related to bulk material handling activities. On 9 January 2019, it was announced that FLSmidth has reached an agreement to sell its non-mining bulk material handling business to Rainbow Heavy Machineries. Refer to note 2.10 for a further description.

### Earnings per share
Earnings per share increased to DKK 12.9 (2017: DKK 1.5), as profit for the year increased to DKK 635m (2017: 74m), due to better results in both continuing and discontinued activities.

### Return on capital employed
ROCE increased to 11.0% (2017: 10.4%) as a result of higher EBITA and slightly lower capital employed.



# INCOME STATEMENT

| Notes | DKKm | 2018 | 2017 |
|---|---|---|---|
| 1.4 | Revenue | 18,750 | 18,000 |
| | Production costs | (14,057) | (13,403) |
| | **Gross profit** | **4,693** | **4,597** |
| | Sales costs | (1,470) | (1,462) |
| | Administrative costs | (1,454) | (1,465) |
| | Other operating income | 57 | 62 |
| | **EBITDA before special non-recurring items** | **1,826** | **1,732** |
| 1.5 | Special non-recurring items | (2) | 51 |
| 2.4 | Depreciation and impairment of property, plant and equipment | (239) | (268) |
| | **EBITA** | **1,585** | **1,515** |
| 2.2 | Amortisation of intangible assets | (365) | (400) |
| | **EBIT** | **1,220** | **1,115** |
| | Impairment of investments in associates | 0 | (8) |
| 5.4 | Financial income | 930 | 1,345 |
| 5.4 | Financial costs | (1,091) | (1,656) |
| | **EBT** | **1,059** | **796** |
| 4.1 | Tax for the year | (248) | (379) |
| | **Profit for the year, continuing activities** | **811** | **417** |
| 2.9 | Loss for the year, discontinued activities | (176) | (343) |
| | **Profit for the year** | **635** | **74** |
| | | | |
| | Attributable to: | | |
| | Shareholders in FLSmidth & Co. A/S | 642 | 76 |
| | Minority interests | (7) | (2) |
| | | **635** | **74** |
| | | | |
| 5.2 | Earnings per share (EPS): | | |
| | Continuing and discontinued activities per share | 12.9 | 1.5 |
| | Continuing and discontinued activities per share, diluted | 12.8 | 1.5 |
| | Continuing activities per share | 16.4 | 8.5 |
| | Continuing activities per share, diluted | 16.3 | 8.4 |

# STATEMENT OF COMPREHENSIVE INCOME

| Notes | DKKm | 2018 | 2017 |
|---|---|---|---|
| | **Profit for the year** | 635 | 74 |
| | | | |
| | **Items that will not be reclassified to profit or loss:** | | |
| | Actuarial gains on defined benefit plans | 10 | 21 |
| 4.3 | Tax hereof, including reversal of impairment of tax assets | 9 | (13) |
| | | | |
| | **Items that are or may be reclassified subsequently to profit or loss:** | | |
| | Currency adjustments regarding translation of entities | (131) | (436) |
| | Cash flow hedging: | | |
| | Value adjustments for the year | (9) | 78 |
| | Value adjustments transferred to work in progress | (14) | 1 |
| 4.3 | Tax hereof | 3 | (11) |
| | **Other comprehensive income for the year after tax** | **(132)** | **(360)** |
| | | | |
| | **Comprehensive income for the year** | **503** | **(286)** |
| | | | |
| | Attributable to: | | |
| | Shareholders in FLSmidth & Co. A/S | 509 | (282) |
| | Minority interests | (6) | (4) |
| | | **503** | **(286)** |

# CASH FLOW

**Cash flow from operating activities**
Cash flow from operating activities decreased to DKK 385m in 2018 (2017: DKK 1,065m). The decrease related primarily to discontinued activities. CFFO from continuing activities was DKK 953m. 2018 saw a negative impact of DKK 379m from change in provisions, and in particular cash paid in connection with a settlement agreed in 2017. Furthermore, the cash flow was negatively impacted by a change in net working capital of DKK 502m, as explained in the section Financial Position.

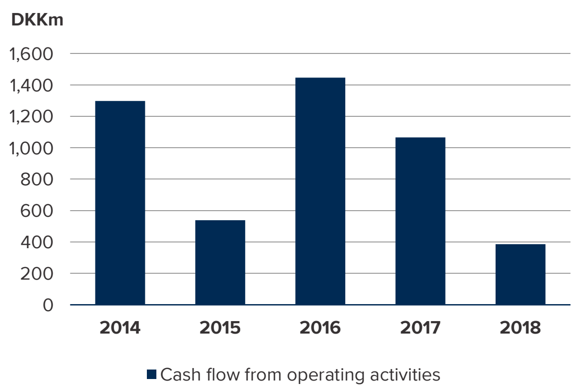
**Cash flow from investing activities**
Cash flow from investing activities amounted to DKK -285m (2017: DKK -113m), and the increase was primarily related to acquisition of intangible assets (R&D, IT systems and digitalization) as well as acquisition of property, plant and equipment.

**Free cash flow**
The free cash flow decreased to DKK 100m (2017: DKK 952m) as a consequence of both lower cash flow from operating activities and higher cash outflow from investing activities.

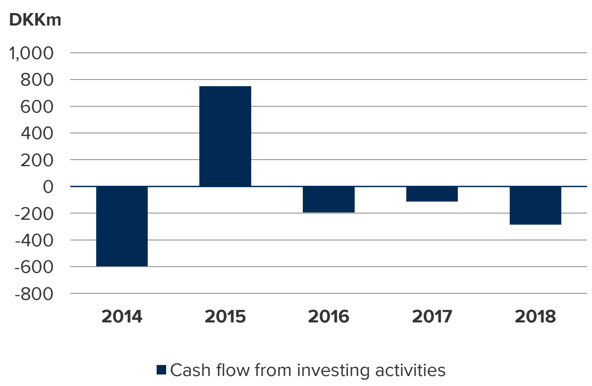
**Cash position**
Cash and cash equivalents amounted to DKK 875m, down from DKK 1,425m in 2017. The reduction on last year was related to dedicated efforts to reduce restricted cash as well as idle cash outside cash pools.

**Restricted cash**
Cash and cash equivalents included cash with currency restrictions amounting to DKK 817m (2017: DKK 1,189m). The cash and cash equivalents with currency restrictions were primarily related to bank deposits located in countries with currency restrictions. The deposits were part of local daily cash management in countries where we have operating activities.

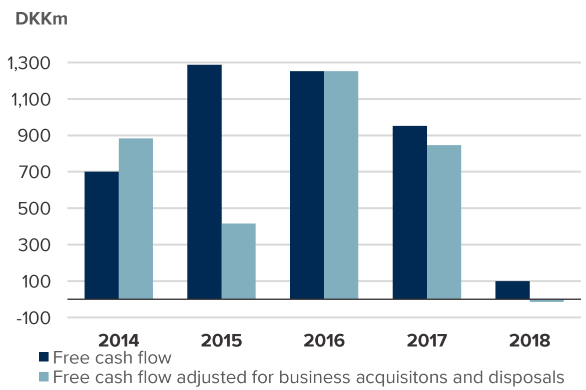
**CASH FLOW FROM OPERATING ACTIVITIES**




**CASH FLOW FROM INVESTING ACTIVITIES**




**FREE CASH FLOW**



# CASH FLOW STATEMENT

| Notes | DKKm | 2018 | 2017 |
|---|---|---|---|
| | EBITDA, continuing activities | 1,826 | 1,732 |
| | EBITDA, discontinued activities | (159) | (325) |
| | **EBITDA** | **1,667** | **1,407** |
| | Adjustment for gain on sale of property, plant and equipment and intangible assets etc. | 16 | 16 |
| | **Adjusted EBITDA** | **1,683** | **1,423** |
| 2.5 | Change in provisions | (379) | 156 |
| 3.1 | Change in net working capital | (502) | (140) |
| | **Cash flow from operating activities before financial items and tax** | **802** | **1,439** |
| 5.4 | Financial items received and paid | (37) | (45) |
| 4.2 | Taxes paid | (380) | (329) |
| | **Cash flow from operating activities** | **385** | **1,065** |
| | | | |
| 2.8 | Acquisition of enterprises and activities | 105 | 108 |
| 2.2 | Acquisition of intangible assets | (220) | (91) |
| 2.4 | Acquisition of property, plant and equipment | (288) | (174) |
| | Acquisition of financial assets | (19) | 0 |
| | Disposal of enterprises and activities | 10 | (2) |
| | Disposal of property, plant and equipment | 80 | 46 |
| | Disposal of financial assets | 47 | 0 |
| | **Cash flow from investing activities** | **(285)** | **(113)** |
| | **Free cash flow** | **100** | **952** |
| | | | |
| | Dividend paid | (421) | (296) |
| | Addition of minority interests | 2 | 5 |
| | Acquisition of treasury shares | (42) | (186) |
| | Exercise of share options | 133 | 300 |
| 5.7 | Change in net interest-bearing debt | (250) | (764) |
| | **Cash flow from financing activities** | **(578)** | **(941)** |
| | | | |
| | **Change in cash and cash equivalents** | **(478)** | **11** |
| | Cash and cash equivalents at 1 January | 1,425 | 1,513 |
| | Foreign exchange adjustment, cash and cash equivalents | (72) | (99) |
| | **Cash and cash equivalents at 31 December** | **875** | **1,425** |
| | | | |
| 2.10 | Cash and cash equivalents included in assets held for sale | 0 | 43 |
| | Cash and cash equivalents | 875 | 1,382 |
| | **Cash and cash equivalents at 31 December** | **875** | **1,425** |

## Accounting policy

The cash flow from operating activities is presented using the indirect method and shows the composition of cash flow divided into operating, investing and financing activities for both continued and discontinued activity and the changes in cash and cash equivalents during the year.

Cash flow from operating activities consists of earnings before special non-recurring items, depreciation, amortisation and impairment (EBITDA) adjusted for non-cash operating items, changes in provisions and net working capital, financial items and taxes paid.

Cash flow from investing activities comprises payments made in connection with the acquisition and disposal of businesses and non-current assets.

Cash flow from financing activities comprises changes in the size or composition of equity and loans, repayment of interest-bearing debt, acquisitions and disposal of non-controlling interests, movements in shares and payment of dividend to shareholders.

Cash and cash equivalents mainly consist of bank deposits.

# FINANCIAL POSITION

## Capital

### Balance sheet

Total assets decreased slightly to DKK 21,743m at the end of 2018 (2017: DKK 22,364m), mainly as a consequence of a simultaneous reduction in cash and cash equivalents and bank loans.

### Capital employed

Average capital employed decreased to DKK 14,338m (2017: DKK 14,533m), and EBITA increased to DKK 1,585m (2017: DKK 1,515m). As a consequence, ROCE increased to 11.0% (2017: 10.4%). Capital employed amounted to DKK 14,633m at the end of 2018 and consists primarily of intangible assets of DKK 10,198m, which was mostly historical goodwill as well as patents and rights, and customer relations. Property, plant and equipment amounted to DKK 2,235m and net working capital to DKK 2,200m at the end of 2018.

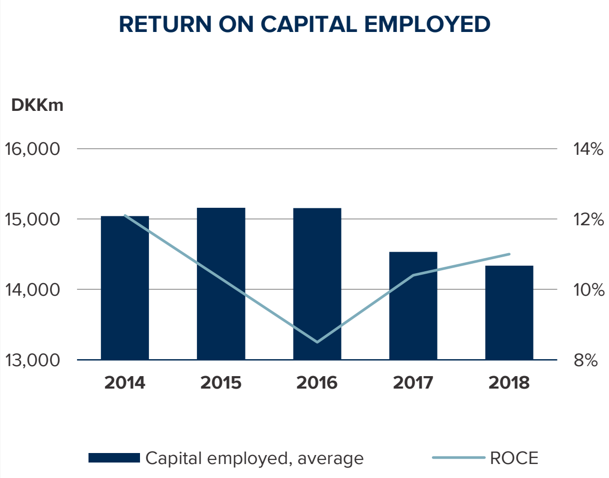
### Net working capital

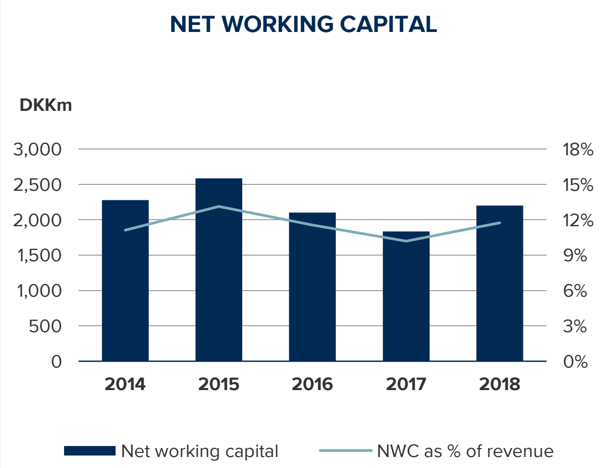
Net working capital increased to DKK 2,200m at the end of 2018 (2017: DKK 1,833m), representing 11.7% of revenue (2017: 10.2% of revenue). The increase was primarily related to inventories, trade receivables and work in progress, however partly counterbalanced by a significant increase in trade payables, which was positively impacted by the supply chain finance programme.

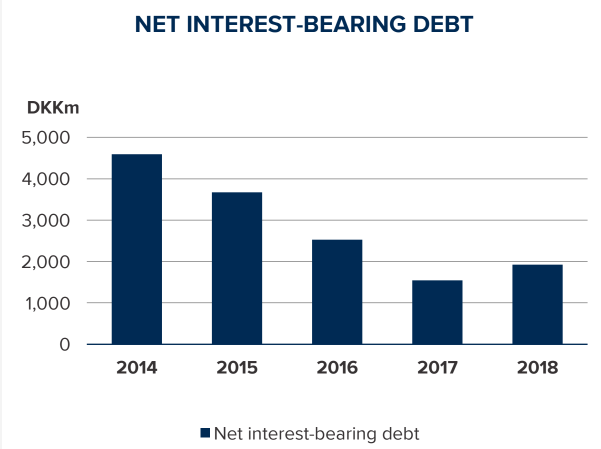
The increase was related to high project activity in the fourth quarter. No assets and liabilities carrying values were being held for sale at the end of 2018 leading to an increase in net working capital of DKK 172m.

### Net interest-bearing debt

Net interest-bearing debt at the end of 2018 amounted to DKK 1,922m (2017: DKK 1,545m). The increase on last year was explained by a modest free cash flow of DKK 100m (2017: 952m) combined with dividend payments of DKK 421m. As a consequence, the financial gearing (NIBD/EBITDA) increased to 1.1 (2017: 0.9), however, still substantially below the NIBD long term target of maximum two times EBITDA.



# BALANCE SHEET

| Notes | DKKm | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| | ASSETS | | |
| | Goodwill | 4,238 | 4,218 |
| | Patents and rights | 1,026 | 1,121 |
| | Customer relations | 686 | 806 |
| | Other intangible assets | 59 | 53 |
| | Completed development projects | 249 | 266 |
| | Intangible assets under development | 260 | 169 |
| 2.2 | **Intangible assets** | **6,518** | **6,633** |
| | | | |
| | Land and buildings | 1,598 | 1,597 |
| | Plant and machinery | 474 | 487 |
| | Operating equipment, fixtures and fittings | 98 | 100 |
| | Tangible assets in course of construction | 65 | 64 |
| 2.4 | **Property, plant and equipment** | **2,235** | **2,248** |
| | | | |
| 4.3 | Deferred tax assets | 1,174 | 1,094 |
| | Securities and investments | 42 | 79 |
| | **Other non-current assets** | **1,216** | **1,173** |
| | | | |
| | **Non-current assets** | **9,969** | **10,054** |
| | | | |
| 3.2 | Inventories | 2,685 | 2,332 |
| 3.3 | Trade receivables | 4,586 | 4,324 |
| 3.4 | Work in progress | 2,252 | 2,297 |
| | Prepayments to subcontractors | 318 | 196 |
| | Income tax receivables | 233 | 492 |
| 3.5 | Other receivables | 825 | 864 |
| | Cash and cash equivalents | 875 | 1,382 |
| | **Current assets** | **11,774** | **11,887** |
| | | | |
| 2.10 | Assets classified as held for sale | 0 | 423 |
| | | | |
| | **Total assets** | **21,743** | **22,364** |

| Notes | DKKm | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| | EQUITY AND LIABILITIES | | |
| | Share capital | 1,025 | 1,025 |
| | Foreign exchange adjustments | (454) | (322) |
| | Cash flow hedging | (56) | (33) |
| | Retained earnings | 7,741 | 7,330 |
| | **Shareholders in FLSmidth & Co. A/S** | **8,256** | **8,000** |
| | Minority interests | 10 | 38 |
| | **Equity** | **8,266** | **8,038** |
| | | | |
| 4.3 | Deferred tax liabilities | 313 | 371 |
| 2.6 | Pension obligations | 270 | 271 |
| 2.5 | Provisions | 499 | 306 |
| 5.7 | Bank loans and mortgage debt | 2,627 | 1,830 |
| | Prepayments from customers | 207 | 215 |
| | Other liabilities | 41 | 90 |
| | **Non-current liabilities** | **3,957** | **3,083** |
| | | | |
| 2.6 | Pension obligations | 12 | 9 |
| 2.5 | Provisions | 780 | 1,124 |
| 5.7 | Bank loans and mortgage debt | 175 | 1,120 |
| | Prepayments from customers | 1,595 | 1,571 |
| 3.4 | Work in progress | 1,453 | 1,730 |
| 3.6 | Trade payables | 3,322 | 2,916 |
| | Income tax liabilities | 259 | 520 |
| | Other liabilities | 1,924 | 1,623 |
| | **Current liabilities** | **9,520** | **10,613** |
| | | | |
| 2.10 | Liabilities associated with assets classified as held for sale | 0 | 630 |
| | | | |
| | **Total liabilities** | **13,477** | **14,326** |
| | | | |
| | **Total equity and liabilities** | **21,743** | **22,364** |

# EQUITY & VALUE

### Equity
Equity at the end of 2018 increased to DKK 8,266m (2017: DKK 8,038m) as a result of the positive profit for the year, DKK 635m, partly offset by dividend payments and currency adjustments regarding translation of entities.

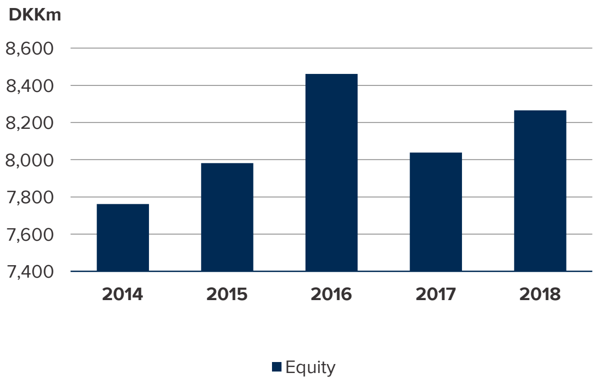
### Equity ratio
The equity ratio amounted to 38.0% (2017: 35.9%), which was above the long-term target of minimum 30%.

### Return on equity
Return on equity increased to 7.8% (2017: 0.9%) as a result of the increase in profit for the year.

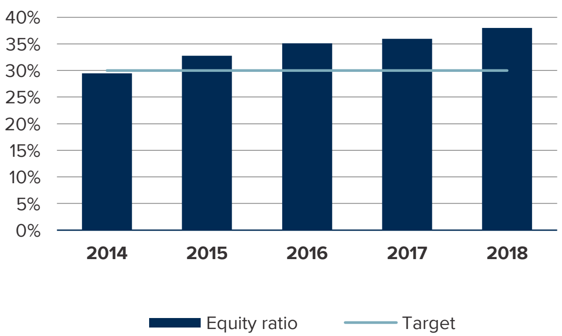
### Treasury shares
The holding of treasury shares was 1,383,638 shares at the end 2018 (2017: 1,729,337 shares), representing 2.7% of the total share capital (2017: 3.4%). Treasury shares are used to hedge our share-based incentive programmes.

### Dividend
The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 9 per share, (2017: DKK 8) corresponding to a dividend yield of 3.1% (2017: 2.2%) and a pay-out ratio of 72% (2017: 539%), be distributed for 2018. Total dividend proposed amounts to DKK 461m (2017: DKK 410m).

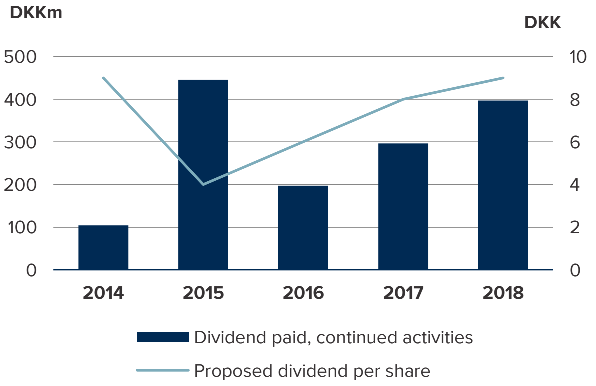
EQUITY DEVELOPMENT




EQUITY RATIO AND TARGET




DIVIDEND



# EQUITY STATEMENT

| DKKm | Share capital | Currency adjust- ments | Cash flow hedging | Retained earnings | Share- holders in FLSmidth & Co A/S | Minority interests | Total |
|---|---|---|---|---|---|---|---|
| **Equity at 1 January 2018** | **1,025** | **(322)** | **(33)** | **7,330** | **8,000** | **38** | **8,038** |
| | | | | | | | |
| Changes in accounting policies, IFRS 15 | | | | 9 | 9 | | 9 |
| Tax on changes in accounting policies, IFRS 15 | | | | (1) | (1) | | (1) |
| **Equity at 1 January 2018 (restated)** | **1,025** | **(322)** | **(33)** | **7,338** | **8,008** | **38** | **8,046** |
| | | | | | | | |
| **Comprehensive income for the year** | | | | | | | |
| Profit/loss for the year | | | | 642 | 642 | (7) | 635 |
| | | | | | | | |
| **Other comprehensive income** | | | | | | | |
| Actuarial gains on defined benefit plans | | | | 10 | 10 | | 10 |
| Currency adjustments regarding translation of entities | | (132) | | | (132) | 1 | (131) |
| Cash flow hedging: | | | | | | | |
| Value adjustments for the year | | | (9) | | (9) | | (9) |
| Value adjustments transferred to work in progress | | | (14) | | (14) | | (14) |
| Tax on other comprehensive income | | | 3 | 9 | 12 | | 12 |
| **Other comprehensive income total** | **0** | **(132)** | **(20)** | **19** | **(133)** | **1** | **(132)** |
| | | | | | | | |
| **Comprehensive income for the year** | **0** | **(132)** | **(20)** | **661** | **509** | **(6)** | **503** |
| | | | | | | | |
| Dividend paid | | | | (397) | (397) | (24) | (421) |
| Share-based payment | | | | 45 | 45 | | 45 |
| Exercise of share options | | | | 133 | 133 | | 133 |
| Acquisition of treasury shares | | | | (42) | (42) | | (42) |
| Addition of minority interests | | | | | | 2 | 2 |
| **Equity at 31 December 2018** | **1,025** | **(454)** | **(53)** | **7,738** | **8,256** | **10** | **8,266** |

# EQUITY STATEMENT - continued

| DKKm | Share capital | Currency adjust-ments | Cash flow hedging | Retained earnings | Share-holders in FLSmidth & Co A/S | Minority interests | Total |
|---|---|---|---|---|---|---|---|
| **Equity at 1 January 2017** | **1,025** | **112** | **(112)** | **7,396** | **8,421** | **41** | **8,462** |
| | | | | | | | |
| **Comprehensive income for the year** | | | | | | | |
| Profit/loss for the year | | | | 76 | 76 | (2) | 74 |
| | | | | | | | |
| **Other comprehensive income** | | | | | | | |
| Actuarial gains on defined benefit plans | | | | 21 | 21 | | 21 |
| Currency adjustments regarding translation of entities | | (434) | | | (434) | (2) | (436) |
| Cash flow hedging: | | | | | | | |
| Value adjustments for the year | | | 78 | | 78 | | 78 |
| Value adjustments transferred to work in progress | | | 1 | | 1 | | 1 |
| Tax on other comprehensive income | | | | (24) | (24) | | (24) |
| **Other comprehensive income total** | **0** | **(434)** | **79** | **(3)** | **(358)** | **(2)** | **(360)** |
| | | | | | | | |
| **Comprehensive income for the year** | **0** | **(434)** | **79** | **73** | **(282)** | **(4)** | **(286)** |
| | | | | | | | |
| Dividend paid | | | | (295) | (295) | (1) | (296) |
| Share-based payment | | | | 42 | 42 | | 42 |
| Exercise of share options | | | | 300 | 300 | | 300 |
| Acquisition of treasury shares | | | | (186) | (186) | | (186) |
| Addition of minority interests | | | | | | 5 | 5 |
| Disposal of minority interests | | | | | | (3) | (3) |
| **Equity at 31 December 2017** | **1,025** | **(322)** | **(33)** | **7,330** | **8,000** | **38** | **8,038** |

# KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

When preparing the financial statements we are required to make several estimates and judgements. The estimates and judgements that can have a significant impact on the financial statements are categorised as key accounting estimates and judgements. Key accounting estimates and judgements are regularly assessed to adapt to the market conditions and changes in political and economic factors.

All key accounting estimates and judgements may have a significant impact to the financial statements. Please refer to the notes, in which the nature of the below key accounting impact is described. The significance of the impact is divided into three categories:

| | | |
|---|---|---|
| Key accounting estimates and judgements | Low | |
| | Medium | |
| | High | |

## Key accounting estimate

Key accounting estimates are expectations of the future based on assumptions, that we to the extent possible are supported by historical trends or reasonable expectations. We believe that our estimates are the most likely outcome of future events.

## Key accounting judgements

Key accounting judgements are made when applying accounting policies. Key accounting judgements are the judgements made, that can have a significant impact on the amounts recognised in the financial statements.

| Note | Key accounting estimates and judgements | Nature of accounting impact | Impact of estimates and judgements |
|---|---|---|---|
| 1.4 Revenue | Determine performance obligations | Judgement | |
| | Determine recognition method | Judgement | |
| 2.5 Provision | Estimate warranty provision | Estimate | |
| 3.2 Inventories | Estimate valuation of inventories | Estimate | |
| 3.3 Trade receivables | Estimate level of expected losses | Estimate | |
| 3.4 Work in progress | Estimate total cost to complete | Estimate | |
| | Estimate variable transaction price | Estimate | |
| 4.3 Deferred tax | Estimate the value of deferred tax assets | Estimate | |

# 1. OPERATING PROFIT & SEGMENTS



**18,750**

DKKm
**Revenue**

**11.0%**

**ROCE**

**8.5%**

**EBITA**

**11,368**

**Number of employees**

## 1.1 INCOME STATEMENT BY FUNCTION

It is our policy to prepare the income statement based on an adjusted classification of the cost by function in order to show the earnings before special non-recurring items, depreciation, amortisation and impairment (EBITDA). Depreciation, amortisation, and impairment are therefore separated from the individual functions and presented in separated lines.

| DKKm | 2018 | 2017 |
|---|---|---|
| Revenue | 18,750 | 18,000 |
| Production costs, including depreciation and amortisation | (14,291) | (13,695) |
| **Gross profit** | **4,459** | **4,305** |
| | | |
| Sales costs, including depreciation and amortisation | (1,556) | (1,542) |
| Administrative costs, including depreciation and amortisation | (1,738) | (1,761) |
| Special non-recurring items | (2) | 51 |
| Other operating income | 57 | 62 |
| **EBIT** | **1,220** | **1,115** |
| | | |
| **Depreciation, amortisation and impairment consist of:** | | |
| Depreciation and impairment of property, plant and equipment | (239) | (268) |
| Amortisation of intangible assets | (365) | (400) |
| | **(604)** | **(668)** |
| | | |
| **Depreciation, amortisation and impairment are divided into:** | | |
| Production costs | (234) | (292) |
| Sales costs | (86) | (80) |
| Administrative costs | (284) | (296) |
| | **(604)** | **(668)** |

## 1.2 SEGMENT INFORMATION

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

The two Industries have technology ownership and will develop and drive the life-cycle offering and product portfolio, whereas the seven Regions will drive customer relations, sales and service for both Industries.

Our aim with the new organisational structure is to create a productivity-driven organisation with a strong, unified digital approach and fewer touchpoints. At the same time, we expect to strengthen our local presence, customer orientation, and life-cycle offering in order to capture growth.

Activities previously included in the Minerals and Cement Divisions continues largely unchanged in the new Mining and Cement Industries.

Activities previously included in the Customer Services and Product Companies Divisions have been split to the Industries dependent on whether the end customer is within Mining or Cement Industry and the nature of the offerings.

The Mining and Cement Industry fronts our customers in the global industries with all the technologies, products, processes and systems used to separate commercially viable minerals from their ores and to cement production.

With the responsibility of our total life-cycle offerings firmly anchored in the Mining and Cement Industries, we are capable of improving our customer specific offerings. Offerings ranging from first time sale of single products to turn-key projects, subsequent services, operation & maintenance, upgrades and rebuilds of existing equipment, plants and sale of spare parts and wear parts. Mining and Cement are our primary reporting segments.

The segmentation reflects the internal reporting and management structure applied. The segments are primarily managed on EBITA before allocation of shared costs.

Comparative numbers have been restated to reflect the new organisation.

# 1.2 SEGMENT INFORMATION – continued

| 2018 DKKm | Mining | Cement | Shared costs | Other compa-nies | Con-tinuing activities | Discon-tinued activities | FLSmidth Group |
|---|---|---|---|---|---|---|---|
| External revenue | 10,550 | 8,200 | | | 18,750 | 707 | 19,457 |
| Internal revenue | 7 | 4 | | (11) | 0 | 0 | 0 |
| **Total revenue** | **10,557** | **8,204** | **0** | **(11)** | **18,750** | **707** | **19,457** |
| Production costs | (7,601) | (6,408) | (59) | 11 | (14,057) | (798) | (14,855) |
| **Gross profit** | **2,956** | **1,796** | **(59)** | **0** | **4,693** | **(91)** | **4,602** |
| SG&A costs | (869) | (671) | (1,328) | 1 | (2,867) | (68) | (2,935) |
| **EBITDA before special non-recurring items** | **2,087** | **1,125** | **(1,387)** | **1** | **1,826** | **(159)** | **1,667** |
| Special non-recurring items | (2) | 0 | 0 | 0 | (2) | 12 | 10 |
| Depreciation and impairment of property, plant and equipment | (113) | (55) | (68) | (3) | (239) | 0 | (239) |
| **EBITA before allocation of shared costs** | **1,972** | **1,070** | **(1,455)** | **(2)** | **1,585** | **(147)** | **1,438** |
| Allocation of shared costs | (783) | (689) | 1,455 | 17 | 0 | 0 | 0 |
| **EBITA** | **1,189** | **381** | **0** | **15** | **1,585** | **(147)** | **1,438** |
| Amortisation of intangible assets | (252) | (113) | | | (365) | (1) | (366) |
| **EBIT** | **937** | **268** | **0** | **15** | **1,220** | **(148)** | **1,072** |
| Order intake (gross) | 12,866 | 8,881 | | (6) | 21,741 | 152 | 21,893 |
| Order backlog | 8,350 | 7,872 | | (4) | 16,218 | 165 | 16,383 |
| *Gross margin* | *28.0%* | *21.9%* | | *N/A* | *25.0%* | *N/A* | *23.7%* |
| *EBITDA margin before special non-recurring items* | *19.8%* | *13.7%* | | *N/A* | *9.7%* | *N/A* | *8.6%* |
| *EBITA margin before allocation of shared costs* | *18.7%* | *13.0%* | | *N/A* | *8.5%* | *N/A* | *7.4%* |
| *EBITA margin* | *11.3%* | *4.6%* | | *N/A* | *8.5%* | *N/A* | *7.4%* |
| *EBIT margin* | *8.9%* | *3.3%* | | *N/A* | *6.5%* | *N/A* | *5.5%* |
| **Number of employees at 31 December 2018** | **4,738** | **5,087** | **1,428** | **0** | **11,253** | **115** | **11,368** |
| | | | | | | | |
| **Reconciliation of profit/(loss) for the year** | | | | | | | |
| EBIT | | | | | 1,220 | (148) | 1,072 |
| Financial income | | | | | 930 | 1 | 931 |
| Financial costs | | | | | (1,091) | (17) | (1,108) |
| **EBT** | | | | | **1,059** | **(164)** | **895** |
| Tax for the year | | | | | (248) | (12) | (260) |
| **Profit/(loss) for the year** | | | | | **811** | **(176)** | **635** |

## Accounting policy

Segment income and costs include transactions between divisions. Such transactions are carried out on market terms. The transactions are eliminated upon consolidation.

Administrative functions such as finance, HR, IT and legal are shared by the divisions.

Additionally, the divisions are supported by Group Functions related to Procurement, Logistics and Marketing.

Shared costs are allocated to business segments based on assessment of usage.

Other companies consist of eliminations, companies with no activities, real estate and the parent company, while discontinued activities consist of bulk material handling activities and run-off on activities sold in previous years.

Geographical information is based on the seven Regions that support the Industries. Revenue is presented in the Region in which delivery takes place. Non-current assets and employees are presented in the Region in which they belong.

# 1.2 SEGMENT INFORMATION - continued

| 2017<br>DKKm | Mining | Cement | Shared costs | Other compa-nies | Con-tinuing activities | Discon-tinued activities | FLSmidth Group |
|---|---|---|---|---|---|---|---|
| External revenue | 9,697 | 8,303 | | - | 18,000 | 880 | 18,880 |
| Internal revenue | 72 | 127 | | (199) | 0 | 0 | 0 |
| **Total revenue** | **9,769** | **8,430** | **0** | **(199)** | **18,000** | **880** | **18,880** |
| Production costs | (7,019) | (6,542) | (45) | 203 | (13,403) | (1,136) | (14,539) |
| **Gross profit** | **2,750** | **1,888** | **(45)** | **4** | **4,597** | **(256)** | **4,341** |
| SG&A costs | (825) | (612) | (1,425) | (3) | (2,865) | (69) | (2,934) |
| **EBITDA before special non-recurring items** | **1,925** | **1,276** | **(1,470)** | **1** | **1,732** | **(325)** | **1,407** |
| Special non-recurring items | 53 | (2) | 0 | 0 | 51 | 0 | 51 |
| Depreciation and impairment of property, plant and equipment | (116) | (51) | (100) | (1) | (268) | (2) | (270) |
| **EBITA before allocation of shared costs** | **1,862** | **1,223** | **(1,570)** | **0** | **1,515** | **(327)** | **1,188** |
| Allocation of shared costs | (854) | (736) | 1,570 | 20 | 0 | 0 | 0 |
| **EBITA** | **1,008** | **487** | **0** | **20** | **1,515** | **(327)** | **1,188** |
| Amortisation of intangible assets | (259) | (141) | | | (400) | (1) | (401) |
| **EBIT** | **749** | **346** | **0** | **20** | **1,115** | **(328)** | **787** |
| Order intake (gross) | 10,403 | 8,889 | | (122) | 19,170 | 78 | 19,248 |
| Order backlog | 6,261 | 7,473 | | (80) | 13,654 | 714 | 14,368 |
| *Gross margin* | *28.2%* | *22.4%* | | *N/A* | *25.5%* | *N/A* | *23.0%* |
| *EBITDA margin before special non-recurring items* | *19.7%* | *15.1%* | | *N/A* | *9.6%* | *N/A* | *7.5%* |
| *EBITA margin before allocation of shared costs* | *19.1%* | *14.5%* | | *N/A* | *8.4%* | *N/A* | *6.3%* |
| *EBITA margin* | *10.3%* | *5.8%* | | *N/A* | *8.4%* | *N/A* | *6.3%* |
| *EBIT margin* | *7.7%* | *4.1%* | | *N/A* | *6.2%* | *N/A* | *4.2%* |
| **Number of employees at 31 December 2017** | **4,570** | **5,359** | **1,649** | **0** | **11,578** | **137** | **11,715** |
| | | | | | | | |
| **Reconciliation of profit/(loss) for the year** | | | | | | | |
| EBIT | | | | | 1,115 | (328) | 787 |
| Impairment of investments in associates | | | | | (8) | 0 | (8) |
| Financial income | | | | | 1,345 | 1 | 1,346 |
| Financial costs | | | | | (1,656) | (34) | (1,690) |
| **EBT** | | | | | **796** | **(361)** | **435** |
| Tax for the year | | | | | (379) | 18 | (361) |
| **Profit/(loss) for the year** | | | | | **417** | **(343)** | **74** |

## 1.3 GEOGRAPHICAL INFORMATION

### 1 NORTH AMERICA
Revenue: DKK **3,964**m (2017: DKK 4,229m)
Non-current assets: DKK **3,622**m (2017: DKK 3,535m)
Employees: **1,911** (2017: 1,936)

*Canada*
Revenue: DKK **912**m (2017: DKK 726m)
Non-current assets: DKK **586**m (2017: DKK 621m)

*USA*
Revenue: DKK **2,404**m (2017: DKK 2,723m)
Non-current assets: DKK **3,027**m (2017: DKK 2,891m)

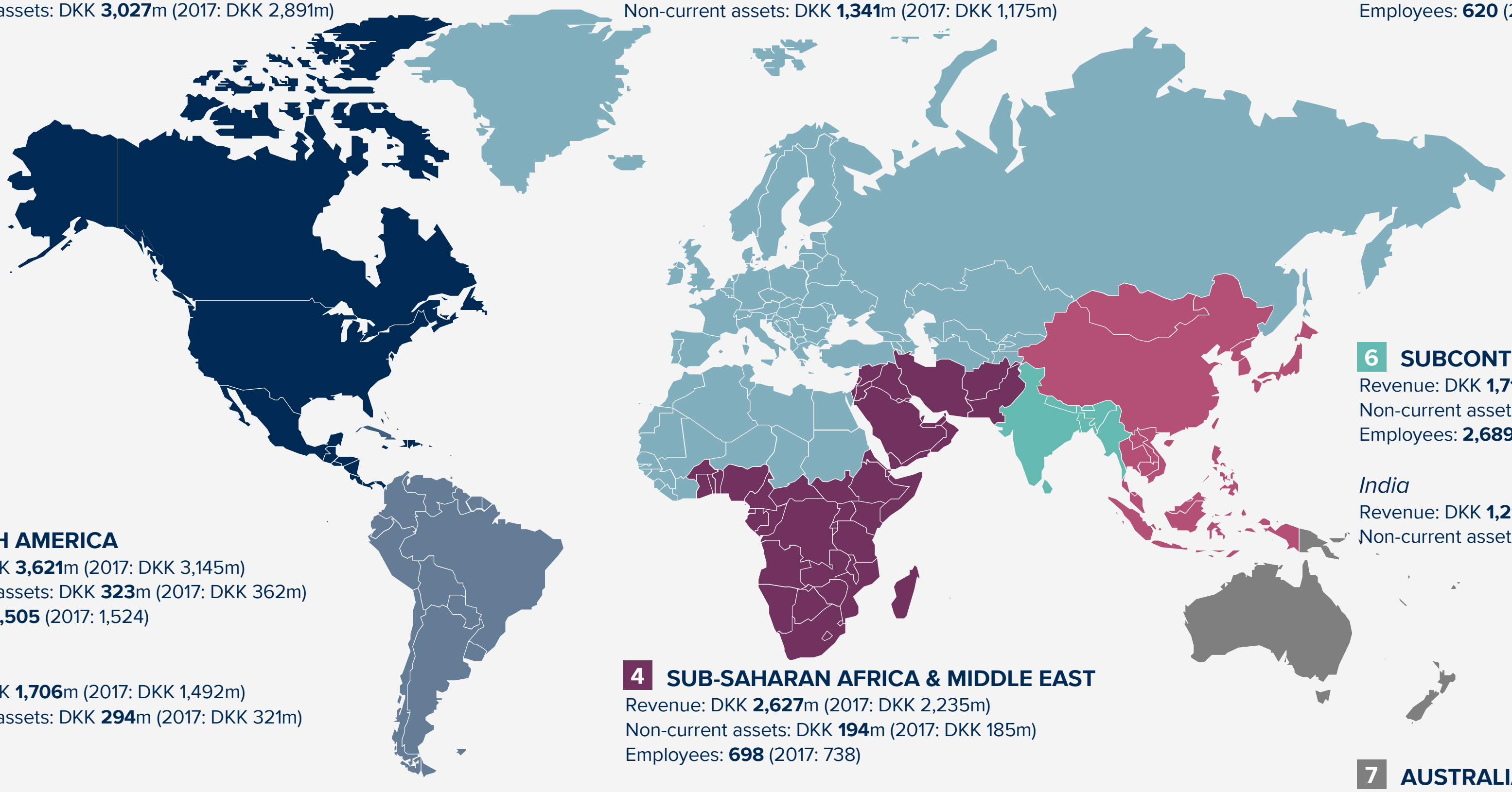
### 2 SOUTH AMERICA
Revenue: DKK **3,621**m (2017: DKK 3,145m)
Non-current assets: DKK **323**m (2017: DKK 362m)
Employees: **1,505** (2017: 1,524)

*Chile*
Revenue: DKK **1,706**m (2017: DKK 1,492m)
Non-current assets: DKK **294**m (2017: DKK 321m)

### 3 EUROPE, NORTH AFRICA & RUSSIA
Revenue: DKK **4,099**m (2017: DKK 4,062m)
Non-current assets: DKK **3,445**m (2017: DKK 3,531m)
Employees: **3,410** (2017: 3,485)

*Algeria*
Revenue: DKK **916**m (2017: DKK 899m)
Non-current assets: DKK **0**m (2017: DKK 0m)

*Denmark*
Revenue: DKK **96**m (2017: DKK 136m)
Non-current assets: DKK **1,341**m (2017: DKK 1,175m)



### 4 SUB-SAHARAN AFRICA & MIDDLE EAST
Revenue: DKK **2,627**m (2017: DKK 2,235m)
Non-current assets: DKK **194**m (2017: DKK 185m)
Employees: **698** (2017: 738)

*Pakistan*
Revenue: DKK **950**m (2017: DKK 593m)
Non-current assets: DKK **1**m (2017: DKK 0m)

### 5 ASIA
Revenue: DKK **1,358**m (2017: DKK 1,517m)
Non-current assets: DKK **105**m (2017: DKK 106m)
Employees: **620** (2017: 577)

### 6 SUBCONTINENTAL INDIA
Revenue: DKK **1,719**m (2017: DKK 1,514m)
Non-current assets: DKK **312**m (2017: DKK 338m)
Employees: **2,689** (2017: 2,791)

*India*
Revenue: DKK **1,292**m (2017: DKK 1,217m)
Non-current assets: DKK **312**m (2017: DKK 338m)

### 7 AUSTRALIA
Revenue: DKK **1,361**m (2017: DKK 1,297m)
Non-current assets: DKK **752**m (2017: DKK 823m)
Employees: **535** (2017: 530)

# 1.4 REVENUE

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

Revenue split on Industry and category:

| | | | 2018 |
|---|---|---|---|
| **DKKm** | **Mining** | **Cement** | **Group** |
| Projects | 2,346 | 3,704 | 6,050 |
| Products | 1,346 | 1,146 | 2,492 |
| **Capital business** | **3,692** | **4,850** | **8,542** |
| | | | |
| **Service business** | **6,858** | **3,350** | **10,208** |
| **Total revenue** | **10,550** | **8,200** | **18,750** |

## Projects

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

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

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

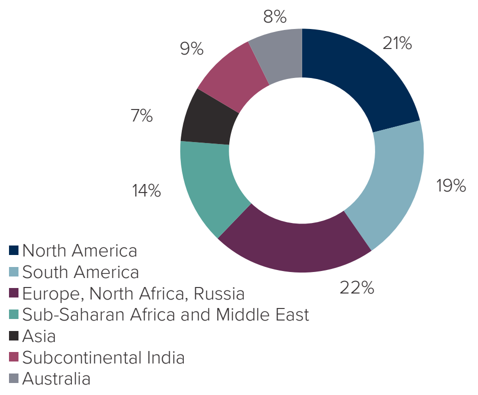
Most of the projects are sold as fixed price contracts and revenue from projects are usually recognised over time; applying the percentage of completion (POC) cost-to-cost method.

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

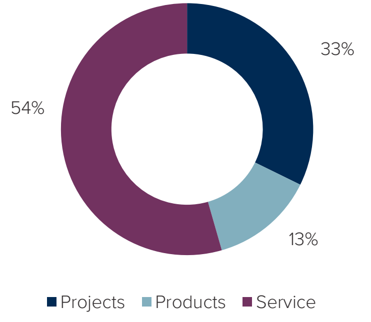
## Products

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

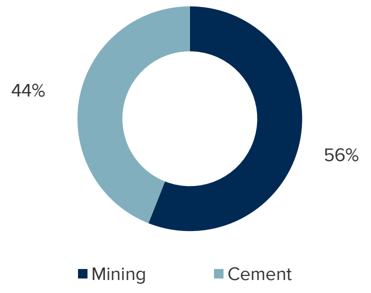
REVENUE SPLIT BY REGIONS




REVENUE SPLIT BY PROJECTS, PRODUCTS AND SERVICES




REVENUE SPLIT BY MINING AND CEMENT



# 1.4 REVENUE - continued

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

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

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

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

## Service

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

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

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

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

Each operation & maintenance contract is determined as one performance obligation. The transaction price is usually variable, depending on the produced output, and revenue is recognised over time, using the cost-to-cost method. In cases of significant uncertainties with measuring the revenue reliably we recognise revenue upon cash receipt. We are normally entitled to payment on a monthly basis.

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

Revenue split on timing of revenue recognition principle:

| | | | 2018 |
|---|---|---|---|
| **DKKm** | **Mining** | **Cement** | **Group** |
| Point in time | 6,867 | 3,147 | 10,014 |
| Percentage of completion | 3,683 | 5,036 | 8,719 |
| Cash | 0 | 17 | 17 |
| **Total revenue** | **10,550** | **8,200** | **18,750** |

### KEY ACCOUNTING JUDGEMENTS

**Judgement regarding performance obligations**
Judgement is performed when determining if a contract for sale of projects, products or service, or a combination hereof, involves one or more performance obligations.

**Judgement regarding recognition method**
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.

# 1.4 REVENUE - continued

## Accounting policy

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

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

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

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

Additionally, if we do not have an enforceable right to payment for work completed through-out 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.

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. Please refer to section 2.5, Provisions, for accounting policy on warranties provisions.

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

The accounting policies applied have changed for 2018. The changes are insignificant and comparative numbers are unchanged. Effect from implementing IFRS 15 is described in section 7.6; Impact from new accounting standards.

# 1.5 SPECIAL NON-RECURRING ITEMS

| DKKm | 2018 | 2017 |
|---|---|---|
| Closedown of production facilities | 0 | (2) |
| Recognised negative goodwill | 3 | 55 |
| Loss on disposal of entities and activities | (5) | (2) |
| | **(2)** | **51** |

Recognised negative goodwill related to the acquisition of part of Sandvik Mining Systems. For further information refer to note 2.8 Business acquisitions.

Loss on disposal of entities and activities related to sale of non-core business in South Africa.

## Accounting policy

Special non-recurring items consist of costs and income of a special nature in relation to the main activities of the continued activities, including gains and losses from acquisition and disposal of entities and activities.

# 1.6 STAFF COSTS

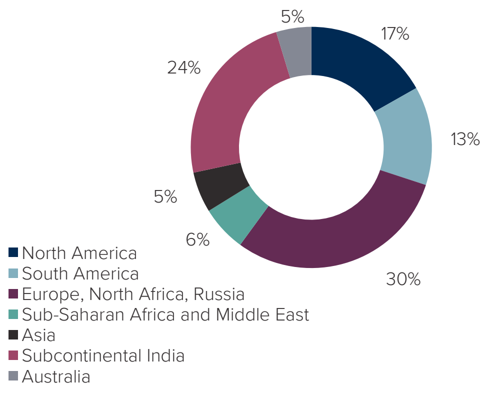
| DKKm | 2018 | 2017 |
|---|---|---|
| Wages, salaries and other remuneration | 3,776 | 3,814 |
| Contribution plans and other social security costs, etc. | 531 | 496 |
| Defined benefit plans | 14 | 25 |
| Share-based payment | 45 | 42 |
| Other staff costs | 262 | 218 |
| | **4,628** | **4,595** |
| The amounts are included in the items: | | |
| Production costs | 2,710 | 2,816 |
| Sales costs | 1,093 | 1,000 |
| Administrative costs | 825 | 779 |
| | **4,628** | **4,595** |

The average number of employees in 2018 in the continuing activities was 11,470 (2017: 11,542).

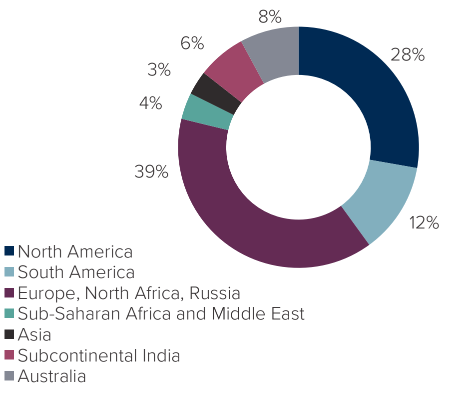
Staff costs consist of direct wages and salaries, remuneration, pension cost, share-based payments, training, etc., related to the continuing activities.

For further details concerning the remuneration of the Group Executive Management and Board of Directors, see note 6.1 Management remuneration.

## NUMBER OF EMPLOYEES PER REGION




## EMPLOYEE COST PER REGION IN PERCENTAGE



# 2. CAPITAL EMPLOYED AND OTHER BALANCE SHEET ITEMS



**14,338**

DKKm
**Average capital employed**

**0**

DKKm
**Impairment of assets in 2018**

**289**

DKKm
**Investment in Research and development**

**Agreement to sell bulk-material handling**

## 2.1 RETURN ON CAPITAL EMPLOYED

| DKKm | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Intangible assets at cost value | 10,198 | 9,962 |
| Property, plant and equipment at carrying amount | 2,235 | 2,248 |
| Working capital, see section 3.1 | 2,200 | 1,833 |
| **Capital employed** | **14,633** | **14,043** |
| **Capital employed, average** | **14,338** | **14,533** |

Capital employed has increased slightly from last year, whereas the average capital employed has decreased slightly due to the lower level in 2017. The increase was related to higher net working capital as well as investments in intangible assets, primarily reseach and development projects and software.

| DKKm | 2018 | 2017 |
|---|---|---|
| EBITA | 1,585 | 1,515 |
| Capital employed, average | 14,338 | 14,533 |
| **ROCE, average** | **11.0%** | **10.4%** |

Our return on capital employed is calculated based on average capital employed to reflect the annual development. ROCE has increased during the year, driven by the improved EBITA and the decreased average capital employed.

## 2.2 INTANGIBLE ASSETS

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

Much of the knowledge we generate originates from work performed for customers. In 2018, R&D costs totaled DKK 289m (2017: DKK 212m). The total addition of intangible assets amounts to DKK 214m (2017: DKK89m), where capitalised development cost accounts for DKK 128m (2017: DKK 54m). R&D costs not capitalised are included in production costs. The remainder capitalisation regards IT related projects. Internally generated cost capitalised amounts to DKK 68m (2017: DKK 89m).

Goodwill and certain trademarks acquired through acquisitions are considered to have indefinite useful life. The carrying amount of goodwill and trademarks are shown below, divided into segments.

Intangible assets considered to have an indefinite useful life:

| | | | 2018 |
|---|---|---|---|
| DKKm | Mining | Cement | Group |
| Goodwill | 4,056 | 182 | 4,238 |
| Trademarks | 601 | 311 | 912 |
| **Carrying amount** | **4,657** | **493** | **5,150** |

### Accounting policy

**Goodwill**

Goodwill is measured in the balance sheet at cost in connection with initial recognition. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to the cash generating units as defined by the Management. The determination of cash generating units complies with the managerial structure and the internal financial reporting in the Group. Goodwill is not amortised but is tested for impairment at least once a year.

**Intangible assets other than goodwill**

Customer relations, patents and rights with indefinite useful life are not amortised, but are tested for impairment at least once a year. These are measured at cost less accumulated impairment losses.

Customer relations, patents and rights with a finite useful life are measured at cost less accumulated amortisation and impairment losses.

Development projects, for which the technical rate of utilisation, sufficient resources and a potential future market or application in the Group, can be demonstrated and which are intended to be manufactured, marketed or used, are recognised as completed development projects. This requires that the cost can be determined and it is sufficiently certain that the future earnings or the net selling price will cover production, sales and administrative costs plus development costs. Other development costs are recognised in the income statement when costs are incurred. Development costs consist of salaries and other costs that are directly attributable to development activities.

## 2.2 INTANGIBLE ASSETS – continued

Amortisation of completed development projects was 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 not amortised but are tested for impairment at least once a year.

Amortisation takes place systematically over the estimated useful life of the assets which is as follows:

- Development costs up to 8 years
- Software applications up to 5 years
- Patents, rights and other intangible assets up to 20 years
- Customer relations up to 30 years

**2018**

| DKKm | Goodwill | Patents and rights | Customer relations | Other intangible assets | Comple-ted devel-opment projects | Intangible assets under develop-ment | Total |
|---|---|---|---|---|---|---|---|
| Cost at 1 January | 4,218 | 2,068 | 1,895 | 656 | 956 | 169 | 9,962 |
| Foreign exchange adjustments | 20 | 6 | 1 | 7 | 0 | 0 | 34 |
| Disposal of group enterprises | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 | 6 | 0 | 214 | 220 |
| Disposals | 0 | 0 | 0 | (22) | 0 | 0 | (22) |
| Transferred between categories | 0 | 0 | 0 | 27 | 100 | (123) | 4 |
| **Cost at 31 December** | **4,238** | **2,074** | **1,896** | **674** | **1,056** | **260** | **10,198** |
| | | | | | | | |
| Amortisation and impairment at 1 January | 0 | (947) | (1,089) | (603) | (690) | 0 | (3,329) |
| Foreign exchange adjustment | 0 | (3) | 1 | (6) | 0 | 0 | (8) |
| Disposals | 0 | 0 | 0 | 22 | 0 | 0 | 22 |
| Amortisation | 0 | (98) | (122) | (28) | (117) | 0 | (365) |
| **Amortisation and impairment at 31 December** | **0** | **(1,048)** | **(1,210)** | **(615)** | **(807)** | **0** | **(3,680)** |
| | | | | | | | |
| **Carrying amount at 31 December** | **4,238** | **1,026** | **686** | **59** | **249** | **260** | **6,518** |

**2017**

| DKKm | Goodwill | Patents and rights | Customer relations | Other intangible assets | Comple-ted devel-opment projects | Intangible assets under develop-ment | Total |
|---|---|---|---|---|---|---|---|
| Cost at 1 January | 4,493 | 2,099 | 2,063 | 651 | 741 | 325 | 10,372 |
| Foreign exchange adjustments | (272) | (31) | (159) | (27) | 0 | 1 | (488) |
| Disposal of group enterprises | (3) | 0 | 0 | 0 | 0 | 0 | (3) |
| Additions | 0 | 0 | 0 | 2 | 0 | 89 | 91 |
| Disposals | 0 | 0 | (9) | (1) | 0 | 0 | (10) |
| Transferred between categories | 0 | 0 | 0 | 31 | 215 | (246) | 0 |
| **Cost at 31 December** | **4,218** | **2,068** | **1,895** | **656** | **956** | **169** | **9,962** |
| | | | | | | | |
| Amortisation and impairment at 1 January | 0 | (873) | (1,056) | (588) | (540) | 0 | (3,057) |
| Foreign exchange adjustment | 0 | 15 | 86 | 16 | 1 | 0 | 118 |
| Disposals | 0 | 0 | 9 | 1 | 0 | 0 | 10 |
| Amortisation | 0 | (89) | (128) | (32) | (151) | 0 | (400) |
| **Amortisation and impairment at 31 December** | **0** | **(947)** | **(1,089)** | **(603)** | **(690)** | **0** | **(3,329)** |
| | | | | | | | |
| **Carrying amount at 31 December** | **4,218** | **1,121** | **806** | **53** | **266** | **169** | **6,633** |

# 2.3 IMPAIRMENT OF ASSETS

## Result of annual impairment test

Intangible assets are primarily related to acquisition of enterprises and activities, software and research and development projects.

At 31 December 2018, the carrying amount of goodwill and other intangible assets with indefinite useful life were tested for impairment. The impairment test showed no impairment for 2018 (2017: DKK 0). Management is of the belief that no changes in the key assumptions are likely to reduce the headroom in any of the cash generating units to zero or less.

Carrying amounts of intangible assets and property, plant and equipment included in the impairment test are specified below:

| | | | 2018 |
|---|---|---|---|
| **DKKm** | **Mining** | **Cement** | **Group** |
| Goodwill | 4,056 | 182 | 4,238 |
| Patents and rights | 640 | 386 | 1,026 |
| Customer relations | 668 | 18 | 686 |
| Other intangible assets | 33 | 26 | 59 |
| Completed development projects | 124 | 125 | 249 |
| Intangible assets under development | 131 | 129 | 260 |
| Property, plant and equipment | 1,647 | 588 | 2,235 |
| **Total** | **7,299** | **1,454** | **8,753** |

## Changed cash generating units

In performing the annual impairment test of assets, an assessment is made as to whether the cash generating units to which assets are allocated will be able to generate sufficient positive net cash flow in the future to support the value of the assets.

We define the cash generating units based on the smallest group of identifiable assets which together generate incoming cash flow from continued use of the assets and which are independent of cash flow from other assets or groups of assets. The definition of the cash generating units is reconsidered once a year.

Following the changed organisation effective from 1 July 2018 we have reassessed our cash generating units. The cash generating units equal our operating segments, Mining and Cement, these being the smallest group of assets generating cash inflows that are largely independent.

## Key assumptions

An estimate is made of the present value of the future free net cash flow based on budgets and strategy for the coming five years as well as projections for the subsequent years (the terminal value). From 2024 and onwards, Management expects the growth rate to remain in line with the expected long term growth rates for the Industries. Significant parameters in these estimates are discount rate, revenue growth, EBITA margin, expected investments and growth expectations for the terminal period.

The recoverable amount of a cash generating unit is based on value in use calculations and is calculated by discounting the expected future cash flow.

We expect an EBITA margin of 9-10% in 2019 and in the long-term an EBITA margin of 10-13%.

The discount rate has been revised for each cash generating unit to reflect the latest market assumptions for the risk free rate based on a 10-year Danish government bond, the equity risk premium and the cost of debt.

The long-term growth rate for the terminal period is based on the expected growth in the world economy as well as input from current long term swaps. Due to the current low interest rate environment, a conservative approach regarding the long-term growth rate for the terminal period has been applied. This methodology has been applied to ensure consistency with the level of the risk free rate applied as a basis for the estimation of discount rate (WACC) and the long-term growth rate. Based on these factors, a long term annual growth rate for the terminal period of 1.5% has been applied. Investments reflect both maintenance and expectations of organic growth.

Management determines the expected annual growth rate in the budget period and the expected margins based on historical experience and the following assumptions about expected market developments, detailed below:

| Key assumptions | Mining | Cement |
|---|---|---|
| Investments % of revenue | 1.0% | 1.0% |
| Growth rate in the budget period | 8.1% | 2.4% |
| Growth rate in the terminal period | 1.5% | 1.5% |
| Discount rate after tax | 7.5% | 7.5% |
| Discount rate before tax | 11.3% | 11.3% |
| EBITA margin in the budget period | 12.8% | 6.4% |

## 2.3 IMPAIRMENT OF ASSETS - continued

**Mining**
Following relatively strong growth in Mining capex in 2018, 2019 is expected to show a continued positive momentum, albeit more modest growth rates. Assuming that the Mining cycle follows a typical cyclical behaviour, the Mining recovery should continue after 2019. However, macro uncertainty is high. Demand still relates primarily to replacement and brownfield projects. Greenfield activity remains limited with only a few opportunities for larger projects in the pipeline. Timing is uncertain due to lengthy processes tied to environmental approvals, internal Board approvals and, in some cases, financing.

Miners show most interest in copper, gold and battery associated minerals, but the recovery in 2018 was broad-based and including mounting interest in coal, iron ore and other minerals.

Operating margins at copper mines have recovered and are expected to remain approximately on the current level over the next few years. Operating margins at gold mines are forecast to see a slight increase in the next few years, because of global political uncertainty.

EBITA margin in the budget period is based on a aftermarket share of 70%, but higher growth in capital business with slightly lower margins. Additionally, internal efficiencies driven by digitalization and innovation are expected to give margin improvements.

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

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

Our Cement service business has been under slight pressure in the past one and a half years due to lack of first time spare packages, related to new cement plants, and a scaling down of operation & maintenance contracts in Africa. Apart from this, the cement market showed a stable development in 2018 that is expected to continue in the short-term. Longer term, spare parts consumption will be growing along with growing production.

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

EBITA margin in the budget period is considering internal efficiencies from product standardisation through value engineering and modularisation. For Cement internal digitalization and innovation will improve margins the coming years.

### Sensitivity analysis
A sensitivity analysis has been performed of the main assumptions in the impairment test to identify the lowest and/or the highest discount rate and the lowest growth rate in the budget period for each cash generating unit without resulting in any impairment losses. With a growth rate of zero there are no indicators of impairment. A summary of the sensitivity analysis is shown below:

| Key assumptions | Mining | Cement |
|---|---|---|
| Average growth rate in the budget period | 8.1% | 2.4% |
| Minimum growth rate in the budget period | N/A | N/A |
| Discount rate after tax applied | 7.5% | 7.5% |
| Maximum discount rate after tax | 16.1% | 20.8% |

## 2.3 IMPAIRMENT OF ASSETS - continued

### Accounting policy

Goodwill and other intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at least once a year, irrespective of whether there is any indication that they may be impaired.

Assets that are subject to amortisation, such as intangible assets in use with definite useful life, and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Factors that could trigger an impairment test include the following:

- Changes of R&D project expectations
- Lower than predicted sales related to particular technologies
- Changes in the economic lives of similar assets
- Relationship with other intangible assets or property, plant and equipment

For impairment testing, assets are grouped into the smallest group of assets that generates largely independent cash inflows (cash generating unit) as determined based on the management structure and the internal financial reporting.

If the carrying amount of intangible assets exceeds the recoverable amount based on the existence of one or more of the above indicators of impairment, any impairment is measured based on discounted projected cash flows. Impairments are reviewed at each reporting date for possible reversal.

Impairment of goodwill is not reversed. Recognition of impairment of other assets is reversed to the extent that changes have taken place in the assumptions and estimates that led to the recognition of impairment.

## 2.4 PROPERTY, PLANT AND EQUIPMENT

Land and buildings with a carrying amount of DKK 48m (2017: DKK 50m) are pledged against liabilities of DKK 288m (2017: DKK 306m).

### Accounting policy

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials and direct labour costs.

Depreciation is charged on a straight line basis over the estimated useful life of the assets until they reach the estimated residual value.

Estimated useful life is as follows:

- Buildings, 20-40 years
- Plant and machinery, 3-15 years
- Operating equipment and fixtures and fittings, 3-15 years
- Leasehold improvements up to 5 years

Land is not depreciated.

Newly acquired assets and assets of own construction are depreciated from the time they are available for use.

Where acquisition or use of the asset places the Group under an obligation to incur the costs of re-establishing the asset, the estimated costs for this purpose are recognised as part of the cost of the asset, and are depreciated during the asset's useful life.

## 2.4 PROPERTY, PLANT AND EQUIPMENT - continued

| | 2018 | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| DKKm | Land and buildings | Plant and machinery | Operating equipment, fixtures and fittings | Property, plant and equipment under construction | Total | Land and buildings | Plant and machinery | Operating equipment, fixtures and fittings | Property, plant and equipment under construction | Total |
| Cost at 1 January | 2,375 | 1,466 | 946 | 64 | 4,851 | 2,556 | 1,710 | 823 | 29 | 5,118 |
| Foreign exchange adjustments | 4 | 3 | (3) | (2) | 2 | (175) | (125) | (45) | (3) | (348) |
| Acquisitions of enterprises | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 2 |
| Disposals of enterprises | 0 | (6) | (2) | 0 | (8) | 0 | 0 | (2) | 0 | (2) |
| Additions | 84 | 62 | 28 | 114 | 288 | 14 | 89 | 12 | 59 | 174 |
| Disposals | (46) | (22) | (21) | 0 | (89) | (25) | (44) | (24) | 0 | (93) |
| Transferred between categories | 33 | 44 | 30 | (111) | (4) | 5 | (164) | 180 | (21) | 0 |
| **Cost at 31 December** | **2,450** | **1,547** | **978** | **65** | **5,040** | **2,375** | **1,466** | **946** | **64** | **4,851** |
| | | | | | | | | | | |
| Depreciation and impairment at 1 January | (778) | (979) | (846) | 0 | (2,603) | (733) | (1,144) | (690) | 0 | (2,567) |
| Foreign exchange adjustment | (3) | (8) | 5 | 0 | (6) | 38 | 88 | 42 | 0 | 168 |
| Disposals of enterprises | 0 | 3 | 2 | 0 | 5 | 0 | 0 | 1 | 0 | 1 |
| Disposals | 1 | 17 | 20 | 0 | 38 | 5 | 38 | 20 | 0 | 63 |
| Depreciation | (70) | (118) | (51) | 0 | (239) | (67) | (125) | (55) | 0 | (247) |
| Impairment | 0 | 0 | 0 | 0 | 0 | (21) | 0 | 0 | 0 | (21) |
| Transferred between categories | (2) | 12 | (10) | 0 | 0 | 0 | 164 | (164) | 0 | 0 |
| **Depreciation and impairment at 31 December** | **(852)** | **(1,073)** | **(880)** | **0** | **(2,805)** | **(778)** | **(979)** | **(846)** | **0** | **(2,603)** |
| | | | | | | | | | | |
| **Carrying amount at 31 December** | **1,598** | **474** | **98** | **65** | **2,235** | **1,597** | **487** | **100** | **64** | **2,248** |

# 2.5 PROVISIONS

Provisions consist of:

- Provision for warranty claims in respect of goods or services already delivered
- Provisions for cost related to restructuring
- Provisions for loss-making contracts (included in other provisions)
- Provisions for losses resulting from disputes and lawsuits (included in other provisions)
- Provisions for indirect tax risks (included in other provisions)

Warranty provisions have decreased mainly due to expiry of warranty periods on a number of projects triggering reversals due to less warranty costs than anticipated and due to reclassification of warranties to other liabilities.

Other provisions is largely unchanged and contain primarily provisions for ongoing legal disputes.

Changes in provisions have the following cash flow effect:

| DKKm | 2018 | 2017 |
|---|---|---|
| Pensions | (1) | 3 |
| Provisions | (378) | 153 |
| **Cash flow effect** | **(379)** | **156** |

The cash flow effect relate primarily to settlement of a dispute with a customer on a legacy project.

## Accounting policy

Provisions are recognised when we, due to an event occurring before or at the balance sheet date, have a legal or constructive obligation and outflow of resources is expected to settle the obligation.

Provisions for warranty claims are estimated on a project-by-project basis based on historical realised cost related costs of completion, subsequent warranty supplies and unsettled claims from customers or subcontractors.

Provisions for restructuring costs are made only if the restructuring has been decided at the balance sheet date in accordance with a specific plan, and only provided that the parties involved have been informed about the overall plan.

The cost of loss-making projects covering projects expected to result in a loss, is recognised immediately in the income statement. Losses not yet incurred are provided for as other provisions. Provisions regarding disputes and lawsuits are based on Management's assessment of the likely outcome settling the cases based on the information at hand at the balance sheet date.

| | | | | 2018 | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| DKKm | Warran-ties | Restruc-turing | Other | Total | Warran-ties | Restruc-turing | Other | Total |
| Provisions at 1 January | 825 | 27 | 578 | 1,430 | 703 | 41 | 706 | 1,450 |
| Foreign exchange adjustments | 1 | 3 | 0 | 4 | (32) | (3) | (49) | (84) |
| Acquisition of Group enterprises | 0 | 0 | 0 | 0 | 59 | 0 | 43 | 102 |
| Disposal of Group enterprises | (2) | 0 | 0 | (2) | 0 | 0 | 0 | 0 |
| Additions | 332 | 25 | 327 | 684 | 428 | 51 | 455 | 934 |
| Used | (181) | (9) | (370) | (560) | (167) | (61) | (165) | (393) |
| Reversals | (337) | (14) | (135) | (486) | (315) | (1) | (147) | (463) |
| Reclassification to other liabilities | (84) | (6) | (19) | (109) | (10) | 0 | (106) | (116) |
| Transfer between categories | (21) | 0 | 21 | 0 | 159 | 0 | (159) | 0 |
| Transfer from asset held for sale | 95 | 33 | 190 | 318 | 0 | 0 | 0 | 0 |
| **Provisions at 31 December** | **628** | **59** | **592** | **1,279** | **825** | **27** | **578** | **1,430** |

**KEY ACCOUNTING ESTIMATES**

**Estimated warranty provision**

When estimating the warranty provision we take into consideration several years of warranty cost information, any specific project related risks, knowledge about defects and functional errors in the product portfolio, risks associated with newly launched products as well as customer losses in connection with suspension of operation. We include all of these factors as relevant, to estimate a warranty provision that to the best of our knowledge reflects our responsibility towards our customers in the future.

# 2.6 PENSION OBLIGATIONS

## Defined contribution plans

The majority of our pension plans are defined contribution plans and we have no further payment obligations once the contributions are paid. Under these pension plans, we recognise regular payments, e.g. a fixed amount or a fixed percentage of the salary. Pension costs related to defined contribution plans are recognised in staff costs and amounted to DKK 531m (2017: DKK 496m).

## Defined benefit plans

We also have defined benefit plans where the responsibility for the pension obligation towards the employees rests with us. Under a defined benefit plan, we have an obligation to pay a specific benefit, e.g. retirement pension in the form of a fixed proportion of the exit salary. Under these plans, we carry the risk in relation to future developments in interest rates, inflation, mortality, etc. A change in the assumptions upon which the calculation is based results in a change in the actuarial present value. In the event of changes in the assumptions used in the calculation of defined benefit plans for existing and former employees, actuarial gains and losses are recognised in other comprehensive income.

The majority of the total pension obligations are partially funded with assets placed in pension funds and through insurance. In 2019 we expect to make a contribution to the defined benefit plans of DKK 0.5m (2018: 0.4m). The weighted average duration of the obligations is 13 years (2017: 13 years).

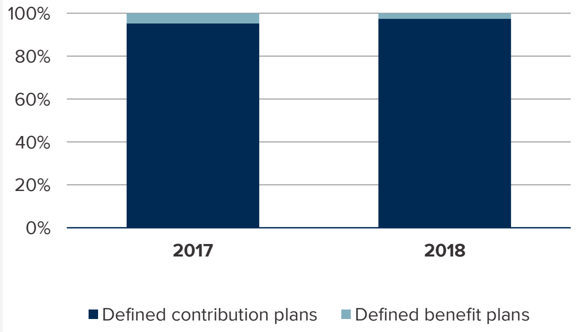
Actuarial assumptions applied (weighted):

| | 2018 | 2017 |
|---|---|---|
| Average discounting rate applied | 2.0% | 1.7% |
| Expected return on tied-up assets | 2.0% | 1.7% |
| Expected future pay increase rate | 1.7% | 1.9% |

| | | | 2018 | | | 2017 |
|---|---|---|---|---|---|---|
| **DKKm** | **Present value of pension obligations** | **Fair value of plan assets** | **Net obligations** | **Present value of pension obligations** | **Fair value of plan assets** | **Net obligations** |
| Value at 1 January | (1,039) | 759 | (280) | (1,091) | 786 | (305) |
| | | | | | | |
| Interest on obligation/asset | (29) | 23 | (6) | (25) | 25 | 0 |
| Service costs | (14) | 0 | (14) | (25) | 0 | (25) |
| **Recognised in the income statement** | **(43)** | **23** | **(20)** | **(50)** | **25** | **(25)** |
| | | | | | | |
| Actuarial gains and losses from financial assumptions* | 53 | (43) | 10 | (47) | 68 | 21 |
| **Recognised in other comprehensive income** | **53** | **(43)** | **10** | **(47)** | **68** | **21** |
| | | | | | | |
| Foreign exchange adjustments | (35) | 30 | (5) | 100 | (86) | 14 |
| Employer contributions | 0 | 4 | 4 | 0 | 8 | 8 |
| Participant contributions | (2) | 3 | 1 | (4) | 7 | 3 |
| Benefits paid to employees | 66 | (58) | 8 | 53 | (49) | 4 |
| **Other changes** | **29** | **(21)** | **8** | **149** | **(120)** | **29** |
| | | | | | | |
| **Value at 31 December** | **(1,000)** | **718** | **(282)** | **(1,039)** | **759** | **(280)** |

* Actuarial gains and losses relate primarily to changes in financial assumptions.

PENSION OBLIGATIONS SPLIT BY PLAN TYPES



## 2.6 PENSION OBLIGATIONS - continued

### Sensitivity analysis

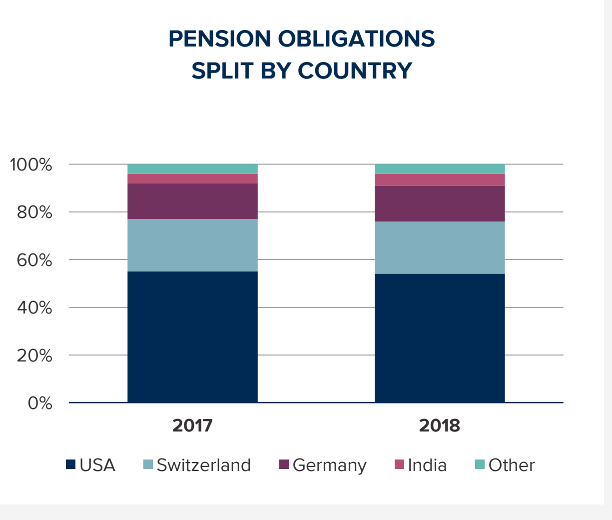
Below shows a sensitivity analysis based on changes in the discount rate, all other things being equal.

A change in the discount rate will result in the following changes in the net pension obligation:

| DKKm | 2018 | 2017 |
|---|---|---|
| Discount rate - 1%, increase | 129 | 144 |
| Discount rate + 1%, decrease | (112) | (124) |

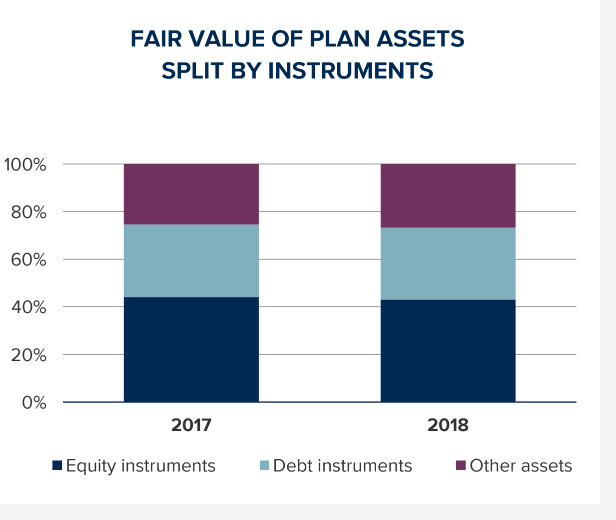
### Accounting policy

Contributions to defined contribution plans are recognised in staff costs when the related service is provided. Any contributions outstanding are recognised in the balance sheet as other liabilities.




For defined benefit plans, annual actuarial calculations are made of the present value of future benefits payable under the pension plan using the projected unit credit method. The present value is calculated based on assumptions about future developments in variables such as salary levels, interest, inflation and mortality rates. The present value is only calculated for benefits earned by the employees through their employment with the Group to date. The actuarial calculation of present value less the fair value of any plan assets is recognised in the balance sheet as pension obligations.

The pension costs for the year, based on actuarial estimates and financial forecasts at the beginning of the year, are recognised in the income statement. The difference between the forecast development in pension assets and liabilities and the realised values is called actuarial gains or losses and is recognised in the statement of comprehensive income through other comprehensive income.




If a pension plan constitutes a net asset, the asset is recognised only to the extent that it equals the value of future repayments under the plan or it leads to a reduction of future contributions to the plan.

## 2.7 CONTRACTUAL AND CONTINGENT LIABILITIES

### Rent and lease obligations

Property, plant and equipment rented or classified as operating leases expire in the following periods:

| DKKm | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Within one year | 68 | 47 |
| Between one and five years | 230 | 117 |
| After five years | 17 | 19 |
| **Rent and lease obligations** | **315** | **183** |

### Guarantees

To cover project-related risks, such as performance, payment, quality and delay, we issue usual security in the form of performance and payment guarantees for projects and supplies towards our customers. At 31 December 2018, the value of issued guarantees amounted to DKK 2,498m (2017: DKK: 2,844m). In the event a guarantee is expected to materialise, a provision is made to cover the risk.

### Litigations

We are involved in certain legal disputes. The outcome of ongoing legal disputes is not expected to have significant impact on our financial position. Contingent liabilities related to litigations amount to DKK 278m (2017: DKK 232m).

# 2.8 BUSINESS ACQUISITIONS

In July 2017, we reached an agreement to acquire part of Sandvik Mining Systems, subject to certain conditions. The acquisition closed on 1 November 2017, except for transfers of assets in South Africa, due to final governmental approval. As announced 1 March 2018 the transfer has been approved concluding the acquisition.

With the acquisition, we will be able to increase the productivity of the complete "pit to plant" operation by integrating upstream mining with downstream processing. The acquisition was an asset deal involving several legal FLSmidth entities taking over assets and liabilities from Sandvik. No legal entities were taken over from Sandvik.

Deferred payment from the acquisition in 2017 was recognised as other receivables and amounted to DKK 18m at 31 December 2018:

| DKKm | 2018 |
|---|---|
| Deferred payments at 1 January 2018 | 121 |
| Payments received in 2018 | (95) |
| Currency adjustments | (8) |
| **Deferred payments at 31 December 2018** | **18** |

The assets and liabilities acquired were measured using the information available at the date for issuing the annual report. The purchase price allocation was finalised during 2018 without significant changes.

| DKKm | Net assets acquired 2018 | Net assets acquired 2017 | Sandvik Mining Systems acquisition |
|---|---|---|---|
| Property, plant and equipment | 0 | 2 | 2 |
| Inventories | 0 | 3 | 3 |
| Accounts receivables | 0 | 13 | 13 |
| Work in progress, assets | 0 | 89 | 89 |
| Provisions | 0 | (102) | (102) |
| Accounts payables | 0 | (98) | (98) |
| Work in progress, liabilities | 0 | (44) | (44) |
| Other liabilities | (7) | (37) | (44) |
| **Carrying amount of net assets acquired** | **(7)** | **(174)** | **(181)** |
| Negative goodwill | (3) | (55) | (58) |
| **Transaction price** | **(10)** | **(229)** | **(239)** |
| Deferred payment, receivable | 0 | 121 | 121 |
| **Net cash effect, receivable** | **(10)** | **(108)** | **(118)** |

The acquisition of activities from Sandvik Mining Systems in South Africa in 2018 resulted in negative goodwill of DKK 3m (2017: DKK 55m). This related to expected redundancy costs and operating losses for which a provision cannot be recognised in the acquisition balance sheet. Negative goodwill was recognised in the income statement as special non-recurring items.

The acquired activities from Sandvik Mining Systems in South Africa were included in the consolidated financial statement:

| DKKm | 2018 |
|---|---|
| Revenue | 31 |
| Profit for the period | 5 |
| Headcount | 26 |

Had the acquired activities been included in the consolidated statement for the full year the revenue would have been approximately DKK 37m with profit for the year of DKK 5m.

## Accounting policy

Newly acquired or newly established businesses are included in the consolidated financial statements from the acquisition date or formation. The acquisition date is the date when control of the business is transferred to the Group.

Upon acquisition of the business of which we obtain control, the acquisition method is applied, according to which the identified assets, liabilities and contingent liabilities are measured at their fair values.

The acquisition cost/income of an enterprise consists of the fair value of the consideration payable/receivable. This includes the fair value of the consideration already paid/received, the deferred consideration and the contingent consideration.

Any subsequent adjustment of contingent consideration is recognised directly in the income statement, unless the adjustment is the result of new information about conditions prevailing at the acquisition date, and this information becomes available up to 12 months after the acquisition date.

## 2.8 BUSINESS ACQUISITIONS
– continued

Transaction costs are recognised directly in the income statement when incurred as administrative costs.

When acquisition costs differ from the fair values of the assets, liabilities and contingent liabilities identified on acquisition, any positive differences (goodwill) are recognised in the balance sheet under intangible assets and any negative differences (negative goodwill) are recognised in the income statement as a special non-recurring item.

If, on the acquisition date, there are any uncertainties with respect to identifying or measuring acquired assets, liabilities or contingent liabilities or uncertainty with respect to determining their cost, initial recognition will be made on the basis of estimated values. Such estimated values may be adjusted, or additional assets or liabilities may be recognised up to 12 months after the acquisition date, if new information becomes available about conditions prevailing on the acquisition date, which would have affected the calculation of values on that day, had such information been known.

## 2.9 DISCONTINUED ACTIVITIES

Discontinued activities are predominantly related to the bulk material handling activities that were announced for sale in connection with the third quarter interim report in 2015. Refer to note 2.10 for further description.

The financial highlights and key ratios of discontinued activities are as follows:

| DKKm | 2018 | 2017 |
|---|---|---|
| Revenue | 707 | 880 |
| Costs | (871) | (1,241) |
| **EBT** | **(164)** | **(361)** |
| | | |
| Tax for the year | (12) | 18 |
| **Loss for the year, discontinued activities** | **(176)** | **(343)** |
| | | |
| Cash flow statement: | | |
| Cash flow from operating activities | (568) | (24) |
| Cash flow from investing activities | (3) | (1) |
| Cash flow from financing activities | 0 | 31 |
| | | |
| Earnings per share: | | |
| Discontinued activities per share | (3.5) | (7.0) |
| Discontinued activities per share diluted | (3.5) | (6.9) |

Earnings before tax in discontinued activities was negatively impacted by provisions related to redundancies as well as cost overruns on several projects.

The negative cash flow in discontinued activities was driven by increase in net working capital of DKK 253m. No significant new projects have been won in discontinued activities since 2016, which has led to the absence of prepayments, negatively impacting cash flow from operating activities.

In addition, as mentioned in the annual report 2017, a substantial settlement of an old project in discontinued activities was settled and paid during 2018. This payment was in excess of DKK 200m.

### Accounting policy

Discontinued activities comprise disposal groups, which have been disposed of, ceased or are classified as held for sale and represents a separate major line of business or geographical area.

Discontinued activities are presented in the income statement as follows: profit/loss for the year, discontinued activities. The item consists of operating income after tax from discontinued activities. Disposal of the assets related to the discontinued activities and adjustments hereto are likewise presented as discontinued activities.

In the consolidated cash flow statement, cash flow from discontinued activities is included in cash flow from operating, investing and financing activities together with cash flow from continuing activities.

## 2.10 ASSETS AND LIABILITIES HELD FOR SALE

As announced on 9 January 2019, we have reached an agreement to sell the non-mining bulk material handling to Rainbow Heavy Machineries. The transaction has been structured as a sale of certain assets. The sales transaction is subject to various conditions and is expected to be closed early 2019.

The main part of our related non-mining bulk material handling business is delivered out of Wadgassen GmbH in Germany. The non-mining bulk material handling business has been for sale and reported as discontinued activities since 2015. Annual revenue for bulk material handling was DKK 707m in 2018 (2017: DKK 880m). Under the sales agreement we retain warranty, risks, etc., regarding legacy projects. The projects are in all material aspects completed at year end 2018, however with project completion and subsequent handling of claims and collection activities to be finalised during 2019-2020 through an operational agreement with Rainbow Heavy Machineries. Accordingly, remaining working capital balances and warranty provisions, etc. have been removed from assets and liabilities held for sale at the end of 2018.

The transaction includes transfer of employees, brand, IPR (Intellectual Property Rights) and order pipeline to Rainbow Heavy Machineries. All employee obligations are settled before closing date. Transferred brands and IPR are included at 31 December 2018 in assets held for sale at zero value due to write downs in 2015. Effect from the above will be recognised in discontinued activities.

| DKKm | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Intangible assets | 0 | 3 |
| Property, plant and equipment | 0 | 1 |
| Deferred tax assets | 0 | 2 |
| Inventories | 0 | 25 |
| Trade receivables | 0 | 143 |
| Work in progress | 0 | 121 |
| Cash and cash equivalents | 0 | 43 |
| Other assets | 0 | 85 |
| **Carrying amount of net assets disposed** | **0** | **423** |
| | | |
| Provisions | 0 | 185 |
| Trade payables | 0 | 80 |
| Work in progress | 0 | 70 |
| Deferred tax liability | 0 | 12 |
| Other liabilities | 0 | 283 |
| **Liabilities directly associated with assets classified as held for sale** | **0** | **630** |
| | | |
| **Net assets held for sale** | **0** | **(207)** |

### Accounting policy

Non-current assets as well as assets and liabilities expected to be sold as a group (disposal group) in a single transaction are reclassified to assets and liabilities classified as held for sale, if their carrying value is highly probable to be recovered by sale within 12 months in accordance with a formal plan.

Assets or disposal groups held for sale are measured at the lower of the carrying value and the fair value less costs to sell. Assets are not depreciated from the time they are reclassified as held for sale.

# 3. WORKING CAPITAL



**2,200**

DKKm
**Net working capital**

**172**

DKKm
**Increase in net working capital due to transfer from assets held for sale**

**440**

DKKm
**Increase in net working capital**

**353**

DKKm
**Inventory increase**

## 3.1 NET WORKING CAPITAL

| DKKm | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Inventories | 2,685 | 2,332 |
| Trade receivables | 4,586 | 4,324 |
| Work in progress, asset | 2,252 | 2,297 |
| Prepayments to subcontractors | 318 | 196 |
| Other receivables | 729 | 722 |
| Derivative financial instruments | 41 | 51 |
| Prepayments from customers | (1,802) | (1,786) |
| Trade payables | (3,322) | (2,916) |
| Work in progress, liability | (1,453) | (1,730) |
| Other liabilities | (1,783) | (1,589) |
| Derivative financial instruments | (51) | (68) |
| **Net working capital** | **2,200** | **1,833** |
| | | |
| Net assets held for sale | 0 | (73) |
| **Net working capital of the Group** | **2,200** | **1,760** |

| DKKm | 2018 | 2017 |
|---|---|---|
| Inventories | (336) | (196) |
| Trade receivables | (172) | (56) |
| Trade payables | 340 | (115) |
| Work in progress | (187) | (387) |
| Prepayments from customers | 27 | 297 |
| Prepayments to subcontractors | (108) | 347 |
| Other receivables and other liabilities | 27 | (3) |
| Foreign exchange gain/(loss) | (93) | (27) |
| **Cash flow effect** | **(502)** | **(140)** |

The main increase in net working capital was caused by an increase in inventory and net work in progress due to higher activity level end of year. The high activity level also resulted in increase in accounts receivables, as a number of projects reached invoicing milestones. The high activity level also resulted in a significant increase in trade payables impacted by the supply chain financing program.

Furthermore, net working capital has increased by DKK 172m from assets and liabilities previously reported as held for sale, refer to note 2.10 Asset and liabilities classified as held for sale.

## 3.2 INVENTORIES

Inventory is specified as follows:

| DKKm | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Raw materials and consumables | 375 | 318 |
| Work in progress | 392 | 323 |
| Finished goods and goods for resale | 1,918 | 1,691 |
| **Inventories** | **2,685** | **2,332** |

Write down of inventories:

| DKKm | 2018 | 2017 |
|---|---|---|
| Write down at 1 January | 286 | 266 |
| Foreign exchange adjustments | 2 | (19) |
| Additions | 75 | 68 |
| Disposal | (26) | (18) |
| Reversals | (14) | (11) |
| **Write down at 31 December** | **323** | **286** |

**KEY ACCOUNTING ESTIMATES**

**Estimated valuation of inventories**

When assessing the net realisable value of inventories we take marketability, obsolescence and development in expected selling prices into account. Also inventory turnover, quantities and the nature and condition of the inventory items are included in the assessment. We include all of these factors as relevant, to ensure that our inventory is reflected at the value to which we expect to realise it to in the future, if lower than cost.

## 3.2 INVENTORIES – continued

### Accounting policy

Inventories are measured at cost based on weighted average cost prices.

In the event that cost of inventories exceeds the expected selling price less cost of completion and selling costs, the inventories are written down to the lower net realisable value. The net realisable value of inventories is measured as the expected sales price less costs of completion and costs to finalise the sale.

Write down assessment of the inventory is performed item by item including:

- Test for slow moving stock
- Test for aging of inventory
- Assessment of expected market (pricing and market potential)
- Assessment of strategic inventory items

Obsolete items are written down to the value of zero. Management considers part of the inventories as strategic. Strategic items are held in inventory, even if slow moving, because they are considered key equipment to the customers, that we need to be able to deliver with very short notice.

Raw materials and consumables include purchase costs of materials and consumables, duties and freight. Work in progress, finished goods and goods for resale include cost of manufacturing including materials consumed and labour costs plus an allowance for production overheads. Production overheads include operating costs, maintenance of production facilities as well as administration and factory management directly related to manufacturing.

## 3.3 TRADE RECEIVABLES

Our trade receivables relate to the sale of both service and capital business.

Trade receivables net of write downs are specified according to ageing as follows:

| DKKm | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Not due for payment | 2,888 | 2,799 |
| Overdue < one month | 586 | 613 |
| Overdue one - two months | 262 | 289 |
| Overdue two - three months | 140 | 145 |
| Overdue > three months | 710 | 478 |
| **Trade receivables** | **4,586** | **4,324** |
| Trade receivables not due for payment with retentions on contractual terms | 402 | 349 |

Write down of trade receivables:

| DKKm | 2018 | 2017 |
|---|---|---|
| Write down at 1 January | 391 | 541 |
| Foreign exchange adjustments | (7) | (35) |
| Additions | 114 | 120 |
| Reversals | (80) | (115) |
| Realised | (50) | (120) |
| Transfer from assets held for sale | 1 | 0 |
| **Write down at 31 December** | **369** | **391** |

The write down on trade receivables as of 31 December 2018:

| DKKm | Expected default rate | Gross carrying amount | Write down |
|---|---|---|---|
| Not due for payment | 1.3% | 2,925 | 37 |
| Overdue < one month | 5.9% | 623 | 37 |
| Overdue one - two months | 11.8% | 297 | 35 |
| Overdue two - three months | 19.1% | 173 | 33 |
| Overdue > three months | 24.2% | 937 | 227 |
| **Total** | | **4,955** | **369** |

The write down in 2018 is based on historical observed default rates adjusted for estimates of uncertainties in project related activities and market conditions.

Previously, provisions for credit loss on trade receivables were calculated in accordance with an incurred loss model. This resulted in credit loss being recognised only once a loss event incurred.

## 3.3 TRADE RECEIVABLES – continued

**KEY ACCOUNTING ESTIMATES**
**Estimated level of expected losses**
When estimating the level of receivables that in the future is expected not to be collected we take the following information into account; historical losses on receivables, ageing of the receivables, access to payment securities and possibilities to off-set assets against claims. When doing the assessment we also evaluate the expected development in macro-economic and political environments that could impact the recoverability.

### Accounting policy

Trade receivables are initially measured at fair value and subsequently measured at amortised cost.

A credit loss allowance is made upon initial recognition based on historical observed default rates adjusted for forward looking estimates. The cost of the credit loss allowances is included in administration costs. A loss is considered realised when it is certain that we will not recover the receivable, e.g. in case of bankruptcy or similar.

The effect from implementing IFRS 9 is described in section 7.6 Impact from new IFRS. The accounting policies applied have changed for 2018. The changes are insignificant and comparative numbers are unchanged.

## 3.4 WORK IN PROGRESS

| DKKm | 2018 | 2017 |
|---|---|---|
| Total costs incurred | **24,690** | **24,787** |
| Profit recognised as income, net | 2,145 | 3,341 |
| **Work in progress** | **26,835** | **28,128** |
| | | |
| Invoicing on account to customers | (26,036) | (27,561) |
| **Net work in progress** | **799** | **567** |
| | | |
| Of which is recognised as work in progress: | | |
| Under assets | 2,252 | 2,297 |
| Under liabilities | (1,453) | (1,730) |
| **Net work in progress** | **799** | **567** |

The work in progress balance can change from being presented as an asset in one period to being presented as a liability in the next period. Net work in progress has increased due to transfer from assets held for sale.

**KEY ACCOUNTING ESTIMATES**
**Estimated total cost to complete**
We estimate the total expected costs for our contracts. The estimates primarily relate to the level of contingencies to cover unforeseen costs, such as cost changes due to changes in future supplies of raw materials, subcontractor products and services as well as unforeseen costs related to execution and hand-over.

The estimates are based on the specifics for each contract while taking historical data into account. For contracts sold to customers in politically and economically unstable countries, the estimates will include additional risk coverage due to a higher level of uncertainty.

**Estimated variable transaction price**
The selling price in operation & maintenance contracts is usually dependent on the productivity of the plant. We estimate the productivity of the plant and the estimates are based on the specific conditions of the individual contract as well as historical levels of productivity.

## 3.4 WORK IN PROGRESS – continued

### Accounting policy

Work in progress consists of contract assets and contract liabilities for contracts with customers where revenue is recognised over time.

The contracts recognised as work in progress are recognised as revenue when the outcome of the contracts can be estimated reliably.

The percentage of completion is calculated based on a cost-to-cost basis (input method) and is the ratio between the cost incurred and the total estimated cost.

The contracts are measured at the selling price of the work performed less progress billings and expected losses.

The selling price is the total expected income from the individual contracts. If variability is included in the selling price we use the most likely amount method.

An expected loss is recognised when it is deemed probable that the total contract costs will exceed the total revenue from individual contracts. The expected loss is recognised immediately as a cost and a provision.

When the selling price of the work performed exceeds progress billings and expected losses, work in progress is presented as an asset.

When progress billings and expected losses exceeds the selling price of the work performed, work in progress is presented as a liability.

Prepayments from customers are recognised as a liability.

## 3.5 OTHER RECEIVABLES

In 2018, other receivables amounted to DKK 825m (2017: DKK 864m), including fair value of derivatives of DKK 41m (2017: DKK 51m) and VAT of DKK 463m (2017: DKK 286m).

## 3.6 TRADE PAYABLES

To improve the relationship with our suppliers and minimise the finance cost in the value chain, we facilitate a supply chain financing programme funded by a credit institute. When participating in this program, the supplier has the option to receive early payment from the credit institution based on the invoices approved by us through a factoring arrangement between the supplier and the credit institution, where the invoices are transferred to the credit institution without recourse.

The amounts payable to suppliers included in the supply chain financing programme are classified as trade payables in the balance sheet. The trade payables covered by the supply chain financing programme arises in the ordinary course of business from supply of goods and services and amounts to DKK 1,028m at 31 December 2018 (2017: DKK 788m).

# 4. TAX



**248**

DKKm
**Tax for the year**

**23.4%**

**Effective tax rate**

**380**

DKKm
**Paid tax**

**1,174**

DKKm
**Deferred tax asset**

# 4.1 INCOME TAX

Tax for the year amounted to DKK -248m (2017: DKK -379m), corresponding to an effective tax rate of 23,4% (2017: 47,6%).

The favourable development in tax assets valued at nil is primarily affected by a revaluation of the USA tax assets based on management estimates.

Uncertain tax positions relate to tax disputes which could materialise based on the most likely outcome of ongoing and future tax audits.

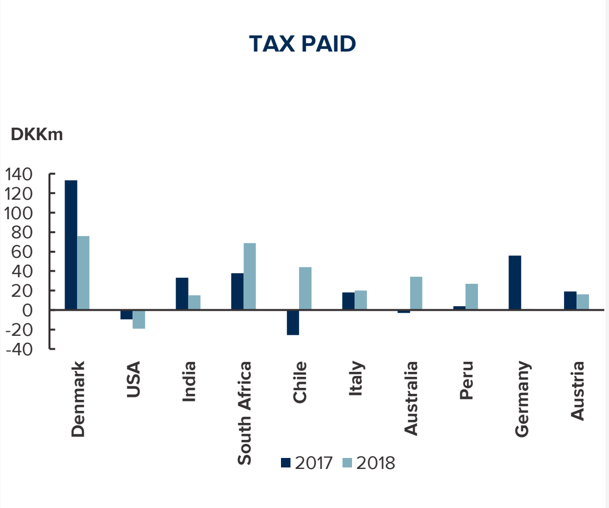
| DKKm | 2018 | 2017 |
|---|---|---|
| Current tax on profit/(loss) for the year | (380) | (313) |
| Withholding tax | (59) | (29) |
| Change in deferred tax | 199 | 90 |
| Change in tax rate on deferred tax | 5 | (101) |
| Adjustments regarding previous years, deferred tax | 22 | 34 |
| Adjustments regarding previous years, current tax | (42) | (34) |
| Uncertain tax positions | 7 | (26) |
| **Tax for the year, continuing activities** | **(248)** | **(379)** |
| | | |
| Earnings before tax on continuing activities | 1,059 | 796 |
| Earnings before tax on discontinued activities | (164) | (361) |
| **Total earnings before tax** | **895** | **435** |

| | 2018 | | 2017 | |
|---|---|---|---|---|
| DKKm | Tax | Effective tax rate | Tax | Effective tax rate |
| Tax according to Danish tax rate | (233) | 22.0% | (175) | 22.0% |
| Differences in the tax rates in foreign subsidiaries relative to 22% | (57) | 5.4% | 5 | -0.6% |
| Non-taxable income and non-deductible costs | (11) | 1.0% | (29) | 3.6% |
| Income utilised against previous years capital loss not recognised | 9 | -0.8% | 50 | -6.3% |
| Differences in tax assets valued at nil | 111 | -10.5% | (74) | 9.3% |
| Differences due to adjustment of tax rate | 5 | -0.5% | (101) | 12.7% |
| Adjustments regarding previous years, deferred tax | 22 | -2.1% | 34 | -4.3% |
| Adjustments regarding previous years, current tax | (42) | 4.0% | (34) | 4.3% |
| Withholding tax | (59) | 5.6% | (29) | 3.6% |
| Uncertain tax positions | 7 | -0.7% | (26) | 3.3% |
| **Total tax for the year and effective tax rate** | **(248)** | **23.4%** | **(379)** | **47.6%** |

# 4.2 PAID TAX

Income tax paid in 2018 amounted to DKK 380m (2017: DKK 329m). Most of these payments are attributable to Group enterprises in the countries shown in the graph below.

Besides income tax, Group activities generate sales taxes, customs duties, personal income taxes paid by the employees, etc.



# 4.3 DEFERRED TAX

| DKKm 2018 | Balance sheet 1 January | Assets held for sale | Currency adjust-ment | Adjust-ment to previous years | Changed tax rate | Included in other compre-hensive income | Included in income statement | Transfer from assets held for sale | Balance sheet 31 December |
|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | (212) | 0 | 0 | 34 | 0 | 0 | 151 | 0 | (27) |
| Property, plant and equipment | 178 | 0 | (1) | (14) | 0 | 0 | (21) | 0 | 142 |
| Current assets | 374 | 0 | (19) | (11) | 0 | 0 | 18 | 721 | 1,083 |
| Liabilities | 234 | 0 | (9) | (1) | 4 | 11 | (32) | (731) | (524) |
| Tax loss carry-forwards, etc. | 420 | 0 | (16) | (14) | 1 | 0 | (28) | 0 | 363 |
| Share of tax assets valued at nil | (271) | 0 | 33 | 28 | 0 | 0 | 111 | (77) | (176) |
| **Net deferred tax assets/(liabilities)** | **723** | **0** | **(12)** | **22** | **5** | **11** | **199** | **(87)** | **861** |

| DKKm 2017 | Balance sheet 1 January | Assets held for sale | Currency adjust-ment | Adjust-ment to previous years | Changed tax rate | Included in other compre-hensive income | Included in income statement | Transfer from assets held for sale | Balance sheet 31 December |
|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | (189) | 0 | 33 | (10) | 19 | 0 | (65) | 0 | (212) |
| Property, plant and equipment | 200 | 0 | 7 | (15) | 19 | 0 | (33) | 0 | 178 |
| Current assets | 319 | 0 | (18) | (35) | (40) | 0 | 148 | 0 | 374 |
| Liabilities | 370 | 0 | (51) | 86 | (62) | (21) | (88) | 0 | 234 |
| Tax loss carry-forwards, etc. | 255 | 0 | (15) | 0 | (81) | 0 | 261 | 0 | 420 |
| Share of tax assets valued at nil | (217) | 0 | 20 | 8 | 44 | 0 | (126) | 0 | (271) |
| **Net deferred tax assets/(liabilities)** | **738** | **0** | **(24)** | **34** | **(101)** | **(21)** | **97** | **0** | **723** |

| DKKm | 2018 | 2017 |
|---|---|---|
| Deferred tax assets | 1,174 | 1,094 |
| Deferred tax liabilities | (313) | (371) |
| | **861** | **723** |

Maturity profile of tax assets fully written down is as follows:

| DKKm | 2018 | 2017 |
|---|---|---|
| Within one year | 54 | 113 |
| Between one and five years | 152 | 50 |
| After five years | 416 | 901 |
| | **622** | **1,064** |
| **Tax value** | **176** | **271** |
| Deferred tax assets fully written down consist of: | | |
| Temporary differences | 19 | 667 |
| Tax losses | 603 | 397 |
| | **622** | **1,064** |

Deferred tax assets valued at nil amounting to DKK 144m (2017: DKK 93m) relate to tax losses and tax assets mainly in discontinued and dormant entities.

Temporary differences regarding investments in Group enterprises are estimated as a tax liability of DKK 300-350m in 2018 (2017: DKK 300-350m). The liability is not recognised because the Group is able to control whether the liability is released and it is considered likely that the liability will not be released in the foreseeable future.

DKK 53m (2017: DKK 40m) of foreign paid withholding taxes in USA is not recognised as a future benefit due to uncertainties relating to the effect of the Base Erosion Anti-Abuse Tax (BEAT) in USA.

# 4.3 DEFERRED TAX - continued

The Group has deferred tax assets that are considered significant, shown in the graph below.

Deferred tax assets in Germany and Angola are not fully recognised as these are not likely to be utilised within the next five years. This is based on the current market situation relative to the size of the deferred tax asset in each of these countries. Forecasted earnings have considered cost savings and the recovery of the market.

**KEY ACCOUNTING ESTIMATES**

**Estimated value of deferred tax assets**

The value of deferred tax assets is recognised to the extent that it is deemed likely that taxable income in the future can utilise the tax losses. For this purpose the income from the coming five years is estimated, based on budgets.

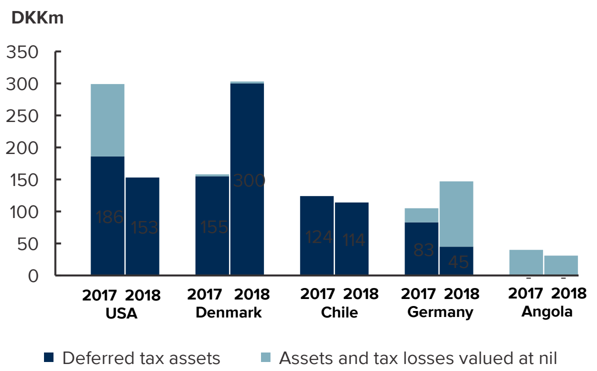
## Our approach to tax and tax risk

Being a responsible taxpayer is important to us, and this means that we will pay the correct amount of taxes at the right time in all countries where we do business. We strive to accomplish this by having a strong focus on compliance with applicable tax laws as well as generally agreed principles of international taxation. We are a global company undertaking complex projects and operating in a variety of developed and developing economies. Inherent risk and uncertainty in regards to compliance requirements and double taxation is common issues faced by our business. We actively work to identify and mitigate tax risk and uncertainties.

Our Group Tax Policy, which has been approved by the Board of Directors of FLSmidth, is available on:

https://www.flsmidth.com/en-gb/company/sustainability/our-commitments

**SIGNIFICANT DEFERRED TAX ASSETS**




## Tax on other comprehensive income

Deferred tax of other comprehensive income DKK 11m (2017: DKK -32m) includes assets held for sale of DKK 0m (2017:DKK -11m).

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **DKKm** | **Deferred tax** | **Current tax** | **Tax income/ cost** | **Deferred tax** | **Current tax** | **Tax income/ cost** |
| Value adjustments of hedging instruments | 2 | 1 | 3 | (19) | 8 | (11) |
| Actuarial gains/losses on defined benefit plans | (3) | 0 | (3) | 4 | 0 | 4 |
| Tax assets valued at nil - actuarial gains/losses | 12 | 0 | 12 | 0 | 0 | 0 |
| Reduced tax rate - actuarial gains/losses | 0 | 0 | 0 | (17) | 0 | (17) |
| **Tax on other comprehensive income** | **11** | **1** | **12** | **(32)** | **8** | **(24)** |

# 4.3 DEFERRED TAX - continued

## Accounting policy

### Income tax

Tax for the year comprises current tax and changes in deferred tax including valuation of deferred tax asset, adjustments to previous years, foreign paid withholding taxes including available credit relief and changes in provisions for uncertain tax positions. Tax is recognised in the Consolidated Income Statement with the share attributable to the profit/loss of the year, and in other comprehensive income with the share attributable to items recognised in other comprehensive income. Exchange rate adjustments of deferred tax are included as part of the year's adjustments to deferred tax.

Current tax comprises of tax calculated on the basis of the expected taxable income for the year, using the applicable tax rates for the financial year.

### Uncertain tax positions

Ongoing and potential future tax disputes are measured at the amount estimated to be required to settle such obligation. The liability is recognised under current tax.

### Tax receivables and tax liabilities

Tax receivables and tax liabilities comprise of tax on expected taxable income less tax paid on account in the year and previous years taxes. Current tax is recognised in the balance sheet as either a receivable or a liability.

### Deferred tax

Deferred tax is calculated using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to initial recognition of goodwill. Deferred tax is calculated based on the applicable tax rates for the individual financial years. The effect of changes in the tax rates are stated in the income statement unless they are items previously entered in the statement of other comprehensive income.

The tax value of losses that are more likely than not to be available for utilisation against future taxable income in the same legal tax unit and jurisdiction is included in the measurement of deferred tax.

If companies in the Group have deferred tax liabilities, they are valued independently of the time when the tax, if any, becomes payable.

A deferred tax liability is recognised to cover re-taxation of losses in foreign enterprises if shares in the enterprises concerned are likely to be sold and to cover expected additional future tax liabilities related to the financial year or previous years. No deferred tax liabilities regarding investments in subsidiaries are recognised if the shares are unlikely to be sold in the short-term.

Deferred tax assets/liabilities and tax receivables/payables are offset if the Group: has a legal right to offset these, intends to settle these on a net basis, or to realise the assets and settle the liabilities simultaneously.

FLSmidth & Co. A/S is jointly taxed with all Danish subsidiaries, FLSmidth & Co. A/S being the administrator of the Danish joint taxation.

All the Danish subsidiaries provide for the Danish tax based on the current rules with full distribution. Recognition of deferred tax assets and tax liabilities is made in the individual Danish enterprises based on the principles described above. The jointly taxed Danish enterprises are included in the Danish tax payable on account scheme.

# 5. FINANCIAL RISKS & CAPITAL STRUCTURE



**1,922**
DKKm
**Net interest bearing debt**

**377**
DKKm
**Net interest bearing debt increase**

**6,450**
DKKm
**Available for cash drawings**

**12.8**
DKK
**Diluted earnings per share**

# 5.1 SHARES AND CAPITAL STRUCTURE

| The year's movements in holding of shares | 2018 Number of shares (1,000) | 2018 Value (DKKm) | 2017 Number of shares (1,000) | 2017 Value (DKKm) |
|---|---|---|---|---|
| Share capital at 1 January | 51,250 | 1,025 | 51,250 | 1,025 |
| **Share capital at 31 December** | **51,250** | **1,025** | **51,250** | **1,025** |

## Shares

Share capital is DKK 1,025m (end of 2017: DKK 1,025m) and the total number of issued shares is 51,250,000 (end of 2017: 51,250,000). Each share entitles the holder to 20 votes and no shares have special rights attached to it.

## Shareholders at the end of 2018

One shareholder has reported a participating interest above 10%:

- Lundbeckfond Invest A/S, Denmark.

One shareholder has reported a participating interest above 5%:

- Novo Holdings A/S, Denmark.

## Capital structure

We take a conservative approach to capital structure, with the emphasis on relatively low debt, gearing and financial risk.

The Board of Directors' priority for capital structure and capital allocation is as follows:

- Well-capitalised (NIBD/EBITDA less than two)
- Stable dividends (30-50% of net profit)
- Invest in organic growth
- Value adding mergers and acquisitions
- Share buyback or special dividend

For further information please refer to Shareholder information section.

## Treasury shares

Our holding of treasury shares at the end of 2018 accounted for 2.7% of the share capital (2017: 3.4%).

The Board of Directors is authorised until the next Annual General Meeting to let the Company acquire treasury shares up to a total nominal value of 10% of the Company's share capital in accordance with Section 12 of the Danish Companies Act.

The treasury shares are used to hedge employees' exercise of share-based incentive programmes.

| The year's movements in holding of treasury shares (1,000): | 2018 | 2017 |
|---|---|---|
| Treasury shares at 1 January | 1,729 | 2,276 |
| Acquisition of treasury shares | 59 | 471 |
| Share options exercised | (404) | (1,018) |
| **Treasury shares at 31 December** | **1,384** | **1,729** |
| | | |
| Outstanding shares 1 January | 49,521 | 48,974 |
| Movement | 345 | 547 |
| **Outstanding shares at 31 December** | **49,866** | **49,521** |

## Accounting policy

Treasury shares are recognised in the balance sheet at zero value. When buying or selling treasury shares, the purchase or selling amount plus any dividend is recognised directly in equity as retained earnings.

# 5.2 EARNINGS PER SHARE

Earnings per share from continuing activities improved to 16.4 in 2018 primarily driven by improved profit for the year. Earnings per share from discontinued activities improved to -3.5 in 2018.

The dilutive effect is less than 0.1% (2017: 0.1%).

As of 31 December 2018 number of share options in-the money amounted to 1,024,553 (2017: 1,533,836).

| DKKm | 2018 | 2017 |
|---|---|---|
| Profit for the year, continuing activities | 811 | 417 |
| Minority interests | 7 | 2 |
| **FLSmidth's share of profit, continuing activities** | **818** | **419** |
| | | |
| Loss for the year, discontinued activities | (176) | (343) |
| **FLSmidth's share of loss, discontinuing activities** | **(176)** | **(343)** |
| | | |
| **FLSmidth's share of profit** | **642** | **76** |

| Number of shares (1,000) | 2018 | 2017 |
|---|---|---|
| Average number of outstanding shares | 49,727 | 49,242 |
| Dilutive effect of share options in the money | 324 | 448 |
| **Average diluted number of outstanding shares** | **50,051** | **49,690** |

| DKK | 2018 | 2017 |
|---|---|---|
| Earnings per share from continuing activities | 16.4 | 8.5 |
| Earnings per share from discontinued activities | (3.5) | (7.0) |
| **Earnings per share from continuing and discontinued activities** | **12.9** | **1.5** |

| DKK | 2018 | 2017 |
|---|---|---|
| Diluted earnings per share from continuing activities | 16.3 | 8.4 |
| Diluted earnings per share from discontinued activities | (3.5) | (6.9) |
| **Diluted earnings per share from continuing and discontinued activities** | **12.8** | **1.5** |

## Accounting policy

Earnings per share is calculated as profit/loss for the year from continuing and discontinued activities attributable to shareholders in FLSmidth & Co. A/S divided by the average number of outstanding shares.

Diluted earnings per share is calculated as profit/loss for the year from continuing and discontinued activities attributable to shareholders in FLSmidth & Co. A/S divided by the average number of outstanding shares, including the dilutive effect of share options in the money.

# 5.3 FINANCIAL RISKS

Due to the international activities and the industry characteristics, risks are an embedded part of doing business. We are exposed to financial risks, that can have a material impact to the financial statements of the Group.

The financial risks are to the extent possible managed centrally for the Group and are governed by the Financial Policy, which is approved by the Board of Directors. The Financial Policy is updated on an annual basis to address any changes in the risk picture.

The main financial risks that we are exposed to include currency, credit, interest, and liquidity risks.

## 5.3 FINANCIAL RISKS - continued

### Interest rate risk

Interest rate risks arise from interest-bearing assets and liabilities. Interest-bearing items consist primarily of cash and cash equivalents, bank and mortgage debt.

According to the Financial Policy, hedging of interest rates is governed by a duration range and is managed by using derivatives such as interest rate swaps. No interest derivatives have been used during 2017 or 2018.

As of 31 December 2018, all of our interest-bearing debt are carrying a floating rate.

All other things being equal, a 1% point increase in the interest rate will increase our interest cost by DKK 19m (2017 DKK 15m).

### Currency risk

The objective of the Financial Policy is to reduce the most significant currency risks to better predict the impact to the income statement as well as the cash flows to be paid or received. The risks are managed through hedging activities by entering into commonly used derivatives such as forward contracts. The currency risks arise primarily from purchase and sale in foreign currencies compared to the functional currency of each of the Group entities.

The Financial 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.

The hedge ineffectiveness is determined based on the hedge ratio as governed by the Financial Policy. Hedge ineffectiveness will usually occur due to changes to the hedged item, e.g. timing changes.

We are, to a large extent, carrying out transactions in EUR and USD as these hard 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.

The project nature of the business changes the foreign currency risk picture towards and against specific currencies from one year to another, depending on the area in which we have activities.

The sensitivity analysis shows the gain/loss on net profit for the year and other comprehensive income of a 5% increase in the specified currencies towards DKK. The analysis includes the transactional impact from monetary items and derivatives. The below analysis is based on the assumption that all other variables, exposures and interest rates in particular, remain constant.

| Transaction impact, DKKm | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Currency | Change | Net profit for the year | Other compre-hensive income | Net profit for the year | Other compre-hensive income |
| USD | 5.0% | 9 | (20) | 26 | (9) |
| CNY | 5.0% | (1) | 11 | 0 | 0 |
| PLN | 5.0% | 4 | 0 | 10 | 0 |
| ZAR | 5.0% | (2) | 0 | 0 | 0 |

The impact on net profit for the year includes financial instruments in foreign currencies that are currency adjusted through the income statement as well as any derivatives used for economic hedging.

The impact on other comprehensive income includes the value adjustment on derivatives designated as hedge accounting.

In addition to the transactional effects, in the event of currency developments, we will also be impacted by translation effects from the Group entities with net assets in functional currencies other than Danish Kroner and Euro. A 5% increase in the specified currencies towards Danish Kroner will have the following effect on other comprehensive income:

| Translation impact, DKKm | Change | 2018 | 2017 |
|---|---|---|---|
| USD | 5.0% | 52 | 59 |
| INR | 5.0% | 45 | 45 |
| AUD | 5.0% | 69 | 70 |
| ZAR | 5.0% | 16 | 13 |

### Credit risk

We are exposed to credit risks arising from primarily cash and cash equivalents, derivatives and receivables.

The Financial 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's 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 quality can be lower than what we typically see in developed countries.

For commercial risks the credit risks are governed by the Credit Risk Policy. For receivables credit risk is managed

## 5.3 FINANCIAL RISKS - continued

by continuous risk assessments and credit evaluations of customers and trading partners; having country specific risk factors in mind. To the extent possible, the credit risks are mitigated through use of payment securities, such as letters of credit and guarantees issued by first class rated banks, or by securing positive cash flow throughout the project execution. At the end of 2018, 21% of our work in progress asset and 7% of our trade receivables balance were covered by payment securities.

Our customers and trading partners mainly consist of companies within the Mining and Cement Industry. Credit risk is among other things dependent on the development in these industries. For the expected credit loss refer to note 3.3 Trade receivables.

At 31 December 2018 total credit risk was measured as DKK 8,541m (2017: DKK 8,902m).

We consider the maximum credit risk to financial counterparties to be DKK 877m (2017: DKK 1,389m). All financial assets, excluding other securities and investments, are expected to be settled during 2019.

### Liquidity risk

The objective of the Financial Policy is to ensure that we always have sufficient and flexible financial resources at our disposal to ensure continuous operations and to honor liabilities when they become due.

The financial resources are continuously monitored and consist of cash and cash equivalents and undrawn committed facilities.

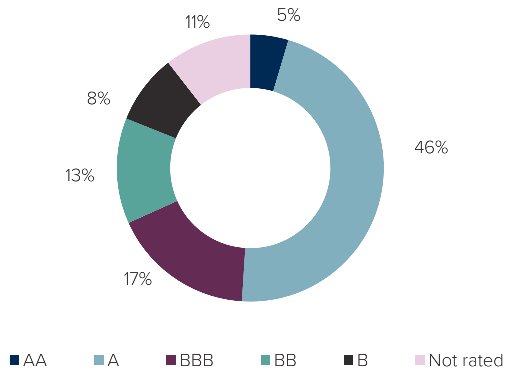
At the end of 2018, committed facilities totalled DKK 6,450m (2017: 7.550m), available for cash drawings. The committed facilities will mature in 2019-2022. Short-term liquidity risks are managed through cash pools in various currencies, and by having short-term overdraft facilities in place with several financial institutions, mainly on a committed basis, but also through uncommitted facilities.

According to the Financial Policy the available financial resources must not be lower than DKK 2bn at any point. The liquidity position is monitored on a daily basis. As of 31 December 2018 the financial resources are well above the threshold.

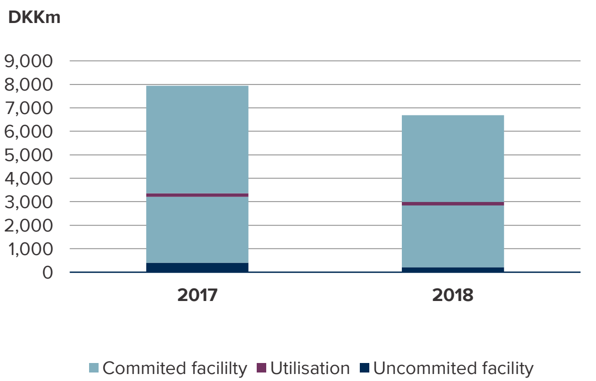
The committed facilities contain standard clauses such as pari passu, negative pledge, change of control and a leverage financial covenant. We did not default or fail to fulfil any of our financial covenants, neither in 2017 nor in 2018.

Having activities in various emerging markets implies additional risks due to specific restrictions and requirements. Mitigating actions are therefore considered on a case-by-case basis. It requires thorough dedicated efforts to reduce related risks to an acceptable level.

**CREDIT RISK PER BANK RATING 2018**




**FINANCIAL RESOURCES**




**RESTRICTED CASH**

## 5.4 FINANCIAL INCOME AND COSTS

| DKKm | 2018 | 2017 |
|---|---|---|
| Interest income | 38 | 36 |
| Fair value adjustment of derivatives | 299 | 431 |
| Foreign exchange gains | 583 | 873 |
| Fair value adjustment of shares | 10 | 5 |
| **Total financial income** | **930** | **1,345** |
| | | |
| Interest cost | (103) | (81) |
| Fair value adjustment of derivative | (299) | (390) |
| Foreign exchange losses | (678) | (1,111) |
| Fair value adjustment of shares | (11) | (74) |
| **Total financial costs** | **(1,091)** | **(1,656)** |
| | | |
| **Net financial costs** | **(161)** | **(311)** |

Foreign exchange adjustments, net of hedging effect, amounted to DKK -95m in 2018 (2017: DKK -197m), primarily related to the cost of hedging the loan portfolio to the functional currency of the borrowing entity (forward points) and exposures in non-hedgeable emerging market currencies, as well as timing differences between cash flows and hedges.

The net interest cost totalled DKK 65m in 2018 (2017: DKK 45m) related to loans and deposits.

DKK -1m (2017: DKK -69m) was related to fair value adjustments of financial assets (shares in listed cement companies).

| DKKm | 2018 | 2017 |
|---|---|---|
| Interest received | 38 | 38 |
| Interest paid | (75) | (83) |
| **Cash flow effect** | **(37)** | **(45)** |

### Accounting policy

Financial income and costs comprise interest income and costs, realised and unrealised exchange gains and losses, and fair value adjustments of shares and derivatives where hedge accounting is not applied.

## 5.5 DERIVATIVES

### Economic hedge

Fair value adjustments recognised in financial items in the income statement amounted to DKK -13m in 2018 (2017: DKK 41m). At 31 December 2018 the fair value of our hedge agreements that are not recognised as hedge accounting amounted to DKK 9m (2017: DKK -23m).

### Cash flow hedge

We use forward exchange contracts to hedge currency risks regarding expected future cash flows that meet the criteria for cash flow hedging.

The fair value reserve of the derivatives is recognised in other comprehensive income until the hedged items are included in work in progress. The fair value of derivatives is recognised in other receivables and other liabilities.

Changes in the cash flow hedging reserve:

| DKKm | 2018 | 2017 |
|---|---|---|
| Change in cash flow hedge reserve | (9) | 78 |
| Reclassified from other comprehensive income to work in progress | (14) | 1 |

At 31 December 2018, the fair value of our cash flow hedge instruments amounted to DKK -16m (2017: DKK 8m).

### Accounting policy

Derivatives are initially recognised in the balance sheet at fair value and subsequently measured at fair value. Fair value of derivatives is included in other receivables or other liabilities respectively.

Fair value changes of derivatives used for cash flow hedging are recognised in other comprehensive income.

Any ineffective portions of the cash flow hedges are recognised as a financial item. Upon settlement of the cash flow hedges, the fair value is transferred from other comprehensive income into the line item of the hedged item.

Any changes in the fair value of derivatives not used for hedge accounting are recognised in the income statement as financial items.

Certain contracts contain conditions that correspond to derivatives. In case the embedded derivatives deviate significantly from the overall contract, they are recognised and measured as separate instruments at fair value. That is unless the contract concerned as a whole is recognised and measured at fair value.

## 5.6 FAIR VALUE MEASUREMENT

Financial instruments measured at fair value are measured on a recurring basis and categorised into the following levels of the fair value hierarchy:

- Level 1: Observable market prices for identical instruments
- Level 2**:** Valuation techniques primarily based on observable prices or traded prices for comparable instruments
- Level 3: Valuation techniques primarily based on unobservable prices

Securities and investments measured at fair value through profit/loss are either measured at quoted prices in an active market for the same type of instrument (level 1) or at fair value based on available data (level 3).

Hedging instruments are not traded on an active market based on quoted prices. Measured instead using a valuation technique, where all significant inputs are based on observable market data; such as exchange rates, interest rates, credit risk and volatilities (level 2).

There has been no transfers between the levels in 2018 or 2017.

| | | | | 2018 | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| **DKKm** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Securities and investments | 9 | | 33 | 42 | 44 | | 35 | 79 |
| Hedging instruments asset | | 41 | | 41 | | 51 | | 51 |
| Hedging instruments liability | | (51) | | (51) | | (68) | | (68) |
| | **9** | **(10)** | **33** | **32** | **44** | **(17)** | **35** | **62** |

## 5.7 FINANCIAL ASSETS AND LIABILITIES

All financial assets and liabilities, except for hedging instruments, securities and investments, are measured at cost and amortised cost. The carrying amount for these is an approximation of fair value.

The financial assets are classified based on the contractual cash flow characteristics of the financial asset as well as our intention with the financial asset according to our business model.

If cash flows from a financial asset are solely payments of principal and interests the classification is either:

- Amortised cost, for financial assets, where the objective is to hold the financial asset to collect the contractual cash flows
- Fair value through profit/loss, for other financial assets

Hedging instruments designated as hedge accounting are classified separately and are measured at fair value through other comprehensive income.

Changes in net interest bearing debt has the following cash flow effect. The impact from currency rates does not have any cash flow effect.

| DKKm | 2018 | 2017 |
|---|---|---|
| Bank loans, gross | (153) | (736) |
| Other liabilities | 43 | (167) |
| Foreign exchange adjustments | (140) | 139 |
| **Cash flow effect** | **(250)** | **(764)** |

## 5.7 FINANCIAL ASSETS AND LIABILITIES - continued

**2018**

| DKKm | Effective interest rate | Maturity of cash flows | | | Total cash flows | Fair value | Carrying amount |
|---|---|---|---|---|---|---|---|
| | | < 1 year | 1-5 years | > 5 year | | | |
| **Hedging instruments (hedge accounting)** | | **21** | **1** | **0** | **22** | **22** | **22** |
| Hedging instruments (economic hedging) | | 19 | 0 | 0 | 19 | 19 | 19 |
| Securities and investments | | 0 | 0 | 42 | 42 | 42 | 42 |
| **Fair value through profit and loss** | | **19** | **0** | **42** | **61** | **61** | **61** |
| Trade receivables | | 4,586 | 0 | 0 | 4,586 | 4,586 | 4,586 |
| Work in progress | | 2,252 | 0 | 0 | 2,252 | 2,252 | 2,252 |
| Other receivables | | 785 | 0 | 0 | 785 | 785 | 785 |
| Cash and cash equivalents | | 875 | 0 | 0 | 875 | 875 | 875 |
| **Amortised costs** | | **8,498** | **0** | **0** | **8,498** | **8,498** | **8,498** |
| **Total financial assets** | | **8,538** | **1** | **42** | **8,581** | **8,581** | **8,581** |
| **Total interest-bearing assets** | | **880** | **0** | **0** | **880** | **880** | **880** |
| **Hedging instruments (hedge accounting)** | | **(33)** | **(3)** | **0** | **(36)** | **(36)** | **(36)** |
| Hedging instruments (economic hedging) | | (15) | 0 | 0 | (15) | (15) | (15) |
| **Fair value through profit and loss** | | **(15)** | **0** | **0** | **(15)** | **(15)** | **(15)** |
| Mortgage debt | 0.70% | (16) | (66) | (221) | (303) | (290) | (288) |
| Bank debt | 0.63% | (160) | (2,359) | 0 | (2,519) | (2,519) | (2,514) |
| Trade payables | | (3,222) | 0 | 0 | (3,222) | (3,222) | (3,222) |
| Other liabilities | | (1,924) | 0 | 0 | (1,924) | (1,924) | (1,924) |
| **Amortised cost** | | **(5,322)** | **(2,425)** | **(221)** | **(7,968)** | **(7,955)** | **(7,948)** |
| **Total financial liabilities** | | **(5,370)** | **(2,428)** | **(221)** | **(8,019)** | **(8,006)** | **(7,999)** |
| **Total interest-bearing debt** | | **(176)** | **(2,425)** | **(221)** | **(2,822)** | **(2,809)** | **(2,802)** |
| **Net interest-bearing debt** | | **704** | **(2,425)** | **(221)** | **(1,942)** | **(1,929)** | **(1,922)** |

**2017**

| DKKm | Effective interest rate | Maturity of cash flows | | | Total cash flows | Fair value | Carrying amount |
|---|---|---|---|---|---|---|---|
| | | < 1 year | 1-5 years | > 5 year | | | |
| **Hedging instruments (hedge accounting)** | | **7** | **0** | **0** | **7** | **7** | **7** |
| Hedging instruments (economic hedging) | | 44 | 0 | 0 | 44 | 44 | 44 |
| Securities and investments | | 0 | 0 | 79 | 79 | 79 | 79 |
| **Fair value through profit and loss** | | **44** | **0** | **79** | **123** | **123** | **123** |
| Trade receivables | | 4,324 | 0 | 0 | 4,324 | 4,324 | 4,324 |
| Work in progress | | 2,297 | 0 | 0 | 2,297 | 2,297 | 2,297 |
| Other receivables | | 813 | 0 | 0 | 813 | 813 | 813 |
| Cash and cash equivalents | | 1,382 | 0 | 0 | 1,382 | 1,382 | 1,382 |
| **Amortised costs** | | **8,816** | **0** | **0** | **8,816** | **8,816** | **8,816** |
| **Total financial assets** | | **8,867** | **0** | **79** | **8,946** | **8,946** | **8,946** |
| **Total interest-bearing assets** | | **1,470** | **0** | **0** | **1,470** | **1,470** | **1,470** |
| **Hedging instruments (hedge accounting)** | | **(4)** | **0** | **0** | **(4)** | **(4)** | **(4)** |
| Hedging instruments (economic hedging) | | (44) | (20) | 0 | (64) | (64) | (64) |
| **Fair value through profit and loss** | | **(44)** | **(20)** | **0** | **(64)** | **(64)** | **(64)** |
| Mortgage debt | 0.70% | (17) | (66) | (243) | (326) | (304) | (306) |
| Bank debt | 1.43% | (1,225) | (1,510) | 0 | (2,735) | (2,735) | (2,644) |
| Trade payables | | (2,916) | 0 | 0 | (2,916) | (2,916) | (2,916) |
| Other liabilities | | (1,623) | 0 | 0 | (1,623) | (1,623) | (1,623) |
| **Amortised cost** | | **(5,781)** | **(1,576)** | **(243)** | **(7,600)** | **(7,578)** | **(7,489)** |
| **Total financial liabilities** | | **(5,829)** | **(1,596)** | **(243)** | **(7,668)** | **(7,646)** | **(7,557)** |
| **Total interest-bearing debt** | | **(1,307)** | **(1,576)** | **(243)** | **(3,126)** | **(3,104)** | **(3,015)** |
| **Net interest-bearing debt** | | **163** | **(1,576)** | **(243)** | **(1,656)** | **(1,634)** | **(1,545)** |

# 6. OTHER NOTES



**New cement plant contract EUR 100m**

**460,666**

**Number of share options exercised in 2018**

**122,665**

**Performance shares awarded in 2018**

**116**

**Number of Group companies**

# 6.1 MANAGEMENT REMUNERATION

The members of the FLSmidth & Co. A/S Board of Directors and Executive Management (registered with Erhvervsstyrelsen/The Danish Business Authority) have received the following remuneration for the years 2016-2018 and have the following shareholdings at year end.

Management remuneration is an integrated part of the Remuneration Report 2018. Additional information can be found in the Corporate Governance section.

| BOARD OF DIRECTORS | 2018 | | | | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DKK1,000 | Board of directors | Board com-mittees | Total | Number of shares | Board of directors | Board com-mittees | Total | Number of shares | Board of directors | Board com-mittees | Total | Number of shares |
| Vagn Ove Sørensen (Chairman) | 1,350 | 0 | 1,350 | 9,501 | 1,350 | 0 | 1,350 | 7,501 | 1,200 | 0 | 1,200 | 7,501 |
| Tom Knutzen | 900 | 0 | 900 | 12,500 | 788 | 56 | 844 | 12,500 | 400 | 200 | 600 | 12,500 |
| Torkil Bentzen | - | - | - | - | 225 | 0 | 225 | - | 800 | 0 | 800 | 5,000 |
| Caroline Grégoire Sainte Marie | 450 | 250 | 700 | 500 | 450 | 250 | 700 | 500 | 400 | 175 | 575 | 500 |
| Martin Ivert | - | - | - | - | - | - | - | - | 100 | 25 | 125 | - |
| Sten Jakobson | - | - | - | - | 113 | 31 | 144 | - | 400 | 100 | 500 | 2,000 |
| Marius Jacques Kloppers | 450 | 375 | 825 | - | 450 | 250 | 700 | - | 300 | 150 | 450 | - |
| Richard Robinson Smith | 450 | 225 | 675 | 1,000 | 450 | 200 | 650 | 1,000 | 300 | 75 | 375 | 1,000 |
| Anne Louise Eberhard | 450 | 125 | 575 | 1,000 | 338 | 94 | 432 | - | - | - | - | - |
| Jens Peter Koch (employee-elected) | - | - | - | - | 113 | 31 | 144 | - | 400 | 75 | 475 | 240 |
| Mette Dobel (employee-elected) | 450 | 0 | 450 | 864 | 450 | 0 | 450 | 864 | 400 | 0 | 400 | 864 |
| Søren Qvistgaard Larsen (employee-elected) | 450 | 125 | 575 | 65 | 450 | 94 | 544 | 65 | 400 | 0 | 400 | 65 |
| Claus Østergaard (employee-elected) | 450 | 0 | 450 | 429 | 338 | 75 | 413 | 179 | - | - | - | - |
| **Total** | **5,400** | **1,100** | **6,500** | **25,859** | **5,515** | **1,081** | **6,596** | **22,609** | **5,100** | **800** | **5,900** | **29,670** |

| EXECUTIVE MANAGEMENT | 2018 | | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| DKK1,000 | Thomas Schulz | Lars Vester-gaard | Total | Thomas Schulz | Lars Vester-gaard | Total | Thomas Schulz | Lars Vester-gaard | Total |
| Base salary (including pension) | 8,526 | 4,500 | 13,026 | 7,403 | 4,081 | 11,484 | 6,650 | 3,744 | 10,394 |
| Cash bonus | 3,498 | 1,554 | 5,052 | 3,191 | 1,774 | 4,965 | 848 | 427 | 1,275 |
| Expensed share-based payments | 3,225 | 1,567 | 4,792 | 2,302 | 1,106 | 3,408 | 1,935 | 746 | 2,681 |
| Benefits /car | 560 | 192 | 752 | 615 | 198 | 813 | 616 | 198 | 814 |
| **Total** | **15,809** | **7,813** | **23,622** | **13,511** | **7,159** | **20,670** | **10,049** | **5,115** | **15,164** |
| **Number of shares** | **6,510** | **2,393** | **8,903** | **4,510** | **1,698** | **6,208** | **4,510** | **1,341** | **5,851** |

# 6.2 SHARE-BASED PAYMENT

| Specification of outstanding number of share options | Group Executive Management | Key employees | Total number |
|---|---|---|---|
| Outstanding options 1 January 2017 | 280,498 | 2,303,218 | 2,583,716 |
| Exercised 2011 plan | (10,286) | (246,499) | (256,785) |
| Exercised 2012 plan | (8,788) | (214,829) | (223,617) |
| Exercised 2013 plan | (33,601) | (274,770) | (308,371) |
| Exercised 2014 plan | (18,455) | (214,453) | (232,908) |
| Lapsed | 0 | (27,011) | (27,011) |
| **Outstanding options 31 December 2017** | **209,368** | **1,325,656** | **1,535,024** |
| Change between positions | (51,389) | 51,389 | 0 |
| Exercised 2012 plan | (9,699) | (130,195) | (139,894) |
| Exercised 2013 plan | (8,998) | (43,395) | (52,393) |
| Exercised 2014 plan | (39,968) | (212,461) | (252,429) |
| Exercised 2015 plan | 0 | (15,950) | (15,950) |
| Lapsed | 0 | (49,805) | (49,805) |
| **Outstanding options 31 December 2018** | **99,314** | **925,239** | **1,024,553** |
| | | | |
| Number of options that are exercisable at 31 December 2017 | 91,716 | 836,527 | 928,243 |
| Number of options that are exercisable at 31 December 2018 | 99,314 | 925,239 | 1,024,553 |

| Total fair value of outstanding options DKKm | | | |
|---|---|---|---|
| At 31 December 2017 | 20 | 130 | 150 |
| At 31 December 2018 | 5 | 51 | 56 |

| DKK | 2018 | 2017 |
|---|---|---|
| Average weighted fair value per option | 54.68 | 97.53 |
| Average weighted strike price per option | 259.73 | 271.70 |
| Average price per share at the time of exercising the option | 287.92 | 294.96 |

## Accounting policy

We have established two different share-based incentive schemes; a share option programme and a performance share programme. Both of the share-incentive schemes are classified as equity based, as the schemes settle in shares.

The value of the services received in exchange for the granting of options and performance share units is measured as the fair value of the option and performance share unit, respectively.

The share options and performance share units (PSUs) are measured at fair value at granting and are recognised in staff cost in the income statement and in equity over the vesting period.

On initial recognition of the share options/PSUs, the number of options/PSUs expected to vest is estimated. Subsequently, the estimate is revised so that the total cost recognised is based on the actual number of options/PSUs vested.

The fair value of the share options is estimated using an option pricing model (Black-Scholes). In determining the fair value, the terms and conditions related to the share options granted are taken into account. The fair value of the PSUs is determined based on the quoted share price.

# 6.2 SHARE-BASED PAYMENT –
continued

| Year of allocation | Strike price | Exercise period | Allocated | Lapsed | Exercised | Out-standing |
|---|---|---|---|---|---|---|
| 2011 | 239.00 | 2016-2017 | 340,390 | (32,894) | (307,496) | 0 |
| 2011 | 316.00 | 2016-2017 | 80,050 | (20,813) | (59,237) | 0 |
| 2012 | 332.00<br>326.00<br>320.00 | 2016-2017<br>2017-2018<br>2018-2019 | 311,732 | (37,065) | (274,667) | 0 |
| 2012 | 287.00<br>281.00<br>275.00 | 2016-2017<br>2017-2018<br>2018-2019 | 114,562 | (23,380) | (91,182) | 0 |
| 2013 | 298.00<br>292.00<br>286.00 | 2016-2017<br>2017-2018<br>2018-2019 | 440,448 | (31,674) | (283,764) | 125,010 |
| 2013 | 264.00<br>258.00<br>252.00 | 2016-2017<br>2017-2018<br>2018-2019 | 135,000 | (21,000) | (77,000) | 37,000 |
| 2014 | 306.20<br>300.20<br>294.20 | 2017-2018<br>2018-2019<br>2019-2020 | 593,785 | (47,017) | (330,507) | 216,261 |
| 2014 | 259.00<br>253.00<br>247.00 | 2017-2018<br>2018-2019<br>2019-2020 | 266,950 | (37,373) | (149,491) | 80,086 |
| 2015 | 263.00<br>257.00<br>251.00 | 2018-2019<br>2019-2020<br>2020-2021 | 621,941 | (39,795) | (15,950) | 566,196 |

## Share options

Executive Management and a number of key employees in the Group have been granted options to purchase 1,024,553 shares in the company at a set price (strike price).

The fair value options allocated is estimated by means of the Black Scholes model. The calculation takes into account the terms and conditions under which the share options are allocated.

In 2018, the recognised fair value of share options in the consolidated income statement amounts to DKK 10m (2017: DKK 21m). The calculation of average weighted fair value and strike prices per option is based on a dividend of DKK 8 (2017: DKK 6) in the exercise period.

The calculated fair values in connection with allocation are based on the Black & Scholes model for valuation of options. Year of allocation, strike price and exercise period for the individual allocations are shown in the table.

# 6.2 SHARE-BASED PAYMENT – continued

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Conditional grant | March-18 | March-17 |
| Performance year | Jan 2018 - Dec 2020 | Jan 2017 - Dec 2019 |
| Vesting period | Mar 2018 - Feb 2021 | Mar 2017 - Feb 2020 |
| Vesting conditions, other than service conditions | EBITA, NWC | EBITA, NWC |

| DKK/DKK(1,000) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Market price per share | 385.70 | 354.12 |
| Total fair value of awarded performance shares at measurement date | 156,053 | 103,204 |

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Specification of performance shares** | **Group Executive Manage-ment** | **Key em-ployees** | **Total number** | **Group Executive Manage-ment** | **Key em-ployees** | **Total number** |
| Outstanding options 1 January | 61,539 | 229,899 | 291,438 | 33,541 | 145,133 | 178,674 |
| Awards | 22,237 | 100,428 | 122,665 | 27,998 | 98,157 | 126,155 |
| Cancelled | 0 | (9,506) | (9,506) | 0 | (13,391) | (13,391) |
| Change between positions | (12,606) | 12,606 | 0 | 0 | 0 | 0 |
| **Outstanding performance shares 31 December** | **71,170** | **333,427** | **404,597** | **61,539** | **229,899** | **291,438** |

## Performance-shares

In March 2016, the share-based programmes were revised. The share options programme was replaced by a long term incentive programme.

The long term incentive programme is based on a three year performance period and performance measurement based on key financial performance indicators as EBITA and net working capital as well as continued employment. The purpose of introducing the performance share programme is to ensure common goals for Group Executive Management, key employees and shareholders.

Fair value is based on the market price. Market price is not adjusted for dividend as participants of the programme will be compensated for any dividend pay-outs in the performance period.

For the 2018 plan, 22,237 shares (2017: 27,998 shares) pertain to Executive Management at the grant date.

In 2018, the recognised fair value of performance shares in the consolidated income statement amounted to DKK 35m (2017: DKK 21m).

## 6.3 RELATED PARTY TRANSACTIONS

Related parties with significant influence consist of the Group's Board of Directors and Group Executive Management as well as close relatives of these persons. Related parties also include companies on which these persons exert considerable influence.

Transactions between the consolidated Group enterprises are eliminated in the consolidated financial statements. In 2018 and 2017 there were no transactions between related parties that are not part of the Group apart from the below mentioned.

The remuneration includes Group Executive Management members, of which two are registered with Erhvervsstyrelsen (The Danish Business Authority). For further details, please refer to note 6.1 of the consolidated financial statement.

The members of the Group Executive Management have 18 months' notice in the event of dismissal and shall receive up to six months' salary on the actual termination of their employment.

Each member of the Group Executive Management may receive a yearly bonus which may not exceed 75% of the relevant member´s Gross Salary, including pension, for the year in question.

| DKKm | 2018 | 2017 |
|---|---|---|
| Board of Directors fees | 7 | 7 |
| **Total remuneration of Board of Directors** | **7** | **7** |

| DKKm | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 25 | 27 |
| Bonus | 12 | 13 |
| Termination benefit | 0 | 16 |
| Share-based payment | 9 | 8 |
| **Total remuneration of Group Executive Management** | **46** | **64** |

## 6.4 AUDIT FEE

| DKKm | 2018 | 2017 |
|---|---|---|
| Statutory audit | 14 | 13 |
| Other assurance engagement | 0 | 0 |
| **Total audit related services** | **14** | **13** |
| | | |
| Tax and indirect taxes consultancy | 1 | 1 |
| Other services | 0 | 3 |
| **Total non-audit services** | **1** | **4** |
| | | |
| **Total fees to independent auditor** | **15** | **17** |

In addition to statutory audit, Ernst & Young Godkendt Revisionspartnerselskab, the Group auditors appointed at the Annual General Meeting, provides other assurance engagements and other consultancy services to the Group.

All non-audit services have been approved by the Audit Committee.

## 6.5 EVENTS AFTER THE BALANCE SHEET DATE

As announced 9 January 2019, we have reached an agreement to sell the non-mining bulk material handling business to Rainbow Heavy Machineries. The transaction has been structured as a sale of certain assets and include transfer of employees, brand, IPR (Intellectual Property Rights) and order pipeline. The sale transaction is subject to various conditions and is expected to be closed early 2019.

On 24 January 2019, we signed a contract for a greenfield cement plant with Abay Industrial Development Share Company. The contract is valued at around EUR 100m. Until all conditions have been met and the contract becomes effective, it will not be recognised as order intake. A separate company announcement will be issued when the contract becomes effective.

We are not aware of any other subsequent matters, that could be of material importance to the Group's financial position.

# 6.6 LIST OF GROUP COMPANIES

| Company name | Country | Direct holding (pct.) |
|---|---|---|
| **FLSmidth & Co. A/S** | Denmark | 100 |
| DEF 1994 A/S | Denmark | 100 |
| FLS Real Estate A/S | Denmark | 100 |
| FLSmidth (Beijing) Ltd. | China | 100 |
| FLSmidth Finans A/S | Denmark | 100 |
| FLSmidth Dorr-Oliver Eimco Venezuela S.R.L. | Venezuela | 100 |
| FLSmidth S.A.C. | Peru | 100 |
| SLF Romer XV ApS | Denmark | 100 |
| SLF Romer GmbH | Germany | 100 |
| Gemena Sp. Z.o.o. | Poland | 100 |
| Matr. Nr. 2055 A/S | Denmark | 100 |
| **FLSmidth Operation & Maintenance A/S** | Denmark | 100 |
| FLSmidth Global Field Services ApS | Denmark | 100 |
| NLSupervision Company Angola, LDA. | Angola | 100 |
| NL Supervision Company Nigeria LLC | Nigeria | 100 |
| NL Supervision Company Tunisia | Tunisia | 100 |
| **FLSmidth A/S** | Denmark | 100 |
| FLS Maroc | Morocco | 100 |
| FLSmidth A/S (Jordan) Ltd. | Jordan | 100 |
| FLSmidth AB | Sweden | 100 |
| FLSmidth Argentina S.A. | Argentina | 100 |
| FLSmidth Caucasus Limited Liability Company (LLC) | Armenia | 100 |
| FLSmidth Co. Ltd. | Vietnam | 100 |
| FLSmidth S.A. | Spain | 100 |
| FLSmidth SAS | Colombia | 100 |
| FLSmidth (Private) Ltd. | Pakistan | 100 |
| FLSmidth Milano S.R.L. | Italy | 100 |
| FLSmidth (UK) Limited | United Kingdom | 100 |
| FLSmidth (Jersey) Limited | Jersey | 100 |
| FLSmidth Philippines, Inc. | Philippines | 100 |
| FLSmidth Iranian (PJSCo) (under liquidation) | Iran | 100 |

| Company name | Country | Direct holding (pct.) |
|---|---|---|
| FLSmidth Limited | Ghana | 100 |
| FLSmidth Ltd. | United Kingdom | 100 |
| FLSmidth Ltda. | Brazil | 100 |
| FLSmidth MAAG Gear AG | Switzerland | 100 |
| FLSmidth MAAG Gear Sp. z o.o. | Poland | 100 |
| Reset Holding AG | Switzerland | 100 |
| Teutrine GmbH | Switzerland | 100 |
| FLSmidth Nepal Private Limited | Nepal | 100 |
| FLSmidth Panama Inc. | Panama | 100 |
| FLSmidth Kenya Limited | Kenya | 100 |
| FLSmidth GmbH | Austria | 100 |
| FLSmidth Mongolia | Mongolia | 100 |
| FLSmidth Qingdao Ltd. | China | 100 |
| FLSmidth Rusland Holding A/S | Denmark | 100 |
| FLSmidth Rus OOO | Russia | 100 |
| FLSmidth Sales and Services Limited | Nigeria | 100 |
| FLSmidth Mekanik Sistemler Satis Bakim Ltd. Sti | Turkey | 100 |
| FLSmidth S.A. | Ecuador | 100 |
| FLSmidth SAS | France | 100 |
| FLSmidth Shanghai Ltd. | China | 100 |
| FLSmidth Spol. s.r.o. | Czech Republic | 100 |
| FLSmidth (Thailand) Co. Ltd. | Thailand | 100 |
| FLSmidth Ventomatic SpA | Italy | 100 |
| FLSmidth MAAG Gear S.p.A | Italy | 100 |
| FLSmidth Zambia Ltd. | Zambia | 100 |
| NHI-Fuller (Shenyang) Mining Co. Ltd. | China | 50 |
| Pfister Holding GmbH | Germany | 100 |
| PT FLSmidth Indonesia | Indonesia | 100 |
| P.T. FLSmidth Construction Indonesia | Indonesia | 67 |
| Saudi FLSmidth Co. | Kingdom of Saudi Arabia | 100 |
| The Pennies and Pounds Holding, Inc.* | Philippines | 33 |
| FLSmidth LLP | Kazakhstan | 100 |

| Company name | Country | Direct holding (pct.) |
|---|---|---|
| **FLSmidth Tyskland A/S** | Denmark | 100 |
| FLS Germany Holding GmbH | Germany | 100 |
| FLSmidth Real Estate GmbH | Germany | 100 |
| FLSmidth Pfister GmbH | Germany | 100 |
| FLSmidth Hamburg GmbH | Germany | 100 |
| FLSmidth Wiesbaden GmbH | Germany | 100 |
| FLSmidth Wadgassen GmbH | Germany | 100 |
| FLSmidth Wadgassen Ltd. | Russia | 100 |
| FLSmidth Wuppertal GmbH | Germany | 100 |
| Fuller Offshore Finance Corp. B.V. | Netherlands | 100 |
| FLSmidth Kovako B.V. | Netherlands | 100 |
| **FLSmidth Minerals Holding ApS** | Denmark | 100 |
| FLSmidth Ltd. | Canada | 100 |
| FLSmidth Pty. Ltd. | Australia | 100 |
| DMI Holdings Pty. Ltd. | Australia | 100 |
| DMI Australia Pty. Ltd. | Australia | 100 |
| ESSA Australia Limited | Australia | 100 |
| Fleet Rebuild Pty. Ltd. | Australia | 100 |
| Mayer Bulk Group Pty. Ltd. | Australia | 100 |
| FLSmidth Mayer Pty. Ltd. | Australia | 100 |
| Mayer International Machines South Africa Pty. Ltd. | South Africa | 100 |
| FLSmidth ABON Pty. Ltd. | Australia | 100 |
| FLSmidth Krebs Australia Pty. Ltd. | Australia | 100 |
| FLSmidth M.I.E. Enterprises Pty. Ltd. | Australia | 100 |
| Ludowici Pty. Limited | Australia | 100 |
| Ludowici Australia Pty. Ltd. | Australia | 100 |
| Ludowici China Pty Limited | Australia | 100 |
| Ludowici Hong Kong Limited | Hong Kong | 100 |
| Yantai Ludowici Mineral Processing Equipment Limited | China | 100 |
| Rojan Advanced Ceramics Pty. Ltd. | Australia | 100 |
| Ludowici Hong Kong Investments Ltd. | Hong Kong | 100 |

# 6.6 LIST OF GROUP COMPANIES - continued

| Company name | Country | Direct holding (pct.) |
|---|---|---|
| Ludowici Packaging Australia Pty. Ltd. | Australia | 100 |
| Ludowici Packaging Limited | New Zealand | 100 |
| FLSmidth S.A. | Chile | 100 |
| FLSmidth S.A. de C.V. | Mexico | 100 |
| FLSmidth Private Limited | India | 100 |
| FLSmidth (Pty.) Ltd. | South Africa | 100 |
| FLSMIDTH-SOCIEDADE UNIPESSOAL, LDA | Angola | 100 |
| FLSmidth Buffalo (Pty.) Ltd. | South Africa | 100 |
| FLSmidth Mozambique Limitada | Mozambique | 100 |
| FLSmidth South Africa (Pty.) Ltd. | South Africa | 75 |
| FLSmidth Roymec (Pty) Ltd. | South Africa | 100 |
| FLSmidth (Pty) Ltd. | Botswana | 100 |
| Euroslot KDSS (South Africa) (Pty.) Ltd. | South Africa | 100 |

| Company name | Country | Direct holding (pct.) |
|---|---|---|
| **FLS US Holdings, Inc.** | USA | 100 |
| FLSmidth Inc | USA | 100 |
| FLSmidth Dorr-Oliver Inc. | USA | 100 |
| FLSmidth Dorr-Oliver International Inc. | USA | 100 |
| Ludowici Mineral Processing Equipment Inc. | USA | 100 |
| Phillips Kiln Services (India) Pvt. Ltd. | India | 50 |
| SLS Corporation | USA | 100 |
| FLSmidth Dorr-Oliver Eimco SLC Inc. | USA | 100 |
| Fuller Company | USA | 100 |

* Associate
All other enterprises are Group enterprises

All material enterprises are subject to audit by internationally recognised audit firms

# 7. BASIS OF REPORTING



**The consolidated financial statements comprise FLSmidth & Co A/S and subsidiaries**

**The financial statements are based on the concept of materiality to ensure relevant information for the readers**

**New standards and interpretations implemented with no significant impact on numbers in 2018**

**IFRS 16, Leases and IFRIC 23, Uncertainty over income tax treatment becomes effective in 2019**

## 7.1 INTRODUCTION

This section provides an overview of our principal accounting policies, key accounting estimates and judgements as well as new and amended IFRS standards and interpretations.

The following sections provide an overall description of the accounting policies applied to the consolidated financial statements. We provide a more detailed description of the accounting policies and key estimates and judgements in the notes.

The descriptions of accounting policies in the statements and notes form part of the overall description of accounting policies.

The annual report has been approved by the Board of Directors at its meeting 31 January 2019. The annual report will be presented to the shareholders of FLSmidth & Co. A/S for approval at the Annual General Meeting.

## 7.2 BASIS OF CONSOLIDATION

The consolidated financial statements of FLSmidth Group have been prepared in accordance with IFRS as adopted by the EU and further requirements in the Danish Financial Statements Act. We have prepared the consolidated financial statements in accordance with all the IFRS standards effective at 31 December 2018. The financial year for the Group is January 1 – December 31.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for derivatives and securities, which are measured at fair value. The accounting policies are unchanged from last year.

## 7.3 DEFINING MATERIALITY

Our annual report is based on the concept of materiality, to ensure that the content is material and relevant to the readers. The consolidated financial statements consist of many transactions. These transactions are aggregated into classes according to their nature or function, and presented in classes of similar items in the financial statements and in the notes as required by IFRS. If items are individually immaterial, they are aggregated with other items of a similar nature in the statements or in the notes.

The disclosure requirements throughout IFRS are substantial, and we provide the specific disclosures required by IFRS unless the information is considered immaterial to the economic decision-making of the readers of these financial statements.

## 7.4 ALTERNATIVE PERFORMANCE MEASURES (APM)

We present financial measures in the consolidated financial statements that are not defined according to IFRS. We believe that these measures provide valuable information to our stakeholders and management.

The financial measures should not be considered as a replacement for performance measures as defined under IFRS, but rather as supplementary information.

## 7.5 ACCOUNTING POLICIES

The descriptions of accounting policies in the notes form part of the overall description of accounting policies.

### Consolidation

The consolidated financial statements comprise the financial statements of FLSmidth & Co. A/S (the parent company) and subsidiaries controlled by FLSmidth & Co. A/S, prepared in accordance with Group accounting policies. The consolidated financial statements are prepared by combining items of a uniform nature and subsequently eliminating intercompany transactions, internal shareholdings and balances and unrealised intercompany profits and losses.

### Foreign currencies

The consolidated financial statements are presented in Danish Kroner (DKK).

Foreign currency transactions are translated into the functional currency defined for each company using the prevailing exchange rates at the transaction date. Monetary items denominated in foreign currencies are translated into the functional currency at the prevailing exchange rates at the reporting date.

## 7.5 ACCOUNTING POLICIES – continued

Financial statements of foreign subsidiaries are translated into Danish Kroner at the prevailing exchange rates at the reporting date for assets and liabilities, and at average exchange rates for income statement items.

All exchange rate differences are recognised as financial income or financial costs, except for the following, that are recognised in other comprehensive income, translated at the prevailing exchange rates at the reporting date:

- Translation of foreign subsidiaries' net assets at the beginning of the year
- Translation of foreign subsidiaries' income statements from average exchange rates to the exchange rates prevailing at the reporting date
- Translation of long-term intercompany balances, which are considered to be an addition to net assets in subsidiaries.

Goodwill arising from the acquisition of new companies is treated as an asset belonging to the new foreign subsidiaries and translated into Danish Kroner at prevailing exchange rates at the reporting date.

Unrealised gain/loss relating to hedging of future cash flow is recognised in other comprehensive income.

## 7.6 IMPACT FROM NEW IFRS

We have implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2018 financial year, including:

- IFRS 15, Revenue from contracts with customers, including amendments and clarifications (issued 2014, 2015 and 2016, respectively, effective date 1 January 2018)
- IFRS 9, Financial instruments (issued 2014, effective date 1 January 2018)
- IFRIC 22, Foreign currency transactions and advance considerations (issued 2016, effective date 1 January 2018)

The implementation has not had a significant impact on recognition, measurement or disclosures in the Annual Report 2018 and is not expected to have significant impact on the financial reporting for future periods.

### IFRS 15, Revenue from contracts with customers

IFRS 15 has replaced IAS 11, Construction contracts and IAS 18, Revenue and associated interpretations. IFRS 15 provides principles that an entity applies to report useful information about the amount, timing, and uncertainty of revenue and cash flows arising from its contracts to provide goods or services to customers. The core principle requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services.

We have implemented IFRS 15 using the modified retrospective application, with the cumulative effect of initially applying the standard adjusted to the opening balance of retained earnings 2018. Consequently, 2017 comparative figures are reported according to IAS 11/IAS 18 and has not been restated to reflect the numbers accordingly to IFRS 15. The most relevant changes compared to current accounting policy are:

- The previous "risk and rewards" framework is replaced by a control framework. This means that revenue from a sales transaction is recognised when (at a point in time) or as (over time) control of a good or service is transferred to a customer
- Introducing a "performance obligation" as a key term, including more detailed guidance in how to define a performance obligation and how to measure and recognise revenue from a performance obligation
- Introducing a more detailed guidance in general on measurement and recognition of revenue related items

The changes have had an effect on the following areas:

- The operation & maintenance contracts within the Cement Division will continue to recognise revenue over time, as the contract obligations towards the customers will be fulfilled over the course of the contract. The measure towards completion for the operation & maintenance contracts has changed from a produced output basis to a cost-to-cost basis
- On the areas where new and more detailed guidance has been implemented this does not have a significant impact upon transition, but may be relevant on future sales contracts

## 7.6 IMPACT FROM NEW IFRS – continued

The transition effect 1 January 2018 recognised in opening retained earnings is DKK 9m. The tax effect hereof is DKK -1m.

Had we applied the previous accounting policy for revenue according to IAS 11/IAS 18 in 2018, the profit for the period would have been DKK 662m, which is an increase of DKK 27m compared to the actual numbers for 2018. The following line items would have been impacted and would have been presented as follows:

| DKKm | 2018 |
|---|---|
| Revenue | 18,787 |
| Tax for the period | (256) |
| Work in progress | 2,289 |
| Deferred tax liabilities | 321 |

### IFRS9, Financial instruments

IFRS 9 has replaced IAS 39, Financial instruments; recognition and measurement.

The most relevant changes compared to current accounting policy are:

- New model for classification and measurement of financial assets, which is linked to the business model of the Group
- New impairment model based on expected losses rather than on incurred losses
- Hedge accounting requirements are more closely aligned with how the business undertakes risk management activities when hedging financial and non-financial risk exposures

Financial assets are classified and measured at amortised cost based on two criteria:

- If the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding and
- The Group's business model for managing the asset

The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The classification and measurement requirements of IFRS 9 did not have an impact to the Group. All financial assets and liabilities continue to be measured similarly to that used previously.

Impairment losses for financial assets is accounted for by using a forward-looking expected credit loss approach. The Group recognise an allowance for expected credit losses for all debt instruments not held at fair value through profit/loss and contract assets.

The changed impairment approach has not had a significant impact to the Group and no adjustment to the impairment of trade receivables has been made upon transition.

At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships.

The Group designates only the spot element of forward contracts as hedging instrument. The forward element is recognised in financial items in the income statement.

Gains and losses arising on cash flow hedges of forecast purchases of non-financial assets are incorporated into the initial carrying amounts of the non-financial assets.

The new hedge accounting requirements did not have an impact to the Group.

The Group has implemented IFRS 9 according to the transition provisions. There was no transition effect upon implementation 1 January 2018.

### IFRIC 22, Foreign currency transactions and advance consideration

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to be used upon payment or receipt of advance consideration in foreign currency.

When an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income, the interpretation clarifies that the transaction date for the purpose of determining the exchange rate to be used, is the spot rate of the date upon payment or receipt of advance consideration.

We have implemented IFRIC 22 according to the transition provisions. There was no transition effect upon implementation 1 January 2018. The interpretation has no significant impact on the recognition, measurement or disclosures for the financial period 2018 and forward.

## 7.7 NEW IFRS NOT YET ADOPTED

IASB has issued several new or amended accounting standards, which are not effective for the financial year 2018. Generally, we expect to implement all new or amended accounting standards and interpretations when they become mandatory and have been endorsed by the EU. The following accounting standards and interpretations are the most relevant for FLSmidth:

- IFRS 16, Leases (issued 2016, effective date 1 January 2019)
- IFRIC 23, Uncertainty over income tax treatment (issued 2017, effective date 1 January 2019)

### IFRS 16, Leases

IFRS 16 will replace IAS 17, Leases and IFRS 16 introduces a changed accounting model for a lessee. Currently lease contracts for a lessee are classified as either operating or finance leases. IFRS 16 will require the majority of operating leases to be recognised as lease assets with a related lease liability, similar to the current accounting of finance leases.

The lease payments, currently accounted for as operating expenses, will be split into an interest cost and a repayment of the lease liability. The lease assets will be depreciated over the term of the lease contract.

During 2018, we have performed a detailed impact assessment of IFRS 16 and the implementation is expected to have limited impact on the consolidated financial statements.

We expect a balance sheet increase of DKK 300m, due to the recognition of lease assets and liabilities. EBITDA is expected to improve by approximately DKK 100m, and depreciations are expected to increase by slightly less than DKK 100m. We expect a slight improvement of EBITA and a slight increase in financial cost.

The changes have no effect on the underlying cash flows. However, due to the lease payments being split into interest costs and a repayment for the lease liability, the presentation in the cash flow statement will change. The change will improve the cash flow from operating activities whereas the cash out flow from financing activities will be negatively impacted.

Lessor accounting under IFRS 16 is mostly unchanged from current accounting under IAS 17, where lessors will continue to classify all leases as either operating or finance leases. We have no material lessor contracts and therefore see no material effect.

We expect to implement IFRS 16 using the modified retrospective approach with a lease asset value equal to the lease liability value upon transition. Consequently, 2018 comparative figures will be reported according to IAS 17 and will not be restated to reflect the numbers accordingly to IFRS 16. Furthermore, we expect to apply the exemptions related to exclusion of low value assets and lease contracts with a contract term of 12 months or less.

### IFRIC 23, Uncertainty over Income Tax Treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation amongst other specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- Measuring method to be applied

As set out in the interpretation, we will determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty will be followed.

Uncertain tax positions are measured at the most likely outcome method.

The liability is recognised under income tax liabilities or deferred tax liabilities, depending in how the realisation of the tax position will affect the financial statements.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019.

We will apply the interpretation from its effective date and it is not expected to have significant impact.

We have established the necessary processes and procedures to obtain information that is required to apply the interpretation on a timely basis.

# 7.8 DEFINITION OF TERMS

**Acquisition development**
Development as a consequence of business acquisition, disregarding development from currency. After 12 months business acquisitions are included in the development from organic growth.

**Book-to-bill**
Order intake as a percentage of revenue.

**BVPS (Book value per share)**
FLSmidth & Co. A/S´ share of equity divided by average of shares outstanding.

**Capital employed, average**
(Capital employed, end of period + capital employed end of same period last year)/2.

**Capital employed, end of period**
Intangible assets (cost) + Property, plant and equipment (carrying amount) + Net working capital.

**Capital expenditure (CAPEX)**
Investment in Property, plant and equipment.

**Cash conversion**
Free cash flow adjusted for acquisitions and disposals as a percentage of EBIT.

**CFFF**
Cash flow from financing activities.

**CFFI**
Cash flow from investing activities.

**CFFO**
Cash flow from operating activities.

**CFFO / Revenue**
CFFO as a percentage of last 12 months' revenue.

**CFPS (cash flow per share), (diluted)**
CFFO as a percentage of average number of shares (diluted).

**Currency development**
The difference between the current figure reported and the same figure had the exchange rates towards DKK been the same as in the comparison period.

**DIFOT**
Delivery in full on time.

**Dividend yield**
Dividend as percent of share price end of year.

**EBITDA**
Earnings before special non-recurring items, interest, tax, depreciation, amortisation and impairments of investments in associated companies.

**EBITDA margin**
EBITDA as a percentage of revenue.

**EBIT**
Earnings before interest and tax and impairments of investments in associated companies.

**EBIT margin**
EBIT as a percentage of revenue.

**EBITA**
Earnings before, interest, tax, amortisation and impairments of investments in associated companies.

**EBITA margin**
EBITA as a percentage of revenue.

**EBT**
Earnings before tax.

**EBT margin**
EBT as a percentage of revenue.

**Effective tax rate**
Income taxes as a percentage of EBT.

**EPC projects**
Engineering, procurement and construction.

**EPS projects**
Engineering, procurement and supervision.

**EPS (earning per share)**
Net profit/(loss) divided by the average number of shares outstanding (adjusted for treasury shares).

**EPS (earnings per share), (diluted)**
Net profit/(loss) divided by the average number of shares outstanding (adjusted for treasury shares) less share options in-the money.

**Equity ratio**
Equity as a percentage of total asset.

**Financial gearing (NIBD/EBITDA)**
Net interest-bearing debt (NIBD) divided by EBITDA.

**Free cash flow**
CFFO + CFFI.

# 7.8 DEFINITION OF TERMS - continued

**Free cash flow adjusted for acquisition and disposals of enterprises**
CFFO + CFFI ± acquisition and disposals of enterprises.

**Gross margin**
Gross profit as a percentage of revenue.

**Market capitalisation**
The share price multiplied by the number of shares issued end of year.

**Net interest bearing debt (NIBD)**
Interest-bearing debt less interest-bearing assets and bank balances.

**Net working capital, average**
(Net working capital, end of year + net working capital, end of last year)/2.

**Net working capital, end**
Inventories + Trade receivables + work in progress for third parties, net + prepayments, net + financial instruments, net + other receivables – other liabilities – trade payables.

**Net working capital ratio, average**
Net working capital, average as a percentage of last 12 months revenue.

**Net working capital ratio, end**
Net working capital as a percentage of last 12 months´ revenue.

**Number of shares outstanding**
The total number of shares, excluding FLSmidth's holding of treasury shares.

**NIBD/EBITDA**
Net interest-bearing debt (NIBD) divided by last 12 months' EBITDA.

**One-offs**
Costs/income assessed by Management to be non-recurring by nature.

**Operational expenditure (OPEX)**
External costs, personal cost and other income and costs.

**Order backlog**
The value of future contracts end of year. On O&M contracts entered into after 2014, the order backlog includes the next 12 months´ expected revenue.

**Order backlog / Revenue**
Order backlog as a percentage of last 12 months´ revenue.

**Order intake**
Orders are included as order intake when an order becomes effective, meaning when the contract becomes binding for both parties dependent on the specific conditions of the contract.

**Organic development**
Development as a consequence of growth in already existing business, disregarding development from currency.

**Other comprehensive income**
All items recognised in equity other than those related to transactions with owners of the company.

**Pay-out ratio**
The total dividends for the year as a percentage of profit/(loss) excluding minority shareholder's share of profit/(loss) for the year.

**Return on equity**
Profit/(loss) for the last 12 months´ as a percentage of equity ((Equity, end of year + equity, end of last year)/2).

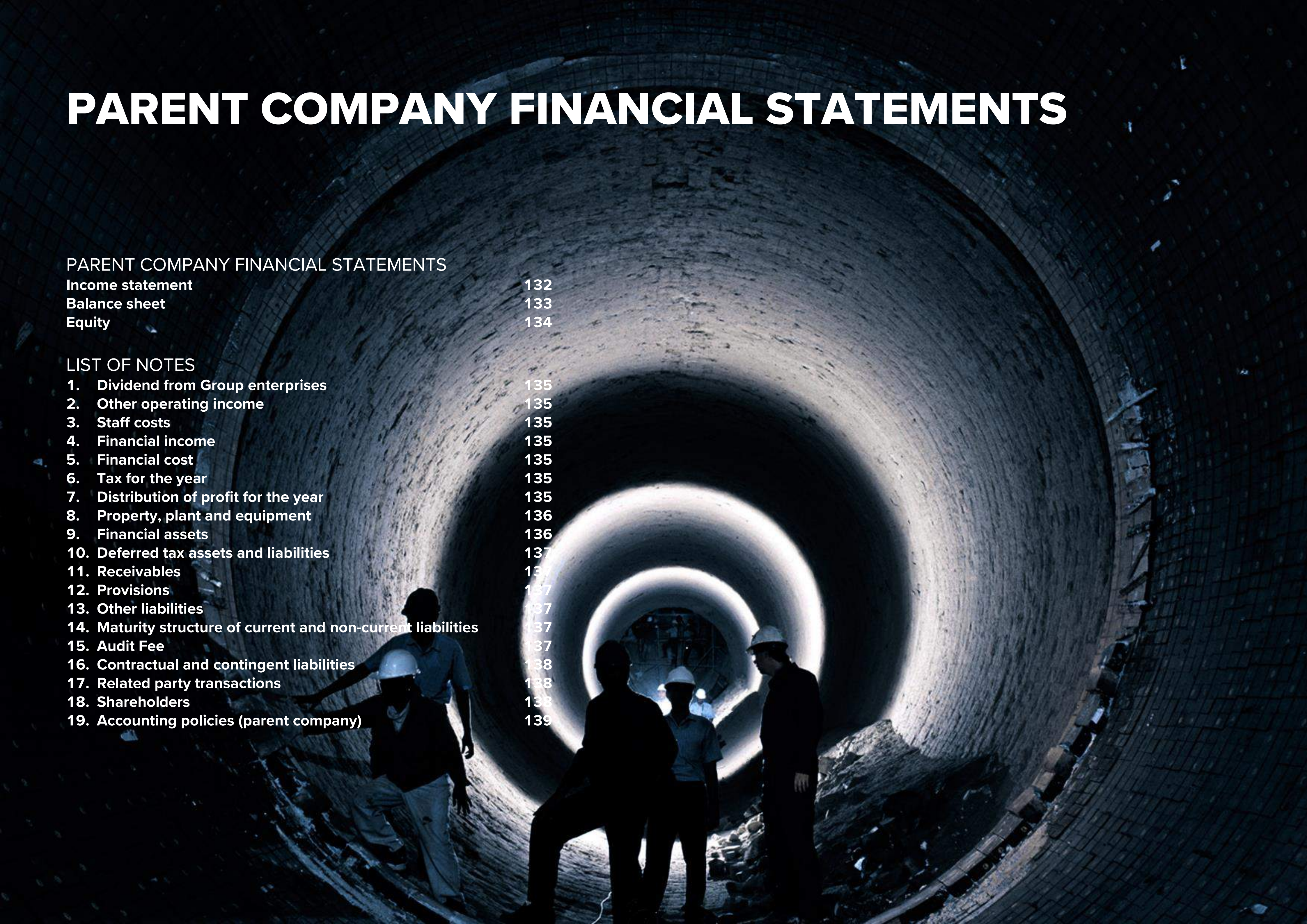
**ROCE (return on capital employed)**
EBITA as a percentage of capital employed.

**ROCE, average**
(ROCE, end of year + ROCE, end of last year)/2.

**Sales, General & Administrative costs (SG&A costs)**
Sales cost + Administrative cost ± other operating items.

**Total shareholder return**
Share price increase and paid dividend.

**TRIFR**
Total recordable injury frequency rate.



# PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS



LIST OF NOTES

# INCOME STATEMENT

| Notes | DKKm | 2018 | 2017 |
|---|---|---|---|
| 1 | Dividend from Group enterprises | 12 | 135 |
| 2 | Other operating income | 0 | 362 |
| 3 | Staff costs | (6) | (6) |
| | Other operating costs | (20) | (18) |
| 9 | Impairment of investments in Group enterprises | (404) | 0 |
| 8 | Depreciation, amortisation and impairment | (1) | (1) |
| | **EBIT** | **(419)** | **472** |
| 4 | Financial income | 1,204 | 907 |
| 5 | Financial costs | (1,140) | (675) |
| | **EBT** | **(355)** | **704** |
| 6 | Tax for the year | (3) | (10) |
| | **Profit for the year** | **(358)** | **694** |
| | | | |
| 7 | Distribution of profit for the year: | | |
| | Retained earnings | (358) | 694 |
| | | **(358)** | **694** |
| 7 | Distribution of dividend: | | |
| | Proposed dividend | 461 | 410 |

## Management review

Parent company activities include holding of shares in Group enterprises.

Dividend from Group enterprises to the parent company, FLSmidth & Co. A/S, was DKK 12m in 2018 (2017: DKK 135m) and the profit for the year was DKK -358m (2017: DKK 694m). The result is significantly impacted by write-downs of investments in Group enterprises. Total assets at year-end amounted to DKK 9,217m (2017: DKK 10,058m) and the equity was DKK 2,991m (2017: DKK 3,654m). Management consider the result to be lower than expected.

# BALANCE SHEET

| Notes | DKKm | 2018 | 2017 |
|---|---|---|---|
| | ASSETS | | |
| | Land and buildings | 10 | 11 |
| 8 | **Property, plant and equipment** | **10** | **11** |
| 9 | Investments in Group enterprises | 2,704 | 2,816 |
| 9 | Other securities and investments | 18 | 18 |
| 10 | Deferred tax assets | 21 | 22 |
| | **Financial assets** | **2,743** | **2,856** |
| | **Total non-current assets** | **2,753** | **2,867** |
| | Receivables from Group enterprises | 6,327 | 7,007 |
| | Other receivables | 136 | 183 |
| 11 | **Receivables** | **6,463** | **7,190** |
| | **Other securities and investments** | **1** | **1** |
| | **Cash and cash equivalents** | **0** | **0** |
| | **Total current assets** | **6,464** | **7,191** |
| | **Total assets** | **9,217** | **10,058** |

| Notes | DKKm | 2018 | 2017 |
|---|---|---|---|
| | EQUITY AND LIABILITIES | | |
| | Share capital | 1,025 | 1,025 |
| | Retained earnings | 1,505 | 2,219 |
| | Proposed dividend | 461 | 410 |
| | **Equity** | **2,991** | **3,654** |
| 12 | Provisions | 12 | 12 |
| | **Provisions** | **12** | **12** |
| 14 | Bank loans | 2,350 | 1,537 |
| | **Total non-current liabilities** | **2,350** | **1,537** |
| 14 | Bank loans | 142 | 1,094 |
| 14 | Debt to Group enterprises | 3,607 | 3,611 |
| 13+14 | Other liabilities | 115 | 150 |
| | **Total current liabilities** | **3,864** | **4,855** |
| | **Total liabilities** | **6,226** | **6,404** |
| | **Total equity and liabilities** | **9,217** | **10,058** |

# EQUITY

| DKKm | Share capital | Retained earnings | Proposed dividend | Total |
|---|---|---|---|---|
| **Equity at 1 January 2017** | **1,025** | **1,807** | **307** | **3,139** |
| Profit for the year | | 694 | | 694 |
| Dividend paid | | 13 | (307) | (294) |
| Proposed dividend | | (410) | 410 | 0 |
| Acquisition of treasury shares | | (186) | | (186) |
| Exercise of share options | | 301 | | 301 |
| **Equity at 31 December 2017** | **1,025** | **2,219** | **410** | **3,654** |
| | | | | |
| Profit for the year | | (358) | | (358) |
| Dividend paid | | 13 | (410) | (397) |
| Proposed dividend | | (461) | 461 | 0 |
| Share-based payment | | 1 | | 1 |
| Acquisition of treasury shares | | (42) | | (42) |
| Exercise of share options | | 133 | | 133 |
| **Equity at 31 December 2018** | **1,025** | **1,505** | **461** | **2,991** |

| Number of shares (1,000): | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Share capital at 1 January | 51,250 | 51,250 | 51,250 | 51,250 | 53,200 |
| Cancellation of shares | 0 | 0 | 0 | 0 | (1,950) |
| **Share capital at 31 December** | **51,250** | **51,250** | **51,250** | **51,250** | **51,250** |

Each share entitles its holder to 20 votes, and there are no special rights attached to the shares.

Retained earnings for the year DKK -358m (2017: DKK 694m) is distributed to equity, of which DKK 461m is proposed as dividend.

## 1. DIVIDEND FROM GROUP ENTERPRISES

| DKKm | 2018 | 2017 |
|---|---|---|
| Dividend from Group enterprises | 12 | 135 |
| | **12** | **135** |

## 2. OTHER OPERATING INCOME

| DKKm | 2018 | 2017 |
|---|---|---|
| Profit from disposal of land and buildings | 0 | 346 |
| Rent fee, etc. | 0 | 16 |
| | **0** | **362** |

Profit from disposal of land and buildings, see note 17.

## 3. STAFF COSTS

| DKKm | 2018 | 2017 |
|---|---|---|
| Salaries and other remuneration | (5) | (4) |
| Share-based payment | (1) | (2) |
| | **(6)** | **(6)** |
| **Average number of employees** | **6** | **7** |

Remuneration of the Board of Directors for 2018 amounts to DKK 7m (2017: DKK 7m), including DKK 1m (2017: DKK 1m), which was incurred by the parent company. The total remuneration of the parent company´s Executive Management amounted to DKK 46m (2017: DKK 64m), of which DKK 5m (2017: DKK 5m) was incurred by the parent company.

## 4. FINANCIAL INCOME

| DKKm | 2018 | 2017 |
|---|---|---|
| Interest income from Group enterprises | 132 | 261 |
| Foreign exchange gains | 1,072 | 646 |
| | **1,204** | **907** |

## 5. FINANCIAL COST

| DKKm | 2018 | 2017 |
|---|---|---|
| Interest cost | (60) | (61) |
| Interest cost to Group companies | (56) | (45) |
| Foreign exchange losses | (1,024) | (569) |
| | **(1,140)** | **(675)** |

## 6. TAX FOR THE YEAR

| DKKm | 2018 | 2017 |
|---|---|---|
| Current tax on profit/loss for the year | 3 | 8 |
| Withholding tax | (1) | (4) |
| Adjustments of deferred tax | (3) | (8) |
| Adjustments regarding previous years, deferred taxes | 2 | (4) |
| Adjustments regarding previous years, current taxes | (4) | (2) |
| **Tax for the year** | **(3)** | **(10)** |

## 7. DISTRIBUTION OF PROFIT FOR THE YEAR

Proposed distribution of profit:

| DKKm | 2018 | 2017 |
|---|---|---|
| Proposed dividend | 461 | 410 |
| Retained earnings | (819) | 284 |
| **Profit for the year** | **(358)** | **694** |

# 8. PROPERTY, PLANT AND EQUIPMENT

| DKKm | Land and buildings | Operating equip-ment, fixtures and fittings | Total |
|---|---|---|---|
| Cost at 1 January 2018 | 23 | 2 | 25 |
| **Cost at 31 December 2018** | **23** | **2** | **25** |
| Depreciation and impairment at 1 January 2018 | (12) | (2) | (14) |
| Depreciation | (1) | 0 | (1) |
| **Depreciation and impairment at 31 December 2018** | **(13)** | **(2)** | **(15)** |
| **Carrying amount at 31 December 2018** | **10** | **0** | **10** |

# 9. FINANCIAL ASSETS

| DKKm | Invest-ments in Group enter-prises | Other securities and invest-ments | Total |
|---|---|---|---|
| Cost at 1 January 2018 | 2,939 | 37 | 2,976 |
| Additions | 350 | 0 | 350 |
| Share-based payment | (58) | 0 | (58) |
| **Cost at 31 December 2018** | **3,231** | **37** | **3,268** |
| Impairment at 1 January 2018 | (123) | (19) | (142) |
| Impairment | (404) | 0 | (404) |
| **Impairment at 31 December 2018** | **(527)** | **(19)** | **(546)** |
| **Carrying amount at 31 December 2018** | **2,704** | **18** | **2,722** |

For specification of investments in Group enterprises, see note 6.6 in the consolidated financial statements.

## Result of annual impairment test

As at 31 December 2018, the cost price of the investments in subsidiaries was tested for impairment. The impairment test identified impairment charges for 2018 amounting to DKK 404m (2017: DKK 0). The impairment was mainly related to the subsidiary FLSmidth Operation & Maintenance A/S based on value in use.

## Key assumptions

The impairment test has been based on a five year budget for FLSmidth Operation & Maintenance A/S.

The applied discount rate after tax is 8% and reflects the latest market assumptions for the risk free rate based on a 10-year Danish government bond, the equity risk premium and the cost of debt.

The long-term growth rate for the terminal period is based on the expected growth in the world economy as well as input from current long-term swaps. Based on these factors, a long-term annual growth rate for the terminal period of 1.5% has been applied.

## 10. DEFERRED TAX ASSETS AND LIABILITES

Deferred tax consists of the following items:

| DKKm | 2018 | 2017 |
|---|---|---|
| Tangible asset | 16 | 16 |
| Liabilities | 5 | 6 |
| **Net value of deferred tax assets/(liability)** | **21** | **22** |

## 11. RECEIVABLES

Receivables from Group enterprises falling due after more than one year amount to DKK 0m (2017: DKK 1,700m). Other receivables include fair value of financial contracts (positive value) of DKK 81m (2017: DKK 88m) and tax on account for the Danish jointly taxed enterprises.

## 12. PROVISIONS

| DKKm | 2018 | 2017 |
|---|---|---|
| Provisions at 1 January | 12 | 13 |
| Reversals | 0 | (1) |
| **Provisions at 31 December** | **12** | **12** |

## 13. OTHER LIABILITIES

Other liabilities include fair value of financial contracts (negative value) of DKK 102m (2017: DKK 112m).

## 14. MATURITY STRUCTURE OF CURRENT AND NON-CURRENT LIABILITIES

Maturity structure of liabilities:

| DKKm | 2018 | 2017 |
|---|---|---|
| Bank loans | 142 | 1,094 |
| Debt to Group enterprises | 3,607 | 3,611 |
| Other liabilities | 115 | 150 |
| **Within one year** | **3,864** | **4,855** |
| | | |
| Bank loans | 2,350 | 1,537 |
| **Within one to five years** | **2,350** | **1,537** |
| | | |
| **After five years** | **0** | **0** |
| | | |
| **Total** | **6,214** | **6,392** |

## 15. AUDIT FEE

In addition to statutory audit, Ernst & Young Godkendt Revisionspartnerselskab, the Parent company auditors provides other assurance engagements and other consultancy services to the Parent company.

| DKKm | 2018 | 2017 |
|---|---|---|
| Statutory audit | 3 | 3 |
| **Total audit related services** | **3** | **3** |
| | | |
| Other services | 1 | 1 |
| **Total non-audit services** | **1** | **1** |
| | | |
| **Total fees to independent auditor** | **4** | **4** |

## 16. CONTRACTUAL AND CONTINGENT LIABILITIES

The parent company has provided guarantees primarily to financial institutions at a total amount of DKK 12,778m of which DKK 6,057m have been utilised in 2018 (2017: DKK 4,723m).

In connection with disposal of enterprises, normal guarantees, etc. are issued to the acquiring enterprise. Provisions are made for estimated losses on such items.

The parent company is the administration company of the Danish joint taxation. According to the Danish corporate tax rules, as of 1 July 2012, the Company is obliged to withhold taxes on interest, royalty and dividend for all companies subjected to the Danish joint taxation scheme.

The parent company has issued letter of support for certain Group companies.

There are no significant contingent assets or liabilities apart from the above.

See also note 2.7 in the consolidated financial statements.

## 17. RELATED PARTY TRANSACTIONS

Related parties include the parent company's Board of Directors and Group Executive Management and the Group companies and associates that are part of the Group.

In 2017, FLSmidth & Co A/S transferred the property Matr. Nr 2055 located in Vigerslev Allé 77 Valby to the Group internal company Matr. Nr 2055 A/S. There were no further asset transfers with related parties in 2018 and 2017, apart from Group Executive Management´s remuneration stated in note 3. Nor were there any transactions with associates.

Parent company's sales of services consist of managerial services and insurance services. The parent company´s purchase of services mainly consists of legal and tax assistance provided by FLSmidth A/S.

Financial income and costs are attributable to the FLSmidth Group's in-house Treasury function, which is performed by the parent company, FLSmidth & Co. A/S. Receivables and payables are mainly attributable to this activity.

These transactions are carried out on market terms and at market prices.

For guarantees provided by the parent company for related parties, please see note 16 in the parent company financial statements.

## 18. SHAREHOLDERS

At the end of 2018:

One shareholder has reported a participating interest above 10%:

- Lundbeckfond Invest A/S, Denmark.

One shareholder has reported a participating interest above 5%:

- Novo Holdings A/S, Denmark.

# 19. ACCOUNTING POLICIES (PARENT COMPANY)

## Accounting policy

The financial statements of the parent company (FLSmidth & Co. A/S) are presented in conformity with the provisions of the Danish Financial Statements Act for reporting class D enterprises.

To ensure uniform presentation, the terminology used in the consolidated financial statements has as far as possible been applied in the parent company's financial statements. The parent company's accounting policies on recognition and measurement are generally consistent with those of the Group. The instances in which the parent company's accounting policies deviate from those of the Group have been described below.

The accounting policies for the parent company are unchanged from 2017.

The company's main activity, dividend from Group enterprises, is presented first in the income statement.

## Dividend from Group enterprises

Dividend from investments in subsidiaries is recognised as income in the parent company's 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 distribution from the company concerned. When the dividend distributed exceeds the accumulated earnings after the date of acquisition, the dividend is recognised in the income statement, however this will indicate the need for an impairment test of the investment.

## Property, plant and equipment

Depreciation is charged on a straight line basis over the estimated useful life of the assets until they reach the estimated residual value. In the parent company's financial statements, the depreciation period and the residual value are determined at the time of acquisition and are reassessed every year.

## Financial assets

Investments in Group enterprises are measured at cost less impairment. Where the cost exceeds the recoverable amount, an impairment loss is recognised to this lower value. To the extent the distributed dividend exceeds the accumulated earnings after the date of acquisition, that would indicate the need for impairment test of the investment.

## Other securities and investments

Other securities and investments consist of shares in cement plants that are acquired in connection with the signing of contracts and are measured at fair value. If the fair value is not immediately ascertainable, the shares are measured at a prudently assessed value. Value adjustments are recognised in the income statement as financial items.

## Cash flow statement

As the consolidated financial statements include a cash flow statement for the whole Group, no individual statement for the parent company has been included, see the exemption provision, section 86 of the Danish Financial Statements Act.

# STATEMENT BY MANAGEMENT

The Board of Directors and the Executive Board have today considered and approved the annual report for the financial year 1 January – 31 December 2018.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU. The parent financial statements are prepared in accordance with the Danish Financial Statements Act. Further, the annual report is prepared in accordance with additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2018 as well as of the results of their operations and the consolidated cash flows for the financial year 1 January – 31 December 2018.

In our opinion, the management's review gives a fair review of the development in the Group's and the Parent's activity and financial matters, results of operations, consolidated cash flows and financial position as well as a description of the principal risks and uncertainties that the Group and the Parent face.

We recommend the annual report for adoption at the Annual General Meeting.

Valby, 31 January 2019

## Executive management

**Thomas Schulz**
Group CEO

**Lars Vestergaard**
Group Executive Vice President and CFO

## Board of directors

**Vagn Sørensen**
Chairman

**Tom Knutzen**
Vice chairman

**Marius Jacques Kloppers**

**Caroline Grégoire Sainte Marie**

**Richard Robinson Smith**

**Anne Louise Eberhard**

**Mette Dobel**

**Søren Dickow Quistgaard**

**Claus Østergaard**

# INDEPENDENT AUDITOR'S REPORT

## To the shareholders of FLSmidth & Co. A/S

### Opinion

We have audited the consolidated financial statements and the parent company financial statements of FLSmidth & Co. A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated statement of comprehensive income and a consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

#### Appointment of auditor

We were initially appointed as auditor of FLSmidth & Co. A/S on 30 March 2017 for the financial year 2017. We have been reappointed in 2018 by resolution of the general meeting for a total consecutive period of 2 years including the financial year 2018.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2018. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

**Accounting for projects**
The accounting principles and disclosures about revenue recognition related to projects are included in notes 1.4, 2.5 and 3.4 to the consolidated financial statements.

FLSmidth's Cement and Mining industries deliver long term projects as well as perform Operation & Maintenance for their customers, which typically extends over more than one financial year. Due to the nature of these projects and in accordance with the accounting principles, FLSmidth recognises and measures revenue from such long term projects over time based on the cost-to-cost method.

Accounting for projects involve significant management judgments in respect of estimating the cost to complete the projects, including risk contingencies, warranties, liquidated damages, claims and the expected time to completion. Together with the impact from executing projects in parts of the world where macro-economic and political factors may have an adverse effect, changes in these estimates during the execution of projects can significantly impact the revenue, cost and contribution recognised. Accordingly, we considered the accounting for projects to be a key audit matter for the consolidated financial statements.

As part of our procedures, we obtained an understanding of the process for how project cost are estimated and risk evaluated. Further, we evaluated the design and tested the operating effectiveness of selected controls in this area. We evaluated the judgments made by management regarding the estimated costs to complete and the assumptions made in assessment of warranty provisions. We evaluated the changes in estimated project cost and risk contingencies, and discussed these with project accounting, project management and group management. We evaluated management's assessments regarding exposures related to claims and liquidated damages for projects and provisions to mitigate contract-specific financial risks. For those balances subject to claims, we made inquiries of external and internal legal counsel. We also assessed whether policies and processes for making these estimates have been applied consistently to all contracts of a similar nature.

**Valuation of inventory**
The accounting principles and disclosures about inventory are included in note 3.2 to the consolidated financial statements.

FLSmidth carries inventory in the balance sheet at the lower of cost and net realisable value. The inventory includes strategic items, which are held in inventory, even if slow moving, because they are considered key equipment for the customers that FLSmidth needs to be able to deliver with very short notice. The valuation of inventory involves significant management judgements to determine whether inventory is still technical relevant when the demand for the inventory items are expected. Accordingly, we considered this to be a key audit matter for the consolidated financial statements.

As part of our procedures, we obtained an understanding of FLSmidth's process for monitoring inventory and recording write-down for obsolete items. We analysed the inventory recorded in the balance sheet and obtained evidence regarding valuation of slow moving items. Further, we evaluated management's assessment of the expected market demand and expected sales price for significant aged items.

**Valuation of trade receivables**
The accounting principles and disclosures about trade receivables are included in note 3.3 to the consolidated financial statements.

FLSmidth carries trade receivables in the balance sheet at the anticipated realisable value, which is the original invoice amount less an estimated loss allowance for lifetime expected credit losses. FLSmidth has significant trade receivables from a wide range of customers across the world. Trade receivables include inherent risk of credit losses influenced by specific characteristics and circumstances of the customer, e.g. the customers' ability to pay, access to securities and payment guarantees, as well as the aging of the receivable. The current market conditions and any country specific matters are also considered. Accordingly, we considered this to be a key audit matter for the consolidated financial statements.

As part of our procedures, we obtained an understanding of FLSmidth's process for monitoring receivables and recording allowances for lifetime expected credit losses. We analysed the trade receivables recorded in the balance sheet and obtained evidence regarding the expected credit losses from items with particular risk characteristics. We evaluated management's assessment of recoverability particularly for significant aged items by corroborating them against internal and external evidence regarding the likelihood of payment and assessed FLSmidth's ability to make reliable estimates by performing retrospective analysis of past estimates.

## Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

## Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act.
Moreover, Management is responsible for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent 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 Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent 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 Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 31 January 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

**Henrik Kronborg Iversen**
State Authorised
Public Accountant
mne24687

**Jens Thordahl Nøhr**
State Authorised
Public Accountant
mne32212

# FORWARD LOOKING STATEMENTS

FLSmidth & Co. A/S' financial reports, whether in the form of annual reports or interim reports, filed with the Danish Business Authority and/or announced via the company's website and/or NASDAQ Copenhagen, as well as any presentations based on such financial reports, and any other written information released, or oral statements made, to the public based on this report or in the future on behalf of FLSmidth & Co. A/S, may contain forward looking statements.

Words such as 'believe', 'expect', 'may', 'will', 'plan', 'strategy', 'prospect', 'foresee', 'estimate', 'project', 'anticipate', 'can','intend', 'target' and other words and terms of similar meaning in connection with any discussion of future operating or financial performance identify forward-looking statements. Examples of such forward-looking statements include, but are not limited to:

- Statements of plans, objectives or goals for future operations, including those related to FLSmidth & Co. A/S' markets, products, product research and product development.
- Statements containing projections of or targets for revenues, profit (or loss), CAPEX, dividends, capital structure or other net financial items.
- Statements regarding future economic performance, future actions and outcome of contingencies such as legal proceedings and statements regarding the underlying assumptions or relating to such statements.
- Statements regarding potential merger & acquisition activities.

These forward-looking statements are based on current plans, estimates and projections. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which may be outside FLSmidth & Co. A/S' influence, and which could materially affect such forward-looking statements.

FLSmidth & Co. A/S cautions that a number of important factors, including those described in this report, could cause actual results to differ materially from those contemplated in any forward-looking statements.

Factors that may affect future results include, but are not limited to, global as well as local political and economic conditions, including interest rate and exchange rate fluctuations, delays or faults in project execution, fluctuations in raw material prices, delays in research and/or development of new products or service concepts, interruptions of supplies and production, unexpected breach or termination of contracts, market-driven price reductions for FLSmidth & Co. A/S' products and/or services, introduction of competing products, reliance on information technology, FLSmidth & Co. A/S' ability to successfully market current and new products, exposure to product liability and legal proceedings and investigations, changes in legislation or regulation and interpretation thereof, intellectual property protection, perceived or actual failure to adhere to ethical marketing practices, investments in and divestitures of domestic and foreign enterprises, unexpected growth in costs and expenses, failure to recruit and retain the right employees and failure to maintain a culture of compliance. Unless required by law FLSmidth & Co. A/S is under no duty and undertakes no obligation to update or revise any forward-looking statement after the distribution of this report.

**Annual Report 2018**
**1 January - 31 December 2018**

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