FLSMIDTH

WE DISCOVER POTENTIAL

ANNUAL REPORT 2020

1 January –
31 December 2020
Annual Report 2020

FLSmidth & Co. A/S
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HIGHLIGHTS

Highlights 2020
2020 was impacted operationally and financially by the pandemic, which has presented both challenges and opportunities for FLSmidth. Our financial results were negatively impacted by the rapidly deteriorating business environment which affected order intake, revenue and EBITA. Still, we secured four large orders and a book-to-bill of 113% for the year, representing an organic order intake on par with 2019. As a result of our strong cash focus, the net working capital ratio decreased from 13.3% to 10.7% and free cash flow more than doubled to DKK 1bn in 2020. The Board of Directors proposes a dividend of DKK 2 per share for the year.

Our Group business improvement programme was completed by the end of the third quarter with an EBITA improvement run-rate of DKK 150m annually, and we are taking additional steps to improve Cement profitability.

We entered into several strategic partnerships and received a range of orders directly related to sustainability improvements and digital optimisation for our customers. To support our ambition to decarbonise the cement and mining industries and put FLSmidth on the path to carbon neutrality, we have also committed to set science-based targets (see page 20).

Highlights Q4 2020
Group order intake grew 15% organically with growth in both Mining and Cement. Cement order intake included the booking of a large project. Group revenue declined 24% organically related to both Mining and Cement.

Gross margin improved due to a higher share from service during the quarter but earnings were impacted by the sharp decline in revenue. The EBITA margin decreased to 5.5% from 8.1% in Q4 last year. This decrease was entirely related to Cement, while Mining EBITA margin was up slightly year on year. Net working capital decreased for the third consecutive quarter. Free cash flow was DKK 232m, on par with Q4 last year. Net debt to EBITDA increased to 1.6x due to lower 12 months' trailing EBITDA.

In Q4, we acquired KnowledgeScape, a global leader in digital optimisation solutions for the mineral processing industry, and we announced two divestments in Cement as part of the ongoing process to simplify and prune FLSmidth's Cement business. In January 2021, we announced that we are in negotiations with ThyssenKrupp concerning an acquisition of their mining business. There can be no assurances as to whether and when a transaction will transpire.

Guidance 2021
FLSmidth guides for group revenue of DKK 15.5-17.0bn and a group EBITA margin of 5-6%. The guidance is based on expected different developments in the two individual businesses, Mining and Cement, and continued impact from the pandemic in the first half of 2021.

Mid- and long-term financial targets
The structural changes in the cement industry and the pandemic have increased uncertainty around our mid- and long-term target levels and the timing for achieving these targets. Consequently, it has been decided to withdraw the mid- and long-term financial targets. Targets for capital structure, including financial gearing, equity ratio and dividend policy remain unchanged.

We will resume communication on the longer-term prospects for our Mining and Cement businesses when we have sufficient visibility.

Please refer to page 11.

Guidance 2021

Revenue (DKKbn)	15.5-17.0
EBITA margin	5-6%

Capital structure targets, through-the-cycle

Financial gearing (NIBD/EBITDA)	< 2
Equity ratio	> 30%
Dividend ratio	30-50% of net profit

FINANCIAL PERFORMANCE HIGHLIGHTS

Order intake
DKKbn

18.5

▼ 5%

Organic order intake was on par with last year, comprising growth in Mining and a decrease in Cement. Book-to-bill was 112.7%

Revenue
DKKbn

16.4

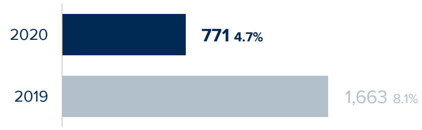
▼ 20%

Revenue declined 16% organically due to a severe pandemic impact and a low Cement backlog entering the year

EBITA & EBITA margin
DKKm - %

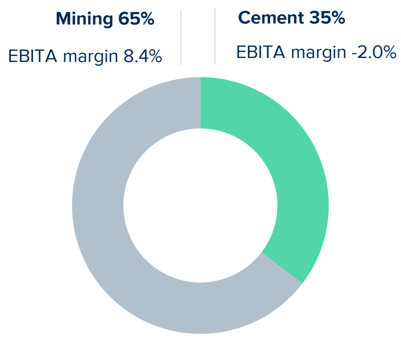
771 4.7%

▼ 54%



Earnings were impacted by the pandemic and the sharp decline in revenue. Profitability in Mining was quite resilient, whereas Cement was loss-making

Revenue split
by Mining and Cement



CFFO
DKKm

1,421

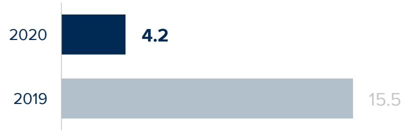
▲ 50%

Despite the pandemic causing a reduction in adjusted EBITDA, cash flow from operating activities increased with the cash inflow from net working capital as the key contributor

Earnings per share
DKK

4.2

▼ 73%



Profit for the year decreased as a result of the lower operating income and, in particular, a challenging cement market

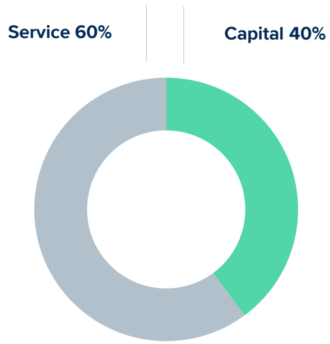
Net working capital ratio
%

10.7%

▼ 2.6%-point

A strong cash focus led to a significant reduction in net working capital and net debt in 2020 – not least due to a 32% (DKK 1.6bn) decline in trade receivables

Revenue split
by Service and Capital business



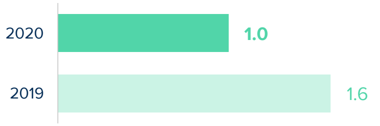
SUSTAINABILITY PERFORMANCE HIGHLIGHTS

Safety (TRIR)

Total Recordable Incident Rate/million working hours

1.0

▼ 0.6 improvement



Safety has top priority at FLSmidth and in 2020 our safety KPI improved for the 7th consecutive year in a row to a record low

Quality (DIFOT)

%

88.3

▲ 0.3% point improvement

Despite the pandemic making planning and logistics extraordinarily challenging, we improved our quality KPI, DIFOT (Delivery in Full on Time) marginally in 2020

Relative carbon footprint

Tonnes CO_2 per DKKm revenue

Scope 1 & 2 location based emissions

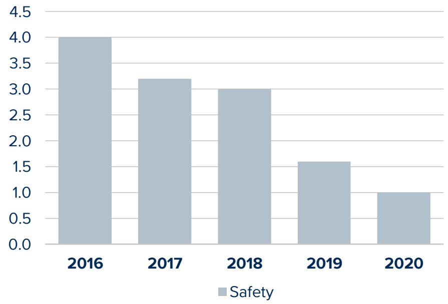
2.2

▼ 13% improvement

The reduction in our carbon intensity was a reflection of our strong focus on minimising emissions combined with the global lockdown of facilities and offices due to COVID-19

Safety

Total Recordable Incident Rate



Water withdrawal

m^3

197,346

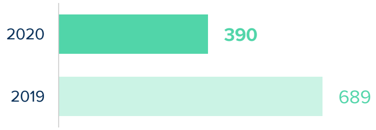
▼ 11% improvement

We continually strive to reduce our in-house water consumption, however we have the biggest impact with our customers. In 2020, we successfully installed a tailing management system which re-circulates over 86% of the process water at a Zinc mine in India

Suppliers assessed for sustainability

390

▼ 43% deterioration



Travel restrictions and lockdowns related to the pandemic unfortunately reduced our ability to visit suppliers and conduct sustainability screenings since March 2020

Women managers

%

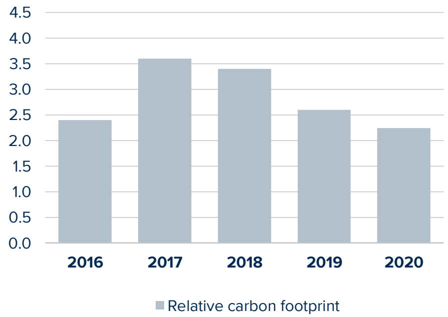
13.1

▲ 1.9%-point improvement

At the end of the year, we set a new long-term target for gender equality in our workforce. By 2030, we want 30% of our entire white-collar workforce and 25% of our people managers to be women.

Carbon Intensity

Tonnes CO_2 per DKKm revenue



KEY FIGURES

DKKm	2016	2017	2018	2019	2020
INCOME STATEMENT					
Revenue	18,192	18,000	18,750	20,646	16,441
Gross profit	4,581	4,597	4,693	4,849	3,865
EBITDA before special non-recurring items	1,588	1,732	1,826	2,008	1,134
EBITA	1,289	1,515	1,585	1,663	771
EBIT	881	1,115	1,220	1,286	428
Financial items, net	(54)	(311)	(161)	(118)	(47)
EBT	827	796	1,059	1,171	381
Profit for the year, continuing activities	590	417	811	798	226
Loss for the year, discontinued activities	(68)	(343)	(176)	(22)	(21)
Profit for the year	522	74	635	776	205
ORDERS					
Order intake (gross), continuing activities	18,303	19,170	21,741	19,554	18,524
Order backlog, continuing activities	13,887	13,654	16,218	14,192	14,874
EARNING RATIOS					
Gross margin	25.2%	25.5%	25.0%	23.5%	23.5%
EBITDA margin before special non-recurring items	8.7%	9.6%	9.7%	9.7%	6.9%
EBITA margin	7.1%	8.4%	8.5%	8.1%	4.7%
EBIT margin	4.8%	6.2%	6.5%	6.2%	2.6%
EBT margin	4.5%	4.4%	5.6%	5.7%	2.3%
CASH FLOW					
Cash flow from operating activities (CFFO)	1,447	1,065	385	948	1,421
Acquisitions of property, plant and equipment	(203)	(174)	(288)	(177)	(171)
Cash flow from investing activities (CFFI)	(194)	(113)	(285)	(661)	(376)
Free cash flow	1,253	952	100	287	1,045
Free cash flow adjusted for acquisitions and disposals of enterprises and activities	1,253	846	(15)	574	1,082
BALANCE SHEET					
Net working capital	2,099	1,833	2,200	2,739	1,752
Net interest-bearing debt (NIBD)	(2,525)	(1,545)	(1,922)	(2,492)	(1,808)
Total assets	24,112	22,364	21,743	23,532	20,456
Equity	8,462	8,038	8,266	8,793	8,130
Dividend to shareholders, proposed	307	410	461	0	103

Use of alternative performance measures

Throughout the report we present financial measures which are not defined according to IFRS. We have included additional information in note 7.4 Alternative performance measures and 7.8 Definition of terms.

DKKm	2016	2017	2018	2019	2020
FINANCIAL RATIOS					
CFFO / Revenue	8.0%	5.9%	2.1%	4.6%	8.6%
Book-to-bill	100.6%	106.5%	116.0%	94.7%	112.7%
Order backlog / Revenue	76.3%	75.9%	86.5%	68.7%	90.5%
Return on equity	6.3%	0.9%	7.8%	9.1%	2.4%
Equity ratio	35.1%	35.9%	38.0%	37.4%	39.7%
ROCE	8.5%	10.4%	11.0%	10.9%	5.1%
Net working capital ratio, end	11.5%	10.2%	11.7%	13.3%	10.7%
NIBD/EBITDA	1.6	0.9	1.1	1.2	1.6
Capital employed, average	15,157	14,533	14,338	15,251	15,195
Number of employees	12,187	11,716	11,368	12,346	10,639
SHARE RATIOS					
Cash flow per share, diluted	29.5	21.4	7.7	18.9	28.3
Earnings per share (EPS), diluted	10.6	1.5	12.8	15.5	4.2
Dividend yield	2.0	2.2	3.1	0.0	0.9
Dividend per share, proposed	6	8	9	0	2
Share price	293.0	361.3	293.1	265.4	232.8
Number of shares (1,000), end	51,250	51,250	51,250	51,250	51,250
Market capitalisation, end	15,016	18,517	15,021	13,602	11,931
SUSTAINABILITY KEY FIGURES					
Safety, TRIR Total Recordable Incident Rate	4.0	3.2	3.0	1.6	1.0
Quality, DIFOT Delivery In Full On Time	84.0%	87.5%	87.0%	88.0%	88.3%
CO_2 emissions in tonnes	44,195	64,267	64,270	53,200	36,830
Relative carbon footprint	2.4	3.6	3.4	2.6	2.2
Water withdrawal (m^3)	-	241,651	227,272	221,613	197,346
Suppliers assessed for sustainability	161	113	195	689	390
Women managers	10.7%	10.5%	10.4%	11.2%	13.1%

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.

IFRS 16 was adopted 1 January 2019. No figures prior to 1 January 2019, throughout the report, have been restated.

IFRS 15 and 9 were adopted 1 January 2018. No figures prior to 1 January 2018, throughout the report, have been restated.

The measure of number of employees have been changed during 2020, and 2019 has been adjusted accordingly. The number of employees includes temporary employees compared to previous periods where only permanent headcount was disclosed. 2016-2018 has not been adjusted.

Last year's proposed dividend of DKK 8 per share, amounting to DKK 410m and a dividend yield of 3.0, was withdrawn in connection to the Annual General Meeting and the comparative numbers have been adjusted accordingly.

Sustainability key figures are from our Sustainability Report. Starting in 2018, TRIR is including contractors, while comparison numbers are excluding contractors. Water withdrawal was not counted in 2016.

LETTER TO OUR SHAREHOLDERS

FLSmidth strives to be the leading supplier of sustainable productivity to the global mining and cement industries, and we are already well-positioned in this endeavour

We help our customers to increase their production, lower their operating costs and reduce their environmental footprint. Our business model is anchored around a unique combination of projects, products and services. However, we have a strategic focus to expand the share of services and standardised products relative to the share of large projects which represent our process competence. This focus will help us obtain a more profitable business mix and a less cyclical business with a lower level of risk.

Another outcome of the pandemic has been the increased global awareness of health, safety and the environment.

2020 was impacted operationally and financially by the pandemic, which has presented both challenges and opportunities for FLSmidth. Our company has operated globally for around 140 years and has a vast experience with crisis management which was proven in the year 2020. In January, we assembled teams to cope with the supply chain situation in China, and subsequently we established crisis management teams in the company headquarters as well as in our regions with the main priority to secure the health and safety of our employees through a reorganised business setup, but also to monitor cash flow, secure credit lines, ensure our global supply chain and help our customers sustain production. Our employees have done a tremendous job adapting to the changed situation.

The year began with good market outlook for mining and stable for cement. We proved our increased customer focus by booking three large orders in Mining. Faced with high uncertainty from the pandemic and low visibility in global conditions, we suspended our financial guidance and withdrew our dividend. During April and May, a growing share of customers temporarily shut down or restricted access to their sites following guidelines from local authorities or through their own safety precautions. Global and local mobility restrictions also affected our supply chain, access to customer sites as well our own operations. During the summer, the situation improved in some regions but deteriorated elsewhere. Despite ongoing uncertainty, we reinstated our financial guidance in August and made the working assumption that business sentiment would improve gradually throughout the remainder of the year. As business sentiment failed to improve, we unfortunately had to let go of more than 1,700 colleagues during the year to adjust for a weaker outlook in Cement and a changed way of doing business due to the pandemic. We ended the year within our reinstated 2020 guidance.

The pandemic presented a number of opportunities for FLSmidth. The demand for minerals increased significantly resulting in increasing commodity prices. Especially copper and gold, which are traditional FLSmidth strongholds, enjoy favourable market conditions. Faced with a low activity level in cement, our Cement business has refocused its efforts on sustainability and digitalisation to be well

With around 96% of our overall emissions derived from customers' use of our sold products (scope 3), MissionZero is where we can have the greatest positive impact on emissions reduction.

Vagn Ove Sørensen
Chairman

Thomas Schulz
CEO

LETTER TO OUR SHAREHOLDERS

positioned for multiple future infrastructure projects, resulting from government's stimulus programmes. Another outcome of the pandemic has been the increased global awareness of health, safety and the environment. Some of the world's largest, most densely populated and most polluted cities have experienced weeks or months with closed factories, car-free streets and, for the first time in years, fresh air and clear blue skies. This has sparked fresh momentum in the battle against climate change. It has accelerated the green energy transition and industrial decarbonisation, both of which favour FLSmidth as a premium supplier to the mining and cement industries with huge potential to reduce their environmental footprint. Combined, cement and minerals production currently account for approximately 10% of all global CO_2 emissions. With growing populations, a larger middle class, and a transition to greener energy, the demand for cement and minerals – and thus the environmental impact - will only increase in the next decade. A more sustainable future requires action from the industries. We will lead this action towards zero emissions in mining and cement, without compromising quality or our customers' commercial competitiveness.

The pandemic has also underscored the importance of our agile supply chain, and it has proven the strengths of our regional business structure that was implemented in 2018. Today, we have a higher share of local sales and service staff close to our customers which has served us well through the lockdowns. Another cornerstone in our 2018 reorganisation was an improved focus on digitalisation. Over the past year we have seen a step-change in customers' willingness to adopt our remote support solutions and digitalised optimisation of operations.

Strong in-house sustainability performance
Emissions from FLSmidth's own operations (scope 1 and scope 2 emissions) account for less than 1% of our overall emissions, while scope 3 emissions from our supply chain and customers' use of our equipment represent the vast majority. Therefore, our approach to sustainability is to take responsibility for our own environmental footprint while helping our customers reduce theirs through our MissionZero programme (covered in the next section).

In 2020, we delivered a strong in-house sustainability performance. The carbon intensity of FLSmidth's operations declined from 2.6 to 2.2 tonnes/DKKm revenue. Our water withdrawal declined from 222 to 197 thousand m^3. Our share of women in management positions increased from 11% to 13%, and our safety KPI improved for the 7th consecutive year in a row.

Key events

February, 2020
FLSmidth receives two major Russian orders, at a combined value of DKK 1.9 billion.

February, 2020
FLSmidth and VICEM announces cooperation to jointly work towards sustainable cement production in Vietnam.

February, 2020
FLSmidth secures large equipment order in Belarus.

October, 2020
Acquisition of the digital optimisation firm KnowledgeScape.

October, 2020
Order for the BulkExpert™ digital solution for two export terminals in Brazil.

November, 2020
Order to deliver two FLSmidth HOTDISC's to replace coal at Sungshin Cement in Korea.

November, 2020
FLSmidth receives a EUR 5.4m grant from the European Institute of Innovation and Technology to help accelerate innovation.

November, 2020
New Strategic Partnership Agreement with TITAN Cement Group.

December, 2020
New HOTDISC® solution for a cement production line in Turkey which will achieve 86% substitution of fossil fuels.

December, 2020
Order for a tailing management system which recirculates over 86% of the process water to a lead-zinc mine in Rajasthan.

December, 2020
FLSmidth announces the sale of its non-core fabric filter technology and its Möller pneumatic conveying systems business.

LETTER TO OUR SHAREHOLDERS

Towards zero emissions in mining and cement
In November 2019, we announced our sustainability programme, MissionZero, to enable our customers in cement and mining to move towards zero emissions by 2030. With around 96% of our overall emissions derived from customers' use of our sold products (scope 3), MissionZero is where we can have the greatest positive impact on emissions reduction. In 2020, we reached significant milestones for MissionZero. Amongst others, we launched an innovative clay calciner system which reduces CO_2 emissions in cement production by up to 40% compared to traditional clinker production. We signed a contract to substitute coal with our alternative fuels solution, the FLSmidth HOTDISC®, for two cement production lines in Korea, and in Turkey we are building a HOTDISC® solution for a new cement production line which will achieve 86% substitution of fossil fuels. Additionally, we started a cooperation with the Vietnam National Cement Corporation with the goal of implementing technologies that radically reduce greenhouse gas emissions, and developing pioneering solutions for the use of alternative fuels and the improvement of air quality.

In support of our ambition to reduce energy usage and increase resource efficiency in the mining industry, FLSmidth is driving a number of research and development partnerships with customers, third parties and academic institutions around the world. One of the most promising joint projects led by FLSmidth recently received a EUR 5.4m grant from the European Institute of Innovation and Technology to help accelerate innovation. On a separate track, we have seen increasing demand for our water recycling solutions from the global mining industry. Following FLSmidth's successful installation of a tailing management system which recirculates over 86% of the process water at Hindustan Zinc Limited's mine in Rajasthan, India, we were awarded an additional contract to deliver an integrated dry stack tailings solution to recover the process water at one of their other mines in Rajasthan.

To further our ambition to decarbonise the cement and mining industries and put FLSmidth on the path to carbon neutrality, in early January 2021 we committed to set science-based targets according to the Science Based Targets initiative. We are also aligning our practices and reporting of climate-related financial risk with the TCFD recommendations. As part of this, we conducted a climate risk and opportunities analysis in late 2020 facilitated by an external advisor.

Step change in digitalisation
Digitalisation is an important lever to accelerate the journey towards zero emissions in cement and mining and the pandemic has accelerated customer adoption of digitalised operations and remote support. A good example of this is our new partnership with TITAN Cement Group to increase digitalisation and sustainability across the full flowsheet of all of their 17 cement plants. Earlier in 2020, we received an order for our BulkExpert™ digital solution from a customer in Brazil. The solution will fully automate the stockyard operation of two large iron ore shipping export terminals in the south of the country, improving the throughput, quality and safety of the customer's operations. On the innovation front, we launched the world's most OPEX- and CAPEX-efficient digitally-enabled gyratory crusher, and we took a major step in our artificial intelligence journey with the launch of our latest ProcessExpert system applicable for both mining and cement. Furthermore, we supplemented our in-house innovation through the acquisition of KnowledgeScape, a global leader in digital optimisation solutions for the mineral processing industry.

Throughout the year we have been executing our Group business improvement programme, including site consolidation, an improved logistical setup and headcount reductions. The programme was completed by the end of the third quarter with an EBITA improvement run-rate of DKK 150m annually.

Market developments in 2020
Although demand for more digitalised and sustainable mine sites and cement plants is rising, the pandemic severely impacted our end markets in 2020. In particular, the cement industry was marked by travel restrictions and restricted site access. Customers deferred non-critical investments due to uncertainty and lower production rates which also caused reduced demand for spare and wear parts. Following the shutdown of about 20% of the world's cement plants outside of China in April, the share of cement plants in operation has since climbed back up above 95%. However, many plants continue to run at reduced capacity and cement customers will need to see improved cash generation before they ramp up investments.

The mining industry has been more resilient – albeit not immune – to the pandemic. After approximately 10% of the world's mine sites were shut down in April, nearly all sites have since restarted production and most are running at high production rates. Under normal circumstances this would mean good conditions for our service business but travel restrictions and limited site access have continued to impact on-site technical services, resulting in reduced demand. On the positive side, commodity prices have rebounded strongly following their sharp decline earlier in the year. Miners are generating good cash flows, but despite the healthy industry fundamentals, they have continued to defer large capital investments due to pandemic-induced uncertainty and delays related to prolonged environmental and other regulatory approval processes.

Financial performance
Our financial results in 2020 were negatively impacted by the pandemic and the rapidly deteriorating business environment which affected order intake, revenue and EBITA. Still, we achieved an organic order intake on par with 2019, comprising growth in Mining

LETTER TO OUR SHAREHOLDERS

Every crisis presents challenges as well as opportunities. The current health (and economic) crisis is no different and we will seek to capture those opportunities, whether they entail organic or acquisitive growth.

and a decline in Cement. The contraction in Cement revenue was both a consequence of the pandemic and the low backlog entering the year. We have carried out activities to adjust the cost base accordingly but in some countries we were constrained from doing so by local labour restrictions related to COVID-19. Also, mobility restrictions related to the pandemic affected the utilisation of our global service technicians and resulted in more complex and costly logistics. Though not immune to the pandemic, our Mining business was relatively resilient whereas the sharp decline in revenue had a severe impact on the profitability in our Cement business.

In spite of the difficult business environment, we secured four large orders and a book-to-bill of 113% for the year. As a result of our strong cash focus, the net working capital ratio decreased from 13.3% to 10.7% and free cash flow more than doubled to DKK 1bn in 2020.

Business improvements

Throughout the year we have been executing our Group business improvement programme, including site consolidation, improved logistical setup and headcount reductions. The programme was completed by the end of the third quarter with an EBITA improvement run-rate of DKK 150m annually. To further address the challenging cement market, we have taken additional steps to increase outsourcing, simplify the Cement business and adjust the cost structure to improve profitability. In December, we divested our non-core fabric filter and pneumatic conveying systems businesses as a step towards simplifying our Cement business. Effective 1 January 2021, two of our smaller regions, Sub-Saharan Africa and Middle East (SSAME) and Sub-Continental India (SCIndia), have been merged to further reduce costs and complexity.

Looking ahead

With continued high COVID-19 infection rates and lockdowns in many parts of the world, market uncertainty remains high. The ongoing vaccination programmes provide a likely path towards normalisation but it is difficult to predict when and how fast this will support our business. At present, our working assumption is that market conditions in the first half of 2021 will be similar to that of the second half of 2020. From the summer of 2021, we expect a gradual improvement in business sentiment and increasing access to customer sites, returning to a more normalised situation by the end of the year. The market outlook is, however, very different for our two end markets, mining and cement.

We are positive on the outlook for mining. Most commodities have seen a strong rebound in prices, surpassing pre-pandemic levels. Mine sites, overall, are running at high production rates and industry fundamentals are healthy. In the longer term, the switch to green energy and electric-powered transportation will create increasing demand for copper and battery metals for which the mining industry will need to scale up investments in order to meet.

The cement market, on the other hand, is faced with ongoing overcapacity and we see no short- to medium-term recovery. Thus we continue activities to reshape our Cement business. Large economic stimulus programmes, combined with an increasing focus on lower-carbon cement, will create good opportunities in the medium- to long-term but the timing and extent of an overall rebound in the cement market remain uncertain. It is, however, clear that the cement industry will need substantial investments to meet the emissions reduction targets set by a growing number of cement producers as well as the recent commitments to carbon neutrality made by the Global Cement and Concrete Association and the European Cement Association. Based on the need to decarbonise, we foresee a multi-commodity cement industry in the future, utilising a range of cement production processes and a variety of raw materials. As the industry's leading and most innovative premium supplier with strong process know-how, we are strongly positioned to benefit from this development.

In the short- to medium-term, we are nevertheless faced with the challenge of managing two industries, Mining and Cement, with diverging end markets. Consequently, we are further strengthening our two industries setup, while keeping focus on leveraging synergies and ensuring clear capital allocation to capture growth opportunities and maximise value creation within both businesses. In parallel, we are considering acquisitions to strengthen our offerings, particularly in Mining and within the areas of sustainability and digitalisation. It is highly uncertain as to whether and when acquisitions will materialise.

Every crisis presents challenges as well as opportunities. The current health (and economic) crisis is no different and we will seek to capture those opportunities, whether they entail organic or acquisitive growth.

Vagn Ove Sørensen, Chairman

Thomas Schulz, CEO

FINANCIAL OUTLOOK

FLSmidth guides for group revenue of DKK 15.5-17.0bn and a group EBITA-margin of 5-6%. The guidance is based on expected different developments in the two individual businesses, Mining and Cement, and continued impact from the pandemic in the first half of 2021.

Guidance 2021

The guidance for 2021 is subject to uncertainty due to the COVID-19 pandemic. Lockdowns and mobility restrictions continue to impact suppliers, customers and our workforce. Restricted access to customer sites, in particular, is creating uncertainty around the timing of our order backlog conversion and the activity level for our service business. A gradual improvement in business sentiment and access to customer sites is, however, expected in the second half of the year.

The outlook for the mining industry remains positive. For 2021, the Mining business revenue and EBITA are expected to grow in the second half of the year as COVID-19 restrictions are expected to ease. EBITA-margin for Mining is expected to be high-single digit.

The outlook for the cement industry remains impacted by overcapacity and slow recovery. The Cement business revenue is expected to decline further in 2021, and as a consequence, initiatives to reshape the Cement business will continue during the year. The Cement business is not expected to be EBITA positive in 2021 due to continued Cement reshaping costs and low capacity utilisation in the service business until the pandemic eases.

Cash flow from investments (excluding acquisitions and divestments) is expected to be largely in line with 2020.

Mid- and long-term financial targets

In recent years, cement industry dynamics have diverged from those of the mining industry. Whereas fundamentals for the mining industry remain positive, overcapacity in the cement industry has put pressure on the returns of the cement producers, a development which has been further accelerated by the ongoing pandemic.

The structural changes in the cement industry and the pandemic have increased uncertainty around our mid- and long-term target levels and the timing for achieving these targets. Consequently, it has been decided to withdraw the mid- and long- term financial targets. Targets for capital structure, including financial gearing, equity ratio and dividend policy remain unchanged.

We will resume communication on the longer-term prospects for our Mining and Cement businesses when we have sufficient visibility.

2021 guidance

Revenue (DKKbn)	15.5-17.0
EBITA margin	5-6%

2020 guidance

	Realised	Reinstated	Initial
Revenue (DKKbn)	16.4	~16	18.5-20.5
EBITA margin	4.7%	4.5-5.0%	8-9%
ROCE	5.1%	Suspended	9-12%

Capital structure targets, through-the-cycle

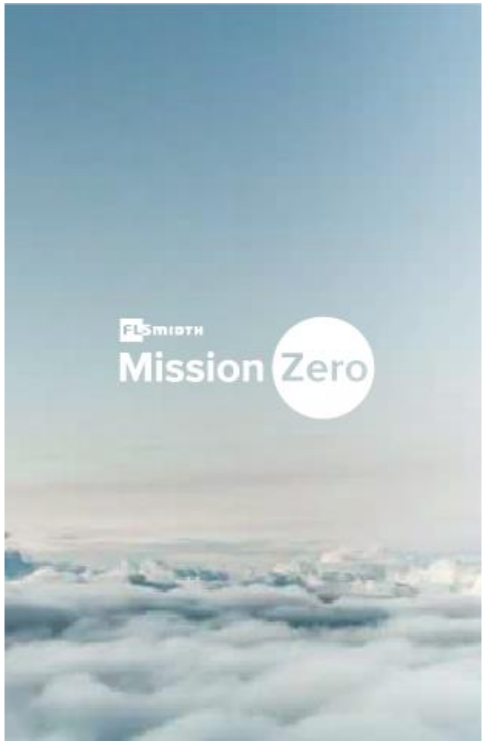
Financial gearing (NIBD/EBITDA)	< 2
Equity ratio	> 30%
Dividend ratio	30-50% of net profit

WHY INVEST

1 An investment in the green transition

2 Technology leader

3 Unique business model with high service share



An investment in the green transition

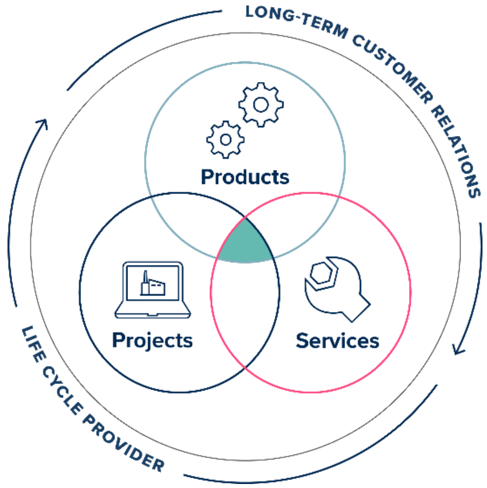
With economic growth and urbanisation comes the demand for infrastructure and modern conveniences, such as consumer electronics. Renewable energy, electric cars, wind and solar energy all require cement and minerals.

The transitions of the mining and cement industries to sustainable forms of production are critical to solving the challenges of climate change. Energy-intensive industries, such as mining and cement, are indispensable to the global economy and essential to making the green transition a reality. That is why it is critical to de-carbonise and modernise these sectors. The transition towards sustainable production requires innovative solutions and both regulators as well as customers are increasingly setting new or stricter emissions-reduction targets. As a technology leader in the mining and cement industries, we already have a strong portfolio of sustainable solutions and we recognise our role to lead these industries into a sustainable future.

Technology leader

The growing focus on sustainability is increasingly important for our customers and we are strongly positioned to address challenges such as tighter regulations, societal expectations and increasing costs. By minimising environmental impacts, we can help resolve challenges with community relations, while at the same time contributing to more sustainable production. With MissionZero, we are leveraging our digital and innovative solutions to offer our customers the required technology to operate zero-emissions processing plants for minerals and cement by 2030.

Please see the Innovation section on page 26-29 if you would like to learn more about our solutions that are driving sustainable productivity.



Unique business model with high service share

Through our unique combination of engineering, products and services, we can outgrow the market by helping our customers increase their production output, lower their operating costs and reduce their environmental impact. Our decentralised organisation and global service footprint ensure that all FLSmidth offerings are available to every one of our customers and allows for a 50-60% share of relatively resilient service business. This, in combination with our asset-light business model, outsourced manufacturing and a flexible cost structure, allows us to manoeuvre safely through the cycles and periods of extreme uncertainty, such as the current pandemic. Our life cycle approach combined with a strong focus on sustainability and digitalisation is what makes us stand out from competitors and differentiates us from mid-market and single-equipment suppliers.

BUSINESS

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

MissionZero
We enable our customers in cement and mining to move towards zero emissions by 2030.

60+
Countries
A truly global company with local presence in more than 60 countries and customers in more than 150 countries.

10,639
Employees
Our employees use their unique process knowledge about products, projects and services to meet our customers' needs for technical innovations, digitalisation and sustainable life cycle management.

Our vision
We drive success through sustainable productivity enhancement

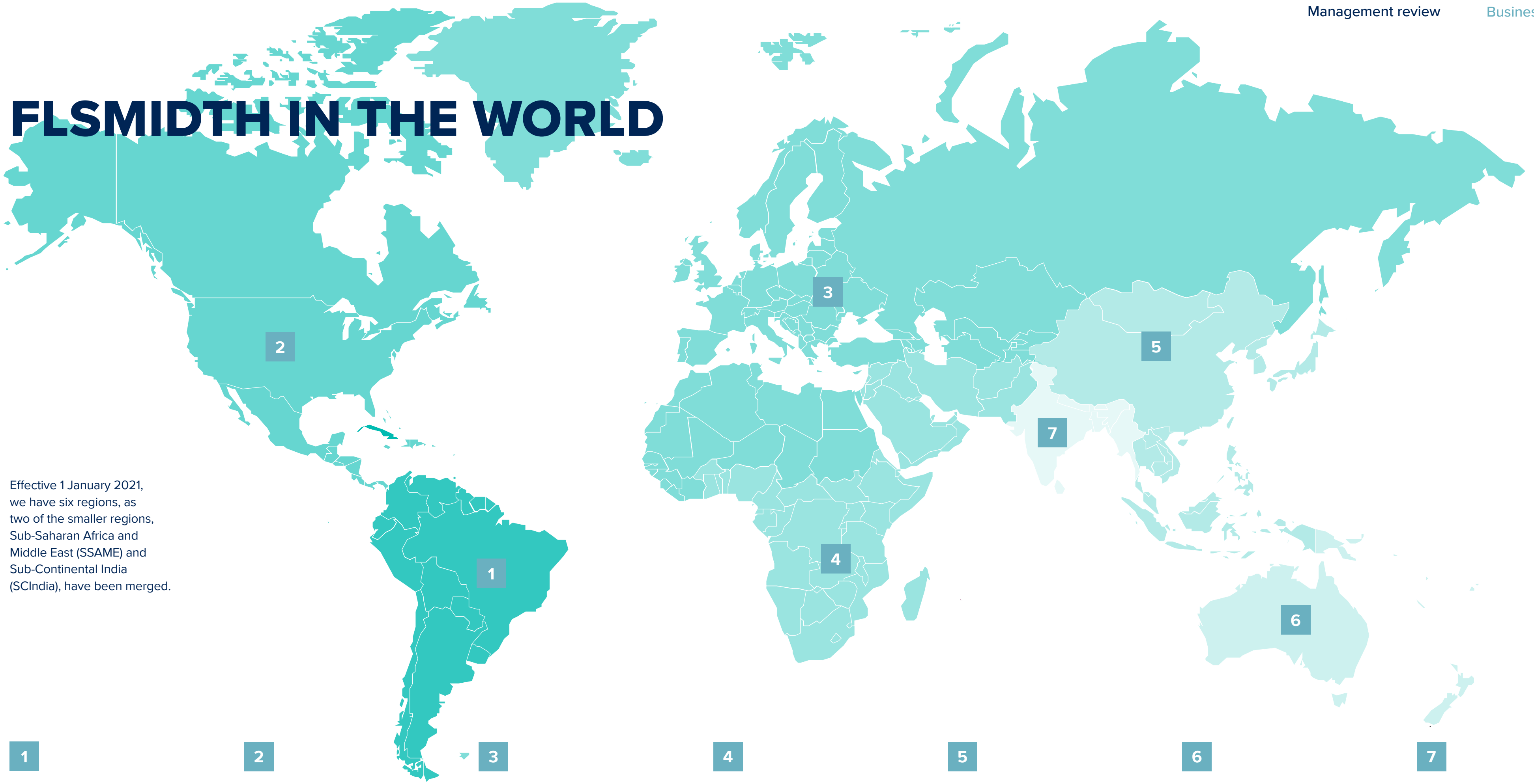
Our brand promise
We discover potential

Global provider of sustainability productivity

We are a leading provider of engineering, equipment and service solutions to the global mining and cement industries. We enable our customers to improve performance, drive down costs and reduce environmental impact.

Our business model is based on three strong strategic pillars: Life cycle approach, full service provider, and full flow-sheet. With our sustainability ambition, MissionZero, we enable our customers to move towards zero emissions by 2030. Our focus is clear – by using innovative technology, digital solutions and strong partnerships, we are committed to build a sustainable future for all of us.

FLSMIDTH IN THE WORLD



Effective 1 January 2021, we have six regions, as two of the smaller regions, Sub-Saharan Africa and Middle East (SSAME) and Sub-Continental India (SCIndia), have been merged.

	1 South America	2 North America	3 Europe, North Africa & Russia	4 Sub-Saharan Africa & Middle East	5 Asia	6 Australia	7 Subcontinental India
Share of revenue:	**23%** (2019: 24%)	**21%** (2019: 20%)	**19%** (2019: 19%)	**11%** (2019: 10%)	**9%** (2019: 7%)	**9%** (2019: 7%)	**8%** (2019: 13%)
Share of employees:	**18%** (2019: 16%)	**16%** (2019: 16%)	**25%** (2019: 26%)	**8%** (2019: 7%)	**5%** (2019: 5%)	**5%** (2019: 5%)	**23%** (2019: 25%)

PANDEMIC IMPACT AND ACTIONS

The COVID-19 pandemic had a significant impact on our industries, customers, company and employees. We continue to monitor the situation and take swift action where necessary to ensure the safety of our employees, protect the interests of our customers and secure our supply chain.

Customer impact

Most of our customers have maintained business continuity during the pandemic. However, in order to reduce the risk of COVID-19 transmission within their workforces, many of them have chosen to run their operations with minimal staff on-site, and several have closed site access to suppliers. Roughly 97% of mine sites and 95% of cement plants are currently back in operation, but many cement plants run at reduced capacity utilisation and access to sites remains difficult for suppliers.

The pandemic has accelerated customer demand for digital optimisation, with the number of hours spent on digital troubleshooting for customers doubling since the beginning of the year. A growing number of customers are now enjoying the benefits of our remote condition monitoring tools and services and are in regular contact with our 24/7 remote technical support staff. Our on-site solutions have also proved their value to customers during the pandemic. For example, with our SiteConnect mobile app, customers are able to monitor asset performance and health data without having to be on site or in the control room. Though restricted site access has made it challenging to install new digital solutions on-site, we have successfully implemented remote software upgrades and plant improvements.

Supply chain impact

As a global business, the timing and extent of the pandemic's impact on our operations has varied across our locations. In response, we have endeavoured to maintain resilience and flexibility within our global supply chain and the ability to source from suppliers across all regions. As a result, while we have incurred some additional costs, there has been very little disruption within our global supply chain during the pandemic. Where sub-suppliers have struggled to deliver, we have been able to successfully switch to suppliers in other parts of the world.

To simplify and focus the supply base, we have been steadily reducing the number of suppliers we work with. In total, we have halved our number of suppliers over the past few years to 7,500. Of these, fewer than 1,500 suppliers now collectively account for 90% of our global supplies. These suppliers are evenly split among geographies to reduce transportation, lead-time and improve agility with stronger delivery capability. Two thirds of the suppliers are based in low-middle income countries. Along with the partnership approach, this allows for better screening of suppliers and improved customer experience.

Internal operational impact

Ensuring the safety of our employees has always been our most important priority. Following the outbreak and spread of the pandemic, we established crisis management teams at group and regional levels and undertook continuous risk assessments in order to ensure that actions taken were proving effective in minimising infection rates. These measures included providing personal protective equipment, ensuring safe employee transportation and implementing travel bans, contact tracing programmes, temperature screenings and entrance testing, depending on location.

As of end-2020, almost 100% of our blue-collar employees where on-site at our manufacturing, assembly and warehouse sites, while around 50% of our global office employees were working from home. We have unfortunately had to reduce our workforce significantly during the year. In light of the pandemic, the increased degree of flexible working arrangements and an expected slow recovery within cement, we have decided to revisit our plans for building a new campus in Copenhagen, Valby.

Travel restrictions continue to impact the capacity utilisation for our global service technicians, and the lockdowns and travel restrictions put in place as a result of the latest wave of COVID-19 cases will continue to impact our business during the first half of 2021. Our regional offices, which are responsible for compliance to local regulations, are monitoring the situation and reporting weekly to Group Management on changes to local restrictions.

COVID-19

Customers

- Travel restrictions and limited site access
- Deferred capital investments
- Operation at reduced capacity

Operational impact

- Reduced operational activity
- Travel restrictions
- Working from home
- Reduced capacity

Supply chain impact

- Largely undisrupted
- Reduction in number of suppliers
- Resilient and flexible supply chain

MINING MARKET TRENDS

While the global economy was impacted by the COVID-19 pandemic, the mining industry has remained relatively resilient during the course of 2020 with the majority of mines operational across regions. Roughly 10% of the world's mine sites were shut down in April, but nearly all sites have since restarted production and most are running with high production rates. Under normal circumstances this would stimulate investments and deliver good conditions for our service business, but travel restrictions and limited site access have continued to impact on-site technical services, resulting in reduced demand. Mines are often remotely located and many customers are still enforcing safety protocols and restricting site access to external service providers in order to protect employees and safeguard production, which impacts their equipment and service spend.

On the positive side, commodity prices have rebounded strongly from the spring when the first pandemic wave hit, and the industry is expected to recover to pre-pandemic activity levels within a relatively short time. In December, copper prices reached a seven-year high of USD 8,000 per tonne, which represents a 70% increase compared to the low point in March 2020. Miners are generating good cash flows, but despite the healthy industry fundamentals, they have continued to defer large capital investments due to pandemic-induced uncertainty and delays related to prolonged environmental and other regulatory approval processes. In many of our regions, refurbishment and maintenance has been postponed, which is expected to translate into new opportunities when the market comes back.

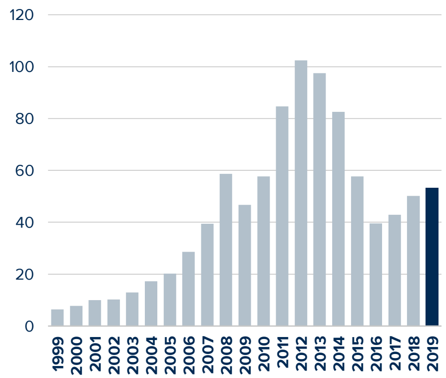
However, the timing of converting opportunities to orders remains unpredictable and with infection cases currently surging in many parts of the world, it is still difficult to predict the shape of the recovery curve. It is, however, expected that the pandemic will continue to impact the industry in the first half of 2021.

The second wave that is currently sweeping across the globe is impacting regions at different times and to varying extent. National lockdowns continue to reduce activity in many South American countries, where quarantines have halted or slowed numerous mines and development projects. In North America, the pandemic led to a sharp drop in business activity in the spring, and while the situation improved over the summer, it deteriorated again towards the end of the year as infection rates increased and caused renewed uncertainty. Despite high infection rates, the activity level in Eastern Europe has held up well, whereas the second wave has triggered new site closures and very restricted access to mines in Sub-Saharan Africa and the Middle East. In India, market activity has improved compared to the low levels in previous quarters and we are seeing an increase in demand for solutions within tailings management and water recovery. Iron ore and gold production remain strong in Australia, supported by record-high production volumes.

All things considered, the pandemic has disrupted the mining industry to a lesser degree than many other industries. The outlook for investments in mining remains positive, and we have a healthy pipeline of both small and large opportunities. Further, the switch to green energy and electric-powered transportation will require a massive increase in infrastructure and the mining industry will need to scale up investments in copper, battery metals and other minerals to meet this growing demand.

Capex trend in mining

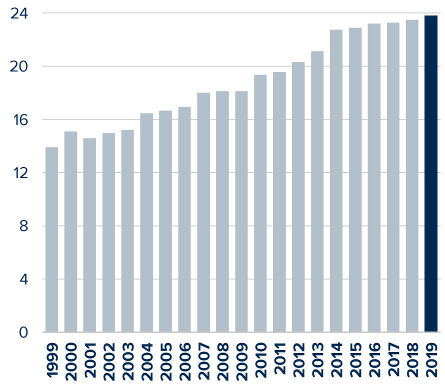
USDbn



Source: Bloomberg

Global copper consumption

Million tonnes



Source: Bloomberg, FLSmidth estimates

CEMENT MARKET TRENDS

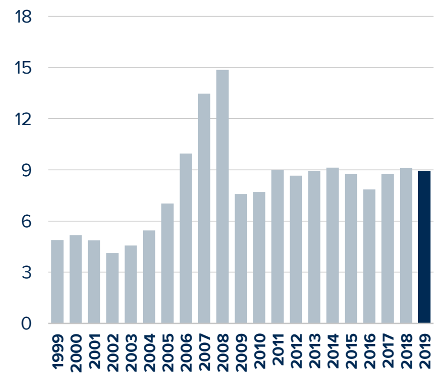
The cement market entered 2020 with substantial overcapacity and has been severely impacted by the pandemic and we do not anticipate a recovery in the short- to medium-term. Large economic stimulus programmes, combined with an increasing focus on lower-carbon cement, are expected to create good opportunities in the medium- to long-term but the timing and extent of an overall rebound in the cement market remain uncertain.

Following the shutdown of about 20% of the world's cement plants outside of China in April, the share of cement plants in operation has since climbed back up above 95% at year-end. However, many plants continue to run at reduced capacity and sites remain difficult to access due to restrictions and preventative measurements taken by authorities and plant operators. This has affected service activity and curbed investments. As economic growth is one of the most important drivers for cement demand, our customers are sensitive to market fluctuations and typically respond through cash preservation. Cement consumption continues to be impacted by reduced construction activity, and across regions most large investments have been suspended pending an improvement in the business outlook. Operating expenditures have also declined as cement companies endeavour to stay profitable during a period of reduced demand and high uncertainty.

In North America, the outcome of the US presidential election should help remove the uncertainty that has held back investments, allowing the industry to begin planning ahead again. The US government's large infrastructure spending bill, which earmarks more than USD 1 trillion to upgrade national infrastructure, could be passed in the first half of 2021 which would help to boost optimism among cement producers and increase confidence in the market. In India, market activity has improved compared to the low levels seen in previous quarters and the Indian government is pushing for infrastructure investments and housing. The Chinese economy is nearly back to normal but most other Asian countries continue to be severely impacted by COVID-19 from either a health or economic perspective. Market activity in Africa and the Middle East remains significantly lower and lockdowns continue to reduce activity at cement plants across South America. Most of our cement customers in Europe, North-Africa and Russia will need to see improved cash generation before they ramp up investments. Any capital investments in the foreseeable future are anticipated to be allocated towards more sustainable cement production.

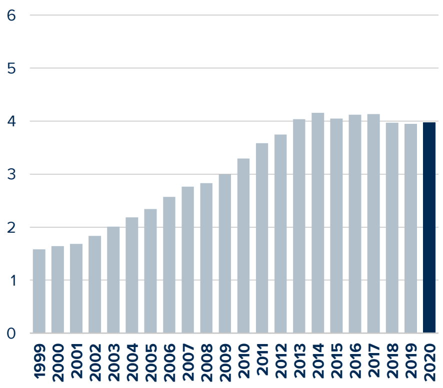
During the last weeks of 2020, the EU Commission agreed on a 55% reduction target for greenhouse gas emissions by 2030, and a budget that allows for a green recovery following COVID-19 restrictions. The green recovery will fuel demand for emissions-reducing technologies and the cement industry will need to undertake substantial investments to meet recent commitments to carbon neutrality by the Global Cement and Concrete Association and the European Cement Association. The US re-joining the Paris climate accord and the coming implementation of phase IV of the EU Emissions Trading System (ETS) are other factors likely to encourage cement producers to invest in emissions-reducing technologies such as FLSmidth's recently announced calcinated clay system.

Capex trend in cement
USDbn



Source: Bloomberg

Global Cement consumption
Billion tonnes



Source: Bloomberg

THE ROAD TO ZERO EMISSIONS

With MissionZero, we aim to deliver solutions that make it possible to operate zero-emissions cement plants and manage zero-emissions mining processes by 2030.

Combined, cement and minerals production currently account for approximately 10% of all global CO_2 emissions. With growing populations, a larger middle class, and a transition to greener energy, the demand for cement and minerals - and thus the environmental impact - will only increase in the next decade.

A more sustainable future requires action from the industries. We will lead this action towards zero emissions in mining and cement, without compromising quality or our customers' commercial competitiveness. FLSmidth already offers many solutions to reduce the environmental footprint but more work, often in partnership is needed to ensure the right pathway for decarbonisation. Our MissionZero programme is aimed to deliver and implement these solutions.

The goals that underpin the MissionZero programme are inspired by and contribute directly to some of the UN Sustainable Development Goals (SDGs), including those related to water, affordable and clean energy, industry and innovation, responsible consumption and climate action. Further, we have set targets specifically to our own operations and for our suppliers including targets on gender equality that are in support of specific SDGs. To further our ambition to decarbonise the cement and mining industries and put FLSmidth on the path to carbon neutrality, in early 2021 we committed to set science-based targets according to the Science Based Targets initiative. In addition to targets for our suppliers and our own operations, we have committed to a 7% year-on-year reduction in downstream (customer) emissions relative to revenue from 2019 to 2030. This is pivotal as around 96% of our overall emissions are derived from customers' use of our sold products (scope 3).

We are also aligning our practices and reporting of climate-related financial risk with the Task Force for Climate Related Financial Disclosure (TCFD) recommendations. As part of this, we conducted a climate risk and opportunities analysis in late 2020 facilitated by an external advisor.

Concurrently with the Annual Report, FLSmidth has published its annual Sustainability Report, covering non-financial performance related to environmental and socio-economic impacts. The 2020 Sustainability Report is in full compliance with both Sections 99a, 99b and 107d of the Danish Financial Statements Act and in accordance to the Global Reporting Initiative (GRI) core requirements, and also serves as the Advanced Communication on Progress to the United Nations Global Compact. The report has been subject to limited assurance performed by Ernst & Young. The report is available at www.flsmidth.com/SustainabilityReport2020

KEY GOALS IN MISSIONZERO

Cement

The three main levers to reduce a cement plant's environmental footprint are calcination, fuel for heating, and electric power consumption. With existing solutions and our current technology roadmap, we are already capable of reducing emissions by 70 percent.

ZERO EMISSIONS
Reduce emissions from fuel burning and reduce process emissions from calcination.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

100% FUEL SUBSTITUTIONS
Eliminate the need for fossil fuels and deliver solutions for 100 percent alternative fuel.

7 AFFORDABLE AND CLEAN ENERGY

ZERO WASTE
No waste heat, use of waste streams as raw material and circular processes.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Mining

Challenges such as water use, emissions, and energy waste are at the top of the mining agenda. If these issues are not addressed, access to investment, regulatory compliance, license to operate and the industry's own reputation are all at risk.

ZERO WATER WASTE
Enable zero discharge and 100% re-use.

6 CLEAN WATER AND SANITATION

ZERO EMISSIONS
Eliminate emissions from use of fossil fuels in transportation and minerals processing.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

ZERO ENERGY WASTE
Reduce energy costs and energy waste, especially from energy intensive mills.

7 AFFORDABLE AND CLEAN ENERGY

OUR IMPACT ACROSS THE VALUE CHAIN

As a leading supplier of equipment and service solutions to the mining and cement industries, we have a substantial influence on our value chain.

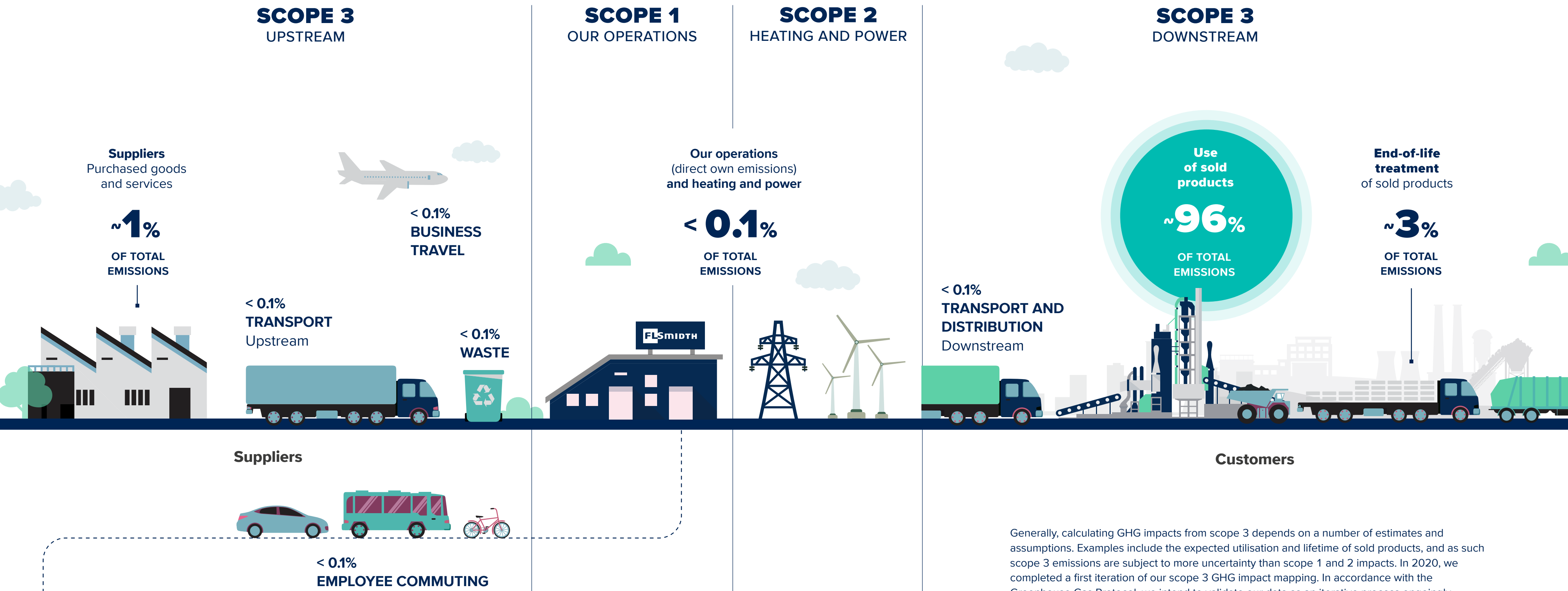
We calculate our GHG emissions based on the standards of the Greenhouse Gas Protocol, which provides a standardised framework to measure greenhouse gas (GHG) emissions, both for direct emissions from our own company and from our entire value chain.

The GHG Protocol includes impacts for a number of GHGs, expressed as CO_2-equivalents (CO_2e). This means they are expressed as the amount of CO_2 that would give the same GHG impact.

In short, the GHG Protocol divides a company's value chain GHG emissions into three scopes:

1. Direct GHG emissions from own facilities and vehicles
2. Indirect GHG emissions from purchased electricity, steam, heating and cooling
3. Indirect GHG emissions from the value chain, including both upstream emissions (e.g. purchased goods and services, upstream transportation and distribution, and business travel) and downstream emissions (e.g. downstream transportation and distribution, use of sold products and end-of-life treatment of sold products)

Customers use of our products make up around 96% of our total scope 1-3 emissions.



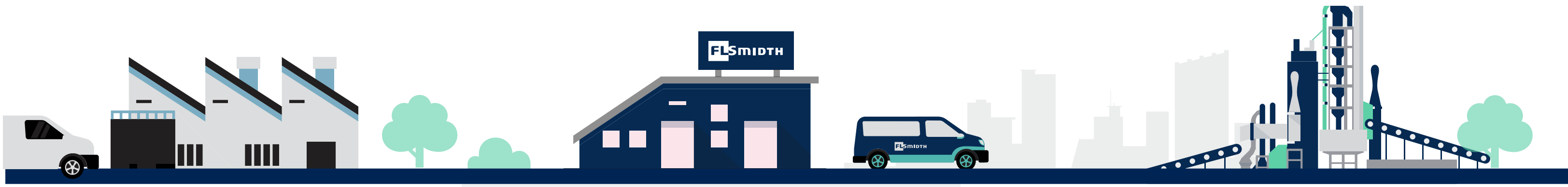
Generally, calculating GHG impacts from scope 3 depends on a number of estimates and assumptions. Examples include the expected utilisation and lifetime of sold products, and as such scope 3 emissions are subject to more uncertainty than scope 1 and 2 impacts. In 2020, we completed a first iteration of our scope 3 GHG impact mapping. In accordance with the Greenhouse Gas Protocol, we intend to validate our data as an iterative process ongoingly.

SCIENCE-BASED TARGETS AND HOW THEY WILL LEAD US TOWARDS ZERO

With MissionZero, we have a clear ambition to do our part in limiting global warming to 1.5°C. Fulfilling this ambition requires a systematic approach to reducing greenhouse gases. We are now setting science-based targets.

What are science-based targets
Science-based targets provide a clearly defined pathway for companies to reduce greenhouse gas emissions. Targets are considered science-based if they are in line with what the latest climate science deems necessary to meet the goals of the 2015 Paris Agreement. The Science Based Targets initiative is a partnership between CDP Disclosure Insight Action, the United Nations Global Compact, the World Resources Institute and World Wildlife Fund (WWF).

At the time of reporting, our targets have been submitted for validation and are pending approval from the Science Based Targets initiative.



In early 2021, we committed to and submitted science-based global carbon reduction targets which are now pending validation by the Science Based Targets initiative. Having an independent body validate our targets reinforces our long-term commitment and our determination to reach our targets. The systematic approach helps us break the main target into tangible, yet ambitious steps.

Targets across the value chain
Downstream is where we have our largest impact. That is why with MissionZero, our target is to enable our customers to produce cement and minerals with zero emissions.

However, we are including science-based targets for the entire value chain.

Upstream
We work with our suppliers to **move towards greenhouse gas emission reductions by 2030.** By 2025, 30% of our suppliers, based on spend, need to have set their own targets for reducing greenhouse gas emissions.

Own operations
From our own direct emissions, we have set a target to **reduce our Scope 1 and Scope 2 emissions to 0** and be carbon-neutral by 2030. Those emissions stem from our manufacturing and transportation, and the energy we use in our offices and production.

Downstream
Our downstream target is a **7% year-on-year reduction in carbon emissions per unit of revenue** from a 2019 baseline until 2030. It is calculated as tonnes of CO_2-equivalents divided by revenue in DKK.

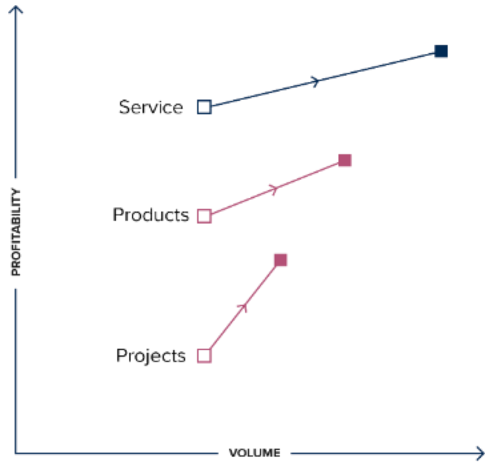
By far our largest environmental impact stems from the use of our products by our customers.

STRATEGY

FLSmidth strives to **be the leading supplier of sustainable productivity to the global mining and cement industries**, and we are already well-positioned in this endeavour. We help our customers to increase their production, lower their operating costs and reduce their environmental footprint.

With a local presence in more than 60 countries and customers in more than 150 countries, FLSmidth is truly a global company. The geographical footprint reflects our diverse customer base, composed primarily of global and regional mining and cement companies which invest in new capacity or in expanding, upgrading, maintaining and servicing existing production facilities.

Our business model is anchored around a unique combination of projects, products and services. However, we have a strategic focus to expand the share of services and standardised products relative to the share of large projects. This focus will help us obtain a more profitable business mix and a less cyclical business with a lower level of risk. While the process expertise we gain from projects is key to delivering productivity improvements to our customers, we remain selective in taking on large projects to ensure that terms and conditions support our profitability targets.



To further strengthen our position as **Sustainable Productivity Provider #1**, we have identified five key strategic focus areas (illustrated on next page).

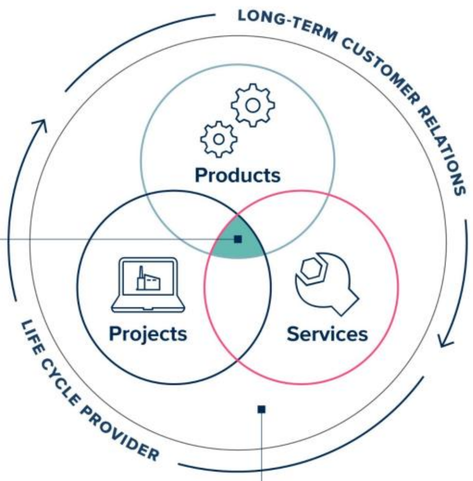
Customers

FLSmidth has vast experience in working with a broad range of customers around the world. Our customers consist of both global majors and mid-sized regional players. The latter account for a relatively large amount of our project sales, whereas the global majors account for a considerable share of our service business.

Being close to our customers is key. 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, and we continue to open sales and service offices around the world to cover new geographical regions and overcome the increasing challenge of trade barriers. While expanding and localising our service footprint, we have pursued a strategy of consolidating our supply chain and

BUSINESS MODEL A UNIQUE COMBINATION OF PROJECTS, PRODUCTS AND SERVICES

SUSTAINABLE 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 licenses to operate

FLSmidth key competences

- Process and product knowledge to optimise operations
- Guaranteed equipment uptime and performance
- Proactive and predictive maintenance through innovative and digital solutions
- Driving sustainable development
- Local service and support presence

project centres to ensure the leanest possible organisation.

Despite cyclical end markets, we consistently prioritise maintaining and developing a strong and competent sales force, ever aware that the strength of our customer relationships during the downturn will help to define our success in the industry upturn. We constantly seek to minimise administrative functions and allocate resources to sales and service.

As a result, a large proportion of our employees has direct contact with customers. Our customers recognise us for our high quality and reliability, which is also reflected in our quality KPI, DIFOT (Delivery in full on time). DIFOT has risen from 84% in 2016 to 88% in 2020.

Sustainability

FLSmidth's relatively asset-light business model means that the environmental footprint from our own operations is very modest compared to that of our customers. A large cement producer has a carbon footprint about 4,000 times that of FLSmidth, and our annual water consumption equals roughly two weeks of water consumed by a copper mine (100,000 tpy). Therefore, our approach to sustainability is to take responsibility for our own environmental footprint while helping our customers reduce theirs, where we can have a much greater positive impact on emissions reduction. For this reason, we launched MissionZero in 2019, which is an integral part of our business strategy and explained in more detail on page 18-20.

Innovation & digitalisation

Our efforts in innovation and digitalisation are an important sustainability enabler. 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, digitalisation and high-end technical solutions, which is where FLSmidth has a leading position and a competitive edge. Our strong digital capabilities are founded on our extensive experience in automating plants, which positions us as a market leader in analysing and understanding performance data. An increasing share of our products and solutions offered to the cement and mining industries is becoming intelligent and self-learning. Mining and cement have historically been conservative industries but the needs of our customers are changing more rapidly today. Their constant hunt for productivity, reduced environmental footprint and higher returns makes them more receptive to innovation and new ways of working, which is fuelling a growing interest in digitalisation.

Digitalisation offers huge potential but first and foremost we see it as an enabler. It has become a natural and integral part of our product portfolio and the benefits to our customers are clear: increased productivity through optimisation, more reliable operations, increased uptime as well as proactive, predictive and increasingly prescriptive maintenance. Our ability to deliver productivity improvements is anchored in a full flowsheet of premium sustainable technologies (see page 24-25), combined with strong process knowhow and a broad range of services.

Read more about innovation and digitalisation at FLSmidth on page 26-29.

Strategic focus areas

Customers

Sustainability

Innovation & digitalisation

Life cycle approach

Standardisation

Values

Competences, Co-operation and Responsibility

Life cycle approach

To achieve a sustainable productivity improvement, companies need to adopt an end-to-end process and integrate the whole value chain. Forces must be activated simultaneously from multiple directions and across the organisation to create the kind of momentum that leads to sustainable change. Through a life cycle approach, we enable our customers to lower their total cost of ownership.

Our digitalisation efforts will help pave the way for growing our spare and wear parts business in the years to come, as customers increasingly buy solutions rather than single parts and equipment. Over the years, we have successfully built a large service business focusing on spare parts, upgrades and maintenance. Our customers benefit from the most comprehensive product portfolio in the industry, allowing them to increase the productivity of their complete value chain. A full flowsheet facilitates digital access to all key processes and equipment. To be able to address issues before equipment breaks down, we create powerful connections between physical and digital systems which lay the foundation for analytics-driven predictive maintenance. We can then digitalise the entire supply chain to provide proactive condition monitoring and data collection, identifying damage or wear ahead of any failure.

Standardisation

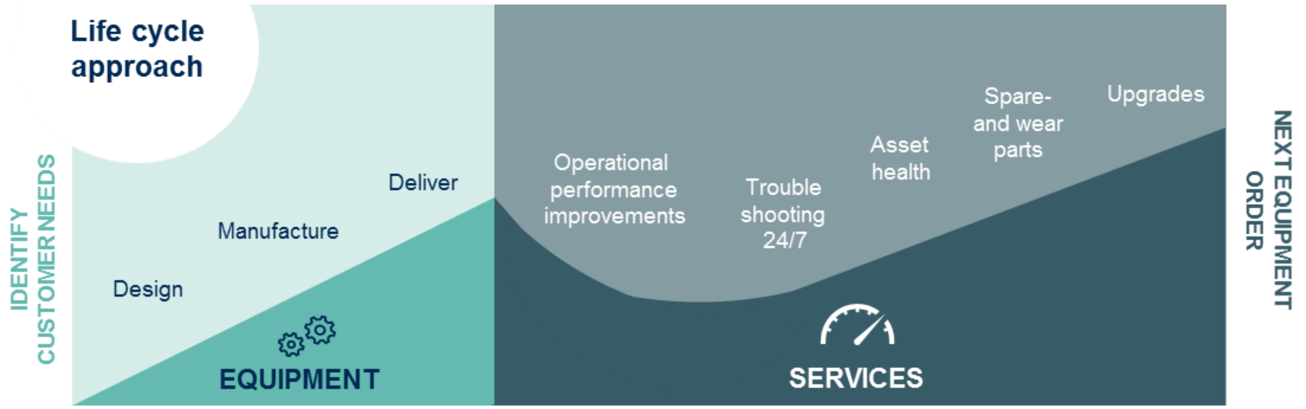
Through value engineering and modularisation, we re-think the designs of our products to increase reliability and reduce cost and complexity without compromising on quality and functionality.

Our standardisation programme has yielded substantial results. We have, in recent years, standardised products such as our vertical roller mills, coolers, burners, feeders and concentrators allowing for a higher degree of configuration and less customisation. We will continue standardising more products.

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. Smarter product design enables us to significantly reduce 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.

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.



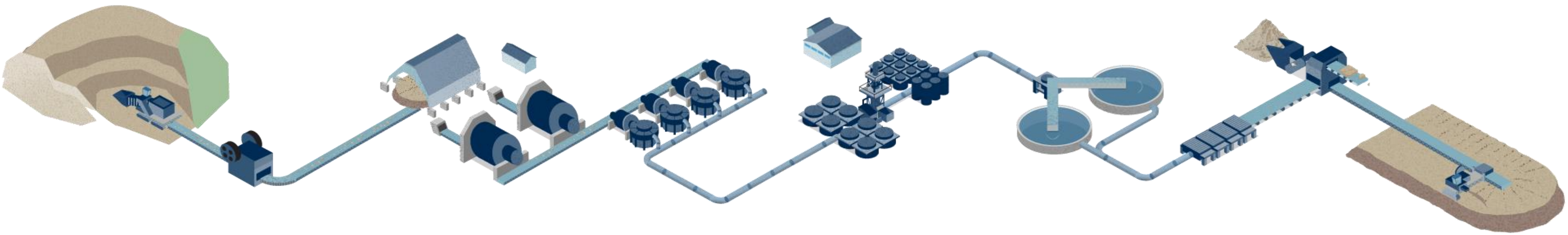
Mining

We are one of the market leaders in mining with one of the strongest brands and broadest offerings.

FLSmidth is 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, flotation cells and automated laboratories to bundled equipment, full production plants and maintenance solutions.

We increase the productivity of our customers' 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 minerals and tailings management. In Salt Lake City, USA, we have a laboratory with state-of-the-art materials testing capabilities 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 material hardness and the minerals concentration which is used to determine the optimal grinding and separation process.

The current mining cycle is a productivity cycle which clearly favours premium suppliers that have the flowsheet, process knowledge and service skills to help customers optimise existing production facilities and minimise their environmental footprint.



1. Extraction and size control
Ore is defined as materials that contain minerals financially viable to extract. Ore is extracted through methods such as drilling and blasting and transported to a crusher or crushed in-pit and conveyed out, a method usually more energy efficient.

The ore is crushed to reduce the particle size.

2. Comminution
Crushed ore is fed into a mill and ground to a powder. Most often a wet process that facilitates transportation as a slurry. Once milled, the material goes through screens and cyclones that separate the coarse and fine material. Coarse material is sent back to the mill. Mills are highly energy-intensive, representing about half of the energy consumed by an entire mine and estimated to account for 3% of all global electricity use.

Novel comminution such as FLSmidth's HPGRs can reduce water and energy consumption.

3. Beneficiation and recovery
The valuable minerals are then separated and concentrated. This involves flotation, concentration, clarification, and thickening. A flotation cell removes impurities, producing a more concentrated product. Chemicals and oils coat the mineral content so it sticks to air bubbles. The bubbles form froth containing the concentrate, which is skimmed off the top. The concentrate is sent for further upgrading.

4. Thickening and filtration
The left-over materials called tailings accumulate at the bottom, and it is separated to recover the water. Tailings are moved to clarifiers and thickeners, where the particles settle at the bottom and the water can be recovered and re-used. Filter presses remove additional water, leaving filter cake. Recycled water is re-used minimising fresh water intake.

5. Tailings management
In the most environmentally sound method of managing tailings, the filter cake is mixed with waste rock and stored as "dry stack tailings."

This solution with filtered tailings removes the risk of dam failures.

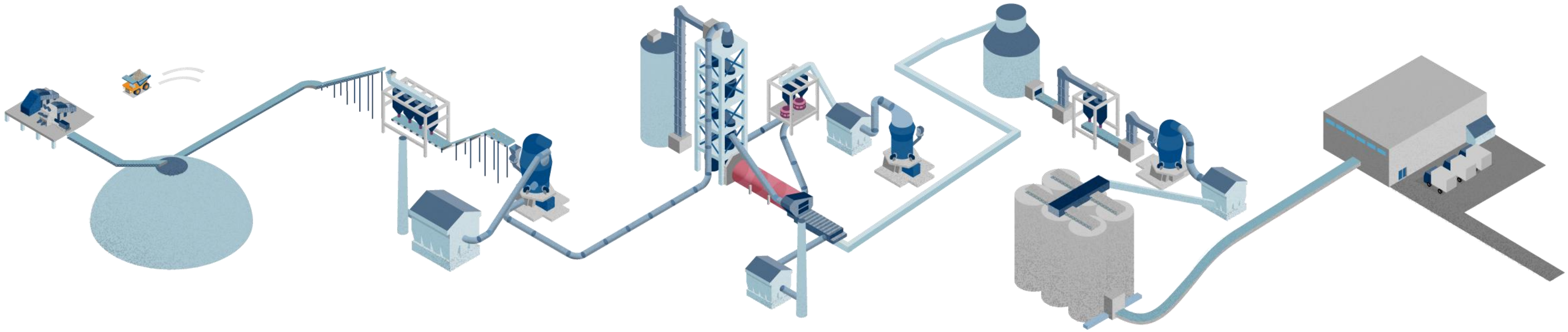
Cement

We are the market leader in the premium segment of the cement industry with the most complete offering and the strongest brand.

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 products such as feeding and packaging machines as well as complete cement plants, maintenance and remote online support.

Years ago, the cement market divided into a premium market 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 the clear market leader in this segment.

The mid-market is dominated by Asian suppliers and is characterised by customers preferring the lowest initial investment. However, customers often 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 and most Asian suppliers are, in reality, partners as well as good customers of FLSmidth. Therefore, we are working to offer not only the best complete cement plants but to become the preferred brand for all key equipment in a cement plant.



1. Quarrying and Crushing
The main raw materials needed to make cement are limestone and clay. Limestone is calcium carbonate, $CaCO_3$, and is 44% CO_2 by weight. Deposits are drilled, blasted or ripped using heavy machinery, and the materials are then transported to the crusher to reduce the size of the rocks. This is the first step where FLSmidth equipment is involved.

2. Drying and raw grinding
The materials are fed to the raw mill, ground to the right particle size and dried to the right moisture content. The outcome, raw meal, is stored in a silo and further mixed to ensure a consistent chemical composition. This is a main driver for better performance of the kiln system and final clinker quality. The process requires a lot of power.

3. Pyro-processing
When the raw meal reaches the calciner at the bottom of the pre-heater tower, it has a temperature of 1000°C. Heating the materials releases the CO_2 contained in the limestone. These are inevitable calcination emissions. The material then enters the rotary kiln and is heated to 1450°C. The heating melts the rocks to form clinker, the main component of cement.

4. Clinker and cement grinding
The clinker is ground in a mill to reduce its particle size. Clinker has a high carbon footprint, and a focus area is to reduce the amount of clinker in the final product. This can be achieved by mixing it with additives. Different cements are used for different applications, so clinker and additives are mixed in the right quantities to get the right type and quality.

5. Dispatching
The cement is then ready to be dispatched. It can be packed in 50 kg bags and loaded onto trucks, or it can be shipped by 25t bulk tankers. It is shipped by rail or ship. Ultimately it is mixed with water, sand and gravel to form concrete, which is used to build the infrastructure around us.

INNOVATION & DIGITALISATION

Digitalisation is a major driver for change that is accelerating the pace of sustainable productivity improvements. Our strong focus on sustainable innovations enables our customers to improve their operations and helps us to expand the gap to mid-market and single equipment suppliers. At FLSmidth, we leverage digital technologies to empower our business strategy, and our digital premium offering will enable us to capture a larger share of the market for services.

Digital and innovative solutions are the levers to deliver on our MissionZero commitment to offer our customers the technology required to operate zero-emissions cement plants and mining processes by 2030. By utilising the power of digitalisation we can increase our customers' productivity and at the same time lead these industries into a sustainable future. Achieving this goal requires a paradigm shift in collaboration, innovation and adoption of new technology. Innovation at FLSmidth takes place at three levels: in-house in our technology centres, on-site with customers and through partnerships with third parties. Looking back on the first year of the MissionZero programme, we have received strong interest from several parties to co-create solutions and we will continue to co-develop technology with customers, universities and other partners.

An example of partnership innovation is our cooperation with VICEM, the leading cement producer in Vietnam. In February 2020, we jointly announced a partnership with the goal of developing breakthrough innovations that will significantly increase the sustainability of the Vietnamese cement industry. A key focus will be on the utilisation of municipal and other waste streams as alternative fuel sources, thereby reducing air pollution by replacing the burning of fossil fuels. While management of waste is a growing concern in Vietnam, FLSmidth is

INNOVATION & DIGITALISATION

310m (DKK)

In 2020, we increased our spend on innovation and digitalisation by 3% to DKK 310m

100%

While management of waste is a growing concern, FLSmidth is developing solutions that enable a 100% switch to alternative fuels

105m

We have hundreds of sites connected to an online network and receive around 105 million data measurements per day

developing solutions that enable a 100% switch to alternative fuels, which can reduce about one-third of carbon emissions. Other areas of the partnership will focus on solutions related to energy efficiency and waste-heat recovery. This partnership is an important step for the sector and the people of Vietnam.

In addition to innovation and partnerships, we consider acquisitions to supplement our MissionZero offering. In October 2020, FLSmidth announced the acquisition of KnowledgeScape, a global leader in digital optimisation solutions for the mineral processing industry. The addition of KnowledgeScape's advanced solutions will deliver an expanded range of benefits to our customers within expert control solutions and advanced sensor technologies for automating, optimising and increasing the reliability of minerals processing circuits. These solutions are leading-edge technologies that serve as an important differentiating market factor within productivity upgrades, retrofits and new installations, all in line with our focus on creating sustainable and environmentally friendly solutions to our customers in Mining and Cement. Seen from a pure digital offering perspective, the combination of our two digital portfolios means that FLSmidth is now one of the few suppliers in the market able to offer a plant-wide digital optimisation solution that enables our customers to reduce costs and environmental impact.

The range of benefits delivered by digitalisation has become even more apparent during the COVID-19 pandemic. Given current priorities, the advantages of remotely controlled operations and predictive maintenance have been highly appreciated by customers. We have hundreds of sites connected to an online network and the number of measurements received per day has significantly increased in 2020. We now receive around 105 million data measurements per day with a range of benefits: safety, productivity, cost savings, sustainability and increased uptime. The data is analysed to provide detailed information on our customers' equipment, allowing us to suggest optimisations and efficiency improvements. The method covers the full spectrum from running an analysis all the way to artificial intelligence providing guidance on a specific part that is developing a weakness and is about to break. This allows it to be replaced before it causes more problems, extending downtime and potentially impacting machinery downstream.

In addition to the productivity improvements, safety is also an area that is significantly strengthened by digitalised solutions. Remote operating centres mean fewer employees on site that are exposed to potentially hazardous situations. When logistics are severely challenged, when it becomes difficult or even impossible to be on site, suddenly all the value of digitalisation becomes crystal clear. During COVID-19, digital sceptics have been forced to work through online platforms and software solutions have gained more acceptance. 2020 has clearly seen a digital breakthrough and the ongoing growth of digitalised solutions will unquestionably outlast the global pandemic.

INNOVATIONS IN MINING AND CEMENT

FLSmidth ENABLR

DIGITAL SOLUTIONS
TO POWER YOUR PRODUCTIVITY

Related to MissionZero goals

Zero **emissions**

Zero energy **waste**

ECS/PROCESSEXPERT® V8.5

SELF-LEARNING CONTROL SOLUTIONS BASED ON ARTIFICIAL INTELLIGENCE

New cognitive technologies empowers productivity and sustainability

- Intelligent process control solutions stabilise and optimise processes, enabling increased use of alternative fuels, 5% lower energy consumption and increased production of up to 6% – whilst maintaining product quality

THE CHALLENGE
Reduce the environmental impact by optimising the plant to achieve maximum efficiency and higher profitability, while reducing consumption of energy and fuels

THE SOLUTION
State-of-the-art process optimisation and artificial intelligence enables the site to raise production, reduce costs and extend equipment life

THE BENEFITS
- Increased production and energy efficiency
- Reduced downtime, equipment wear and maintenance costs

THE CHALLENGE
Connecting the customer with the full knowledge base of FLSmidth when logistics are severely challenged and it becomes difficult be on site

THE SOLUTION
Predictive maintenance and remotely controlled operations, allowing to guide critical actions and share information in real time

THE BENEFITS
- Real time data providing a range of benefits: safety, productivity, cost savings, sustainability and increased uptime

AUGMENTED FIELD ENGINEER

DIGITAL SOLUTIONS TO POWER PRODUCTIVITY

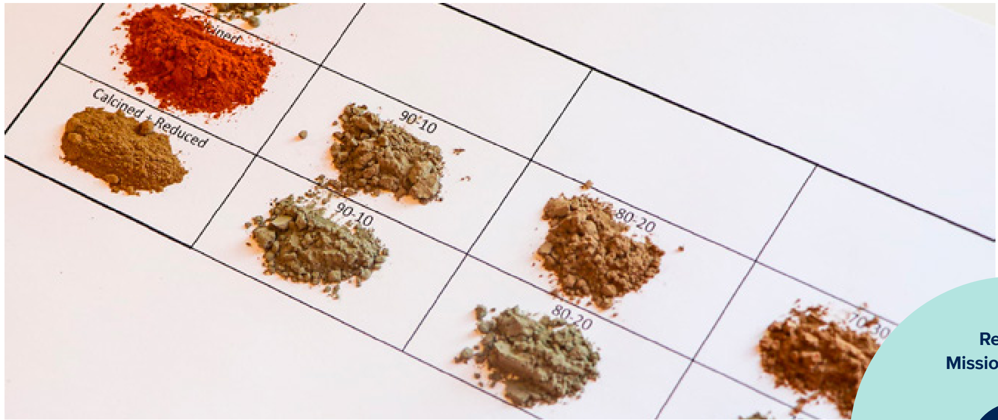
Customers are increasingly using FLSmidth's digital solutions to support day-to-day operations, optimise production, reduce CO_2 emissions and prevent breakdowns

- The advantages of remotely controlled operations and predictive maintenance have been highly appreciated by customers during the COVID-19 pandemic, with Remote Services increasing over 100% during the crisis

Related to MissionZero goals

Zero **emissions**

INNOVATIONS IN MINING AND CEMENT



Related to MissionZero goals

Zero emissions

CEMENT: CLAY CALCINER SYSTEM – A MISSIONZERO FLAGSHIP INNOVATION

REDUCE CO_2 EMISSIONS BY UP TO 40% COMPARED TO CLINKER PRODUCTION

- Increasing the percentage of calcined clay in cement reduces the need for clinker produced from limestone
- The FLSmidth clay calciner system has been specifically developed to fulfill this potential, maintaining the high strength and quality standards of cement

The FLSmidth clay calciner system is currently patent pending

THE CHALLENGE
Producing clinker is energy and emissions intensive, and therefore, the less clinker used, the less impact on the environment

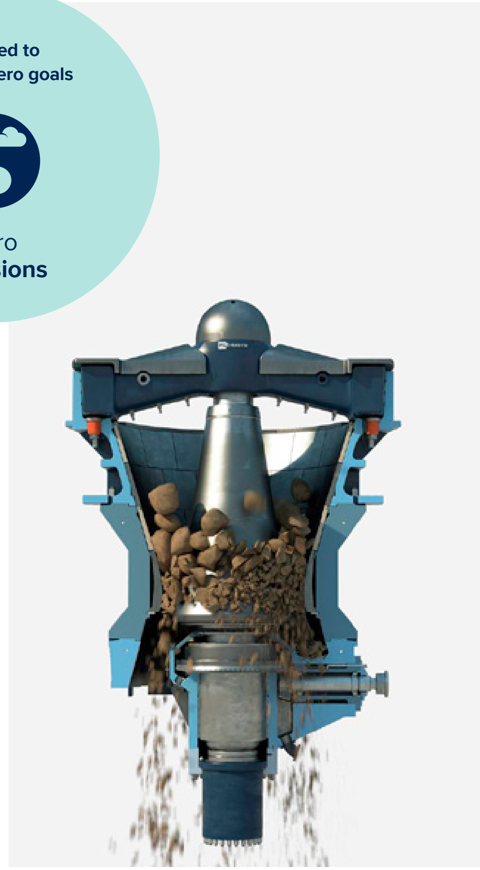
THE SOLUTION
Calcined clay is a cost-effective, sustainable alternative with significant cementitious potential, replacing clinker and reducing CO_2 emissions

THE BENEFITS
- Complete testing by our laboratory and pilot plant
- Excellent color control
- Lower capital and operating costs

THE CHALLENGE
Lower grade ore requires higher power crushing and higher throughputs than ever before

THE SOLUTION
With more power and greater capacity, the digitally-enabled TSUV is the world's most OPEX and CAPEX-efficient gyratory crusher

THE BENEFITS
- Higher power, greater capacity and speed
- Safer, simpler maintenance
- Lowest total cost of ownership



MINING: TSUV GYRATORY CRUSHER

DIGITAL, OPTIMISED CRUSHING

Next-generation primary crusher – completely re-engineered to get more from lower grade ores

- The unique top-service design prioritises safety, ease of maintenance and increased availability
- Delivers 7% greater speed and 10% increased capacity, while reducing planned downtime by up to 74%
- Efficiency-focused R&D translates into reduced environmental impact

Financial performance Q4 2020

Group order intake grew 15% organically with growth in both Mining and Cement. Cement order intake included the booking of a large project. Group revenue declined 24% organically.

Gross margin improved due to a higher share from service during the quarter but earnings were impacted by the sharp decline in revenue. The EBITA margin decreased to 5.5% from 8.1% in Q4 last year, entirely related to Cement. Mining EBITA margin was up slightly year on year. Group EBITA increased by 33% compared to Q3 2020.

Net working capital decreased for the third consecutive quarter. Free cash flow was DKK 232m, on par with Q4 last year. Net debt to EBITDA increased to 1.6 due to lower 12 months' trailing EBITDA. Q4 included the acquisition of KnowledgeScape and two announced divestments in Cement.

QUARTERLY FINANCIAL PERFORMANCE

GROWTH

Group order intake grew 15% organically with growth in both Mining and Cement. Cement order intake included the booking of a large project. Group revenue declined 24% organically related to both Mining and Cement and both capital and service business.

Order intake

Order intake in Q4 increased 7% to DKK 4,695m (Q4 2019: DKK 4,389m) and grew 15% organically. Foreign exchange translation effects had an 8% negative impact on order intake. Service orders accounted for 49% of the total order intake.

Mining order intake increased 2% organically thanks to higher capital order intake, whereas service order intake continued to be negatively impacted by restricted access to mine sites. Service orders accounted for 59% of the Mining orders and acquisitions had a 1% positive impact.

Order intake in Cement increased 39% organically and included a large contract for engineering, procurement and supervision on a greenfield cement plant in Ethiopia valued at around DKK 750m. Excluding this contract, Cement order intake declined on Q4 last year, due to the continued impact of the pandemic and a generally subdued market which resulted in lower activity levels for service and equipment.

Order backlog and maturity

Despite a book-to-bill of 111% in Q4, the order backlog was largely unchanged from the previous quarter at DKK 14,874m (Q3 2020: DKK 14,839m, as foreign exchange and divestments led to a reduction of the backlog. 64% of the backlog is expected to be converted to revenue in 2021, 29% in 2022, and 7% in 2023 and beyond. The large Cement project booked in Q4 2020 is scheduled for delivery mainly in 2022-2023.

Revenue

Revenue declined 30% to DKK 4,236m in Q4 2020 (Q4 2019: DKK 6,022m) and declined 24% organically, comprising a 15% decrease in Mining and a 37% decline in Cement. The decline in revenue was explained by an exceptionally strong comparison quarter, a low Cement backlog entering the year and restricted access to customer sites because of the pandemic. Consequently, we did not see the usual seasonality during which Q4 is typically the strongest quarter by far in the year, although revenue did pick up 10% quarter on quarter thanks to slightly higher year-end activity.

Group – continued activities

(DKKm)	Q4 2020	Q4 2019	Change	2020	2019	Change
Order intake (gross)	**4,695**	**4,389**	**7%**	**18,524**	**19,554**	**-5%**
- Hereof service order intake	2,316	2,890	-20%	9,822	11,250	-13%
- Hereof capital order intake	2,379	1,499	59%	8,702	8,304	5%
Order backlog	**14,874**	**14,192**	**5%**	**14,874**	**14,192**	**5%**
Revenue	**4,236**	**6,022**	**-30%**	**16,441**	**20,646**	**-20%**
- Hereof service revenue	2,552	2,866	-11%	9,884	10,777	-8%
- Hereof capital revenue	1,684	3,156	-47%	6,557	9,869	-34%
Gross profit	**1,022**	**1,327**	**-23%**	**3,865**	**4,849**	**-20%**
Gross profit margin	24.1%	22.0%		23.5%	23.5%	
SG&A cost	**(685)**	**(747)**	**-8%**	**(2,731)**	**(2,841)**	**-4%**
SG&A ratio	16.2%	12.4%		16.6%	13.8%	
EBITA	**235**	**487**	**-52%**	**771**	**1,663**	**-54%**
EBITA margin	5.5%	8.1%		4.7%	8.1%	
EBIT	**145**	**393**	**-63%**	**428**	**1,286**	**-67%**
EBIT margin	3.4%	6.5%		2.6%	6.2%	
Number of employees	10,639	12,343	-14%	10,639	12,343	-14%

Growth in order intake in Q4 2020 (vs. Q4 2019)

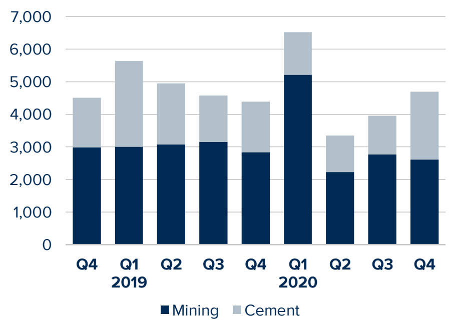
	Mining	Cement	FLSmidth Group
Organic	2%	39%	15%
Acquisition	1%	0%	0%
Currency	-11%	-5%	-8%
Total growth	**-8%**	**34%**	**7%**

Growth in revenue in Q4 2020 (vs. Q4 2019)

	Mining	Cement	FLSmidth Group
Organic	-15%	-37%	-24%
Acquisition	0%	0%	0%
Currency	-7%	-3%	-6%
Total growth	**-22%**	**-40%**	**-30%**

Order intake

DKKm



PROFIT

Gross margin improved due to a higher share from service during the quarter but earnings were impacted by the sharp decline in revenue. The EBITA margin decreased to 5.5% from 8.1% in Q4 last year, entirely related to Cement, whereas Mining EBITA margin was up slightly year on year. Group EBITA increased by 33% compared to Q3 2020.

Gross profit and margin

Gross profit declined 23% to DKK 1,022m (Q4 2019: DKK 1,327m), explained entirely by the 30% decline in revenue. Gross margin improved to 24.1% (Q4 2019: 22.0%) due to a higher share from service in both Mining and Cement.

In Q4 2020, total research and development costs (R&D) amounted to DKK 115m (Q4 2019: DKK 93m), representing 2.7% of revenue (Q4 2019: 1.6%), of which DKK 67m was capitalised (Q4 2019: DKK 59m) and the balance of DKK 48m expensed as production costs (Q4 2019: DKK 34m). R&D costs in Q4 related to several projects, including new sustainable cement technologies and mining equipment within various parts of the value chain. In addition, project-financed developments are taking place in cooperation with customers.

SG&A costs

Sales, general and administrative costs (SG&A) and other operating items decreased 8% to DKK 685m (Q4 2019: DKK 747m), explained by business improvement savings and foreign exchange. Despite the reduction in SG&A, costs increased to 16.2% of revenue (Q4 2019: 12.4%), due to the sharp decline in revenue.

We manage and adjust the cost base against the level of business we see ahead of us, and our practice is not to make significant cost reductions in areas where we expect activity to return in the very short term. Since there is no recovery in sight for the cement market, we continue to right-size our Cement business (please refer to page 37).

EBITA and margin

EBITA decreased by 52% to DKK 235m compared to the same quarter last year (Q4 2019: DKK 487m), but increased by 33% compared to Q3 2020. The year-on-year decrease was a result of the sharp decline in revenue which could not be offset by the higher gross margin and lower SG&A costs. The year-on-year decrease in Q4 EBITA margin to 5.5% (Q4 2019: 8.1%), was due entirely to Cement and included DKK 19m costs related to Cement reshaping. There was a slight increase in Mining EBITA margin year-on-year.

Amortisation of intangible assets amounted to DKK 90m (Q4 2019: DKK 94m). The effect of purchase price allocations amounted to DKK 24m (Q4 2019: DKK 36m) and other amortisation to DKK 66m (Q4 2019: DKK 58m).

Earnings before interest and tax (EBIT) decreased 63% to DKK 145m (Q4 2019: 393m).

Financial items

Net financial items amounted to DKK 6m (Q4 2019: DKK -71m), of which foreign exchange and fair value adjustments amounted to DKK 18m (Q4 2019: DKK -43m) and net interest amounted to DKK -12m (Q4 2019: DKK -28m).

Tax

Tax for Q4 2020 totalled DKK -65m (Q4 2019: DKK -94m), corresponding to an effective tax rate of 43.6% (Q4 2019: 29%). Impairment of deferred tax assets has caused the increase in the effective tax rate in Q4.

Profit for the period

Because of the lower EBIT, profit for the period decreased to DKK 78m (Q4 2019: DKK 227m), equivalent to DKK 1.7 per share (diluted) (Q4 2019: DKK 4.5). Discontinued activities had a DKK -6m impact on profit and loss in Q4 2020 (Q4 2019: DKK -2m).

Employees

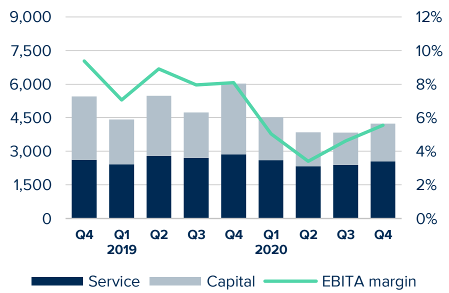
The number of employees decreased by 307 to 10,639 at the end of 2020 (end of Q3 2020: 10,946). The decrease mainly related to right-sizing activities in Cement and divestment of the Möller business (60 people).

Backlog

DKKm

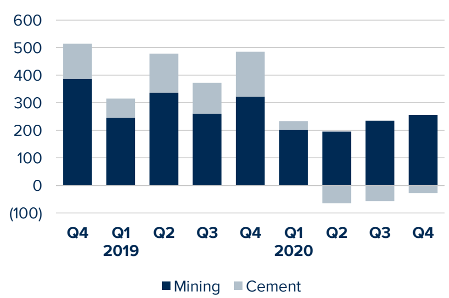
Revenue & EBITA margin

DKKm EBITA%



EBITA

DKKm



CAPITAL

Net working capital decreased for the third consecutive quarter. Free cash flow was DKK 232m, on par with Q4 last year. Net debt to EBITDA increased to 1.6 due to lower 12 months' trailing EBITDA. Q4 included the acquisition of KnowledgeScape and two announced divestments in Cement.

Net working capital

Net working capital decreased for the third consecutive quarter and amounted to DKK 1,752m at the end of Q4 2020 (end of Q3 2020: DKK 1,981m). The reduction related mainly to inventories and a DKK 71m reduction from divestments. The net working capital ratio was 10.7% of revenue (Q3 2020: 10.9% of revenue).

In line with previous quarters, utilisation of supply chain financing decreased in Q4, driven by a lower activity level and a lower share of Cement business relative to Mining (see note 3.6).

Cash flow from operations

Despite a reduction in adjusted EBITDA of more than 40%, cash flow from operating activities (CFFO) was on par with Q4 last year and amounted to DKK 329m (Q4 2019: DKK 327m). In addition to EBITDA, the main positive contributor to CFFO was the net working capital inflow of DKK 161m as compared to a net working capital outflow of DKK 138m in Q4 2019.

Discontinued activities amounted to DKK -32m in Q4 2020 (Q4 2019: DKK -42m) due to timing difference between cash paid and cash received related to the net working capital and provision balances (see note 2.11).

Cash effect from provisions was DKK 66m inflow in Q4 2020 (Q4 2019: DKK 55m inflow). The change related to recognition of additional uncertainties in the execution of the project portfolio and provisions for reshaping Cement. The impact on provisions from discontinued activities was negative DKK 5m in Q4.

Cash flow from investments

Cash flow from investing activities amounted to DKK -97m (Q4 2019: DKK -92m), of which acquisitions and disposals amounted to DKK 12m (Q4 2019: DKK 18m).

Free cash flow

Free cash flow (cash flow from operating and investing activities) amounted to DKK 232m in Q4 (Q4 2019: DKK 235m).

Net interest-bearing debt

Due to a positive free cash flow, net interest-bearing debt (NIBD) decreased to DKK 1,808m (end of Q3 2020: DKK 1,936m). Financial gearing, however, increased to 1.6 (end of Q3 2020: 1.4) due to lower trailing 12 months EBITDA. Gearing remains below our internal long term maximum threshold of two times NIBD to EBITDA.

Financial position

By the end of 2020, FLSmidth had DKK 7.0bn of available committed credit facilities of which DKK 4.8bn was undrawn. The committed credit facilities have a weighted average time to maturity of 4.2 years. DKK 1.7bn of credit facilities will mature in 2022 and the majority, DKK 5.0bn, will mature in 2026. The remaining DKK 0.3bn matures in later years.

Equity ratio

Equity at the end of Q4 2020 decreased slightly to DKK 8,130m (end of Q3 2020: DKK 8,237m), due to currency adjustments regarding translation of entities that more than offset the profit for Q4 2020. The equity ratio was 39.7% (end of Q3 2020: 40.0%), well above the long-term target of minimum 30%.

Acquisitions and divestments

On 2 October 2020, FLSmidth signed the acquisition of KnowledgeScape, a global leader in digital optimisation solutions for the mineral processing industry.

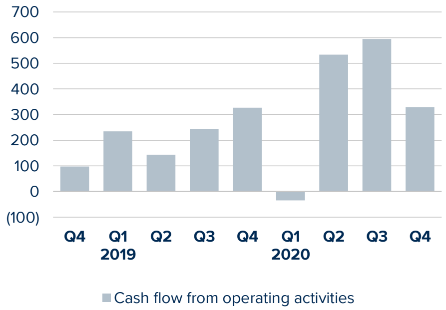
On 23 December 2020, FLSmidth announced the sale of its fabric filter technology, a non-core business of FLSmidth's advanced filter technology (AFT).

On 30 December 2020, FLSmidth announced the sale of its Möller pneumatic conveying systems business, which has been serving mainly adjacent industries. Both divestments were part of the ongoing process to simplify and prune FLSmidth's Cement business.

On 15 January 2021, FLSmidth announced that it is in negotiations with ThyssenKrupp concerning an acquisition of ThyssenKrupp's mining business. The negotiations are at a non-binding stage. Accordingly, there can be no assurances as to whether and when a transaction will transpire.

Cash flow

DKKm

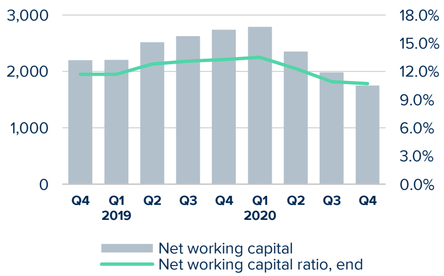


Net interest-bearing debt

DKKm

Net working capital

DKKm NWC%



QUARTERLY KEY FIGURES

DKKm	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
INCOME STATEMENT												
Revenue	4,235	4,730	4,335	5,450	4,416	5,472	4,736	6,022	4,525	3,846	3,834	4,236
- Hereof service revenue	2,507	2,599	2,489	2,613	2,414	2,794	2,703	2,866	2,606	2,333	2,393	2,552
- Hereof capital revenue	1,728	2,131	1,846	2,837	2,002	2,678	2,033	3,156	1,919	1,513	1,441	1,684
Gross profit	**1,074**	**1,181**	**1,126**	**1,312**	**1,081**	**1,315**	**1,126**	**1,327**	**1,047**	**912**	**884**	**1,022**
SG&A costs and other operating items	(678)	(741)	(718)	(730)	(686)	(741)	(667)	(747)	(728)	(689)	(629)	(685)
EBITDA before special non-recurring items	**396**	**440**	**408**	**582**	**395**	**574**	**459**	**580**	**319**	**223**	**255**	**337**
Special non-recurring items	3	0	0	(5)	0	0	0	0	0	(13)	0	(11)
Depreciations and write-downs of property, plant and equipment	(56)	(59)	(58)	(66)	(83)	(87)	(82)	(93)	(91)	(79)	(78)	(91)
EBITA	**343**	**381**	**350**	**511**	**312**	**487**	**377**	**487**	**228**	**131**	**177**	**235**
Amortisation and impairment of intangible assets	(95)	(82)	(96)	(92)	(94)	(106)	(83)	(94)	(82)	(85)	(86)	(90)
EBIT	**248**	**299**	**254**	**419**	**218**	**381**	**294**	**393**	**146**	**46**	**91**	**145**
Income from associates	0	0	0	0	0	0	2	1	1	2	(1)	(2)
Financial income/costs, net	(35)	(16)	(17)	(93)	(3)	(32)	(12)	(71)	3	(55)	(1)	6
EBT	**213**	**283**	**237**	**326**	**215**	**349**	**284**	**323**	**150**	**(7)**	**89**	**149**
Tax for the period	(66)	(95)	(66)	(21)	(70)	(115)	(94)	(94)	(44)	(5)	(41)	(65)
Profit/loss on continuing activities for the period	**147**	**188**	**171**	**305**	**145**	**234**	**190**	**229**	**106**	**(12)**	**48**	**84**
Profit/loss on discontinued activities for the period	(11)	(20)	(9)	(136)	(9)	(11)	0	(2)	(5)	(5)	(5)	(6)
Profit/loss for the period	**136**	**168**	**162**	**169**	**136**	**223**	**190**	**227**	**101**	**(17)**	**43**	**78**
Effect of purchase price allocation	(40)	(40)	(40)	(40)	(30)	(30)	(32)	(36)	(24)	(24)	(24)	(24)
Gross margin	*25.4%*	*25.0%*	*26.0%*	*24.1%*	*24.5%*	*24.0%*	*23.8%*	*22.0%*	*23.1%*	*23.7%*	*23.1%*	*24.1%*
EBITDA margin before special non-recurring items	*9.4%*	*9.3%*	*9.4%*	*10.7%*	*8.9%*	*10.5%*	*9.7%*	*9.6%*	*7.0%*	*5.8%*	*6.7%*	*8.0%*
EBITA margin	*8.1%*	*8.1%*	*8.1%*	*9.4%*	*7.1%*	*8.9%*	*8.0%*	*8.1%*	*5.0%*	*3.4%*	*4.6%*	*5.5%*
EBIT margin	*5.9%*	*6.3%*	*5.9%*	*7.7%*	*4.9%*	*6.9%*	*6.2%*	*6.5%*	*3.2%*	*1.2%*	*2.4%*	*3.4%*
Cash flow from operating activities	343	(412)	357	97	234	143	244	327	(35)	533	594	329
Cash flow from investing activities	(42)	(83)	(109)	(51)	(85)	(373)	(111)	(92)	(109)	(65)	(105)	(97)
Net working capital	1,590	2,003	1,809	2,200	2,207	2,519	2,624	2,739	2,792	2,351	1,981	1,752
Order intake, continuing activities (gross)	5,018	5,056	7,164	4,503	5,640	4,954	4,571	4,389	6,526	3,348	3,955	4,695
- Hereof service order intake	2,885	2,773	2,569	2,680	2,648	2,784	2,928	2,890	2,931	2,238	2,337	2,316
- Hereof capital order intake	2,133	2,283	4,595	1,823	2,992	2,170	1,643	1,499	3,595	1,110	1,618	2,379
Order backlog, continuing activities	13,874	14,454	17,228	16,218	17,824	16,762	16,088	14,192	15,591	15,227	14,839	14,874

Unaudited figures

DKKm	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SEGMENT REPORTING												
Mining												
Revenue	2,418	2,780	2,242	3,117	2,579	3,221	2,832	3,537	2,735	2,520	2,616	2,749
- Hereof service revenue	1,689	1,844	1,644	1,681	1,654	1,876	1,916	1,924	1,673	1,606	1,663	1,734
- Hereof capital revenue	729	936	598	1,436	925	1,345	916	1,613	1,062	914	953	1,015
Gross profit before allocation of shared costs	653	739	711	853	689	840	713	829	680	666	653	689
EBITA before allocation of shared costs	434	493	456	589	442	541	463	528	414	404	440	452
EBITA	227	276	299	387	246	336	261	323	201	196	235	256
EBIT	165	221	228	323	180	274	195	256	143	135	178	199
Gross margin before allocation of shared costs	*27.0%*	*26.6%*	*31.7%*	*27.4%*	*26.7%*	*26.1%*	*25.2%*	*23.4%*	*24.9%*	*26.4%*	*25.0%*	*25.1%*
EBITA margin before allocation of shared costs	*18.0%*	*17.8%*	*20.3%*	*18.9%*	*17.1%*	*16.8%*	*16.3%*	*14.9%*	*15.1%*	*16.0%*	*16.8%*	*16.4%*
EBITA margin	*9.4%*	*9.9%*	*13.3%*	*12.4%*	*9.5%*	*10.4%*	*9.2%*	*9.1%*	*7.3%*	*7.8%*	*9.0%*	*9.3%*
EBIT margin	*6.8%*	*7.9%*	*10.2%*	*10.4%*	*7.0%*	*8.5%*	*6.9%*	*7.2%*	*5.2%*	*5.4%*	*6.8%*	*7.2%*
Order intake (gross)	3,339	3,297	3,250	2,980	3,008	3,075	3,148	2,833	5,214	2,223	2,766	2,608
- Hereof service order intake	2,084	1,948	1,702	1,707	1,802	1,901	2,024	1,807	2,083	1,620	1,650	1,535
- Hereof capital order intake	1,255	1,349	1,548	1,273	1,206	1,174	1,124	1,026	3,131	603	1,116	1,073
Order backlog	6,900	7,526	8,579	8,350	9,171	8,757	8,544	7,683	9,621	9,500	9,298	9,085
Cement												
Revenue	1,841	1,990	2,038	2,335	1,837	2,251	1,904	2,485	1,790	1,326	1,218	1,487
- Hereof service revenue	818	754	846	932	760	918	787	942	933	727	730	818
- Hereof capital revenue	1,023	1,236	1,192	1,403	1,077	1,333	1,117	1,543	857	599	488	669
Gross profit before allocation of shared costs	433	456	432	475	408	496	434	543	391	279	238	347
EBITA before allocation of shared costs	304	295	150	321	235	319	263	331	197	91	83	144
EBITA	116	97	41	127	69	143	111	163	32	(65)	(57)	(28)
EBIT	82	71	16	99	41	99	94	136	8	(89)	(86)	(61)
Gross margin before allocation of shared costs	*23.5%*	*22.9%*	*21.2%*	*20.4%*	*22.2%*	*22.0%*	*22.8%*	*21.9%*	*21.8%*	*21.0%*	*19.5%*	*23.3%*
EBITA margin before allocation of shared costs	*16.5%*	*14.8%*	*7.4%*	*13.7%*	*12.8%*	*14.1%*	*13.8%*	*13.3%*	*11.0%*	*6.9%*	*6.7%*	*9.7%*
EBITA margin	*6.3%*	*4.9%*	*2.0%*	*5.4%*	*3.7%*	*6.3%*	*5.8%*	*6.6%*	*1.8%*	*-4.9%*	*-4.8%*	*-1.9%*
EBIT margin	*4.5%*	*3.6%*	*0.8%*	*4.2%*	*2.2%*	*4.4%*	*4.9%*	*5.5%*	*0.4%*	*-6.7%*	*-7.1%*	*-4.1%*
Order intake (gross)	1,707	1,792	3,858	1,524	2,632	1,879	1,423	1,556	1,312	1,125	1,189	2,087
- Hereof service order intake	801	825	867	973	846	883	904	1,083	848	618	688	780
- Hereof capital order intake	906	967	2,991	551	1,786	996	519	473	464	507	501	1,307
Order backlog	7,057	7,003	8,653	7,872	8,653	8,005	7,544	6,509	5,970	5,727	5,541	5,789

Unaudited figures

ANNUAL FINANCIAL PERFORMANCE

GROWTH

Organic order intake was on par with last year, comprising growth in Mining and a decrease in Cement. Book-to-bill was 113%. Revenue declined 16% organically due to a severe impact from the pandemic and a low Cement backlog entering the year.

Order intake

Organically, the order intake in 2020 was on par with last year, comprising a 13% growth in Mining and a 22% decline in Cement. Including currency effects and acquisitions, order intake decreased by 5% to DKK 18,524m (2019: DKK 19,554m). Capital order intake increased by 5%, whereas service orders decreased by 13%. Service accounted for 53% of the order intake.

Mining order intake increased by 13% organically and by 6% including currency effects and acquisitions. Mining capital orders increased by 31% due to the booking of three large mining contracts in the first quarter of the year. The three orders had a combined value of around DKK 2.4bn and were awarded in Russia and Belarus, a region where we have successfully expanded our presence in recent years. Following a double digit growth in the first quarter of the year, Mining service orders decreased 9% for the full year, explained by currency headwind and restricted access to customers sites due to the pandemic.

Cement order intake declined 22% organically and by 24% including currency effects. Service accounted for 51% of Cement order intake. Capital orders contracted by 26%. The cement industry has seen a prolonged period of subdued project activity and along with the severe impact from the pandemic, there are no signs of a recovery for new cement capacity in the short- to medium-term. Cement service orders declined 21% as the pandemic led to the shutdown of up to 20% of the world's cement plants (excl. China) earlier in the year. Many cement plants continue to operate at reduced production rates, which reduces the need for technical services and parts.

Growth in order intake in 2020 vs. 2019	Mining	Cement	FLSmidth Group
Organic	13%	-22%	0%
Acquisition	1%	0%	0%
Currency	-8%	-2%	-5%
Total growth	**6%**	**-24%**	**-5%**

Order backlog

In 2020, the order backlog increased by 5% to DKK 14,874m (2019: DKK 14,192m), comprising an 18% increase in Mining and an 11% contraction in Cement. The book-to-bill was 113% but currency effects had a DKK 1bn negative impact on the backlog.

Revenue

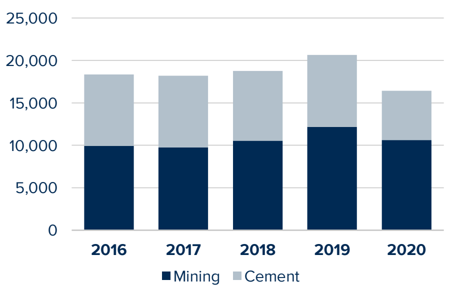
Organic revenue declined 16% in 2020, comprising a 7% decrease in Mining and a 30% fall in Cement. Including currency effects, revenue decreased by 20% to DKK 16,441m (2019: DKK 20,646m). Service revenue accounted for 60% of total revenue (2019: 52%).

The sharp decline in Cement revenue related mainly to the capital business and was due to a low backlog entering the year and the severe impact of the pandemic on the cement industry. The decline in Mining revenue related to both the capital and service businesses. Despite healthy industry fundamentals, project and service activity were both impacted by restricted access to mine sites due to pandemic related precautions.

Growth in revenue in 2020 vs. 2019	Mining	Cement	FLSmidth Group
Organic	-7%	-30%	-16%
Acquisition	1%	0%	0%
Currency	-7%	-1%	-4%
Total growth	**-13%**	**-31%**	**-20%**

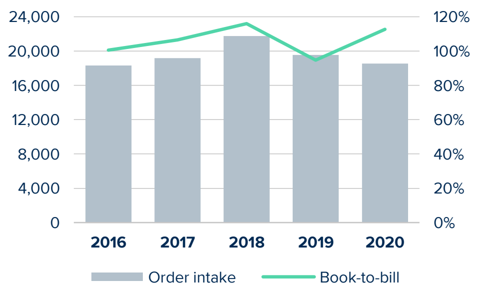
Mining and Cement Revenue

DKKm



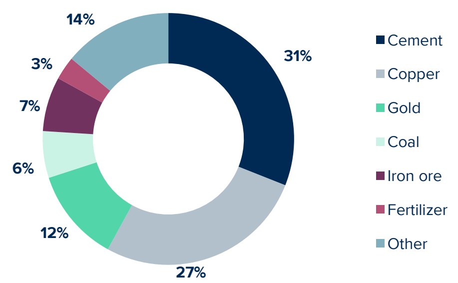
Order intake and book-to-bill

DKKm %



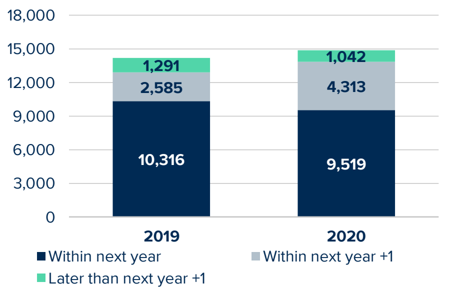
Order intake by commodity

%



Backlog maturity

DKKm



PROFIT

Earnings were impacted by the pandemic and the sharp decline in revenue. The EBITA margin decreased to 4.7% from 8.1% last year. Cement was loss-making, whereas profitability in Mining was quite resilient. The Group business improvement programme was completed and additional activities to improve profitability in Cement are ongoing.

Business improvement programme

At the end of 2019, we announced business improvement initiatives that include site consolidation, an improved logistical setup, and headcount reductions. In April 2020, we extended these activities to accommodate a more challenging market environment due to the pandemic.

The Group business improvement programme was completed at the end of Q3 2020 with an annual EBITA improvement run-rate of DKK 150m. The realised EBITA improvement in 2020 was DKK 110m and an incremental improvement of around DKK 40m is expected to be realised in 2021. The implementation costs amounted to DKK 192m, of which DKK 40m were incurred in 2019 and DKK 152m were incurred in 2020.

The programme included improvements that are expected to be sustained. It did not include any temporary COVID-19 related savings, such as employees on furlough and reduced travel expenses.

Financial impact 2020

DKKm	Group	Mining	Cement
EBITA improvement run-rate	**150**	90	60
Realised EBITA improvement	110	65	43
Implementation costs	-152	-91	-61
- Gross profit effect	-63	-38	-25
- SG&A effect	-89	-53	-36

Cement reshaping

In addition to the Group business improvement programme, we took additional steps during the year to simplify our Cement business and adjust its cost structure. These activities included reduced in-house manufacturing and increased sourcing from local suppliers and reducing the size of the project organisation. As part of this ongoing process to simplify our Cement business, two businesses were sold in December 2020 (see page 33).

The implementation cost related to the additional activities in Cement amounted to DKK 40m in 2020 (previously estimated around DKK 70m).

The activities will mitigate underabsorption due to the lower level of Cement business which we see ahead, and consequently, we will not report an EBITA improvement from these measures. Further activities to right-size and simplify our Cement business are expected during 2021. Timing and costs related to this is under evaluation.

Taking both the completed Group business improvement programme and the additional measures in Cement into account, total implementation costs in 2020 were DKK 192m (previously estimated around DKK 220m). In total, the Group workforce was reduced by 1,707 employees in 2020, of which the majority related to Cement.

The workforce adjustment has not impaired our ability to capture future growth.

Gross profit and margin

Gross profit decreased 20% in 2020 to DKK 3,865m (2019: DKK 4,849m), in line with the 20% decline in revenue. Gross margin remained at 23.5% (2019: 23.5%). The positive impact on gross margin from a higher service share of 60% (2019: 52%) was offset by business improvement costs, low capacity utilisation and the higher costs of doing business during the pandemic. Mobility restrictions continue to affect the utilisation of our global service technicians, resulting in more complex and costly logistics and increased costs related to quality control.

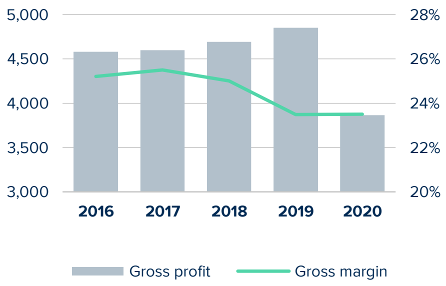
In 2020, research and development costs were DKK 310m (2019: DKK 302m), of which DKK 150m were capitalised (2019: DKK 142m) and the balance of DKK 160m reported as production costs. The R&D costs related to several innovations, including new sustainable cement technologies, tailings management, digital solutions, and various equipment across the mining value chain.

SG&A costs

Sales, general and administrative costs and other operating items declined by 4% in 2020, representing a cost percentage (SG&A ratio) of 16.6% of revenue (2019: 13.8%). SG&A was negatively impacted by business improvement implementation costs of DKK 89m and additional cost relating to reshaping in Cement.

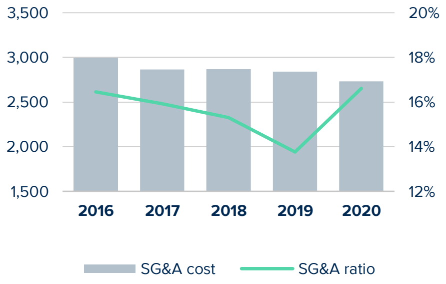
Gross profit and Gross margin

DKKm %



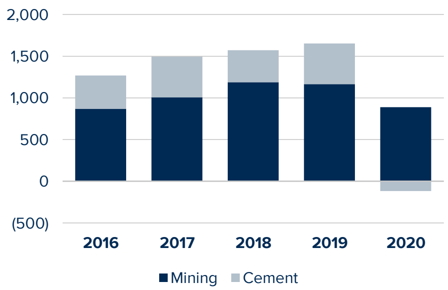
SG&A cost and SG&A ratio

DKKm %



EBITA by Mining and Cement

DKKm



EBITA and margin

Despite the stable gross margin and lower SG&A costs, EBITA decreased by 54% to DKK 771m in 2020 (2019: DKK 1,663m), as a result of the sharp decline in revenue. The EBITA margin declined to 4.7% (2019: 8.1%). Cement was loss-making, whereas profitability in Mining was quite resilient.

EBITA included implementation costs related to the Group business improvement programme of DKK 152m and costs related to additional Cement reshaping of DKK 40m.

Financial items

Net financial items amounted to DKK -47m (2019: DKK -118m), of which net interest cost including interest from leasing amounted to DKK -59m (2019: DKK -65m) and foreign exchange and fair value adjustments accounted for the remaining balance.

Tax

Tax for the year amounted to DKK -155m (2019: DKK -373m), corresponding to an effective tax rate of 40.7% (2019: 31.9%). The higher effective tax-rate was due to Impairment of deferred tax assets, in particular related to the weaker outlook for the cement market.

Profit for the year

Profit for the year decreased to DKK 205m (2019: 776m) as a result of the lower earnings and higher effective tax rate.

Profit from continuing activities decreased to DKK 226m (2019: DKK 798m).

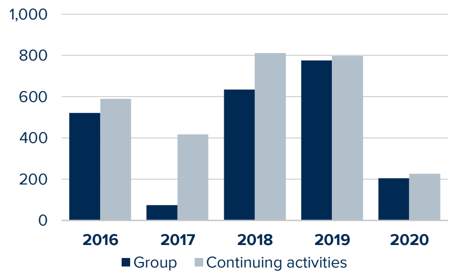
Loss from discontinued activities amounted to DKK -21m (2019: DKK -22m), related to administering legacy projects in our non-mining bulk material handling business. The projects were from a revenue perspective completed at year end 2018. Subsequent handling of claims and collection of receivables is ongoing (refer to note 2.11).

Return on capital employed

ROCE decreased to 5.1% (2019: 10.9%) as a result of the lower EBITA for the year. Average capital employed was slightly below last year's level.

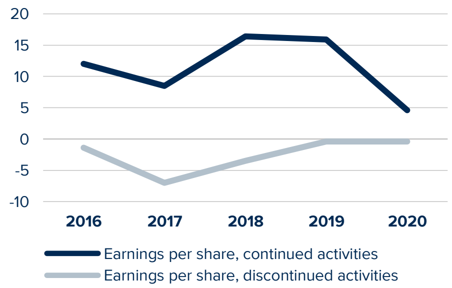
Profit for the year

DKKm



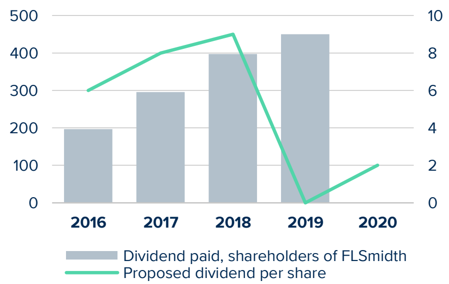
Earnings per share

DKK



Profit distribution

DKKm DKK



CAPITAL

A strong cash focus led to a significant reduction in net working capital and net debt.
Financial gearing increased to 1.6 from 1.2 in 2019 due to lower EBITDA for the year. Free cash flow more than doubled to DKK 1bn.

Balance sheet
Total assets decreased to DKK 20,456m at the end of 2020 (2019: DKK 23,532m), mainly due to currency effects and a reduction in activity and net working capital.

Assets and liabilities held for sale at the end of 2020 amounted to DKK 33m.

Capital employed
Average capital employed decreased slightly to DKK 15,195m (2019: DKK 15,251m) as a result of the decrease in working capital.

At the end of 2020, capital employed amounted to DKK 14,520m, consisting primarily of intangible assets of DKK 10,447m, which is mostly historical goodwill as well as patents and rights and customer relations. Property, plant and equipment amounted to DKK 2,009m, lease assets were DKK 312m and net working capital was DKK 1,752m at the end of 2020.

Net working capital
Net working capital decreased to DKK 1,752m at the end of 2020 (2019: DKK 2,739m), representing 10.7% of revenue (2019: 13.3% of revenue). The decrease related mainly to a lower activity level and strong cash collection from accounts receivables, which declined by DKK 1.6bn. The strong underlying improvement was partly counterbalanced by a DKK 0.5bn reduction in prepayments from customers due to the low level of large capital orders, as well as reduced utilisation of supply chain finance. DKK 158m of the decrease in net working capital related to currency.

Supply chain financing
As communicated in previous quarters, utilisation of supply chain financing has decreased during 2020, driven by a lower level of activity and, in particular, by a lower share of Cement business relative to Mining. Consequently, the trade payables covered by the supply chain financing programme amounted to DKK 273m at the end of 2020 (2019: DKK 1,083m).

Net interest-bearing debt
Net interest-bearing debt decreased to DKK 1,808m at the end of 2020 (2019: DKK 2,492m) as a consequence of a strong positive free cash flow.

Despite the reduction in net debt, the financial gearing (NIBD/ EBITDA) increased to 1.6 (2019: 1.2), due to lower EBITDA for the year. The gearing remains below our internal long-term maximum target of two times NIBD to EBITDA.

Equity
Despite the positive profit for the year, equity at the end of 2020 decreased to DKK 8,130m (2019: DKK 8,793m) as a result of currency adjustments regarding translation of foreign entities. The equity ratio was 39.7% (2019: 37.4%), well above the long-term target of minimum 30%.

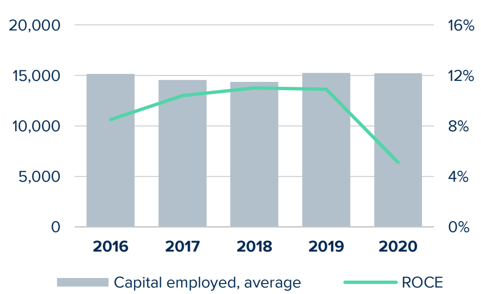
Treasury shares
The holding of treasury shares was 1,097,718 shares at the end of 2020 (2019: 1,193,538 shares), representing 2.1% of the total share capital (2019: 2.3%). Treasury shares are used to hedge our share-based incentive programmes.

Dividend
Given the global uncertainty caused by the COVID-19 pandemic, the Board of Directors of FLSmidth & Co. A/S decided to withdraw the proposal to pay a dividend of DKK 8 per share in 2020 to ensure resilience in a period of market uncertainty and to further strengthen FLSmidth's financial position.

Based on the financial results for 2020, the current financial situation and ongoing negotiations regarding potential acquisitions, the Board of Directors will propose at the upcoming Annual General Meeting that a dividend of DKK 2 per share corresponding to a dividend yield of 0.9% and a pay-out ratio of 50%, in line with our targeted pay-out ratio, will be distributed for 2020. The total dividend proposed amounts to DKK 103m.

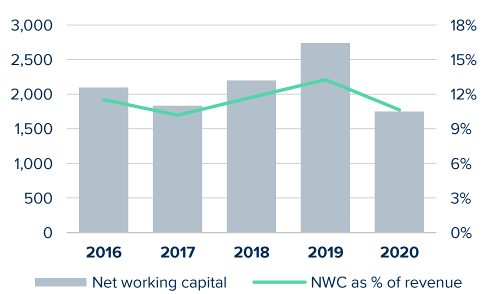
Return on capital employed

DKKm %



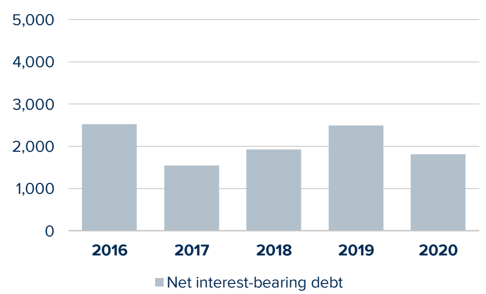
Net working capital

DKKm %



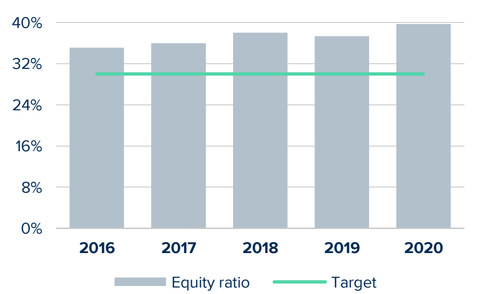
Net interest-bearing debt

DKKm



Equity ratio and target

%



Cash flow from operating activities

Despite significantly lower EBITDA for the year, cash flow from operating activities (CFFO) increased to DKK 1,421m (2019: DKK 948m), mainly as a result of CFFO from continuing activities of DKK 1,473m (2019: DKK 1,139m). The cash inflow from net working capital of DKK 706m (2019: Cash outflow of DKK 448m) was the key contributor to the positive development. 2020 also had a positive impact from change in provisions of DKK 63m (2019: DKK -230m).

Cash flow from investing activities

Cash flow from investing activities (CFFI) amounted to DKK -376m in 2020 (2019: DKK -661m). CFFI in 2019 was impacted by the acquisition of IMP Automation Group, whereas CFFI in 2020 included the acquisition of KnowledgeScape as well as divestments in the Cement business. Excluding acquisitions and disposals, CFFI was DKK -339m in 2020 (2019: DKK -374m).

Free cash flow

Free cash flow increased to DKK 1,045m (2019: DKK 287m) as a result of the higher cash flow from operating activities and the lower level of investments. Free cash flow adjusted for business acquisitions and disposals was DKK 1,082m compared to DKK 574m in 2019.

Cash flow from financing activities

Cash flow from financing activities was DKK -956m (2019: DKK -156m), primarily related to repayment of debt and to a lesser extent due to repayment of lease liabilities.

Cash position

Cash and cash equivalents amounted to DKK 976m, a small decrease from DKK 1,001m in 2019.

Restricted cash

Cash and cash equivalents included cash with currency restrictions amounting to DKK 781m (2019: DKK 824m). The reduction in restricted cash compared to 2019 related mainly to Brazil. The cash and cash equivalents with currency restrictions were primarily related to bank deposits located in countries with currency restrictions. The deposits are part of local daily cash management in countries where we have operating activities.

Acquisitions

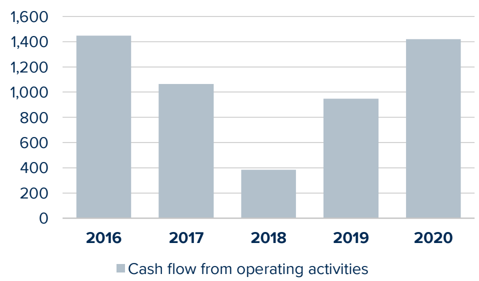
On 31 January 2020, FLSmidth acquired the business Mill-Ore Group, an Eastern Canadian provider of equipment and services to the mining industry. The acquisition was part of our long-term commitment to increase the level of local service and support for our customers.

In the fourth quarter of 2020, FLSmidth acquired an additional company, KnowledgeScape, and announced the sale of two Cement businesses (please refer to page 33).

On 15 January 2021, FLSmidth announced that it is in negotiations with ThyssenKrupp concerning an acquisition of ThyssenKrupp's mining business. The negotiations are at a non-binding stage. Accordingly, there can be no assurances as to whether and when a transaction will transpire. 2020 included costs related to the ongoing due diligence process, and additional costs are expected in 2021.

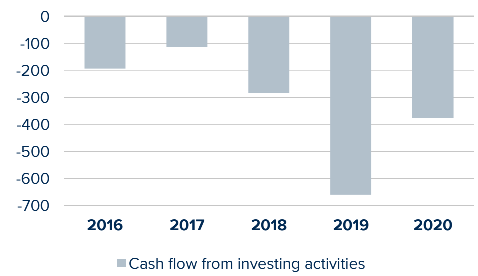
CFFO

DKKm



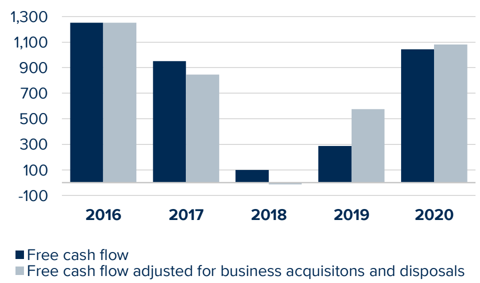
CFFI

DKKm



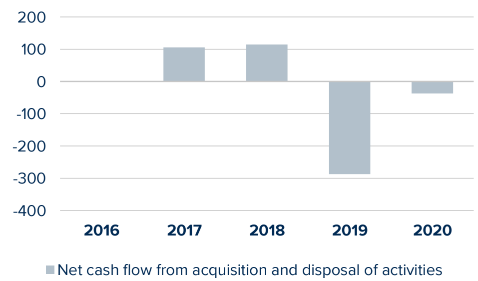
Free cash flow

DKKm



Net cash flow from business acquisitions and disposals

DKKm



MINING

Financial performance in Q4 2020

Organic mining order intake increased 2% compared to Q4 2019. Including effects from currency and acquisitions the order intake in Q4 2020 decreased by 8% to DKK 2,608m (Q4 2019: DKK 2,833m), comprising 5% growth in capital orders and a 15% decrease in service orders. Travel restrictions and limited site access have continued to impact on-site technical services, resulting in reduced service demand. The 5% increase in capital order intake is a result of a number of medium-sized capital orders that are proceeding based on the healthy industry fundamentals. During the quarter, currency had an 11% negative impact on order intake and acquisitions had a 1% positive impact on order intake.

Revenue decreased 15% organically and by 22% including the effects of currency and acquisitions, to DKK 2,749m in Q4 2019 (Q4 2019: DKK 3,537m). Capital revenue decreased by 37% as a result of the lumpiness of the capital business with fluctuating revenue recognition, and due to restricted site access which impacts progress on projects. Service revenue decreased by 10%, explained by restricted access to mine sites and currency effects. Currency effects had a 7% negative impact on revenue in the quarter.

Gross profit, before allocation of shared cost decreased by 17% to DKK 689m (Q4 2019: DKK 829m), largely in line with the decline in revenue. The corresponding gross margin increased to 25.1% (Q4 2019: 23.4%) due to a higher service share as well as a positive effect from the business improvement programme.

EBITA decreased by 21% to DKK 256m (Q4 2019: DKK 323m) due to the lower revenue in the quarter, while the EBITA margin increased to 9.3% (Q4 2019: 9.1%).

Financial performance in 2020

In 2020, Mining order intake increased 13% organically, mainly due to the exceptionally strong capital order intake in the first quarter of 2020 which was related to the three large orders received in Russia and Belarus, with a combined value of around DKK 2.4bn. During the year, currency had an 8% negative impact on order intake and acquisitions had a 1% positive impact on order intake. Accordingly, order intake increased by 6% to DKK 12,811m (2019: DKK 12,064m)

The organic decrease in revenue was 7% in 2020. Revenue decreased by 13% to DKK 10,620m (2019: DKK 12,169m), mainly due to capital revenue which decreased by 18%. EBITA decreased by 24% to DKK 888m (2019: DKK 1,166m), and the corresponding EBITA margin decreased to 8.4% (2019: 9.6%). EBITA included implementation costs of DKK 91m related to the Group business improvement programme.

Mining

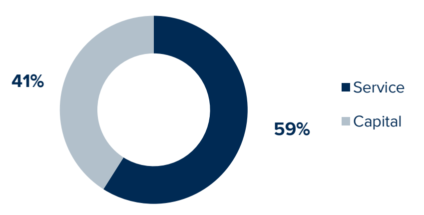
(DKKm)	Q4 2020	Q4 2019	Change	2020	2019	Change
Order intake (gross)	**2,608**	**2,833**	**-8%**	**12,811**	**12,064**	**6%**
- Hereof service order intake	1,535	1,807	-15%	6,888	7,534	-9%
- Hereof capital order intake	1,073	1,026	5%	5,923	4,530	31%
Order backlog	**9,085**	**7,683**	**18%**	**9,085**	**7,683**	**18%**
Revenue	**2,749**	**3,537**	**-22%**	**10,620**	**12,169**	**-13%**
- Hereof service revenue	1,734	1,924	-10%	6,676	7,370	-9%
- Hereof capital revenue	1,015	1,613	-37%	3,944	4,799	-18%
Gross profit before allocation of shared cost	**689**	**829**	**-17%**	**2,688**	**3,071**	**-12%**
Gross profit margin before allocation of shared cost	25.1%	23.4%		25.3%	25.2%	
EBITA before allocation of shared cost	**452**	**528**	**-14%**	**1,710**	**1,974**	**-13%**
EBITA margin before allocation of shared cost	16.4%	14.9%		16.1%	16.2%	
EBITA	**256**	**323**	**-21%**	**888**	**1,166**	**-24%**
EBITA margin	9.3%	9.1%		8.4%	9.6%	
EBIT	**199**	**256**	**-22%**	**655**	**905**	**-28%**
EBIT margin	7.2%	7.2%		6.2%	7.4%	
Number of employees	5,176	5,658	-9%	5,176	5,658	-9%

Growth in order intake in Q4 2020 (vs. Q4 2019)

	Order intake	Revenue
Organic	2%	-15%
Acquisition	1%	0%
Currency	-11%	-7%
Total growth	**-8%**	**-22%**

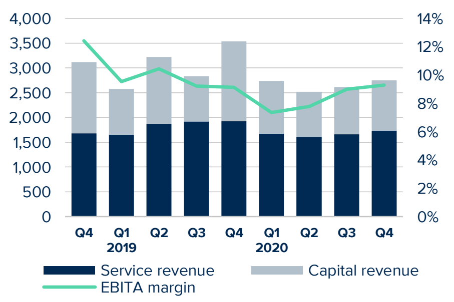
Service and capital order intake 2020

%



Revenue and EBITA margin

DKKm EBITA %



CEMENT

Financial performance in Q4 2020

The order intake in Q4 2020 increased by 34% to DKK 2,087m (Q4 2019: DKK 1,556m), driven by the large Ethiopian order, valued at around DKK 750 million, that became effective in the quarter. Service order intake decreased by 28% to DKK 780m compared to the same quarter last year (Q4 2019: DKK 1,083m), but increased by 13% compared to the previous quarter (Q3 2020: DKK 688m). Service order intake is still impacted by restricted site access and reduced demand for spare parts as a result of plant shutdowns and cement plants operating at reduced capacity. Currency effects had a 5% negative impact on the order intake compared to the same quarter last year. Accordingly, the organic increase in the order intake was 39%.

Revenue decreased by 40% to DKK 1,487m in Q4 2020 (Q4 2019: DKK 2,485m), due to the continued impact of the pandemic and a low backlog entering the year. Service revenue decreased by 13% while capital revenue declined by 57%. Currency effects had a 3% negative impact on revenue, which meant the organic decrease in revenue was 37%.

Gross profit, before allocation of shared cost, decreased by 36% to DKK 347m (Q4 2019: DKK 543m), largely in line with the decline in revenue, but increased by 46% compared to the previous quarter (Q3 2020: DKK 238m). The corresponding gross margin increased to 23.3% (Q4 2019: 21.9%) due to a higher share from service. Cement profitability is, however, still affected by the large decline in revenue, and increased costs related to the pandemic and ongoing reshaping. Consequently, EBITA amounted to DKK -28m (Q4 2019: DKK 163m) and the corresponding EBITA margin was -1.9% (Q4 2019: 6.6%).

Cement

(DKKm)	Q4 2020	Q4 2019	Change	2020	2019	Change
Order intake (gross)	**2,087**	**1,556**	**34%**	**5,713**	**7,490**	**-24%**
- Hereof service order intake	780	1,083	-28%	2,934	3,716	-21%
- Hereof capital order intake	1,307	473	176%	2,779	3,774	-26%
Order backlog	**5,789**	**6,509**	**-11%**	**5,789**	**6,509**	**-11%**
Revenue	**1,487**	**2,485**	**-40%**	**5,821**	**8,477**	**-31%**
- Hereof service revenue	818	942	-13%	3,208	3,407	-6%
- Hereof capital revenue	669	1,543	-57%	2,613	5,070	-48%
Gross profit before allocation of shared cost	**347**	**543**	**-36%**	**1,255**	**1,881**	**-33%**
Gross profit margin before allocation of shared cost	23.3%	21.9%		21.6%	22.2%	
EBITA before allocation of shared cost	**144**	**331**	**-56%**	**515**	**1,148**	**-55%**
EBITA margin before allocation of shared cost	9.7%	13.3%		8.8%	13.5%	
EBITA	**(28)**	**163**	**-117%**	**(118)**	**486**	**-124%**
EBITA margin	-1.9%	6.6%		-2.0%	5.7%	
EBIT	**(61)**	**136**	**-145%**	**(228)**	**370**	**-162%**
EBIT margin	-4.1%	5.5%		-3.9%	4.4%	
Number of employees	4,118	5,123	-20%	4,118	5,123	-20%

Financial performance in 2020

The order intake decreased 24% to DKK 5,713m in 2020 (2019: DKK 7,490m), due to a continuation in the subdued market conditions for new cement capacity and customers postponing investments, but also due to lower service activity as a result of the pandemic. Currency had a 2% negative impact on order intake.

Revenue in 2020 decreased by 31% to DKK 5,821m (2019: DKK 8,477m), mainly due to the lower capital revenue during the year. Currency effects had a 1% negative impact on revenue.

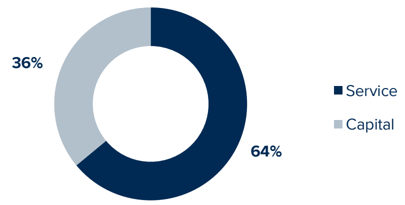
Earnings were severely impacted by the pandemic and the sharp decline in revenue as well as costs of DKK 61m related to the Group business improvement programme and additional costs of DKK 40m specifically related to reshaping the Cement business. EBITA came in at DKK -118m (2019: DKK 486m). The corresponding EBITA margin was -2.0% (2019: 5.7%). Activities to restore profitability in Cement have been intensified during 2020 and are ongoing.

Growth in order intake in Q4 2020 (vs. Q4 2019)

	Order intake	Revenue
Organic	39%	-37%
Acquisition	0%	0%
Currency	-5%	-3%
Total growth	**34%**	**-40%**

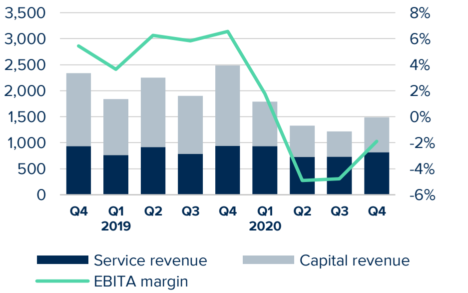
Service and capital order intake 2020

%



Revenue and EBITA margin

DKKm EBITA %



GOVERNANCE

RISK MANAGEMENT

Risk is an inherent part of our business and managing risks is a top priority at FLSmidth. Our approach to risk is aligned with our strategy and financial targets and managing potential impacts has high priority across the organisation.

Risk management framework

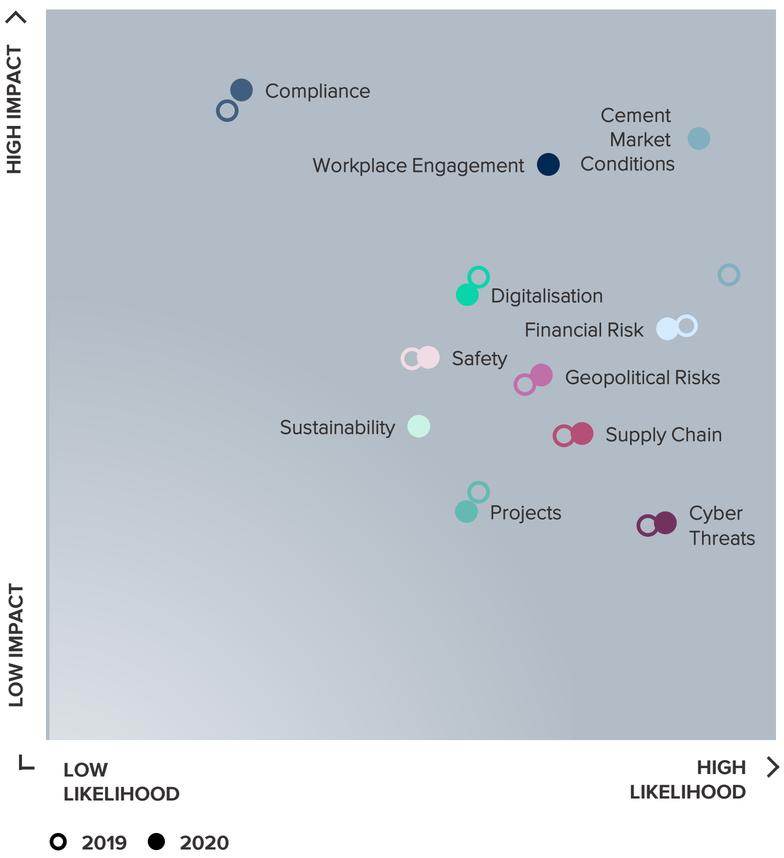
Our risk management framework consists of a simple Enterprise Risk Management Practice with annual top-down and bottom-up risk mapping to identify the Group's key risks across the organisation. We assess the risks based on the potential impact on our reputation, values, integrity, and our short- and long-term strategic goals.

Our Enterprise Risk Management Practice aims to identify, monitor, assess and mitigate risks as early as possible to manage the likelihood and potential impact. The most significant risks are reviewed by the Risk Committee, Group Executive Management and the Board of Directors. The Industries and Regions own their respective risk management process and are responsible for the identification and mitigation of the key risks that pose potential threats to their operations.

Risk assessment

The annual assessment was primarily dominated by discussion surrounding the COVID-19 pandemic. However, as operations continued in varying degrees for the Industries and each Region, this year's workshops resulted in the identification of the following key risks and/or opportunities:

- Safety – mitigate severe impact on health and safety of our employees, further complicated by the pandemic.
- Compliance – importance of compliance with a wide-range of trade and anti-corruption laws and regulations.
- Workplace Engagement – ability to keep the workforce engaged to adapt to constant change.
- Cement Market Conditions – lack of global growth and decreasing general consumption.
- Sustainability – leverage the opportunity for development and adoption of sustainable solutions. For more information, please refer to our sustainability report.
- Projects – ability to deliver on time and as promised to our customers.
- Digitalisation – create value and optimise processes that drive productivity.
- Geopolitical – tensions between key nations and volatile risk environments could lead to increased costs or disruptions in operations.
- Cyber Threats – as technology advances, computer crime is becoming increasingly sophisticated.
- Supply Chain – pandemic lockdown and resulting decline in on-site activities has increased concerns regarding supply chain reliability when demand to deliver increases.
- Financial Risk – liquidity, credit and fluctuation in foreign exchange rates. For more information on the financial risks and mitigation activities, please refer to note 5.3.



RISK MITIGATION

Risk	Potential impact	Mitigation
Digitalisation	Digital transformation is necessary to ensure customer expectations for innovative and value added services are met. Keeping up with the speed of change presents both challenges in maintaining cutting edge solutions as well as opportunities for optimising growth through innovative digital offerings and services.	The Group has invested heavily in mitigation efforts, leading to a positive impact on the Company's internal productivity as well as with customers. The Company has continued to improve sustainable productivity through the launch of digitally-enabled products and digital offerings aimed at increasing productivity at customer sites, the appointment of Regional Product Line Managers and the implementation of AI in parts of Procurement, Finance and other Group Functions.
Sustainability	The success of our business depends on our ability to develop sustainable products and solutions. Failure to take advantage of the opportunity to help drive this change in the Cement and Mining Industries will have a detrimental effect on our organisation.	Sustainability is an integrated part of FLSmidth's vision and strategy, and we see the need for sustainable solutions in the cement and mining industries as a significant business opportunity for FLSmidth. For more information on our MissionZero sustainability programme and product innovation, please refer to pages 18-20 and 26-29 in this report and our sustainability report at www.flsmidth.com/SustainabilityReport2020.
Geopolitical Risks	Increasing instability and polarisation in many countries as well as tensions between major world economies pose a threat to the Company's ability to carry out projects in some jurisdictions, increasing risk of delays and disruptions.	The Company's local footprint continues to expand with strategic investments placing FLSmidth closer to customers around the world. Group Procurement optimisation continues to focus on strategic, global sourcing and building relationships with multiple suppliers to protect supply chain and logistics operations.
Safety	The risk of serious injury or death due to failure to ensure healthy and safe working conditions for employees and contractors at a customer site is a serious issue that could result in a loss of trust with customers and long-term impact on the well-being of our employees. The domino effect that such an event would have on the organisation's reputation as a premium supplier and trustworthy employer would be catastrophic. This risk has been further complicated by the current pandemic which has created significant turbulence for our employees all over the world.	The Group has zero tolerance for safety risks, whether at third party sites or in its own. Safety is a high priority for everyone. Our focus remains on improving LTIFR/TRIFR, and the last seven years in a row, we have improved our safety performance. 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. A COVID-19 Security Team meets regularly to review the latest developments and each Region is following the guidance as defined by the local health and government authorities. Internal communication has top priority as we continual evaluate and navigate around the pandemic as it evolves.
Projects	The Company continuously execute a multitude of projects across the world, and in some cases face challenges in the execution.	With ownership anchored in the Industries, project management is now managed from Hubs where expertise and experience has been consolidated to make the most of our capabilities.

Risk	Potential impact	Mitigation
Cement Market Conditions	Lack of global growth, decreasing consumption and overcapacity in the Cement Industry has the potential to drastically change our Cement business.	During 2020, we have executed our Group business improvement initiatives that include site consolidation, an improved logistical setup, and headcount reductions. In addition to the Group business improvement programme, we took additional steps during the year to simplify our Cement business and adjust its cost structure. These activities included reduced in-house manufacturing and increased sourcing from local suppliers and reducing the size of the project organisation.
Cyber Threats	The constantly 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 to customers and additional costs for the organisation.	The Group is focused on IT Security and awareness; conducting regular audits, analysis of current controls and security updates. Migration to cloud-based solutions, cyber awareness training across the organisation and an IT Security Committee all help to mitigate the potential impact of this risk. We are also taking steps to increase cybersecurity of the delivered equipment.
Supply Chain	High demands on internal and external trusted supply chains could result in delays in deliveries to customers which could lead to penalties and disruptions in executing projects – this threat has been further complicated by the impact of the pandemic.	Group Procurement is on a strong path towards increased operational efficiencies through new tools and more uniform processes. The Group's global sourcing strategy allows for more flexibility and agility in working with external supply chains to help alleviate potential disruptions.
Compliance	Compliance is a top-priority in FLSmidth with zero tolerance for violation that could impact the FLSmidth brand and reputation with customers. As the Company continues to expand through acquisitions and the establishment of local offices in challenging environments, the focus on mitigating compliance risks remains high.	The Group has a dedicated Compliance Department that has established rules and procedures to ensure a common understanding of ethical behaviour. There are policies in place to support the Organisation with day-to-day compliance issues such as the Code of Business Conduct and Anti-Bribery policy, as well as tools and procedures to identify individual issues that may pose a threat including the Whistleblower Hotline, screening of third party agents and sign-off protocols. New online training was added to the current catalogue of compliance training this year and is compulsory for all employees.
Workplace Engagement	The demands of a fast-changing world put pressure on our workforce to stay agile and adapt to new challenges faster than ever. The collective ability to keep our employees motivated and engaged has been further complicated by the global pandemic which has forced many of our employees to work remotely and virtually.	In response to the pandemic, the Company has established flexible work arrangement guidelines and is in the process of conducting engagement surveys to ensure our employees have a platform to voice their concerns and ideas. Initiatives and processes are also in place to promote productivity at work.

CORPORATE GOVERNANCE

The following statutory statement (including the Corporate Governance section, the Remuneration section, 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.

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

CORPORATE GOVERNANCE HIGHLIGHTS	2020	2019
Number of registered shareholders (1,000)	46	38
Treasury shares (1,000)	1,098 (2.1%)	1,194 (2.3%)
Numbers of shares held by Board and Group Executive Management (1,000)	87	49
Total Board remuneration (DKK)	6.4m	6.4m
Total Executive Management remuneration (DKK)	18.6m	25.2m
Number of Board members (elected at the AGM)	6	6
Women representation on Board of Directors (elected at the AGM)	33%	33%
Independent directors, excluding employee elected members	100%	100%
Number of board committees	4	4
Number of board meetings held (overall meeting attendance%)	17 (99%)	12 (100%)

Capital and share structure

FLSmidth & Co. A/S is listed on NASDAQ Copenhagen. At the end of 2020, FLSmidth had approximately 46,000 registered shareholders and a free-float of around 90%. One shareholder had flagged a major shareholding in FLSmidth & Co. A/S at the end of 2020. Lundbeckfond Invest A/S' investment exceeded 10%. FLSmidth's holding of treasury shares at the end of 2020 accounted for 2.1% 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.

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. 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. For additional information please refer to:

https://www.flsmidth.com/en-gb/company/investors/governance.

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 currently represented on the Board by three members who are elected for terms of four years. The next election will take place in the near future.

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, and due to the COVID-19 situation the meeting frequency was higher in 2020.

To enhance Board meeting efficiency, the Chairman conducts a planning meeting with the CEO and CFO prior to each Board meeting.

Seventeen Board meetings were held in 2020. Apart from contemporary business issues, the most important issues dealt with in 2020 were: The impact of COVID-19 on our business, cash flow, capital structure, financial risks, sustainability, reshaping of our Cement business, diversity and acquisitions. All members of the Board of Directors participated, physically or virtually, in all relevant board and committee meetings in 2020, except one member who was unable to attend one of the 17 Board meetings due to a conflicting appointment.

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 the acquisition and sale of companies, financing and stock market issues, international contracts and accounting. In addition, a majority of the Board members should preferably possess technical expertise on process plants and process technology, including from the minerals industries and/or the cement industry.

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 Ove Sørensen, Mr. Tom Knutzen and Mr. Thrasyvoulos Moraitis. In 2020, the committee met three times. Its main activities in 2020 were related to assessing the composition and competencies of the Board of Directors.

The Compensation Committee

The Compensation Committee consists of Mr. Vagn Ove Sørensen, Mr. Tom Knutzen and Mr. Thrasyvoulos Moraitis. The Compensation Committee met five times in 2020 and the committee's main activities in 2020 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.

MEETING ATTENDANCE IN 2020

Board of directors	Board meetings attended	Audit Committee meetings attended	Compensation Committee meetings attended	Nomination Committee meetings attended	Technology Committee meetings attended
Vagn Ove Sørensen (Chairman) [1)]	17/17	5/7	5/5	3/3	
Tom Knutzen (Vice chairman)	17/17	7/7	5/5	3/3	
Richard Robinson Smith	17/17				3/3
Anne Louise Eberhard	17/17	7/7			
Gillian Dawn Winckler	17/17	7/7			
Thrasyvoulos Moraitis	16/17		5/5	3/3	3/3
Mette Dobel (employee-elected)	17/17				
Søren Dickow Quistgaard (employee-elected)	17/17				3/3
Claus Østergaard (employee-elected)	17/17				

1) Voluntary participation (not member of Audit Committee)

The Audit Committee

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

In 2020, the Audit Committee met seven times and the committee's main activities were to consider specific financial risk, including tax risk, accounting and auditing matters, as well as paying special attention to financial processes, internal control environment and cyber security. A particular focus area in 2020 has been to assess the financial risks associated with the COVID-19 pandemic and the related impact on liquidity and cash flow.

The Technology Committee

The Technology Committee consists of three Board members, Mr. Richard Robinson Smith (Chairman), Mr. Thrasyvoulos Moraitis and Mr. Søren Dickow Quistgaard. The Technology Committee met three times in 2020. The main tasks in 2020 were to monitor the major development projects across the two industries, to ensure the right and appropriate KPIs are set for R&D across both 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. In the first half year our Head of Group Legal and Strategy was registered as part of Executive Management on an interim basis.

Group Executive Management holds overall responsibility for the day-to-day operations of the Group and consists of nine Group Executive Vice Presidents, including the CEO. 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.

Effective June 2020, Mikko Tepponen joined FLSmidth as Chief Digital Officer and a member of the Group Executive Management. Tepponen arrives with proven experience in driving transformation journeys in other large industries, including Wärtsilä and Outotec. He has a track record of employing digital solutions as an enabler for more sustainable and resource-efficient practices.

In July 2020, Roland M. Andersen joined FLSmidth as Group CFO and a member of the Group Executive Management. Roland brings 25 years of solid experience and competences through his time as CFO with public as well as private equity owned companies, including Torm, Telenor, A.P. Moller Maersk and most recently NKT where he played a key role in leading the company through strategic transformation and acted as CEO for a period of time.

In August 2020, Chief Procurement Officer, Asger Lauritsen, became part of FLSmidth's Group Executive Management team. For the past four years, Asger has been responsible for our global supply chain, which includes both our own factories and external suppliers.

Prior to joining FLSmidth in 2016, Asger had an accomplished international career within operations, procurement and supply chain in senior leadership roles at Norden, Maersk Line, DISA and Rosti.

Due to family reasons Jan Kjaersgaard has decided to leave FLSmidth. Jan joined FLSmidth in March 2018 as President of the Product Company Division. In July 2018, he was appointed as President of the Cement Industry, where he had an instrumental role in establishing the operating model for our Cement business.

Effective November 2020, Carsten Riisberg Lund has been appointed as the new Cement Industry President and member of Group Executive Management. Carsten has been with FLSmidth for 33 years in various roles, most recently as the President for Region Europe, North Africa and Russia (ENAR). Carsten has also headed FLSmidth's former Material Handling division and spent three years as Managing Director in India.

Effective January 2021, Mikko Keto joined FLSmidth as President, Mining Industry and member of Group Executive Management. Mikko joins FLSmidth from Metso, where he has worked for 10 years of which the last two years as President, Minerals Services and Pumps, where he delivered growth in Services along with profitability improvement. He also served as a member of the company's Executive Team.
The appointment follows Manfred Schaffer's decision to retire, having contributed strongly to FLSmidth's Mining business since 2014. To ensure a smooth transition, Manfred has kindly offered to stay with FLSmidth as an advisor for a period of time.

Diversity in Board and Management

The Board of Directors of FLSmidth continually 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 2020, women accounted for 33% (end 2019: 33%) of the shareholder-elected Board members, fulfilling the target that a minimum of 25% of the members elected at the Annual General Meeting should be women.

At the end of 2020, women accounted for 16% (end 2019: 16%) of the total workforce, while 13% of all managers were women (end 2019: 11%). At the end of the year, we set a new long-term target for gender equality in our workforce. By 2030, we want 30% of our entire white-collar workforce and 25% of our people managers to be women. When filling management vacancies externally, at least one female candidate must be in the short list.

Due to FLSmidth's global presence in over 60 countries, the overall 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 (9% of the total workforce), the USA (15% of the total workforce) and India (24% of the total workforce).

Today 56% (2019: 67%) of Group Executive Management and 90% (end 2019: 91%) of the total number of employees have a nationality other than Danish.

FLSmidth is a learning organisation, and our people are our most valuable resource. 50% of the workforce is below the age of 40. 43% have less than 5 years seniority, which is a reflection of the transition FLSmidth has gone through over the past several years.

Presentation of financial statements and internal controls

To ensure the 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 can be found on FLSmidth's website: https://www.flsmidth.com/en-gb/company/investors/governance.

Compliance with recommendations for corporate governance

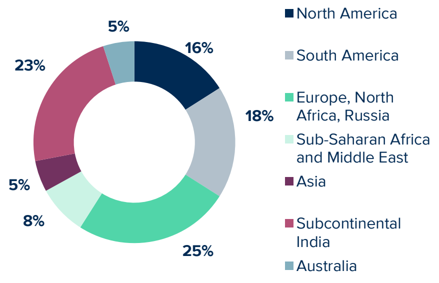
Pursuant to Section 4.3 of the rules for issuers of shares listed on Nasdaq Copenhagen, Danish companies must provide a statement on how they address the recommendations on Corporate Governance issued by the Committee on Corporate Governance in November 2017 based on the 'comply or explain' principle (https://corporategovernance.dk/english).

FLSmidth's position on each specific recommendation is summarised in the corporate governance statement available at: https://www.flsmidth.com/en-gb/company/investors/governance/governance-reports.

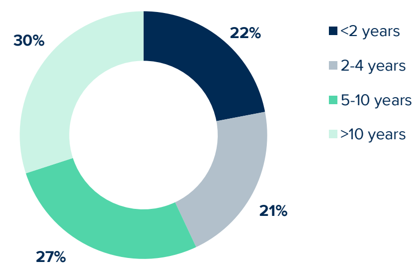
In the Board's opinion, FLSmidth complies with all recommendations on corporate governance applicable to Danish listed companies, except 3.5.1 related to external assistance in connection with evaluation of the performance of the Board of Directors, where the company only complies partially.

On 2 December 2020, the Committee on Corporate Governance issued updated recommendations for Corporate Governance, which will enter into force for the financial year starting January 1, 2021. FLSmidth's corporate governance statement includes comments to some of the updated recommendations.

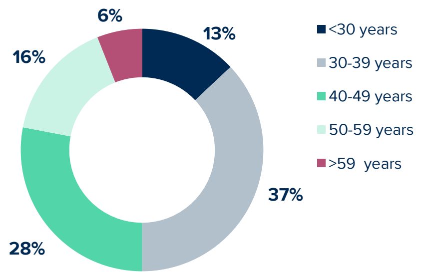
Employees
Geographical distribution



Employees
Length of service



Employees
Age distribution



GROUP EXECUTIVE MANAGEMENT

					
Name	**Thomas Schulz**	**Roland M. Andersen**	**Mikko Keto**	**Carsten Lund**	**Mark Clifford**
Title	Group Chief Executive Officer Employed by FLSmidth since 2013*	Group Chief Financial Officer Employed by FLSmidth since 2020*	Mining Industry President Employed by FLSmidth since 2021	Cement Industry President Employed by FLSmidth since 1988	President of Regions Employed by FLSmidth since 2014
Age	55	52	53	58	58
Nationality	German	Danish	Finnish	Danish	Australian
Gender	Male	Male	Male	Male	Male
Education	MSc (Engineering), PhD (Mining Engineering with dissertation in Mineral Mining and Quarrying)	MSc Corporate Finance, Executive Management Programme, London Business School	MSc Economics from Helsinki School of Economics	Executive MBA, Scandinavian International Management Institute (SIMI) B.Sc. in Mechanical and Process Engineering, Danish Technical University	Studied BSc Mining Engineering at University of NSW Sydney, IFL executive education, IMD strategic development
Number of shares in FLSmidth	28,138	0	0	3,634	2,619
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).	CFO with NKT (2015-2020), Interim CEO with NKT (2018-2019). Prior to that various CFO roles in A.P. Moller – Maersk, Telenor/Cybercity and Torm.	Numerous senior management positions with Metso 2010-2020, most recently President for Services and Pumps business areas. Head of Sales, KONE corporation 2008-2009. Various management positions in multiple countries with Nokia Networks 1994-2007.	Regional President, Europe, North Africa and CIS. Managing Director & CEO, FLSmidth India Private Limited. President Material Handling Division, FLSmidth A/S. CEO, FLSmidth Airtech a/s	Country Head Australia, FLSmidth (2014-2018), Numerous management roles with Sandvik Mining and Construction: Vice President, Underground hard rock & Surface Mining Region Australia (2012-2014), Global Aftermarket Manager, Sandvik Construction Division (2008-2012), General Manager underground Hard Rock Mining Region Australia (2005-2008).
Non-Executive positions	Member of the Board of Directors Norsk Hydro ASA (Norway).	None	Member of Board of Directors Normet Group.	Member of the Board of Directors Dinex a/s. Member of the Board of Directors Dall Energy ApS.	None

* Registered with Erhvervsstyrelsen (The Danish Business Authority)

GROUP EXECUTIVE MANAGEMENT

- CONTINUED




Name	Annette Terndrup	Cori Petersen	Asger S.B. Lauritsen	Mikko Tepponen
Title	Head of Group Legal & Strategy Employed by FLSmidth since 2004	Head of Group HR and HSE Employed by FLSmidth since 2016	Chief Procurement Officer Employed by FLSmidth since 2016	Chief Digital Officer Employed by FLSmidth since 2020
Age	51	51	54	41
Nationality	Danish	American	Danish	Finnish
Gender	Female	Female	Male	Male
Education	Master of Law (Denmark) and LLM (England)	B.S. in Business administration: Human Resource management, Senior Professional in Human Resources. Certified by Human Resource Certification Institute	MSc University of Copenhagen, MBA (IMD), GMP (INSEAD)	MSc Automation Technology
Number of shares in FLSmidth	2,546	618	1,335	0
Past experience	Head of Group Legal (2013-2016). Various managerial positions in FLSmidth (2006-2013). Corporate counsel FLSmidth (2004-2006). Lawyer Ashurst 1998-2003. Trainee lawyer Lett, Vilstrup & Partnere 1994-1997.	Director Human Resources, US, FLSmidth (2016), Director, Human Resources, North America, FLSmidth (2017). Various managerial positions in Rio Tinto (2011 – 2016). Various managerial and specialist positions (1987-2011).	Various managerial positions; Head of Operations, Technical, and Supply Chain in DS NORDEN (2014-2016); Executive Committee, Danish Shipowners Association and Intertanko (2014-2016); Maersk Line (2006-2014) - CPO, Head of Operations Execution & Supply Chain; A.P. Møller-Maersk (2004-2006), e.g. CEO of regional cluster Pakistan/Afghanistan; CEO, ROSTI Containers (2001-2004); Executive Vice president, Sales & Marketing, DISA (1997-2001); Company Secretary, Business Unit Head of various A.P. Møller-Maersk entities (1992-1997).	Vice President, Digital Product Development at Wartsila. Director Digitalisation at Wartsila. Senior Manager, Product Management, Digital Services at Outotec
Non-Executive positions	None	None	None	Member of Board of Directors Etteplan Oyj

BOARD OF DIRECTORS

					
Name	**Vagn Ove Sørensen** Chairman	**Tom Knutzen** Vice chairman	**Richard Robinson Smith**	**Anne Louise Eberhard**	**Gillian Dawn Winckler**
Age	61	58	55	57	58
Nationality	Danish	Danish	German/American	Danish	British/Canadian
Gender	Male	Male	Male	Female	Female
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	2016 (elected at the AGM). Chairman of the Technology Committee	2017 (elected at the AGM). Member of the Audit Committee	2019 (elected at the AGM). Member of the Audit Committee
Number of shares in FLSmidth	16,965	20,000	1,000	2,000	1,000
Executive and non-executive positions in Denmark	Chairman of the Boards of Directors of TIA Technology A/S, Zebra A/S and Scandlines. 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 and Chr. Augustinus Fabrikker A/S	None	Chairman of the Boards of Directors of Moneyflow Group A/S. Vice Chairman of the Boards of Directors of Finansiel Stabilitet SOV. Member of the Board of Directors of Bavarian Nordic A/S, Topdanmark A/S, Knud Højgaards Fond. Faculty Member at Copenhagen Business School (CBS Executive, Board Education)	None
Executive and non-executive positions outside Denmark	Chairman of the Board of Directors of Air Canada (Canada). Member of the Board of Directors of Braganza AS (Sweden), Unilode Aviation Solutions (Switzerland), Royal Caribbean Cruises Ltd. (USA), VFS Global (Switzerland) and CNH industrial (NL). Member of the Strategic Advisory Board of Nordic Aviation Capital. Senior Advisor to Morgan Stanley	CEO at Jungbunzlauer Suisse AG (Switzerland)	President & Chief Executive Officer of Kone Cranes PLC (FIN)	None	Member of the Board of Directors at Pan American Silver Corporation (CA) and West Fraser Timber Limited (CA), and member of the Board of Directors for Trans Canada Trail (CA) and BC Parks Foundation (CA), both non-profit organisations

BOARD OF DIRECTORS

- CONTINUED




Name	Thrasyvoulos Moraitis	Mette Dobel	Søren Dickow Quistgaard	Claus Østergaard
Age	58	53	42	54
Nationality	British/Greek	Danish	Danish	Danish
Gender	Male	Female	Male	Male
Member of the Board since	2019 (elected at the AGM). Member of the Technology Committee, Nomination Committee and Compensation Committee.	2009 (elected by the employees)	2013 (elected by the employees) 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	None	None	None	None
Executive and non-executive positions outside Denmark	Chief Development Officer and member of the Management Board of EuroChem. Member of the Board of Directors of Reload Greece Foundation	None	None	None

BOARD COMPETENCIES

Board of directors	CEO (operational) experience	Finance, Audit Committee, Accounting, Treasury	Strategy Development	M&As, Joint ventures, Alliances	Capital markets, Listed company experience	Risk Management, Legal, Compliance	HR, Total Rewards & Labour	Safety, Health, Environment, Sustainability	Digital transformation, Technology advancement	Cement and Mining Industry Knowledge/ Experience	Commercial and Project excellence	Related Industrial experience	Service, Aftermarket experience
Vagn Ove Sørensen (Chairman)	X		X	X	X			X					
Tom Knutzen	X	X		X	X							X	
Richard Robinson Smith	X		X						X			X	X
Anne Louise Eberhard		X		X		X			X		X		
Gillian Dawn Winckler	X	X		X	X		X			X			
Thrasyvoulos Moraitis				X	X					X	X		
Mette Dobel (employee-elected)			X							X			
Søren Dickow Quistgaard (employee-elected)										X	X		
Claus Østergaard (employee-elected)							X		X	X			X

REMUNERATION

The pandemic severely impacted our financial performance and target fulfilment in 2020. As a result, total management remuneration decreased significantly compared to 2019.

Base salary

Due to the challenging situation no annual adjustment to management's base salary was made in 2020, which was voluntarily decided by the members of the Group Executive Management.

Short-term incentive programme

There will be no pay-out on any of the financial KPIs (order intake, EBITA margin and CFFO)[1] related to the 2020 short-term incentive plan (80% of STIP)[1]. Any pay-out on individual KPIs (20% of STIP)[1] will be reduced by 50% due to a STIP modifier.

Long-term incentive programme

In 2020, management received pay-out for the 2017-2019 long-term incentive plan (LTIP) slightly above target level (75%). It is expected that pay-out for two of the three active LTIP programmes will be unachievable.

The KPIs planned for the 2021 LTIP grant are: EBITA-margin, total shareholder return and a sustainability-linked KPI, which is a change to the years before.

[1] KPIs and thresholds applicable for the Group CEO and Group CFO

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 on a regular basis the Group Executive Management's remuneration.

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

- Base salary
- Short-term incentives in the form of a cash bonus (up to 75% of annual base salary)
- Long-term incentives in the form of performance shares (up to 100% of base salary)
- Other incentives up to 150% of the annual base salary in cash and/or in shares
- 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, etc.

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 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.

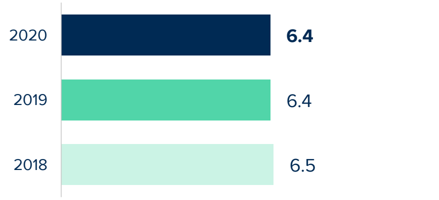
The fee structure was last adjusted in 2017.

The remuneration report can be found here: www.flsmidth.com/RemunerationReport2020

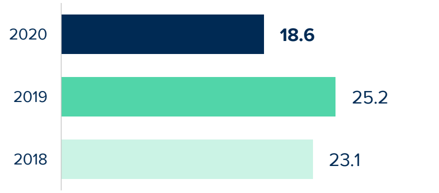
Remuneration facts

A detailed description of the remuneration of individual members of the Board of Directors and Executive Management is disclosed in the remuneration report which is considered an integrated part of this report.

Total remuneration of the Board of Directors, DKKm



Total remuneration of Executive Management registered with The Danish Business Authority, DKKm



SHAREHOLDER INFORMATION

Total shareholder return was negative 12% in 2020, impacted by the pandemic which has presented both challenges and opportunities for FLSmidth.

Capital and share structure

FLSmidth & Co. A/S is listed on Nasdaq Copenhagen. The share capital is DKK 1,025,000,000 (end of 2019: DKK 1,025,000,000) and the total number of issued shares is 51,250,000 (end of 2019: 51,250,000). Each share entitles the holder to 20 votes. The FLSmidth & Co. A/S share is included in roughly 150 Danish, Nordic, European and global share indices, including the leading Danish stock index C25.

The company had approximately 46,000 shareholders at the end of 2020 (end of 2019: approximately 38,000). In addition, roughly 1,750 present and former employees hold shares in the company (end of 2019: approximately 2,000).

The FLSmidth & Co. A/S share has a free float of around 90%. Lundbeckfond Invest A/S' investment exceeded 10% in FLSmidth & Co. A/S at the end of 2020. As of end-2019, the investments of Novo Holding A/S and Bestinver Gestión S.A SGIIC both exceeded 5%, but in 2020 both of these investors reduced their positions to below 5%.

2020 saw an increase in the share of Danish private investors to approximately 28% (2019: 21%). The share of Danish institutional investors, including Lundbeckfond Invest A/S, decreased to 17% (2019: 23%). FLSmidth's holding of treasury shares declined to 2.1% (2019: 2.3%).

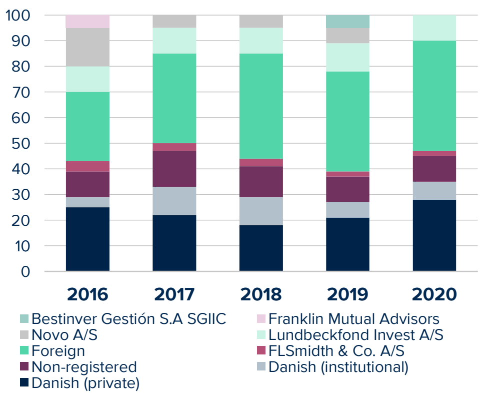
Return on the FLSmidth share in 2020

The total return on the FLSmidth & Co. A/S share in 2020 was -12% (2019: -6%), calculated as share price appreciation and dividend paid. Given the global uncertainty caused by the COVID-19 pandemic, the Board of Directors of FLSmidth & Co. A/S decided on 23 March 2020 to withdraw the previous proposal to pay a dividend of DKK 8 per share to ensure resilience in a period of market uncertainty and to further strengthen FLSmidth's financial position.

The share price ended 2020 at 232.8 compared to 265.4 at the end of 2019, having ranged between 134.3 and 274.8 during the year. Total shareholder return will be one of the financial KPIs for the planned 2021 long-term incentive plan.

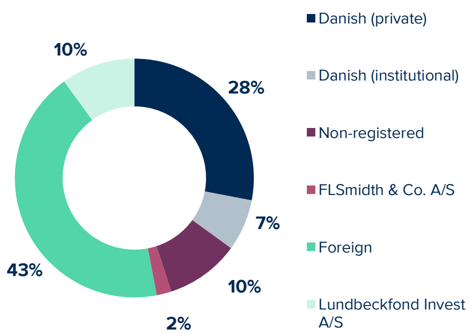
Development in shareholder structure

%



Shareholder structure 2020

%



Share price developments in 2020

Volume, 1,000 Share price DKK

Finance calendar 2021

24 Mar 2021	Annual General Meeting
5 May 2021	1st Quarter Interim Report 2021
12 Aug 2021	Half year Interim Report 2021
11 Nov 2021	3rd Quarter Interim Report 2021

Capital structure and dividend for 2020

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

As announced on 15 January 2021, FLSmidth is currently in negotiations concerning an acquisition of ThyssenKrupp's mining business. The negotiations are at a non-binding stage. Accordingly, there can be no assurances as to whether and when a transaction will transpire.

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 2 per share (2019: No dividend), corresponding to a dividend yield of 0.9% and a pay-out ratio of 50%, in line with our targeted pay-out ratio, to be distributed in 2021.

Given the global uncertainty caused by the COVID-19 pandemic, the Board of Directors of FLSmidth & Co. A/S decided to withdraw the proposal to pay a dividend of DKK 8 per share in 2020 to ensure resilience in a period of market uncertainty and to further strengthen FLSmidth's financial position.

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- 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 Markets Days.

In 2020, the COVID-19 pandemic changed the way Investor Relations and Management interacted with the financial markets, as restrictions and travel bans limited the usual travel activity. Since March, nearly all investor and analyst meetings have been conducted virtually. We have remained connected and engaged with investors through high-definition video and audio. We plan to resume travel activity when the pandemic allows for it but virtual meetings will remain an integrated part of how we will engage with the financial markets in future.

FLSmidth & Co. A/S is generally categorised as a capital goods or industrial company and is currently being covered by 17 equity analysts, 10 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	2016	2017	2018	2019	2020
CFPS (cash flow per share), DKK (diluted)	29.5	21.4	7.7	18.9	28.3
EPS (earnings per share), DKK (diluted)	10.6	1.5	12.8	15.5	4.2
BVPS (book value per share), DKK	164	156	161	171	159
DPS (dividend per share), DKK, proposed	6	8	9	0	2
Pay-out ratio (%)	59	539	72	-	50
Dividend yield (dividend as percent of share price end of year)	2.0	2.2	3.1	0.0	0.9
FLSmidth & Co. A/S share price, end of year, DKK	293.0	361.3	293.1	265.4	232.8
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	48,931	49,521	49,866	50,056	50,152
Average number of shares (1,000), (diluted)	48,985	49,690	50,051	50,092	50,153
Market capitalisation, DKKm	15,016	18,517	15,021	13,602	11,931

CONSOLIDATED FINANCIAL STATEMENTS

Primary statements

Notes

INCOME STATEMENT

Notes	DKKm	2020	2019
1.4	Revenue	16,441	20,646
	Production costs	(12,576)	(15,797)
	Gross profit	**3,865**	**4,849**
	Sales costs	(1,367)	(1,479)
	Administrative costs	(1,400)	(1,414)
	Other operating income	36	52
	EBITDA before special non-recurring items	**1,134**	**2,008**
1.7	Special non-recurring items	(24)	0
2.4, 2.5	Depreciation and impairment of property, plant and equipment and lease assets	(339)	(345)
	EBITA	**771**	**1,663**
2.2	Amortisation and impairment of intangible assets	(343)	(377)
	EBIT	**428**	**1,286**
2.6	Income from associates	0	3
5.4	Financial income	952	821
5.4	Financial costs	(999)	(939)
	EBT	**381**	**1,171**
4.1	Tax for the year	(155)	(373)
	Profit for the year, continuing activities	**226**	**798**
1.2, 2.11	Loss for the year, discontinued activities	(21)	(22)
	Profit for the year	**205**	**776**
	Attributable to:		
	Shareholders in FLSmidth & Co. A/S	210	775
	Minority interests	(5)	1
		205	**776**
5.2	Earnings per share (EPS):		
	Continuing and discontinued activities per share	4.2	15.5
	Continuing and discontinued activities per share, diluted	4.2	15.5
	Continuing activities per share	4.6	15.9
	Continuing activities per share, diluted	4.6	15.9

STATEMENT OF COMPREHENSIVE INCOME

Notes	DKKm	2020	2019
	Profit for the year	205	776
	Items that will not be reclassified to profit or loss:		
	Actuarial loss on defined benefit plans	(19)	(44)
4.3, 4.4	Tax of actuarial loss on defined benefit plans	1	32
	Items that are or may be reclassified subsequently to profit or loss:		
	Currency adjustments regarding translation of entities	(832)	154
	Cash flow hedging:		
	- Value adjustments for the year	35	4
	- Value adjustments transferred to work in progress	(11)	21
4.3, 4.4	Tax hereof	(7)	(3)
	Other comprehensive income for the year after tax	**(833)**	**164**
	Comprehensive income for the year	**(628)**	**940**
	Attributable to:		
	Shareholders in FLSmidth & Co. A/S	(622)	939
	Minority interests	(6)	1
		(628)	**940**

CASH FLOW STATEMENT

Notes	DKKm	2020	2019
	EBITDA before special non-recurring items, continuing activities	1,134	2,008
	EBITDA before special non-recurring items, discontinued activities	(15)	(19)
	EBITDA	**1,119**	**1,989**
	Adjustment for gain on sale of property, plant and equipment and other non-cash items	(48)	7
	Adjusted EBITDA	**1,071**	**1,996**
2.7	Change in provisions, pension and employee benefits	63	(230)
3.1	Change in net working capital	706	(448)
	Cash flow from operating activities before financial items and tax	**1,840**	**1,318**
5.4	Financial items received and paid	(51)	(59)
4.2	Taxes paid	(368)	(311)
	Cash flow from operating activities	**1,421**	**948**
2.10	Acquisition of enterprises and activities	(99)	(287)
2.2	Acquisition of intangible assets	(178)	(242)
2.4	Acquisition of property, plant and equipment	(171)	(177)
	Acquisition of financial assets	(7)	(2)
2.12	Prepayment related to disposal of enterprises and activities	62	0
	Disposal of property, plant and equipment	3	35
	Disposal of financial assets	7	0
2.6	Dividend from associates	7	12
	Cash flow from investing activities	**(376)**	**(661)**
	Dividend paid	(14)	(450)
	Addition of minority interests	0	7
	Exercise of share options	0	21
5.7	Repayment of lease liabilities	(120)	(106)
5.7	Repayment of debt	(822)	(1,968)
5.7	Proceeds from new loans	0	2,340
	Cash flow from financing activities	**(956)**	**(156)**
	Change in cash and cash equivalents	**89**	**131**
	Cash and cash equivalents at 1 January	1,001	875
	Foreign exchange adjustment, cash and cash equivalents	(114)	(5)
	Cash and cash equivalents at 31 December	**976**	**1,001**

The cash flow statement cannot be inferred from the published financial information only

Accounting policy

The cash flow statement 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 as interests paid from the lease liabilities 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 including lease liabilities, 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.

Notes	DKKm	2020	2019
2.12	Cash and cash equivalents included in assets held for sale	30	0
	Cash and cash equivalents	946	1,001
	Cash and cash equivalents at 31 December	**976**	**1,001**

DKKm	2020	2019
Free cash flow	1,045	287
Free cash flow, adjusted for acquisitions and disposals of enterprises and activities	1,082	574

BALANCE SHEET

Notes	DKKm	31/12/2020	31/12/2019
	ASSETS		
	Goodwill	4,194	4,376
	Patents and rights	875	967
	Customer relations	466	609
	Other intangible assets	172	94
	Completed development projects	234	203
	Intangible assets under development	299	362
2.2	**Intangible assets**	**6,240**	**6,611**
	Land and buildings	1,414	1,575
	Plant and machinery	369	439
	Operating equipment, fixtures and fittings	89	106
	Tangible assets in course of construction	137	80
2.4	**Property, plant and equipment**	**2,009**	**2,200**
2.5	**Lease assets**	**312**	**312**
4.3	Deferred tax assets	1,248	1,246
2.6	Investments in associates	159	165
	Other securities and investments	43	44
	Other non-current assets	**1,450**	**1,455**
	Non-current assets	**10,011**	**10,578**
3.2	Inventories	2,368	2,714
3.3	Trade receivables	3,453	5,068
3.4	Work in progress	2,175	2,612
	Prepayments	333	591
	Income tax receivables	178	164
3.5	Other receivables	868	804
	Cash and cash equivalents	946	1,001
	Current assets	**10,321**	**12,954**
2.12	Assets classified as held for sale	124	0
	Total assets	**20,456**	**23,532**

Notes	DKKm	31/12/2020	31/12/2019
	EQUITY AND LIABILITIES		
5.1	Share capital	1,025	1,025
	Foreign exchange adjustments	(1,131)	(300)
	Cash flow hedging	(4)	(28)
	Retained earnings	8,246	8,082
	Shareholders in FLSmidth & Co. A/S	**8,136**	**8,779**
	Minority interests	(6)	14
	Equity	**8,130**	**8,793**
4.3	Deferred tax liabilities	200	352
2.8	Pension obligations	375	362
2.7	Provisions	426	467
5.7	Lease liabilities	209	204
5.7	Bank loans and mortgage debt	2,250	2,890
	Prepayments from customers	240	251
	Income tax liabilities	139	135
3.7	Other liabilities	125	90
	Non-current liabilities	**3,964**	**4,751**
2.8	Pension obligations	3	4
2.7	Provisions	589	551
5.7	Lease liabilities	113	114
5.7	Bank loans and mortgage debt	183	285
	Prepayments from customers	1,026	1,517
3.4	Work in progress	1,834	1,578
3.6	Trade payables	3,055	4,350
	Income tax liabilities	162	180
3.7	Other liabilities	1,306	1,409
	Current liabilities	**8,271**	**9,988**
2.12	Liabilities associated with assets classified as held for sale	91	0
	Total liabilities	**12,326**	**14,739**
	Total equity and liabilities	**20,456**	**23,532**

EQUITY STATEMENT

2020

DKKm	Share capital	Currency adjust-ments	Cash flow hedging	Retained earnings	Shareholders in FLSmidth & Co A/S	Minority interests	Total
Equity at 1 January	1,025	(300)	(28)	8,082	8,779	14	8,793
Comprehensive income for the year							
Profit/loss for the year				210	210	(5)	205
Other comprehensive income							
Actuarial loss on defined benefit plans				(19)	(19)		(19)
Currency adjustments regarding translation of entities		(831)			(831)	(1)	(832)
Cash flow hedging:							
- Value adjustments for the year			35		35		35
- Value adjustments transferred to work in progress			(11)		(11)		(11)
Tax on other comprehensive income				(6)	(6)		(6)
Other comprehensive income for the year	0	(831)	24	(25)	(832)	(1)	(833)
Comprehensive income for the year	0	(831)	24	185	(622)	(6)	(628)
Transactions with owners:							
Dividend paid				0	0	(14)	(14)
Share-based payment				(21)	(21)		(21)
Exercise of share options				0	0		0
Addition of minority interests					0		0
Disposal of minority interests					0		0
Equity at 31 December	1,025	(1,131)	(4)	8,246	8,136	(6)	8,130

2019

DKKm	Share capital	Currency adjust-ments	Cash flow hedging	Retained earnings	Shareholders in FLSmidth & Co A/S	Minority interests	Total
Equity at 1 January	1,025	(454)	(53)	7,738	8,256	10	8,266
Comprehensive income for the year							
Profit/loss for the year				775	775	1	776
Other comprehensive income							
Actuarial loss on defined benefit plans				(44)	(44)		(44)
Currency adjustments regarding translation of entities		154			154		154
Cash flow hedging:							
- Value adjustments for the year			4		4		4
- Value adjustments transferred to work in progress			21		21		21
Tax on other comprehensive income				29	29		29
Other comprehensive income for the year	0	154	25	(15)	164	0	164
Comprehensive income for the year	0	154	25	760	939	1	940
Transactions with owners:							
Dividend paid				(450)	(450)		(450)
Share-based payment				13	13		13
Exercise of share options				21	21		21
Addition of minority interests					0	7	7
Disposal of minority interests					0	(4)	(4)
Equity at 31 December	1,025	(300)	(28)	8,082	8,779	14	8,793

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

When preparing the financial statements we are required to make several estimates and judgements. This note includes the areas that involve a higher degree of judgement or complexity and where changes in assumptions and estimates will likely have a significant impact on the financial statements. These areas are categorised as key accounting estimates and judgements. The significance of these material implications is categorised into three levels:

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 support by historical trends or reasonable expectations. Our assumptions may change to adapt to the market conditions and changes in political and economic factors. 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.

The COVID-19 pandemic has imposed significant uncertainty to the financial statements.

The pandemic has changed our reality and we have continuously adapted to new ways of doing business. Navigating in a market environment that has continuously changed to adapt to government imposed restrictions, new customary business practices etc., has had an impact not only on us but on our entire value chain.

One of the uncertainties in the early phase of the pandemic was related to the liquidity position. Looking ahead was with poor visibility and the length and magnitude of the impact was hard to predict. To mitigate the potential liquidity risk we decided early in the pandemic to bolster our liquidity position by adding an additional DKK 500m credit facility.

During the year we have monitored our activity closely and the uncertainties have impacted our key accounting estimates and judgements as follows:

Valuation of inventories

The unstable market conditions and complex logistics have made it more difficult to get orders shipped in to and out from our warehouses, with a risk of increase in slow-moving items. Other than the risk of slow-moving items, uncertainties have related to the building up for an increased service activity and customers not being able to receive the goods as agreed.

As part of managing the more complex setup we took the following actions during the year:

- Ensuring a sound inventory turn with a strict focus on inventory ageing
- Clear split between inventory specifically dedicated for orders and inventory available for sale

The active measures taken during 2020 have reduced the inventory level by the end of the year and the levels of impairments have also been reduced.

For additional description of the estimates, please refer to note 3.2 Inventories.

Valuation of receivables

The increased market uncertainty has increased the counterparty risk, and deterioration in credit quality of receivables has led to a risk adjustment of our expected credit loss (ECL) measurement.

For additional description of the estimates, please refer to note 3.3 Trade receivables.

As part of managing the increased credit risk we took the following actions during the year:

- Reassessment of customer payment terms
- Renegotiation of payment terms with our large project customers and suppliers where the cash flows were imbalanced
- Increased focus on cash collection

The active measures taken throughout 2020 have reduced the trade receivables balance by the end of 2020 and contributed to strong cash collection.

Estimate total cost to complete

Our cost forecasts on projects have been more uncertain due to the unpredictable development in logistics and execution. The project planning has been more difficult, due to especially the imposed restrictions and the adaption to global and local changes in the restrictions.

Further the cost forecasts have also been impacted by increased costs to cover a challenged supply chain. This has led to more frequent reassessments of cost to complete our projects, as our execution of projects has been impacted by the disruptions.

The prolonging of project completion and changes in the project plans have had a negative effect on the total project costs. The lack of visibility and unpredictable project planning has imposed increased uncertainty to the cost forecasts.

Estimate variable transaction price

Site restrictions and operations running at reduced capacity has imposed uncertainty to the estimate on operation and maintenance contracts where the transaction price varies partly with the production.

 Consolidated financial statements

Additionally, the site and travel restrictions combined with a more difficult supply chain has imposed uncertainty to meeting of our contractual obligations in a timely manner which has caused a risk of penalties.

For additional description of the estimates, please refer to note 3.4 Work in progress.

Deferred tax assets

The uncertain market situation and development has made it more difficult to predict the level of business activity and earnings in the future.

The recoverability of the deferred tax assets is dependent on the generation of sufficient future taxable income to utilise tax losses. COVID-19 has increased the uncertainty. The changing local and regional restrictions has made it difficult to predict the levels for the jurisdictions and the expected utilisation of deferred tax assets against future taxable income.

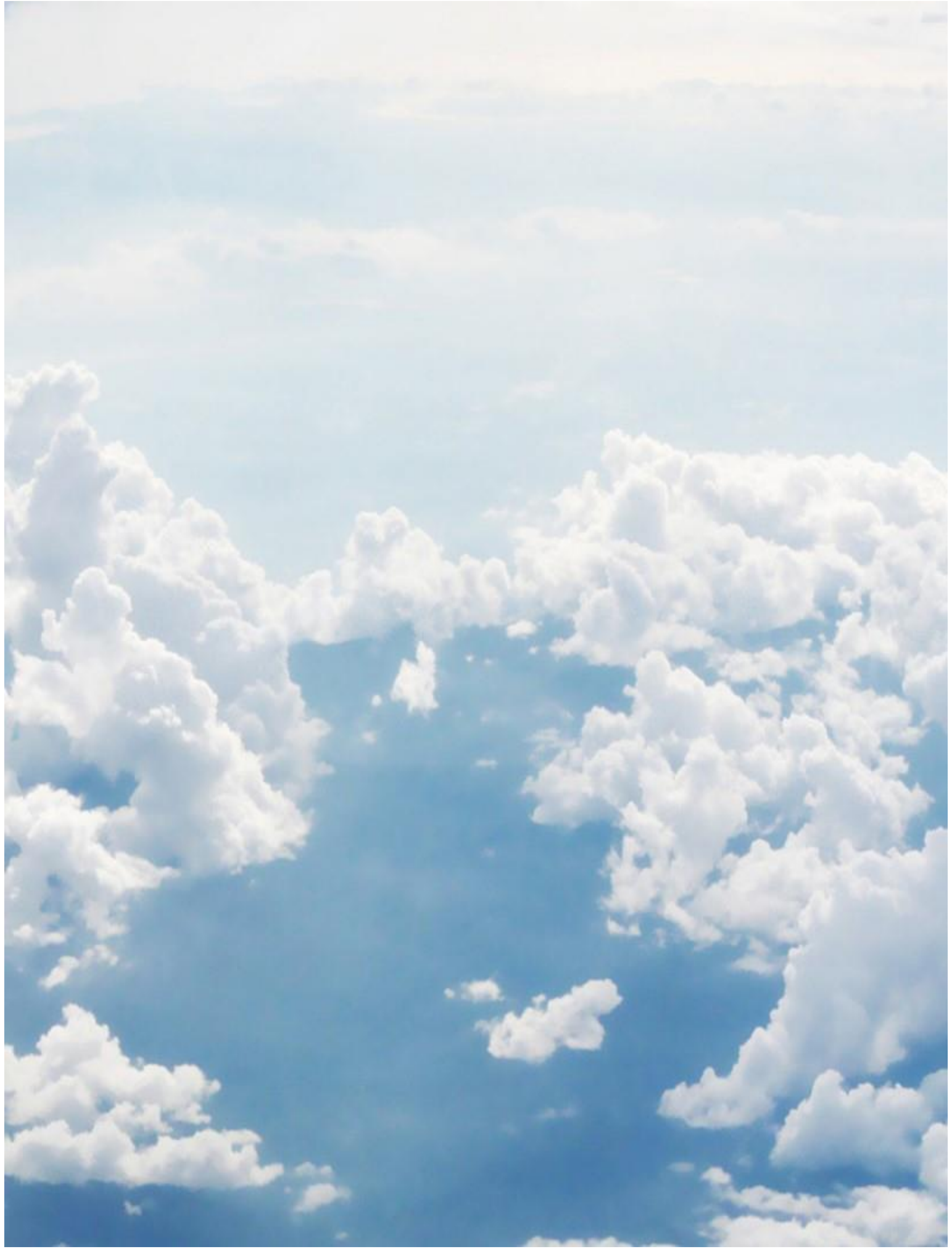
For additional description of the estimates, please refer to note 4.3 Deferred tax.

The financial impact of COVID-19 requires significant judgement and is included in the estimates of the activity of the group.

The financial impact of COVID-19 is embedded into the valuation of our entire balance sheet and in the aforementioned we have described the uncertainties that can have the most significant impact on the financial statements also going forward.

Additional information about the nature of the key accounting estimates and judgements can be found in the notes.

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	
2.7 Provisions	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	



SECTION 1

OPERATING PROFIT & SEGMENTS

BACKLOG
▲ 5%

MINING SHARE REVENUE
65%

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.

Amortisation of patent and rights is presented as production costs and the comparative figures have been adjusted as the amortisation was included in administrative costs in previous years.

DKKm	2020	2019
Revenue	16,441	20,646
Production costs, including depreciation and amortisation	(12,920)	(16,150)
Gross profit	**3,521**	**4,496**
Sales costs, including depreciation and amortisation	(1,432)	(1,571)
Administrative costs, including depreciation and amortisation	(1,673)	(1,691)
Special non-recurring items	(24)	0
Other operating income	36	52
EBIT	**428**	**1,286**
Depreciation, amortisation and impairment consist of:		
Depreciation and impairment of property, plant and equipment and lease assets	(339)	(345)
Amortisation and impairment of intangible assets	(343)	(377)
	(682)	**(722)**
Depreciation, amortisation and impairment are divided into:		
Production costs	(344)	(353)
Sales costs	(65)	(92)
Administrative costs	(273)	(277)
	(682)	**(722)**

1.2 SEGMENT INFORMATION

Mining and Cement Industries are our operating and reporting segments. Our Industries have technology ownership and develop and drive the life cycle offering and product portfolio. This is supported by a seven region structure driving customer relations, sales and service for both Industries.

The organisational structure helps create a productivity-driven organisation with a strong, unified digital approach and fewer touchpoints strengthening our local presence, customer orientation, and life cycle offering in order to capture growth.

The Mining and Cement Industries front our customers in the global industries with all the knowhow 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 range 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.

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

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

2020

DKKm	Mining	Cement	Shared costs	Other compa-nies	Continuing activities	Discon-tinued activities	FLSmidth Group
Revenue	**10,620**	**5,821**	**0**	**0**	**16,441**	**0**	**16,441**
Production costs	(7,932)	(4,566)	(78)	0	(12,576)	0	(12,576)
Gross profit	**2,688**	**1,255**	**(78)**	**0**	**3,865**	**0**	**3,865**
SG&A costs	(828)	(648)	(1,257)	2	(2,731)	(15)	(2,746)
EBITDA before special non-recurring items	**1,860**	**607**	**(1,335)**	**2**	**1,134**	**(15)**	**1,119**
Special non-recurring items	(24)	0	0	0	(24)	(1)	(25)
Depreciation and impairment of property, plant and equipment and lease assets	(126)	(92)	(121)	0	(339)	0	(339)
EBITA before allocation of shared costs	**1,710**	**515**	**(1,456)**	**2**	**771**	**(16)**	**755**
Allocation of shared costs	(822)	(633)	1,456	(1)	0	0	0
EBITA	**888**	**(118)**	**0**	**1**	**771**	**(16)**	**755**
Amortisation of intangible assets	(233)	(110)	0	0	(343)	0	(343)
EBIT	**655**	**(228)**	**0**	**1**	**428**	**(16)**	**412**
Order intake (gross)	12,811	5,713			18,524	0	18,524
Order backlog	9,085	5,789			14,874	0	14,874
Gross margin	*25.3%*	*21.6%*			*23.5%*		*23.5%*
EBITDA margin before special non-recurring items	*17.5%*	*10.4%*			*6.9%*		*6.8%*
EBITA margin before allocation of shared costs	*16.1%*	*8.8%*			*4.7%*		*4.6%*
EBITA margin	*8.4%*	*-2.0%*			*4.7%*		*4.6%*
EBIT margin	*6.2%*	*-3.9%*			*2.6%*		*2.5%*
Number of employees at 31 December	**5,176**	**4,118**	**1,345**		**10,639**	**0**	**10,639**
Reconciliation of profit/(loss) for the year							
EBIT					428	(16)	412
Income from associates					0	0	0
Financial income					952	12	964
Financial costs					(999)	(14)	(1,013)
EBT					**381**	**(18)**	**363**
Tax for the year					(155)	(3)	(158)
Profit/(loss) for the year					**226**	**(21)**	**205**

2019

DKKm	Mining	Cement	Shared costs	Other compa-nies	Continuing activities	Discon-tinued activities	FLSmidth Group
Revenue	**12,169**	**8,477**	**0**	**0**	**20,646**	**0**	**20,646**
Production costs	(9,098)	(6,596)	(103)	0	(15,797)	(4)	(15,801)
Gross profit	**3,071**	**1,881**	**(103)**	**0**	**4,849**	**(4)**	**4,845**
SG&A costs	(930)	(662)	(1,261)	12	(2,841)	(15)	(2,856)
EBITDA before special non-recurring items	**2,141**	**1,219**	**(1,364)**	**12**	**2,008**	**(19)**	**1,989**
Special non-recurring items	0	0	0	0	0	0	0
Depreciation and impairment of property, plant and equipment and lease assets	(167)	(71)	(107)	0	(345)	0	(345)
EBITA before allocation of shared costs	**1,974**	**1,148**	**(1,471)**	**12**	**1,663**	**(19)**	**1,644**
Allocation of shared costs	(808)	(662)	1,471	(1)	0	0	0
EBITA	**1,166**	**486**	**0**	**11**	**1,663**	**(19)**	**1,644**
Amortisation of intangible assets	(261)	(116)	0	0	(377)	0	(377)
EBIT	**905**	**370**	**0**	**11**	**1,286**	**(19)**	**1,267**
Order intake (gross)	12,064	7,490			19,554	0	19,554
Order backlog	7,683	6,509			14,192	0	14,192
Gross margin	*25.2%*	*22.2%*			*23.5%*		*23.5%*
EBITDA margin before special non-recurring items	*17.6%*	*14.4%*			*9.7%*		*9.6%*
EBITA margin before allocation of shared costs	*16.2%*	*13.5%*			*8.1%*		*8.0%*
EBITA margin	*9.6%*	*5.7%*			*8.1%*		*8.0%*
EBIT margin	*7.4%*	*4.4%*			*6.2%*		*6.1%*
Number of employees at 31 December	**5,658**	**5,123**	**1,562**		**12,343**	**3**	**12,346**
Reconciliation of profit/(loss) for the year							
EBIT					1,286	(19)	1,267
Income from associates					3	0	3
Financial income					821	2	823
Financial costs					(939)	(9)	(948)
EBT					**1,171**	**(26)**	**1,145**
Tax for the year					(373)	4	(369)
Profit/(loss) for the year					**798**	**(22)**	**776**

1.3 GEOGRAPHICAL INFORMATION

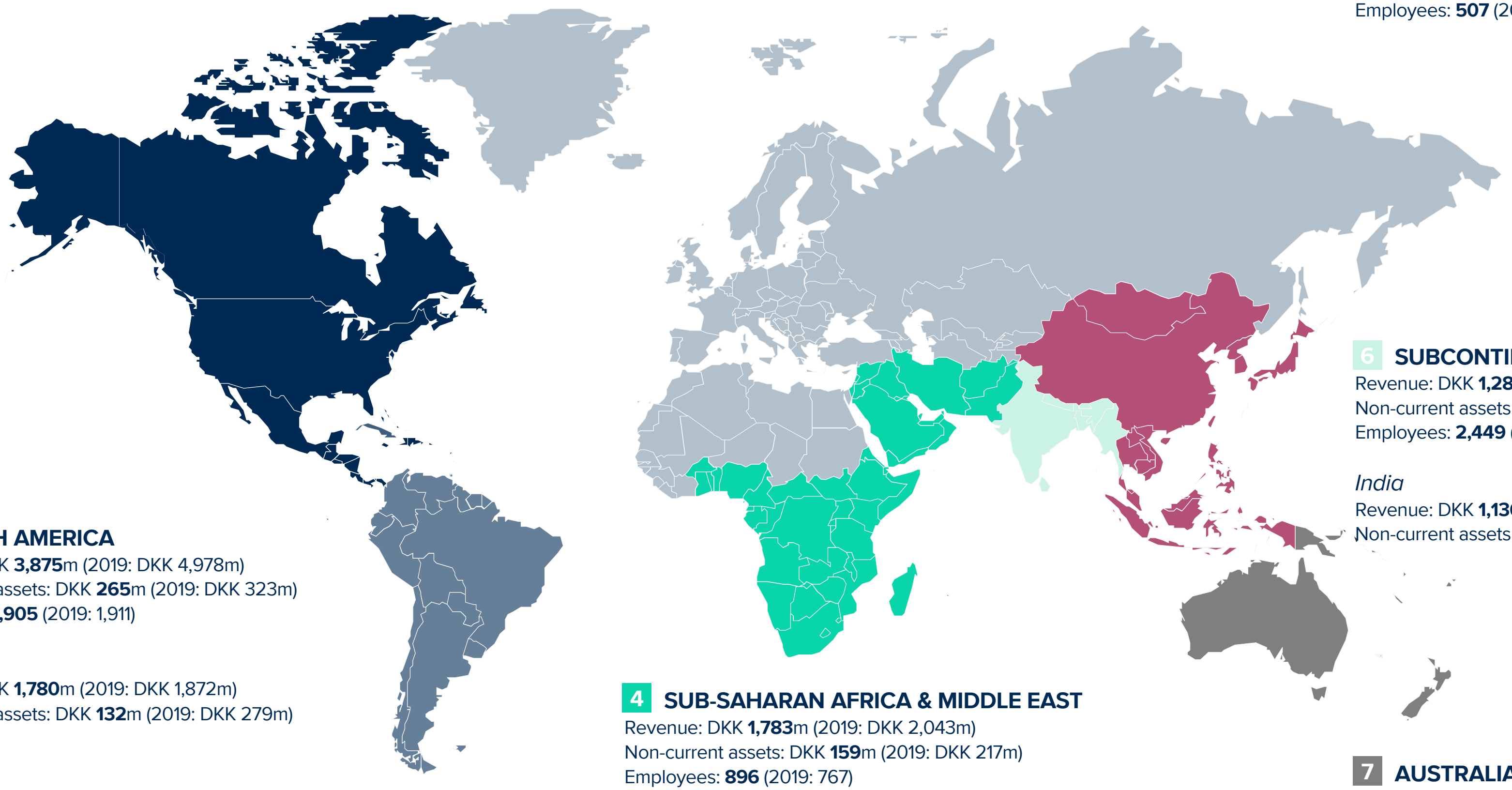
1 NORTH AMERICA
Revenue: DKK **3,440**m (2019: DKK 4,199m)
Non-current assets: DKK **3,435**m (2019: DKK 3,696m)
Employees: **1,672** (2019: 1,934)

USA
Revenue: DKK **2,258**m (2019: DKK 2,732m)
Non-current assets: DKK **2,840**m (2019: DKK 3,069m)

3 EUROPE, NORTH AFRICA & RUSSIA
Revenue: DKK **3,067**m (2019: DKK 3,830m)
Non-current assets: DKK **3,540**m (2019: DKK 3,623m)
Employees: **2,628** (2019: 3,017)

Denmark
Revenue: DKK **35**m (2019: DKK 108m)
Non-current assets: DKK **1,275**m (2019: DKK 1,394m)

5 ASIA
Revenue: DKK **1,438,**m (2019: DKK 1,514m)
Non-current assets: DKK **99**m (2019: DKK 113m)
Employees: **507** (2019: 617)



6 SUBCONTINENTAL INDIA
Revenue: DKK **1,280**m (2019: DKK 2,650m)
Non-current assets: DKK **247**m (2019: DKK 289m)
Employees: **2,449** (2019: 2,926)

India
Revenue: DKK **1,136**m (2019: DKK 2,273m)
Non-current assets: DKK **247**m (2019: DKK 289m)

2 SOUTH AMERICA
Revenue: DKK **3,875**m (2019: DKK 4,978m)
Non-current assets: DKK **265**m (2019: DKK 323m)
Employees: **1,905** (2019: 1,911)

Chile
Revenue: DKK **1,780**m (2019: DKK 1,872m)
Non-current assets: DKK **132**m (2019: DKK 279m)

4 SUB-SAHARAN AFRICA & MIDDLE EAST
Revenue: DKK **1,783**m (2019: DKK 2,043m)
Non-current assets: DKK **159**m (2019: DKK 217m)
Employees: **896** (2019: 767)

7 AUSTRALIA
Revenue: DKK **1,558**m (2019: DKK 1,432m)
Non-current assets: DKK **818**m (2019: DKK 862m)
Employees: **582** (2019: 593)

Revenue, non-current assets and number of employees are disclosed for all Regions, home country of our Headquarter and countries that account for more than 5% of Group revenue.

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.

Products

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

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

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

A highly customised 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.

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 is usually recognised over time; applying the percentage of completion cost-to-cost method.

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

Services

Services comprise 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 includes amongst others sale of supervision, electronic or mechanical service of equipment or plants.

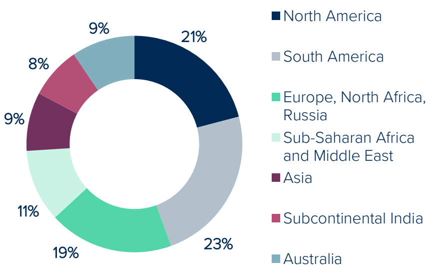
Each spare part and wear part is considered one performance obligation. The sale is usually agreed at a fixed price and revenue is usually recognised at the point of delivery. We are normally entitled to payment once we have delivered the parts.

The performance obligation for service sales 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.

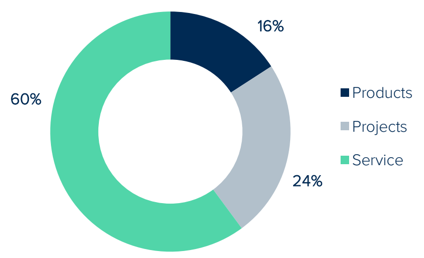
Revenue split on industry and category

DKKm	2020 Mining	2020 Cement	2020 Group	2019 Mining	2019 Cement	2019 Group
Products	1,328	1,280	2,608	1,377	1,394	2,771
Projects	2,616	1,333	3,949	3,422	3,676	7,098
Capital business	**3,944**	**2,613**	**6,557**	**4,799**	**5,070**	**9,869**
Service business	**6,676**	**3,208**	**9,884**	**7,370**	**3,407**	**10,777**
Total revenue	**10,620**	**5,821**	**16,441**	**12,169**	**8,477**	**20,646**

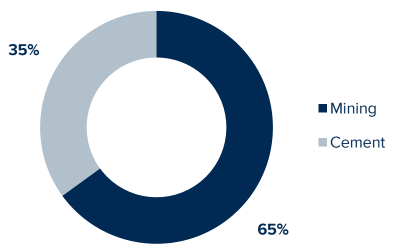
Revenue split
by Regions



Revenue
by Revenue stream



Revenue
by Mining and Cement



1.4 REVENUE - continued

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 usually 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.

Backlog

The order backlog at 31 December 2020 amounts to DKK 14,874m (2019: DKK 14,192m) and represents the value of outstanding performance obligations on current contracts, combined of contracts where we will transfer control at a future point in time and the remaining performance obligations on contracts where we transfer control over time.

Based on the order backlog maturity profile, the majority, 64% (2019: 73%) of the order backlog is expected to be converted into revenue in 2021, while 36% (2019: 27%) is expected to be converted to revenue in subsequent years.

Accounting policy

Revenue comprises 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) is 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.

Revenue split on timing of revenue recognition principle

	2020			2019		
DKKm	**Mining**	**Cement**	**Group**	**Mining**	**Cement**	**Group**
Point in time	6,123	1,845	7,968	7,354	2,298	9,652
Percentage of completion	4,497	3,955	8,452	4,815	6,116	10,931
Cash	0	21	21	0	63	63
Total revenue	**10,620**	**5,821**	**16,441**	**12,169**	**8,477**	**20,646**

Key accounting judgements

Judgement regarding performance obligations

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

The complexity arises when selling bundled goods and services, and the consequence of the key accounting judgement is related to the timing of revenue recognition, especially for point in time sales.

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.

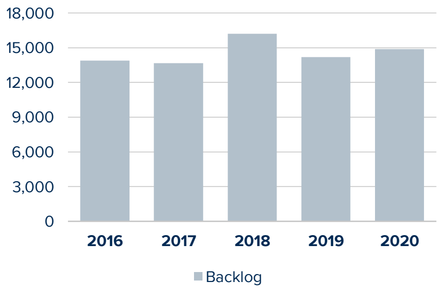
The judgements relate to if we have an alternative use of the assets sold and if we have an enforceable right to payment throughout the contractual term.

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.

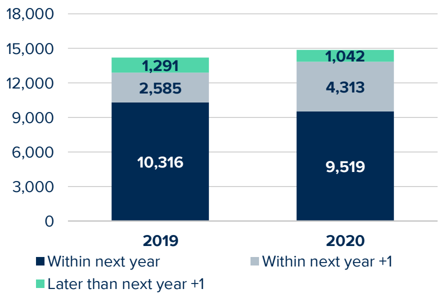
When assessing if we are entitled to payment throughout the contract term, a judgement is made based on the contract wording, legal entitlement and profit estimates.

Revenue declined 20% due to a severe pandemic impact and a low Cement backlog entering the year

Backlog
DKKm



Backlog maturity
DKKm



1.4 REVENUE - continued

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 2.7, 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.

1.5 STAFF COSTS

The average number of employees in 2020 in the continuing activities was 11,567 (2019: 11,669).

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

The decrease in staff costs are positively affected by decrease in currencies of approximately DKK 200m.

DKKm	2020	2019
Wages, salaries and other remuneration	3,891	4,004
Contribution plans and other social security costs, etc.	439	596
Defined benefit plans	26	53
Share-based payment	(21)	13
Other staff costs	206	212
	4,541	**4,878**
The amounts are included in the items:		
Production costs	2,766	3,073
Sales costs	1,027	1,052
Administrative costs	748	753
	4,541	**4,878**

During 2020 the remuneration of the Board of Directors and Group Executive Management was as follows:

DKKm	2020	2019
Board of Directors fees	6	6
Total remuneration of Board of Directors	**6**	**6**

DKKm	2020	2019
Wages and salaries	31	29
Bonus	1	0
Benefits	4	2
Severance package	10	9
Share-based payment	(2)	3
Other incentives	7	0
Total remuneration of Group Executive Management	**51**	**43**

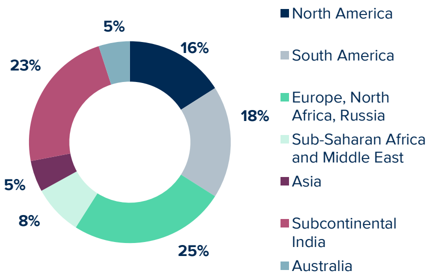
The number of members in Group Executive Management has increased from 2019 to 2020

Two members of the Group Executive Management are registered with The Danish Business Authority. During 2020, the registered members of the Group Executive Management have received remuneration as follows:

DKKm	2020	2019
Wages and salaries	13	14
Bonus	1	0
Benefits	2	1
Severance package	0	9
Share-based payment	(2)	1
Other incentives	5	0
Total remuneration of registered executives	**19**	**25**

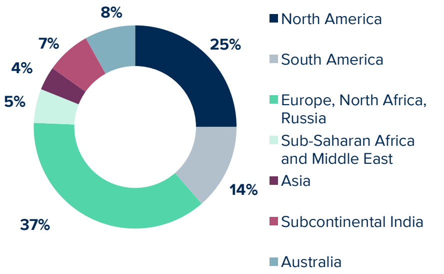
Number of employees per region

%



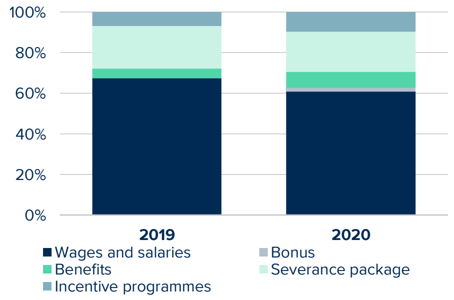
Staff cost per region

%



Remuneration of Group Executive Management

DKKm



1.5 STAFF COST - continued

Each member of the Group Executive Management is, other than the base salary, entitled to customary benefits. Additionally, the members of Group Executive Management are eligible to participate in a short-term- and a long-term incentive programme. The short- and the long-term incentive programmes are capped at 75% and 100% of the annual base salary, respectively. In addition to this each executive may, at the Board's discretion, receive an additional incentive of up to 150% of the annual base salary, which can be cash and/or share based. The individual maximum and target levels are fixed as part of the ongoing remuneration adjustment cycle.

The members of the Group Executive Management have up to 18 months' notice in the event of termination of employment and severance payment may correspond to a maximum of 6 months' base salary.

For details related to the remuneration of the Board of Directors and Group Executive Management, please refer to the Remuneration Report 2020:
www.flsmidth.com/RemunerationReport2020.

1.6 GOVERNMENT GRANTS

Governments in many countries have introduced measures to support entities during the pandemic. During 2020 we have been entitled to the following government grants and fulfilled the conditions attached to receiving the grants. The grants have primarily been received to compensate for salary expenses and the majority of the grants have been received in Switzerland, Denmark, Germany and Italy.

The COVID-19 related government grants have been included in the following line items in the income statements:

DKKm	2020	2019
Production cost	15	0
Sales cost	5	0
Administration cost	1	0
	21	**0**

We have during 2020 received other government grants, which are not COVID-19 related. The grants are included in other operating income by DKK 24m (2019: DKK 26m).

Accounting policy

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The government grants will be recognised according to their purpose.

Government grants intended to compensate for costs are recognised in the income statement over the periods in which the entity recognises the related costs. The government grant is deducted in the related expense.

1.7 SPECIAL NON-RECURRING ITEMS

DKKm	2020	2019
Closedown of production facilities	(24)	0
Total special non-recurring items	**(24)**	**0**

Costs for 2020 relate to closedown of production facilities in the US.

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 closedown of facilities, gains and losses from acquisition and disposal of enterprises and activities.

SECTION 2

CAPITAL EMPLOYED AND OTHER BALANCE SHEET ITEMS

During 2020, we have acquired the businesses of Mill-Ore Group and Knowl-edgeScape

Our Fabric Filter business and Möller Pneumativ Conveying Systems business are held for sale in accordance with the announcement on 30 December 2020

ROCE
5.1%

CAPITAL EMPLOYED
14,520 DKKM

2.1 RETURN ON CAPITAL EMPLOYED

DKKm	2020	2019
Intangible assets at cost value, note 2.2	10,447	10,619
Property, plant and equipment at carrying amount, note 2.4	2,009	2,200
Lease assets, note 2.5	312	312
Working capital, note 3.1	1,752	2,739
Capital employed	**14,520**	**15,870**
Capital employed, average	**15,195**	**15,251**

Capital employed has decreased from last year, and the average capital employed has followed. The decrease was related to lower net working capital as well as investments in intangible assets, including goodwill, research and development projects and software. Assets classified as held for sale had an effect of DKK 71m decrease in net working capital and from that a DKK 35m on average capital employed.

DKKm	2020	2019
EBITA	771	1,663
Capital employed, average	15,195	15,251
ROCE, average	**5.1%**	**10.9%**

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

2.2 INTANGIBLE ASSETS

Goodwill arising from business acquisitions is recognised in the financial statements. Carrying amount of goodwill decreased during 2020, despite the acquisitions of Mill-Ore Group and KnowledgeScape LLP. The decline is due to translation effects of foreign currencies.

Patents and rights acquired through business acquisitions is recognised in the financial statements. The patents and rights include patents, trademarks, technology and other rights.

Our 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 2020.

Much of the knowhow we generate originates from work performed for customers. In 2020, R&D costs totalled DKK 310m (2019: DKK 302m). The addition of intangible assets under development amounts to DKK 177m (2019: DKK 242m), where capitalised development cost accounts for DKK 150m (2019: DKK 142m). R&D costs not capitalised are included in production costs. The remaining capitalisation relates to IT related projects. Internally generated cost capitalised amounts to DKK 115m (2019: DKK 98m).

Other intangible assets consist of software and completed software implementation projects, whereas completed development projects primarily consist of R&D.

Goodwill is considered to have an indefinite useful life. The carrying amount of goodwill per segment is shown in note 2.3.

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 or sooner if impairment indication arises.

Intangible assets other than goodwill

Patents and rights including trademarks, customer relations, and other intangible assets 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.

Amortisation of completed development projects is charged on a straight line basis during their estimated useful life. Development projects are written down for impairment to recoverable amount if lower. Development projects in progress are not amortised but are tested for impairment at least once a year.

Goodwill is considered to have indefinite useful life and is not amortised.

For other intangible assets amortisation takes place systematically over the estimated useful life of the assets which is as follows:

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

Change in accounting estimate

In prior years trademarks, which are part of patents and rights, were considered to have indefinite useful life. As part of our periodic reassessment of useful lives we have in 2020 estimated that the useful life for trademarks is not indefinite, but up to 30 years, as this better reflects the period in which we expect to gain benefits from the assets when considering all relevant factors. The change in accounting estimate has increased the amortisation in 2020 by 26m, which is largely the level expected going forward.

Trademarks are tested for impairment as part of the CGUs to which they belong, refer to note 2.3.

2.2 INTANGIBLE ASSETS – continued

DKKm	Goodwill	Patents and rights	Customer relations	Other intangible assets	Completed development projects	Intangible assets under development	Total
Cost at 1 January 2020	4,376	2,118	1,963	765	1,035	362	10,619
Foreign exchange adjustments	(240)	(21)	(134)	(30)	0	0	(425)
Acquisition of group enterprises	58	12	3	9	0	0	82
Additions	0	0	0	1	0	177	178
Disposals	0	(1)	0	(6)	0	0	(7)
Transferred between categories	0	0	0	111	129	(240)	0
Cost at 31 December 2020	**4,194**	**2,108**	**1,832**	**850**	**1,164**	**299**	**10,447**
Amortisation and impairment at 1 January 2020	0	(1,151)	(1,354)	(671)	(832)	0	(4,008)
Foreign exchange adjustment	0	12	96	29	0	0	137
Disposals	0	1	0	6	0	0	7
Amortisation	0	(95)	(108)	(42)	(98)	0	(343)
Amortisation and impairment at 31 December 2020	**0**	**(1,233)**	**(1,366)**	**(678)**	**(930)**	**0**	**(4,207)**
Carrying amount at 31 December 2020	**4,194**	**875**	**466**	**172**	**234**	**299**	**6,240**

DKKm	Goodwill	Patents and rights	Customer relations	Other intangible assets	Completed development projects	Intangible assets under development	Total
Cost at 1 January 2019	4,238	2,074	1,896	674	1,056	260	10,198
Foreign exchange adjustments	71	8	34	7	0	0	120
Acquisition of group enterprises	67	34	33	7	0	0	141
Additions	0	0	0	0	0	242	242
Disposals	0	0	0	(6)	(76)	0	(82)
Transferred between categories	0	2	0	83	55	(140)	0
Cost at 31 December 2019	**4,376**	**2,118**	**1,963**	**765**	**1,035**	**362**	**10,619**
Amortisation and impairment at 1 January 2019	0	(1,048)	(1,210)	(615)	(807)	0	(3,680)
Foreign exchange adjustment	0	(4)	(21)	(8)	0	0	(33)
Disposals	0	0	0	6	76	0	82
Amortisation	0	(99)	(123)	(54)	(101)	0	(377)
Amortisation and impairment at 31 December 2019	**0**	**(1,151)**	**(1,354)**	**(671)**	**(832)**	**0**	**(4,008)**
Carrying amount at 31 December 2019	**4,376**	**967**	**609**	**94**	**203**	**362**	**6,611**

2.3 IMPAIRMENT OF ASSETS

Result of annual impairment test

We perform an annual impairment test of our intangible assets with indefinite useful life. In 2020 the test showed no impairment need (2019: DKK 0m). Intangible assets are primarily related to acquisition of enterprises and activities, software and research and development projects. When 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.

Management believes 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 included in the impairment test are specified below:

			2020
DKKm	**Mining**	**Cement**	**Group**
Goodwill	3,991	203	4,194
Patents and rights	572	303	875
Customer relations	460	6	466
Other intangible assets	89	83	172
Completed development projects	112	122	234
Intangible assets under development	150	149	299
Total	**5,374**	**866**	**6,240**

Cash generating units

The cash generating units equal our operating and reportable segments, Mining and Cement, these being the smallest group of 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, and the definition is unchanged compared to last year.

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 eight years as well as projections for the terminal period. The eight year period is used to better reflect the business cycle. Significant parameters in these estimates are discount rate, revenue growth, EBITA margin, expected investments and growth expectations for the terminal period.

The discount rate applied 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 expected annual growth rate and the expected margins in the budget period are based on historical experience and the assumptions about expected market developments as detailed above. From 2028 and onwards, the long-term growth rate for the terminal period is based on the expected growth in the world economy, specifically for the industries.

Due to the current negative 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.

Key assumptions	Mining	Cement
Investments % of revenue	2.5%	2.0%
Average growth rate in the budget period	4.8%	2.2%
Growth rate in the terminal period	1.5%	1.5%
Discount rate after tax	7.5%	7.5%
Discount rate before tax	9.6%	9.6%
EBITA margin in the budget period	9-13%	0-6%

2.3 IMPAIRMENT OF ASSETS - continued

Mining

The COVID-19 pandemic has impacted the global economy across industries, but the mining industry has remained relatively resilient during the course of 2020 with the majority of mines operational across regions. Roughly 10% of the world's mine sites were shut down in April, but nearly all sites have restarted production and most sites run with high production rates. Mines are, however, often remotely located and to protect employees and safeguard production, many customers are still enforcing safety protocols and do not permit site access to external service providers, which impacts their equipment and service spend. With infection cases currently surging in many parts of the world, it is still difficult to predict the shape of the recovery curve. It is, however, expected that the pandemic will continue to impact the industry in the first half of 2021.

On the positive side, commodity prices have rebounded strongly from the spring when the first pandemic wave hit, and the industry is expected to recover to pre-pandemic activity levels within a relatively short time horizon. All things considered, the pandemic has disrupted the mining industry to a lesser degree than many other industries. For 2021, the Mining business revenue and EBITA are expected to grow in the second half of the year as COVID-19 restrictions are expected to ease.

The outlook for investments in mining remains positive, and we have a healthy pipeline of both larger and smaller opportunities. Further, the switch to green energy and electric powered transportation will require a massive increase in infrastructure and the mining industry will need to scale up investments in copper, battery metals and other minerals to meet this growing demand.

Cement

The cement market was subdued already entering 2020 and has been severely impacted by the pandemic in 2020. Following shutdown of about 20% of the world's cement plants outside of China in April, the share of cement plants in operation has climbed back up above 95% at the end of the year. However, many plants continue to run at reduced capacity and sites are often difficult to access due to restrictions and preventative measurements taken by authorities and plant operators. The Cement business revenue is expected to decline further in 2021, and as a consequence, initiatives to reshape the Cement business will continue during the year. The Cement business is not expected to be EBITA positive in 2021 due to continued Cement reshaping costs and low capacity utilisation in the service business until the pandemic eases.

We do not anticipate a recovery in the short- to medium-term but the large economic stimulus programmes that have been announced in parts of the world, combined with an increasing focus on lower-carbon cement production, is expected to create good opportunities in the mid- to long-term. The timing and extent of such rebound remain uncertain but during the last weeks of 2020, the EU Commission agreed on a 55% reduction target of greenhouse gas emissions by 2030, and a budget that allows for a green recovery following COVID-19 restrictions. The green recovery will fuel demand for emission-reducing technologies and the cement industry will need to undertake substantial investments to meet recent commitments to carbon neutrality by the Global Cement and Concrete Association and the European Cement Association.

Sensitivity analysis

Based on current assumptions we see no impairment indications, and our key assumptions are not sensitive to reasonable changes to an extent that will result in an impairment loss neither individually nor in combination.

Accounting policy

Goodwill 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 (2019: DKK 48m) are pledged against mortgage debt of DKK 256m (2019: DKK 273m).

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, mainly related to land and buildings, up to 5 years or following the corresponding lease agreement

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.

	2020					2019				
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	2,498	1,620	1,000	80	5,198	2,450	1,547	978	65	5,040
Foreign exchange adjustments	(164)	(121)	(65)	(14)	(364)	29	28	9	2	68
Acquisitions of enterprises	9	0	0	0	9	3	3	1	6	13
Additions	10	30	25	112	177	10	33	57	77	177
Disposals	(48)	(18)	(70)	0	(136)	(30)	(24)	(44)	(2)	(100)
Transferred between categories	1	33	7	(41)	0	36	33	(1)	(68)	0
Transferred to assets classified as held for sale	0	(1)	(5)	0	(6)	0	0	0	0	0
Cost at 31 December	**2,306**	**1,543**	**892**	**137**	**4,878**	**2,498**	**1,620**	**1,000**	**80**	**5,198**
Depreciation and impairment at 1 January	(923)	(1,181)	(894)	0	(2,998)	(852)	(1,073)	(880)	0	(2,805)
Foreign exchange adjustment	49	91	59	0	199	(6)	(16)	(10)	0	(32)
Disposals	48	17	70	0	135	6	25	41	0	72
Depreciation	(66)	(102)	(43)	0	(211)	(71)	(119)	(43)	0	(233)
Transferred between categories	0	0	0	0	0	0	2	(2)	0	0
Transferred to assets classified as held for sale	0	1	5	0	6	0	0	0	0	0
Depreciation and impairment at 31 December	**(892)**	**(1,174)**	**(803)**	**0**	**(2,869)**	**(923)**	**(1,181)**	**(894)**	**0**	**(2,998)**
Carrying amount at 31 December	**1,414**	**369**	**89**	**137**	**2,009**	**1,575**	**439**	**106**	**80**	**2,200**

2.5 LEASES

We are party to several lease contracts as lessee, by which we lease offices, warehouses, manufacturing facilities and vehicles. We enter into lease contracts due to the flexibility it provides as it may ease the scalability to always adapt the asset base to the operational activity.

The majority of the lease assets relate to land and buildings and the lease contracts are typically made for fixed periods of 1 to 10 years, with a weighted average lease term of 5 years. The average discount rate applied for land and buildings is 3.13% at the end of 2020 (2019: 3.66%).

In some property lease contracts extension and termination options are included. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations.

The amounts included in the income statement related to expensed leases are presented at the bottom of the page.

Depreciation on lease assets amounted to DKK 124m (2019: DKK 112m) and write downs on assets held for sale DKK 4m (2019: DKK 0m). Interest on lease debt was DKK 11m (2019: DKK 12m), see note 5.4.

During 2020 we have had total cash outflow for leases of DKK 131m (2019: DKK 118m), of which DKK 11m (2019: DKK 12m) was interest related to leases (included in CFFO) and DKK 120m (2019: DKK 106m) repayment of lease debt (included in CFFF). Please refer to note 5.8 Financial assets and liabilities for maturity analysis of lease liabilities.

Further to the above cash outflow DKK 11m (2019: DKK 15m) was included in CFFO for costs relating to short term, low-value and variable lease payments not recorded on the balance sheet.

During 2019, we entered into a contingent sale and leaseback transaction of the headquarters in Valby, Denmark. In light of the COVID-19 pandemic, plans are being revisited, please refer to note 2.9 Contractual obligation for further information.

We are not party to any significant lease contracts as lessor.

	2020				2019			
DKKm	**Land and buildings**	**Plant and machinery**	**Operating equipment**	**Total**	**Land and buildings**	**Plant and machinery**	**Operating equipment**	**Total**
Carrying amount at 1 January	260	8	44	312	241	10	66	317
Foreign exchange adjustments	(16)	(1)	0	(17)	0	0	0	0
Acquisitions of enterprises	0	0	0	0	4	0	0	4
Remeasurement	11	0	0	11	1	0	0	1
Additions	103	6	30	139	99	0	5	104
Disposals	(3)	0	(1)	(4)	(1)	0	(1)	(2)
Depreciation	(90)	(4)	(30)	(124)	(84)	(2)	(26)	(112)
Write down	(4)	0	0	(4)	0	0	0	0
Transferred to assets classified as held for sale	(1)	0	0	(1)	0	0	0	0
Carrying amount at 31 December	**260**	**9**	**43**	**312**	**260**	**8**	**44**	**312**

DKKm	**2020**	**2019**
Cost relating to short-term leases	9	13
Cost relating to leases of low-value assets that are not shown above as short-term leases	2	2
Cost relating to variable lease payments not included in lease liabilities	0	0
Expensed lease costs in the income statement	**11**	**15**
The lease costs are included in the following lines:		
Production cost	2	3
Sales cost	1	2
Administrative cost	8	10
Expensed lease costs in the income statement	**11**	**15**

2.5 LEASES - continued

Accounting policy

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the payments, which are fixed or variable dependent on an index or a rate. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the lease asset. Service components are excluded from the lease liability.

The lease payments are discounted using an incremental country specific borrowing rate, based on a government bond plus the Group's credit margin.

The lease payments have been split into an interest cost and a repayment of the lease liability. Lease assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The lease assets are depreciated over the term of the lease contract on a straight-line basis.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- How the asset supports the direction of the group, from a strategic standpoint, location of the asset, timing of the option being exercisable
- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate)
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate)

Payments associated with short-term and low value leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture at a low value.

2.6 INVESTMENTS IN ASSOCIATES

Investments in associates includes investment in Intertek Robotic Laboratories Pty Ltd, Australia, with a 50% share.

The investment is accounted for in accordance with the equity method. Although we hold 50% of the shares and voting rights, we do not share the control, hence the investment is not treated as a joint venture. As we do have significant influence the investment is treated as an investment in associates.

Name of activity acquired	Country	Date of acquisition	Ownership interest	Voting share
Intertek Robotic Laboratories Pty Ltd	Australia	31-May 2019	50%	50%

The primary activity of the company is to provide automated and robotic sample preparation, fusion and analytical testing services, including the procurement, construction and commissioning of laboratories.

DKKm	2020	2019
Beginning value 1 January	165	0
Acquisition of enterprises	0	173
Foreign exchange adjustments	1	1
Income from associates	0	3
Dividend paid	(7)	(12)
Carrying value at 31 December	**159**	**165**

Financial information of 100% of Intertek Robotic Laboratories Pty Ltd, prepared in accordance with FLSmidth accounting policies, is as follows (not only FLSmidth's share):

DKKm	2020	2019
Revenue	111	70
Profit for the period	0	6
Total comprehensive income	0	6
Dividend paid	(14)	(24)
Current assets	35	36
Customer relations	124	140
Non-current assets	31	33
Current liabilities	(14)	(21)
Equity	**176**	**188**

In the comparative numbers, the income statement includes the result from 1 June - 31 December 2019 and the balance sheet numbers are as of 31 December 2019. The financial information reflects the adjustments made in relation to the acquisition.

DKKm	2020	2019
FLSmidth's share of equity, 50%	88	94
Goodwill	71	71
Carrying value at 31 December	**159**	**165**

2.7 PROVISIONS

Provisions are liabilities of uncertain timing or amount. Our 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)

Total provisions are at the same level as last year.

Warranty provisions have decreased to DKK 496m at 31 December 2020. The decrease is mainly a result of the lower activity and products running out of the warranty period, resulting in a reversal of the unused warranty provision.

Restructuring provisions have increased slightly to DKK 60m due to the continued restructuring measures in right-sizing the organisation.

Other provisions have increased to DKK 459m due to additional uncertainties in the execution of the project portfolio. The uncertainties have increased the expected cost level, hence an increased level of loss-making contracts. Additionally, the provisions relate to ongoing legal disputes, including provisions related to discontinued activities. The level of used and reversed provision is largely unchanged from last year.

Continued activities' share of Group provisions is shown below. The provisions from continued and discontinued activities add up to our total provisions.

In cash flow the changes in provisions are combined with the changes in pensions and employee benefits. The changes in provisions, pensions and employee benefits have the following cash flow effect as an adjustment-amount to reported profit in the income statement:

DKKm	2020	2019
Pensions and employee benefits	(1)	51
Provisions	(5)	(261)
Foreign exchange adjustments	69	(20)
Cash flow effect	**63**	**(230)**

				2020				2019
DKKm	Warranties	Restructuring	Other	Total	Warranties	Restructuring	Other	Total
Provisions at 1 January	578	40	400	1,018	628	59	592	1,279
Foreign exchange adjustments	(24)	(4)	(22)	(50)	6	3	7	16
Additions	198	52	413	663	255	16	168	439
Used	(83)	(27)	(285)	(395)	(188)	(37)	(300)	(525)
Reversals	(169)	(1)	(47)	(217)	(110)	(1)	(80)	(191)
Transfer between categories	0	0	0	0	(13)	0	13	0
Transferred to assets classified as held for sale	(4)	0	0	(4)	0	0	0	0
Provisions at 31 December	**496**	**60**	**459**	**1,015**	**578**	**40**	**400**	**1,018**

DKKm	2020	2019
Provisions at 1 January	807	961
Reclassification to beginning balance, continued/discontinued activities	13	0
Foreign exchange adjustments	(49)	16
Additions	661	439
Used	(378)	(418)
Reversals	(217)	(191)
Transferred to assets classified as held for sale	(4)	0
Continued activities share of Group provisions	**833**	**807**

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.

2.7 PROVISIONS
– continued

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.

2.8 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 (note 1.5) and amounted to DKK 439m (2019: DKK 596m).

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 2021 we expect to make a contribution to the defined benefit plans of DKK 8.5m (2020: 4.6m). The weighted average duration of the obligations is 13 years (2019: 13 years).

			2020			2019
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	(1,152)	787	(365)	(1,000)	718	(282)
Interest on obligation/asset	(25)	20	(5)	(34)	26	(8)
Service costs	(26)	0	(26)	(53)	0	(53)
Recognised in the income statement	**(51)**	**20**	**(31)**	**(87)**	**26**	**(61)**
Actuarial gains and losses from financial assumptions*	(66)	47	(19)	(126)	82	(44)
Recognised in other comprehensive income	**(66)**	**47**	**(19)**	**(126)**	**82**	**(44)**
Foreign exchange adjustments	70	(58)	12	(20)	18	(2)
Employer contributions	0	(7)	(7)	0	3	3
Participant contributions	(1)	7	6	(1)	2	1
Benefits paid to employees	70	(47)	23	82	(62)	20
Other changes	**139**	**(105)**	**34**	**61**	**(39)**	**22**
Transferred to assets classified as held for sale	3	0	3	0	0	0
Value at 31 December	**(1,127)**	**749**	**(378)**	**(1,152)**	**787**	**(365)**

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

2.8 PENSION OBLIGATIONS
– continued

Actuarial assumptions applied (weighted):

	2020	2019
Average discounting rate applied	0.9%	1.2%
Expected future pay increase rate	1.5%	1.3%

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	2020	2019
Discount rate - 1%, increase	153	152
Discount rate + 1%, decrease	(131)	(131)

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.

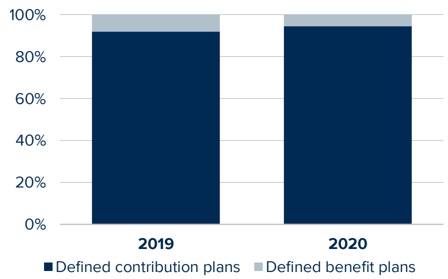
The present value is calculated based on assumptions about future developments in variables such as salary levels, interest, inflation and mortality rates. The present value is only calculated for benefits earned by the employees through their employment with the Group to date. The actuarial calculation 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.

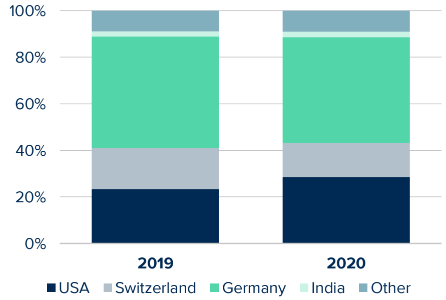
Pension contributions by plan types

%



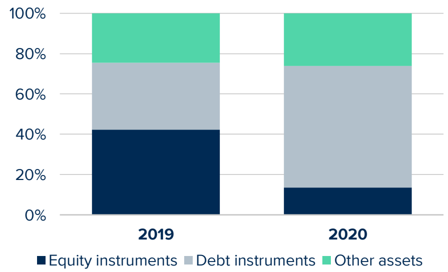
Pension obligations by country

%



Fair value of plan assets

by Instruments



2.9 CONTRACTUAL OBLIGATIONS AND CONTINGENT ASSETS AND LIABILITIES

Sale and leaseback of headquarters

FLSmidth has entered into a conditional agreement to sell all and lease back part of its headquarters in Valby, Denmark. In light of the COVID-19 pandemic, the 2020 business adjustments, the increased degree of flexible working arrangements and an expected slow recovery within cement, it has been decided to revisit the plans for the headquarter in Valby. All possibilities will be revisited, including amongst others whether to sell part of the property and renovate the existing buildings or look to find a headquarter somewhere else in the Copenhagen area. The parties involved in the conditional agreement are currently exploring the possibilities, and the timing and outcome of the agreement is therefore uncertain.

Contractual commitments

As part of our digital strategy, FLSmidth has made a fund investment in Chrysalix, a venture capital firm that specialises in transformational industrial innovation.

Our participation provides priority access, builds capabilities and shares risk when working with early stage start-ups across the globe. Our objective of engaging with disruptive and deep technology start-ups is to create differentiated value propositions and accelerate being Productivity Provider #1, while delivering strategic and financial returns.

We have made a capital commitment of USD 10m. The capital can be called up until 2029, investment period being the first 5 years. The timing and amounts of each capital call are uncertain. The undrawn part of the capital commitment at 31 December 2020 amounted to DKK 52m (2019: DKK: 62m).

Contingent assets

In a customer contract, our customer failed to meet its obligations to an extent that has caused material breach of the contract. An arbitration case has been settled in our favour in 2020 and during 2020 we have received payments according to the settlement agreement and have recognised DKK 34m in the income statement.

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 2020, the value of issued guarantees amounted to DKK 2,376m (2019: DKK: 2,474m). In the event a guarantee is expected to materialise, a provision is recognised to cover the risk.

Other contingent liabilities

We are involved in legal disputes, certain of which are already pending with courts or other authorities and others of which some may or may not lead to formal legal proceedings being instigated against us, including by public authorities. The outcome of such proceedings and disputes is by nature unknown, but is not expected to have significant impact on our financial position. Other contingent liabilities amount to DKK 284m (2019: DKK 333m).

2.10 BUSINESS ACQUISITIONS

On 31 January 2020, FLSmidth acquired the business Mill-Ore Group, an Eastern Canadian provider of equipment and aftermarket services to the mining industry. The acquisition is part of our long-term commitment to increase the level of service and support to our customers in Eastern Canada.

On 30 October 2020, FLSmidth acquired the business KnowledgeScape LLC, a US-based developer of software, smart sensors and real time image analysis. KnowledgeScape develops digital solutions aimed at increasing the efficiency of mining processing plants. This transaction allows FLSmidth to deliver a wider range of benefits to its mining customers. These benefits include increased productivity in processing plants and reduced consumption of power, water and reagents.

Following the acquisitions of the Mill-Ore and KnowledgeScape businesses we are working on realising the synergies between the aftermarket and digital initiatives of FLSmidth and the Mill-Ore aftermarket footprint and the KnowledgeScape digital solutions to further enhance mining processing efficiency. All enabling a greater value to our customers.

				2020
Name of activity acquired	Primary activity	Date of consolidated from	Ownership interest	Voting share
Mill-Ore Group	Mining	01-Feb	100%	100%
Knowledge-Scape L.L.C.	Mining	30-Oct	100%	100%

				2019
Name of activity acquired	Primary activity	Date of consolidated from	Ownership interest	Voting share
IMP Automation Group	Mining	01-Jun	100%	100%

Both acquisitions are integrated into the Mining segment. Mill-Ore has been included in the consolidated financial statement from 1 February and KnowledgeScape since 30 October 2020.

In 2019 the IMP business was integrated into the Mining segment and was included in the consolidated financial statement from 1 June – 31 December 2019.

The acquisitions have in the acquisition year impacted the financials as follows:

DKKm	2020	2019
Revenue	56	91
Profit for the period	17	3
Headcount	13	138

2.10 BUSINESS ACQUISITIONS – continued

Acquisition related costs amounted to DKK 1m (2019: DKK 5m) and are recognised in the income statement as administrative cost.

Had the acquired activities been included in the consolidated financial statements from 1 January 2020, the revenue and net profit would have been positively impacted by DKK 75m (2019: DKK 182m) and 25m (2019: DKK 13m), respectively, for the full year.

The assets and liabilities in the opening balance are measured using the information available at the date for issuing the annual report. The purchase price allocations have not been finalised due to possible reassessment within 12 months of the acquisition. If new information becomes available this could affect the calculated values.

We expect the total amount of goodwill to be deductible for tax purposes.

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.

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.

DKKm	IMP Automation Group*	Mill-Ore Group	Knowledge-Scape L.L.C.	Net assets acquired 2020	Net assets acquired 2019
Property, plant and equipment	0	9	0	9	13
Trademarks, patents and rights acquired	0	3	9	12	34
Customer relations	0	0	3	3	33
Other intangible assets	0	9	0	9	7
Investment in associate	0	0	0	0	173
Inventories	0	6	0	6	31
Trade receivables	0	0	0	0	34
Prepayments to subcontractors	0	0	0	0	23
Other accounts receivables	0	0	0	0	4
Cash and cash equivalents	0	0	0	0	39
Trade payables	0	0	0	0	(5)
Prepayments from customers	0	0	0	0	(25)
Deferred tax	0	0	0	0	(38)
Other liabilities	0	0	0	0	(12)
Carrying amount of net assets acquired	**0**	**27**	**12**	**39**	**311**
Goodwill	0	14	44	58	67
Transaction price	**0**	**41**	**56**	**97**	**378**
Cash and cash equivalents acquired	0	0	0	0	(39)
Deferred payment, payable	0	0	(6)	(6)	(34)
Deferred payment, receivable, prior acquisitions	8	0	0	8	(18)
Net cash effect	**8**	**41**	**50**	**99**	**287**

*) Acquired in 2019

2.11 DISCONTINUED ACTIVITIES

On 9 January 2019, we announced an agreement to sell the non-mining bulk material handling business to Rainbow Heavy Machineries. The agreement closed and became effective 31 January 2019.

The transaction included transfer of employees, brand, Intellectual Property Rights and order pipeline.

Under the sales agreement we retain the responsibility to finalise legacy projects. The projects were from a revenue perspective completed at year end 2018. Subsequent handling of claims and collection activities are expected to be finalised during 2021.

Accordingly, the discontinued activities reported include the ceased non-mining bulk material handling business.

Discontinued activities effect on cash flow from operating activities is presented below.

Please refer to segment note 1.2 for full disclosure of income statement including loss for the year for discontinued activities.

Discontinued activities are not expected to generate any significant net cash flow in 2021. The expectations are based on a net working capital balance of DKK 220m (2019: DKK 227m), provisions of DKK 182m (2019: DKK 211m) and moderate SG&A cost. There can, however, be a timing difference between cash paid and cash received related to the outstanding net working capital and provision balances.

Cash flow from discontinued operating activities totalled DKK -52m (2019: DKK -191m).

Cash flow from net working capital from discontinued activities amounted to DKK -18m (2019: -58m), as net working capital related to discontinued business decreased from DKK 227m end of 2019 to DKK 220m end of 2020.

DKKm	2020	2019
EBITDA, see segment note 1.2	(15)	(19)
Adjustment for gain on sale of property, plant and equipment etc.	0	3
Adjusted EBITDA	**(15)**	**(16)**
Change in provisions	(15)	(108)
Change in net working capital	(18)	(58)
Cash flow from operating activities before financial items and tax	**(48)**	**(182)**
Financial items received and paid	0	(9)
Taxes paid	(4)	0
Cash flow from operating activities	**(52)**	**(191)**

Loss for the period from discontinued activities total DKK -21m (2019: DKK -22m), primarily consisting of SG&A cost.

Discontinued activities' share of Group provisions:

DKKm	2020	2019
Provisions at 1 January	211	318
Reclassification to beginning balance, continued/discontinued activities	(13)	0
Foreign exchange adjustments	(1)	0
Additions	2	0
Used	(17)	(107)
Provisions	**182**	**211**

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.

2.12 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

During December 2020, we entered into agreements to sell our fabric filter business and our Möller pneumatic conveying systems business. Consequently, the assets and liabilities related to the activities are reclassified as held for sale. All impacted activities will continue to be included in our continued activities, until the transactions close. The sale of Möller pneumatic conveying systems business will close 1 January 2021, whereas the fabric filters business is expected to close during the first half of 2021.

Upon reclassifying the assets and liabilities to held for sale we have revalued the net assets held for sale at fair value less cost to sell.

The impairment loss amounts to DKK 4m and is recognised in continued business as an impairment of lease assets.

We have in 2020 received prepayment related to the disposal of the Möller pneumatic conveying systems business of DKK 62m.

DKKm	2020	2019
Lease assets	1	0
Inventories	14	0
Trade receivables	35	0
Work in progress	37	0
Cash and cash equivalents	30	0
Other assets	7	0
Carrying amount of assets classified as held for sale	**124**	**0**
Provisions	4	0
Pension	3	0
Deferred tax liabilities	7	0
Trade payables	13	0
Work in progress	4	0
Lease liabilities	6	0
Other liabilities	54	0
Liabilities directly associated with assets classified as held for sale	**91**	**0**
Net assets classified as held for sale	**33**	**0**

Accounting policy

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

Assets 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.

SECTION 3

WORKING CAPITAL

NET WORKING CAPITAL
1,752 DKKM

NET WORKING CAPITAL
▼ **36%**

3.1 NET WORKING CAPITAL

DKKm	2020	2019
Inventories	2,368	2,714
Trade receivables	3,453	5,068
Work in progress, asset	2,175	2,612
Prepayments	333	591
Other receivables	748	710
Derivative financial instruments	65	36
Prepayments from customers	(1,266)	(1,768)
Trade payables	(3,055)	(4,350)
Work in progress, liability	(1,834)	(1,578)
Other liabilities	(1,200)	(1,242)
Derivative financial instruments	(35)	(54)
Net working capital	**1,752**	**2,739**

DKKm	2020	2019
Inventories	143	57
Trade receivables	1,241	(392)
Trade payables	(1,051)	633
Work in progress	625	(245)
Prepayments from customers	(407)	(71)
Prepayments	214	(205)
Other receivables and other liabilities	(29)	(245)
Foreign exchange gain/(loss)	(30)	20
Cash flow effect	**706**	**(448)**

Net working capital at 31 December 2020 decreased due to decreasing activity in 2020, significant reduction in trade receivables and lower level of net work in progress. The reductions were partially offset by a lower level of trade payables including supply chain finance (refer to note 3.6) and prepayments from customers.

As part of managing the challenges during 2020 we took the following actions during the year related to the managing of inventories:

- Ensuring a sound inventory turn with a strict focus on inventory ageing
- Clear split between inventory specifically dedicated for orders and inventory available for sale

The active measures taken during 2020 reduced the inventory level by the end of the year.

On the trade receivables we managed the increased credit risk by taking the following actions during the year, which all contributed to a strong cash collection during 2020 and a reduced trade receivables balance by the end of 2020:

- Reassessment of customer payment terms
- Renegotiation of payment terms with our large project customers and suppliers where the cash flows were imbalanced
- Increased focus on cash collection

Currency impacts reduced the net working capital balance at 31 December 2020 by DKK 158m.

The reclassification of assets and liabilities to held for sale has reduced the net working capital by DKK 71m (2019: DKK 0m).

3.2 INVENTORIES

Inventory net of impairment is specified as follows:

DKKm	2020	2019
Raw materials and consumables	240	282
Goods in progress	387	370
Finished goods and goods for resale	1,741	2,062
Inventories	**2,368**	**2,714**

Impairment of inventories:

DKKm	2020	2019
Impairment at 1 January	315	323
Foreign exchange adjustments	(19)	4
Additions	69	38
Realised	(54)	(31)
Reversals	(29)	(19)
Transferred to assets classified as held for sale	(10)	0
Impairment at 31 December	**272**	**315**

Inventory level has decreased 14% in 2020 due to high focus on cash management and less production to orders at year-end compared to last year.

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 impaired 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.

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 including the classification as strategic inventory are considered 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.

During 2020 we have applied a consistent methodology to assess the need for any inventory impairments. The COVID-19 disruptions to the value chain have been considered in the valuation of inventories.

3.2 INVENTORIES – continued

Impairment 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 impaired 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 impairment are specified according to ageing as follows:

DKKm	2020	2019
Not due for payment	2,327	3,240
Overdue < one month	398	683
Overdue one - two months	164	357
Overdue two - three months	91	152
Overdue > three months	473	636
Trade receivables	**3,453**	**5,068**
Trade receivables not due for payment with retentions on contractual terms	338	493

Impairment of trade receivables specified according to aging is shown below:

The impairment in 2020 is based on historical observed default rates adjusted for estimates of uncertainties in project related activities and market conditions.

Impairment of trade receivables:

DKKm	2020	2019
Impairment at 1 January	339	369
Foreign exchange adjustments	(29)	7
Additions	187	116
Reversals	(114)	(69)
Realised	(66)	(84)
Impairment at 31 December	**317**	**339**

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.

	2020			2019		
DKKm	Expected default rate	Gross carrying amount	Impairment	Expected default rate	Gross carrying amount	Impairment
Not due for payment	1.5%	2,363	36	1.3%	3,282	42
Overdue < one month	6.7%	427	29	4.8%	718	35
Overdue one - two months	14.2%	191	27	10.1%	397	40
Overdue two - three months	24.7%	121	30	16.9%	183	31
Overdue > three months	29.1%	668	195	23.1%	827	191
Total		**3,770**	**317**		**5,407**	**339**

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.

With the uncertainties in 2020 we have made estimates of our expectation to the future losses on receivables by applying a consistent methodology. The calculation of expected credit losses (ECL) incorporate forward-looking estimates. These estimates are mainly based on historical input, but due to the current unprecedent situation the forward-looking estimate includes more uncertainty as no objective data exists.

The forward-looking estimate has increased compared to the end of 2019. The increase is based on an assessment of a deterioration in credit risk in an uncertain global market due to the length and magnitude of the pandemic.

3.4 WORK IN PROGRESS

DKKm	2020	2019
Total costs incurred	26,936	29,666
Profit recognised as income, net	3,243	2,479
Work in progress	**30,179**	**32,145**
Invoicing on account to customers	(29,838)	(31,111)
Net work in progress	**341**	**1,034**
Of which is recognised as work in progress:		
Under assets	2,175	2,612
Under liabilities	(1,834)	(1,578)
Net work in progress	**341**	**1,034**

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 depending on the project execution plan and invoicing structure for each transaction.

In addition to the invoicing on account to customers we have received prepayments from customers of DKK 1,266m (2019: DKK 1,768m), which are recognised separately in the balance sheet as current and non-current liabilities.

When assessing impairment on the work in progress net balances we evaluate on a project by project basis. If an impairment on a project is probable we recognise the expected loss and a related provision.

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 exceed the selling price of the work performed, work in progress is presented as a liability.

Prepayments from customers are recognised as a liability.

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 include additional risk coverage due to a higher level of uncertainty.

With the added complexity to project management and project execution during 2020, the unpredictable development in the imposed restrictions and the challenges throughout the value chain has made the cost forecasts more uncertain as we haven't been able to rely on historical data to the same extent as usual. We have based on a project by project review assessed increases in expected cost as well as additional risk contingencies to cover the higher 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.

During 2020 the site restrictions and operations running at reduced capacity has imposed uncertainty to the estimate of the variable transaction price and the historical levels of productivity has been used as basis to a lower extent than usual. Instead estimates have been based on most likely scenarios for site accessibility and productivity levels, while ensuring safety precautions are met.

The site and travel restrictions combined with a more difficult supply chain has also imposed uncertainty to meeting contractual obligations in a timely manner which has caused a risk of penalties. We have based on a project by project review assessed the risk of penalties and means to reduce the risk.

 Consolidated financial statements

3.5 OTHER RECEIVABLES

DKKm	2020	2019
Indirect taxes receivables	420	467
Deposits	61	53
Derivatives	65	36
Other receivables	322	248
Other receivables	**868**	**804**

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 hosted by a credit institute. When participating in this programme, 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 re-course.

The amounts payable to suppliers included in the supply chain financing programme are classified as trade payables in the balance sheet as well as in the cash flow statement (working capital within cash flow from operations). The trade payables covered by the supply chain financing programme arise in the ordinary course of business from supply of goods and services and amounted to DKK 273m at 31 December 2020 (2019: DKK 1,083m). Utilisation of supply chain financing decreased during 2020, driven by a combination of the lower level of activity and by a lower share of Cement business relative to Mining.

3.7 OTHER LIABILITIES

DKKm	2020	2019
Indirect taxes payables	179	211
Accrued employee items	716	519
Employee benefits	112	110
Derivatives	35	53
Other accruals and payables	389	606
Other liabilities	**1,431**	**1,499**

SECTION 4

TAX

EFFECTIVE TAX RATE

40.7%

TAX FOR THE YEAR

155 DKKM

4.1 INCOME TAX

The income tax expense for the year amounted to DKK 155m (2019: DKK 373m), corresponding to an effective tax rate of 40.7% (2019: 31.9%). The increase in the effective tax rate was related to additional BEAT tax in the US, reduced credit relief for paid withholding taxes and impairment of deferred tax assets.

Uncertain tax positions reflect the annual assessment by management of the risk of a position taken by the Group being disputed by a tax authority. The assessment considers the inherent risk and uncertainty of undertaking complex projects and operating in a variety of developed and developing countries. The assessment includes the most likely outcome of both ongoing and potential future tax audits.

Accounting policy

Tax for the year comprises current tax and changes in deferred tax including valuation of deferred tax assets, 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 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 are measured at the amount estimated to be required to settle such potential future obligations. We measure these uncertain tax positions on a yearly basis through interviews with key stakeholders in the main Group entities.

The measurement addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and IFRIC 23.

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.

Tax receivables and tax liabilities comprise 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.

	2020		2019	
DKKm	Tax	Effective tax rate	Tax	Effective tax rate
Tax according to Danish tax rate	(84)	22.0%	(258)	22.0%
Differences in the tax rates in foreign subsidiaries relative to 22%	(30)	7.9%	(40)	3.4%
Non-taxable income and non-deductible costs	33	-8.7%	18	-1.5%
Differences in tax assets valued at nil	(28)	7.3%	2	-0.2%
Differences due to adjustment of tax rate	54	-14.2%	1	-0.1%
Adjustments regarding previous years, deferred tax	22	-5.8%	(7)	0.6%
Adjustments regarding previous years, current tax	(46)	12.1%	38	-3.2%
Withholding tax	(71)	18.6%	(42)	3.6%
Uncertain tax positions	(5)	1.3%	(85)	7.3%
Total tax for the year and effective tax rate	**(155)**	**40.7%**	**(373)**	**31.9%**

4.2 PAID INCOME TAX

Income tax paid in 2020 amounted to DKK 368m (2019: DKK 311m). Most of these payments are attributable to Group enterprises in the countries shown in the graph on page 95.

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

DKKm	2020	2019
Current tax on profit/(loss) for the year	(212)	(330)
Withholding tax	(71)	(42)
Change in deferred tax	103	52
Change in tax rate on deferred tax	54	1
Adjustments regarding previous years, deferred tax	22	(7)
Adjustments regarding previous years, current tax	(46)	38
Uncertain tax positions	(5)	(85)
Tax for the year, continuing activities	**(155)**	**(373)**
Earnings before tax on continuing activities	381	1,171
Earnings before tax on discontinued activities	(18)	(26)
Total earnings before tax	**363**	**1,145**

4.3 DEFERRED TAX

Deferred tax assets end of 2020 amount to DKK 1,248m (2019: DKK 1,246m) and deferred tax liabilities amount to DKK 200m (2019: DKK 352m). The net deferred tax assets amount to DKK 1,048m (2019: DKK 894m).

Deferred tax assets valued at nil amounting to DKK 189m (2019: DKK 165m) relate to tax losses and tax assets mainly in discontinued and dormant entities.

Temporary differences regarding future repatriation of profit from entities in foreign countries are estimated at DKK 300-350m in 2020 (2019: DKK 300-350m).

These liabilities are not recognised because the Group is able to control when the liability is released and it is considered probable that the liability will not be triggered in the foreseeable future.

DKKm	2020	2019
Deferred tax assets	1,248	1,246
Deferred tax liabilities	(200)	(352)
	1,048	**894**

DKK 72m (2019: DKK 61m) 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.

2020

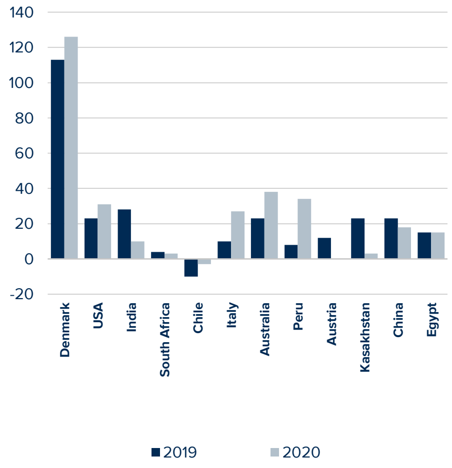
DKKm	Balance sheet 1 January	Currency adjustment	Adjustment to previous years	Changed tax rate	Acquisition of group enterprises	Included in other comprehensive income	Included in income statement	Transfer from assets held for sale	Balance sheet 31 December
Intangible assets	11	19	(32)	52	0	0	67	0	117
Property, plant and equipment	183	(2)	40	0	0	0	9	2	232
Current assets	378	(17)	(5)	5	0	0	(42)	(89)	230
Liabilities	141	(18)	8	(2)	0	(6)	77	94	294
Tax loss carry-forwards, etc.	346	(15)	14	(1)	0	0	20	0	364
Share of tax assets valued at nil	(165)	7	(3)	0	0	0	(28)	0	(189)
Net deferred tax assets/(liabilities)	**894**	**(26)**	**22**	**54**	**0**	**(6)**	**103**	**7**	**1,048**

DKKm **2019**

	Balance sheet 1 January	Currency adjustment	Adjustment to previous years	Changed tax rate	Acquisition of group enterprises	Included in other comprehensive income	Included in income statement	Transfer from assets held for sale	Balance sheet 31 December
Intangible assets	(27)	(5)	(27)	0	(11)	0	81	0	11
Property, plant and equipment	142	0	55	0	0	0	(14)	0	183
Current assets	1,083	0	34	(2)	(22)	0	(715)	0	378
Liabilities	(524)	4	(27)	3	(5)	29	661	0	141
Tax loss carry-forwards, etc.	363	(12)	(41)	0	0	0	36	0	346
Share of tax assets valued at nil	(176)	9	(1)	0	0	0	3	0	(165)
Net deferred tax assets/(liabilities)	**861**	**(4)**	**(7)**	**1**	**(38)**	**29**	**52**	**0**	**894**

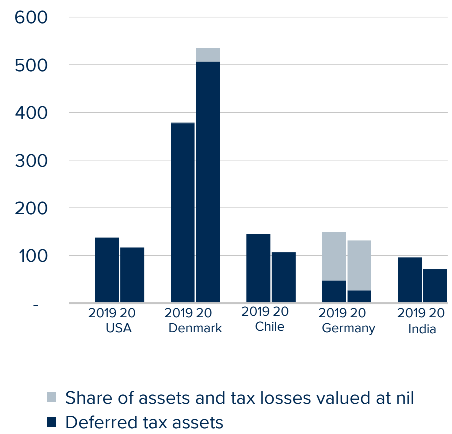
Income tax paid

DKKm



Significant deferred tax assets

DKKm



4.3 DEFERRED TAX
– continued

The maturity profile of tax assets valued at nil is as follows:

DKKm	2020	2019
Within one year	30	79
Between one and five years	3	93
After five years	929	426
Base value of tax assets valued at nil	**962**	**598**
Tax value	**189**	**165**
Deferred tax assets valued at nil consist of:		
Temporary differences	14	14
Tax losses	948	584
	962	**598**

The deferred tax assets in Germany and Denmark are not fully recognized as, based on management's forecast earnings, the tax assets are not likely to be fully utilized within the next five years.

The impairment of tax asset in Germany amounts to DKK 105m (2019: DKK 99m) and relates to discontinued activities and dormant entities. The impairment of tax asset in Denmark amounts to DKK 25m (2019: DKK 3m) and relates to the expected slow recovery in Cement from the pandemic. The impairment of tax assets is a key accounting estimate and is based on management's forecast earnings incorporating cost savings and the recovery of the market.

Accounting policy

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 is 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 retaxation 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.

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.

In assessing the probability of the future realisation of deferred tax assets, we have considered the deterioration of the economic outlook in our budgets of taxable profits and reversals of taxable temporary differences. With the changing regional restrictions it has been more difficult to predict the level of business activity and earnings in the jurisdictions and the expected utilization of deferred tax assets against future taxable income.

4.4 TAX ON OTHER COMPREHENSIVE INCOME

Deferred tax of other comprehensive income DKK -6m (2019: DKK 29m) includes assets held for sale of DKK 0m (2019:DKK 0m).

	2020			2019		
DKKm	Deferred tax	Current tax	Tax income/ cost	Deferred tax	Current tax	Tax income/ cost
Value adjustments of hedging instruments	(7)	0	(7)	(3)	0	(3)
Actuarial gains/losses on defined benefit plans	1	0	1	32	0	32
Tax on other comprehensive income	**(6)**	**0**	**(6)**	**29**	**0**	**29**

4.5 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 are 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/policies-and-priorities

SECTION 5

FINANCIAL RISKS & CAPITAL STRUCTURE

NIBD

1,808 DKKM

NIBD/EBITDA

1.6

5.1 SHARES AND CAPITAL STRUCTURE

Shares

Share capital is DKK 1,025m and the total number of authorised and issued shares is 51,250,000, which is unchanged from last year. Each share entitles the holder to 20 votes and no shares have special rights attached to it.

Shareholders at the end of 2020

One shareholder has reported a participating interest above 10%:

- Lundbeckfond Invest A/S, Denmark.

No shareholders have reported a participating interest above 5%.

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 < 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 page 56.

Treasury shares

Our holding of treasury shares at the end of 2020 accounted for 2.1% of the share capital (2019: 2.3%).

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, and are recognised directly in equity in retained earnings (zero value in the balance sheet).

Dividend per share

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 2 per share (2019: DKK 0) corresponding to a dividend yield of 0.9% (2019: 0%) and a pay-out ratio of 50% (2019: 0%) be distributed for 2020.

Due to the uncertain market and financial conditions in the first half year of 2020, last year's proposed dividend of DKK 8 per share was withdrawn before the Annual General Meeting held on 26 June 2020. No dividend was paid in 2020.

The year's movements in holding of shares	2020 Number of shares (1,000)	2020 Value (DKKm)	2019 Number of shares (1,000)	2019 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**

The year's movements in holding of treasury shares (1,000):	2020	2019
Treasury shares at 1 January	1,194	1,384
Used for share options exercised	(96)	(190)
Treasury shares at 31 December	**1,098**	**1,194**
Issued shares net of Treasury shares:		
Outstanding shares 1 January	50,056	49,866
Movement	96	190
Outstanding shares at 31 December	**50,152**	**50,056**

5.2 EARNINGS PER SHARE

Earnings per share from continuing activities decreased to DKK 5.1 in 2020 (2019: DKK 15.9) primarily driven by reduced profit for the year. Earnings per share from discontinued activities remained at DKK -0.4 in 2020 (2019: DKK -0.4).

There is no dilutive effect of share options in the money in 2020 (2019: 0.2%).

As of 31 December 2020 number of share options in-the money totalled zero (2019: 98,545).

DKKm	2020	2019
Profit for the year, continuing activities	226	798
Minority interests	5	(1)
FLSmidth's share of profit, continuing activities	**231**	**797**
Loss for the year, discontinued activities	(21)	(22)
FLSmidth's share of loss, discontinuing activities	**(21)**	**(22)**
FLSmidth's share of profit	**210**	**775**

Number of shares (1,000)	2020	2019
Average number of outstanding shares	50,153	49,994
Dilutive effect of share options in the money	0	98
Average diluted number of outstanding shares	**50,153**	**50,092**

DKK	2020	2019
Earnings per share from continuing activities	4.6	15.9
Earnings per share from discontinued activities	(0.4)	(0.4)
Earnings per share from continuing and discontinued activities	**4.2**	**15.5**

DKK	2020	2019
Diluted earnings per share from continuing activities	4.6	15.9
Diluted earnings per share from discontinued activities	(0.4)	(0.4)
Diluted earnings per share from continuing and discontinued activities	**4.2**	**15.5**

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 Treasury Policy, which is approved by the Board of Directors. The Treasury 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.

Financial markets risks increased for a few months in the beginning of 2020. However, when considering currency and interest rate risks we are back to normal levels, and our hedging models have been resilient throughout COVID-19.

Interest rate risk

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

According to the Treasury 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 2019 or 2020.

As of 31 December 2020, the majority of our interest-bearing debt is carrying a floating rate.

All other things being equal, a 1% point increase in the interest rate will increase our interest cost by DKK 18m (2019: DKK 25m), calculated as 1% of the net interest bearing debt as of 31 December 2020.

The reduction is directly related to our increased focus on operational cashflow during 2020, where we have been able to reduce net interest-bearing debt by DKK 684m.

Currency risk

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

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

5.3 FINANCIAL RISKS
– continued

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 below analysis assumes that all other variables, exposures and interest rates in particular, remain constant.

Translation impact, DKKm	Change	2020	2019
USD	5.0%	68	74
INR	5.0%	35	45
AUD	5.0%	92	93
CLP	5.0%	36	35
GBP	5.0%	16	17
ZAR	5.0%	15	18

The sensitivity analysis shows the gain/loss on net profit for the year and other comprehensive income of a 5% percent increase in the specified currencies towards DKK. The analysis includes the transactional impact from monetary items and derivatives.

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.

The emergence of the COVID-19 virus as it spread across the world has increased exchange rate volatility during 2020 by disrupting capital flows. This has had an negative impact on many emerging market currencies and countries more adversely affected by the pandemic. In a number of cases, the sensitivity analysis defined has materialised as the relative strength of the EUR has seen the currency appreciate over 5% against a number of currencies in countries FLSmidth operate in. This has resulted in a large FX translation loss on equity of DKK 832m.

Transaction impact, DKKm		2020		2019	
Currency	Change	Net profit for the year	Other comprehensive income	Net profit for the year	Other comprehensive income
USD	5.0%	0	(14)	(4)	(13)
CNY	5.0%	1	1	(1)	7
AUD	5.0%	(3)	0	(2)	0
GBP	5.0%	0	2	(2)	0

Credit risk

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

The Treasury Policy sets forth authority limits for the credit risk exposure related to cash and cash equivalents as well as derivatives. The limits are based on the counterparty credit rating. We have entered into netting agreements with the counterparties used for trading of derivatives, which means that the credit risk for derivatives is limited to the net assets per counterparty.

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

For commercial risks the credit risks are governed by Credit Risk Policy. For receivables the credit risk is managed 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 2020, 17% (2019: 26%) of our work in progress asset and 6% (2019: 7%) of our trade receivables balance were covered by payment securities.

Our customers and trading partners mainly consists of companies within the Cement and Mining industry. Credit risk is among other things dependent on the development in these industries.

Given our diverse global footprint and the ongoing COVID-19 situation, it is difficult to fully determine the exposure to increasing credit risk related to our receivables and work in progress. The varying responses, mitigations and containment of the pandemic across governments has increased volatility and uncertainty. Our focus on processes related to invoicing and cash collection during 2020, which will continue in 2021, has mitigated some of the credit risk. For the expected credit loss refer to note 3.3 Trade receivables.

At 31 December 2020 total credit risk was measured as DKK 7,455m (2019: DKK 9,596m).

We consider the maximum credit risk to financial counterparties to be DKK 981m (2019: DKK 1,003m). All financial assets, excluding other securities and investments, are expected to be settled during 2021.

5.3 FINANCIAL RISKS
– continued

Liquidity risk

The objective of the Treasury Policy is to ensure that the Group 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.

During 2019, our DKK 5bn club deal was refinanced, and in 2020 a 1-year extension-option within was exercised, extending the expiry to 2026. In 2020, a new facility of DKK 500m was established to ensure sufficient funds as a precaution to the COVID-19 situation. However, a strong cashflow focus by the business has meant that at the end of 2020, none of the DKK 500m was utilised. Total committed facilities by the end of 2020 was DKK 6,970m (2019: DKK 6,486m), of which DKK 2,251m (2019: DKK 2,893m) was utilised. The committed facilities will mature during the years 2022-2026. Short-term liquidity risks are managed through a cash pool in various currencies and by having short-term overdraft facilities in place with various financial institutions, mainly on a committed basis, but also through uncommitted facilities.

According to the Treasury Policy the available financial resources must not be lower than DKK 2bn at any point. The liquidity position is monitored daily. As of 31 December 2020, 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. The Group did not default or fail to fulfil any of its financial covenants, in neither 2019 nor 2020.

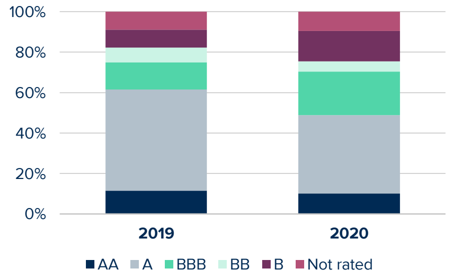
Having activities in various emerging markets implies additional risks due to specific restrictions and requirements. Mitigating actions are therefore considered on a case-by-case basis. It requires thorough dedicated efforts to reduce related risks to an acceptable level.

Restricted cash

Cash and cash equivalents included cash with currency restrictions. The cash, amounting to DKK 781m (2019: DKK 824m), is part of the daily operations and is not restricted to FLSmidth.

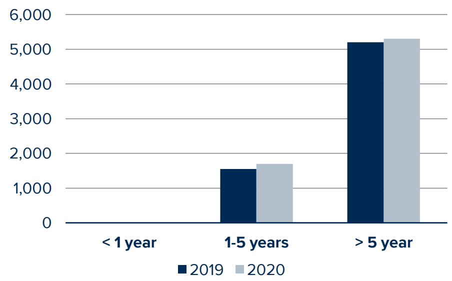
Credit risk ratings per financial institution

%



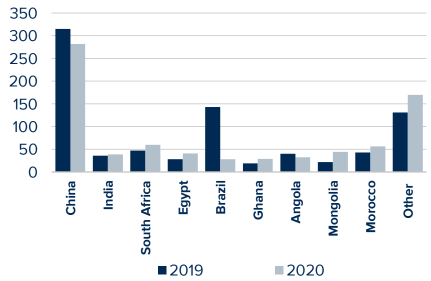
Maturity profile of Group funding facilities

DKKm



Group restricted cash

DKKm



5.4 FINANCIAL INCOME AND COSTS

DKKm	2020	2019
Interest income	21	25
Fair value adjustment of derivatives	308	207
Foreign exchange gains	622	586
Fair value adjustment of shares	1	3
Total financial income	**952**	**821**
Interest cost	(69)	(78)
Lease interest cost	(11)	(12)
Fair value adjustment of derivative	(356)	(179)
Foreign exchange losses	(563)	(657)
Fair value adjustment of shares	0	(13)
Total financial costs	**(999)**	**(939)**
Net financial costs	**(47)**	**(118)**

DKKm	2020	2019
Interest received	22	25
Interest paid	(73)	(84)
Cash flow effect	**(51)**	**(59)**

Foreign exchange adjustments, net of hedging effect, amounted to DKK 11m (2019: DKK -43m), 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 48m (2019: DKK 53m) related to loans and deposits.

Lease interest cost amounted to DKK 11m (2019: DKK 12m).

Fair value adjustment of shares of net DKK 1m (2019: DKK -10m) relates to shareholdings in cement companies.

Accounting policy

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

5.5 DERIVATIVES

Economic hedge

We use derivatives to hedge currency risks arising from monetary items recognised in the balance sheet.

Fair value adjustments recognised in financial items in the income statement amounted to DKK -48m (2019: DKK 28m). At 31 December 2020 the fair value of our hedge agreements that are not recognised as hedge accounting amounted to DKK 1m (2019: DKK -11m).

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.

	2020			2019		
DKKm	Economic hedge	Cash flow hedge	Total hedge	Economic hedge	Cash flow hedge	Total hedge
Financial instruments asset	9	56	65	7	29	36
Financial instruments liability	(8)	(27)	(35)	(18)	(36)	(54)
Total	**1**	**29**	**30**	**(11)**	**(7)**	**(18)**

Economic hedge, DKKm	2020		2019	
Currency	Notional amount	Net fair value	Notional amount	Net fair value
USD	(286)	3	(237)	5
AUD	(222)	(2)	(162)	(17)
CAD	(218)	1	-	-
Other	-	(1)	-	1
Total		**1**		**(11)**

A negative notional amount represents a sale of the currency

Cash flow hedge, DKKm	2020		2019	
Currency	Notional amount	Net fair value	Notional amount	Net fair value
USD	(382)	28	(64)	(6)
CNY	33	-	289	(1)
Other	-	1	-	0
Total		**29**		**(7)**

A negative notional amount represents a sale of the currency

5.5 DERIVATIVES
– continued

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. The majority of the cash flow hedge instruments are expected to settle and affect the income statement within one year.

At 31 December 2020, the fair value of our cash flow hedge instruments amounted to DKK 29m (2019: DKK -7m).

Changes in the cash flow hedging reserve:

DKKm	2020	2019
Change in cash flow hedge reserve	35	4
Reclassified from other comprehensive income to work in progress	(11)	21

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 have been no transfers between the levels in 2020 or 2019.

	2020				2019			
DKKm	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities and investments	9	0	34	43	6	0	38	44
Hedging instruments asset	0	65	0	65	0	36	0	36
Hedging instruments liability	0	(35)	0	(35)	0	(54)	0	(54)
	9	**30**	**34**	**73**	**6**	**(18)**	**38**	**26**

5.7 NET INTEREST BEARING DEBT

2020 DKKm	Effective interest rate	Carrying amount 1 January 2020	Cash flows	Additional lease liability during the year	Foreign exchange effect	Transferred to assets classified as held for sale	Carrying amount 31 December 2020
Lease liabilities	3.43%	318	(120)	147	(17)	(6)	322
Mortgage debt	0.45%	273	(17)	0	0	0	256
Bank debt	1.19%	2,902	(857)	0	132	0	2,177
Other liability		0	52	0	0	(52)	0
Interest bearing debt		**3,493**	**(942)**	**147**	**115**	**(58)**	**2,755**
Cash and cash equivalents		1,001	89	0	(114)	(30)	946
Other receivables		0	1	0	0	0	1
Interest bearing assets		**1,001**	**90**	**0**	**(114)**	**(30)**	**947**
Net interest bearing debt		**2,492**	**(1,032)**	**147**	**229**	**(28)**	**1,808**

2019 DKKm	Effective interest rate	Carrying amount 1 January 2019	Cash flows	Additional lease liability during the year	Foreign exchange effect	Transferred to assets classified as held for sale	Carrying amount 31 December 2019
Lease liabilities	3.66%	317	(106)	108	(1)	0	318
Mortgage debt	0.70%	288	(15)	0	0	0	273
Bank debt	1.50%	2,514	387	0	1	0	2,902
Interest bearing debt		**3,119**	**266**	**108**	**0**	**0**	**3,493**
Cash and cash equivalents		875	131	0	(5)	0	1,001
Other receivables		5	(5)	0	0	0	0
Interest bearing assets		**880**	**126**	**0**	**(5)**	**0**	**1,001**
Net interest bearing debt		**2,239**	**140**	**108**	**5**	**0**	**2,492**

5.8 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.

5.8 FINANCIAL ASSETS AND LIABILITIES – continued

Assets DKKm	2020 Maturity of cash flows < 1 year	1-5 years	> 5 year	Total cash flows	Fair value	Carrying amount	2019 Maturity of cash flows < 1 year	1-5 years	> 5 year	Total cash flows	Fair value	Carrying amount
Hedging instruments (hedge accounting)	**54**	**2**	**0**	**56**	**56**	**56**	**28**	**1**	**0**	**29**	**29**	**29**
Hedging instruments (economic hedging)	9	0	0	9	9	9	7	0	0	7	7	7
Securities and investments	0	0	43	43	43	43	0	0	44	44	44	44
Fair value through profit and loss	**9**	**0**	**43**	**52**	**52**	**52**	**7**	**0**	**44**	**51**	**51**	**51**
Trade receivables	3,453	0	0	3,453	3,453	3,453	5,068	0	0	5,068	5,068	5,068
Work in progress	2,175	0	0	2,175	2,175	2,175	2,612	0	0	2,612	2,612	2,612
Other receivables	383	0	0	383	383	383	301	0	0	301	301	301
Cash and cash equivalents	946	0	0	946	946	946	1,001	0	0	1,001	1,001	1,001
Amortised costs	**6,957**	**0**	**0**	**6,957**	**6,957**	**6,957**	**8,982**	**0**	**0**	**8,982**	**8,982**	**8,982**
Total financial assets	**7,020**	**2**	**43**	**7,065**	**7,065**	**7,065**	**9,017**	**1**	**44**	**9,062**	**9,062**	**9,062**

Liabilities DKKm	2020 Maturity of cash flows < 1 year	1-5 years	> 5 year	Total cash flows	Fair value	Carrying amount	2019 Maturity of cash flows < 1 year	1-5 years	> 5 year	Total cash flows	Fair value	Carrying amount
Hedging instruments (hedge accounting)	**(27)**	**0**	**0**	**(27)**	**(27)**	**(27)**	**(34)**	**(2)**	**0**	**(36)**	**(36)**	**(36)**
Hedging instruments (economic hedging)	(8)	0	0	(8)	(8)	(8)	(18)	0	0	(18)	(18)	(18)
Fair value through profit and loss	**(8)**	**0**	**0**	**(8)**	**(8)**	**(8)**	**(18)**	**0**	**0**	**(18)**	**(18)**	**(18)**
Lease liabilities	(112)	(174)	(58)	(344)	(322)	(322)	(118)	(187)	(33)	(338)	(318)	(318)
Mortgage debt	(16)	(67)	(186)	(269)	(256)	(256)	(16)	(65)	(203)	(284)	(274)	(273)
Bank debt	(194)	(586)	(1,507)	(2,287)	(2,177)	(2,177)	(273)	(1,012)	(1,774)	(3,059)	(2,902)	(2,902)
Trade payables	(3,055)	0	0	(3,055)	(3,055)	(3,055)	(4,350)	0	0	(4,350)	(4,350)	(4,350)
Other liabilities	(1,092)	(125)	0	(1,217)	(1,217)	(1,217)	(1,144)	(90)	0	(1,234)	(1,234)	(1,234)
Amortised cost	**(4,469)**	**(952)**	**(1,751)**	**(7,172)**	**(7,027)**	**(7,027)**	**(5,901)**	**(1,354)**	**(2,010)**	**(9,265)**	**(9,078)**	**(9,077)**
Total financial liabilities	**(4,504)**	**(952)**	**(1,751)**	**(7,207)**	**(7,062)**	**(7,062)**	**(5,953)**	**(1,356)**	**(2,010)**	**(9,319)**	**(9,132)**	**(9,131)**

Consolidated financial statements

SECTION 6

OTHER NOTES

OUTSTANDING PERFORMANCE SHARES
114,174

SALE OF MÖLLER PNEUMATIC CONVEYING SYSTEMS BUSINESS

6.1 SHARE-BASED PAYMENT

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

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.

Share options

Executive Management and a number of key employees in the Group have been granted options to purchase 544,246 shares in the company at a set price (strike price).

The calculated fair values in connection with allocation are based on the Black & Scholes model for valuation of options. The calculation takes into account the terms and conditions under which the share options are allocated. Year of allocation, strike price and exercise period for the individual allocations are shown in the table.

In 2020, the recognised fair value of share options in the consolidated income statement amounts to DKK 0m (2019: DKK 0m). The calculation of average weighted fair value and strike prices per option is based on a dividend of DKK 0 (2019: DKK 9) in the exercise period.

Specification of outstanding number of share options	Group Executive Management	Key employees	Total number
Outstanding options 1 January 2019	99,314	925,239	1,024,553
Change between positions	(49,425)	49,425	0
Exercised 2013 plan	0	(58,553)	(58,553)
Exercised 2014 plan	0	(5,339)	(5,339)
Exercised 2015 plan	0	(16,265)	(16,265)
Lapsed	0	(118,242)	(118,242)
Outstanding options 31 December 2019	**49,889**	**776,265**	**826,154**
Change between positions	15,160	(15,160)	0
Exercised 2014 plan	0	0	0
Exercised 2015 plan	0	0	0
Lapsed	0	(281,908)	(281,908)
Outstanding options 31 December 2020	**65,049**	**479,197**	**544,246**
Number of options that are exercisable at 31 December 2019	49,889	776,265	826,154
Number of options that are exercisable at 31 December 2020	65,049	479,197	544,246
Total fair value of outstanding options DKKm			
At 31 December 2019	2	28	30
At 31 December 2020	1	9	10

DKK	2020	2019
Average weighted fair value per option	17.69	36.66
Average weighted strike price per option	252.00	251.50
Average price per share at the time of exercising the option	-	265.57

Year of allocation	Strike price	Exercise period	Allocated	Lapsed	Exercised	Outstanding
2014	306.20 300.20 294.20	2017-2018 2018-2019 2019-2020	593,785	(263,278)	(330,507)	0
2014	259.00 253.00 247.00	2017-2018 2018-2019 2019-2020	266,950	(112,120)	(154,830)	0
2015	263.00 257.00 251.00	2018-2019 2019-2020 2020-2021	621,941	(45,480)	(32,215)	544,246

6.1 SHARE-BASED PAYMENT
– continued

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 2020 plan, 52,242 shares (2019: 36,640 shares) pertain to Executive Management at the grant date.

In 2020, the recognised fair value of performance shares in the consolidated income statement amounted to an income of DKK 21m (2019: DKK -13m).

An income is recognised as it is expected that financial KPIs will not be achieved for two of the share incentive programmes related to performance share units, hence the costs previously recognised have been reversed.

The total number of outstanding performance shares at 31 December 2020 was 478,038 of which 114,174 performance shares are expected to vest.

	31/12/2020	31/12/2019
Conditional grant	March-20	March-19
Performance year	Jan 2020 - Dec 2022	Jan 2019 - Dec 2021
Vesting period	Mar 2020 - Feb 2023	Mar 2019 - Feb 2022
Vesting conditions, other than service conditions	EBITA, NWC	EBITA, NWC

DKK/DKKm	2020	2019
Market price per share	232.80	265.40
Total fair value of performance shares to be vested at balance sheet date	27	60

	2020			2019		
Specification of performance shares	**Group Executive Management**	**Key employees**	**Total number**	**Group Executive Management**	**Key employees**	**Total number**
Outstanding performance shares 1 January	31,109	194,837	225,946	71,170	333,427	404,597
Vested	(16,262)	(81,335)	(97,597)	(6,449)	(44,904)	(51,353)
Lapsed	0	(21,034)	(21,034)	(13,888)	(96,689)	(110,577)
Awards current year	52,242	168,236	220,478	36,640	129,559	166,199
Cancelled	(43,628)	(169,991)	(213,619)	(46,844)	(136,076)	(182,920)
Change between positions	4,959	(4,959)	0	(9,520)	9,520	0
Outstanding performance shares 31 December	**28,420**	**85,754**	**114,174**	**31,109**	**194,837**	**225,946**

6.2 RELATED PARTY TRANSACTIONS

Related parties to FLSmidth are determined as members of the Board of Directors and Group Executive Management, their close family members, or companies in which these persons have significant influence and the associated entities over which FLSmidth has significant influence.

During 2020, FLSmidth has had ordinary sales transactions of DKK 12m with its associate Intertek Robotic Laboratories Pty Ltd. Other than that, there were no significant transactions between FLSmidth and any of its related parties, other than ordinary remuneration of the Board of Directors and Group Executive Management in 2020 and 2019. Please refer to note 1.5 Staff cost and the Remuneration report 2020.

6.3 AUDIT FEE

DKKm	2020	2019
Statutory audit	15	15
Other assurance engagement	1	1
Total audit related services	**16**	**16**
Tax and indirect taxes consultancy	2	1
Total non-audit services	**2**	**1**
Total fees to independent auditor	**18**	**17**

In addition to statutory audit, EY Godkendt Revisionspartnerselskab, the Group auditors appointed at the Annual General Meeting, provided other assurance engagements and tax compliance services to the Group, DKK 1m (2019: DKK 1m).

All non-audit services have been approved by the Audit Committee.

6.4 EVENTS AFTER THE BALANCE SHEET DATE

Effective 1 January 2021, we have divested our Möller pneumatic conveying systems business. The divestment is part of the ongoing process to simplify FLSmidth’s Cement business. As per 31 December 2020 the balances related to the divestment was classified as held for sale in the balance sheet. A revaluation of the balances was made in December 2020 to reflect the net assets held for sale at fair value less cost to sell and, therefore, the loss arising from the sale was already recognised in 2020.

On 15 January 2021, FLSmidth announced that we are in negotiations with ThyssenKrupp concerning an acquisition of ThyssenKrupp's mining business. The negotiations are at a non-binding stage. Accordingly, there can be no assurances as to whether and when a transaction will transpire.

We are not aware of any other subsequent matters, that could be of material importance to the Group’s financial position.

6.5 LIST OF GROUP COMPANIES

Company name	Country	Direct Group holding (pct.)
FLSmidth & Co. 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. (under liquidation)	Venezuela	100
○ FLSmidth S.A.C.	Peru	100
○ SLF Romer XV ApS	Denmark	100
⌂ Gemena Sp. Z.o.o.	Poland	100
○ Matr. nr. 2055 A/S	Denmark	100
FLSmidth Global Services A/S	Denmark	100
○ NLSupervision Company Angola, LDA.	Angola	100
○ NL Supervision Company Tunisia	Tunisia	100
○ ISIRNEL S.A.	Uruguay	100
FLSmidth A/S	Denmark	100
○ FLS Maroc	Morocco	100
○ FLSmidth A/S (Jordan) Ltd.	Jordan	100
○ FLSmidth MAAG Gear AG	Switzerland	100
⌂ FLSmidth MAAG Gear Sp. z o.o.	Poland	100
○ FLSmidth Kenya Limited	Kenya	100
○ FLSmidth (Thailand) Co. Ltd.	Thailand	100
○ FLSmidth Panama Inc.	Panama	100
○ FLSmidth S.A.	Ecuador	100
○ FLSmidth Paraguay S.A.	Paraguay	100
○ The Pennies and Pounds Holding, Inc.*	Philippines	33
○ FLSmidth S.A.	Spain	100
⌂ FLSmidth S.A.S.	Colombia	100
○ FLSmidth AB (under liquidation)	Sweden	100
○ FLSmidth Mongolia	Mongolia	100
○ P.T. FLSmidth Construction Indonesia	Indonesia	67
○ FLSmidth Milano S.R.L.	Italy	100
○ FLSmidth (UK) Limited	United Kingdom	100
○ FLSmidth Caucasus Limited Liability Company (LLC)	Armenia	100
○ NHI-Fuller (Shenyang) Mining Co. Ltd.	China	50

Company name	Country	Direct Group holding (pct.)
○ FLSmidth Limited	Ghana	100
○ FLSmidth (Private) Ltd.	Pakistan	100
○ Pfister Holding GmbH	Germany	100
○ FLSmidth Argentina S.A.	Argentina	100
○ FLSmidth Zambia Ltd.	Zambia	100
○ FLSmidth Iranian (PJSCo)	Iran	100
○ FLSmidth Ventomatic S.p.A.	Italy	100
⌂ FLSmidth MAAG Gear S.p.A.	Italy	100
○ FLSmidth Ltda.	Brazil	100
○ PT FLSmidth Indonesia	Indonesia	100
○ FLSmidth Spol. s.r.o.	Czech Republic	100
○ FLSmidth GmbH	Austria	100
○ FLSmidth Co. Ltd.	Vietnam	100
○ FLSmidth Mekanik Sistemler Satis Bakim Ltd. Sti	Turkey	100
○ FLSmidth Philippines, Inc.	Philippines	100
○ FLSmidth LLP	Kazakhstan	100
○ FLSmidth Sales and Services Limited	Nigeria	100
○ FLSmidth Shanghai Ltd.	China	100
○ FLSmidth Qingdao Ltd.	China	100
○ Saudi FLSmidth Co.	Kingdom of Saudi Arabia	100
○ FLSmidth Nepal Private Limited	Nepal	100
○ FLSmidth SAS	France	100
○ FLSmidth Rusland Holding A/S	Denmark	100
⌂ FLSmidth Rus OOO	Russia	100
FLS US Holdings, Inc.	USA	100
○ FLSmidth Inc.	USA	100
⌂ Phillips Kiln Services (India) Pvt. Ltd.*	India	50
⌂ SLS Corporation	USA	100
⌂ Fuller Company	USA	100
⌂ FLSmidth Dorr-Oliver Eimco SLC Inc.	USA	100
⌂ Ludowici Mineral Processing Equipment Inc.	USA	100
⌂ FLSmidth Dorr-Oliver Inc.	USA	100
› FLSmidth Dorr-Oliver International Inc.	USA	100

6.5 LIST OF GROUP COMPANIES
– continued

Company name	Country	Direct Group holding (pct.)
FLSmidth Tyskland A/S	Denmark	100
○ FLS Germany Holding GmbH	Germany	100
⌂ FLSmidth Hamburg GmbH	Germany	100
⌂ FLSmidth Wadgassen GmbH	Germany	100
› FLSmidth Wadgassen Ltd.	Russia	100
⌂ FLSmidth Pfister GmbH	Germany	100
⌂ FLSmidth Real Estate GmbH	Germany	100
⌂ FLSmidth Wiesbaden GmbH	Germany	100
FLSmidth Minerals Holding ApS	Denmark	100
○ FLSmidth Pty. Ltd.	Australia	100
⌂ FLSmidth ABON Pty. Ltd.	Australia	100
⌂ IMP Group Pty Ltd	Australia	100
› Intertek Robotic Laboratories Pty Ltd *	Australia	50
⌂ FLSmidth M.I.E. Enterprises Pty. Ltd.	Australia	100
⌂ Fleet Rebuild Pty. Ltd.	Australia	100
› Mayer Bulk Group Pty. Ltd.	Australia	100
» FLSmidth Mayer Pty. Ltd.	Australia	100
⌂ DMI (Australia) Pty. Ltd.	Australia	100
⌂ FLSmidth Krebs Australia Pty. Ltd.	Australia	100
⌂ ESSA Australia Limited	Australia	100
⌂ DMI Holdings Pty. Ltd.	Australia	100
⌂ Ludowici Pty. Limited	Australia	100
› Ludowici Hong Kong Investments Ltd.	Hong Kong	100
› Ludowici Packaging Australia Pty. Ltd.	Australia	100
› Ludowici Australia Pty. Ltd.	Australia	100
» Rojan Advanced Ceramics Pty. Ltd.	Australia	100
» Ludowici China Pty Limited	Australia	100
➜ Ludowici Hong Kong Limited	Hong Kong	100
○ FLSmidth Private Limited	India	100
○ FLSmidth S.A.	Chile	100
○ FLSmidth S.A. de C.V.	Mexico	100
○ FLSmidth Ltd.	Canada	100

Company name	Country	Direct Group holding (pct.)
○ FLSmidth (Pty.) Ltd.	South Africa	100
⌂ FLSMIDTH-SOCIEDADE UNIPESSOAL, LDA	Angola	100
⌂ FLSmidth Mozambique Limitada	Mozambique	100
⌂ Euroslot KDSS (South Africa) (Pty.) Ltd.	South Africa	100
⌂ FLSmidth Roymec (Pty) Ltd.	South Africa	100
› FLSmidth (Pty) Ltd.	Botswana	100
⌂ FLSmidth South Africa (Pty.) Ltd.	South Africa	75

*Associate
All other enterprises are Group enterprises

Consolidated financial statements

SECTION 7

BASIS OF REPORTING

The consolidated financial statements complies with IFRS and further requirements in the Danish Financial Statements Act

Alternative Performance Measures – Alternative additional measures to describe performance

UNCHANGED ACCOUNTING POLICIES

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 10 February 2021. 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 PREPARATION

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 2020. 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 except from changes included in note 7.6.

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

We present financial measures in the consolidated financial statements which are not defined according to IFRS. We use these alternative performance measures (APM) as we believe that these financial 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.

The alternative performance measures may not be comparable to similarly titled measures presented by other companies, as the definitions and calculations may be different. Our definitions of the financial measures are included in note 7.8 Definition of terms.

We use several alternative performance measures throughout the report. The most commonly used are:

Growth
We use different alternative performance measures related to growth, such as order intake, order backlog and growth. We use these measures in the daily management of our business, as order intake and order backlog are part of the main indicators of our future activity level.

Profit
We use different alternative performance measures related to profit, such as EBIT, EBITA and EBITDA. EBITDA is a measure which is commonly used within the industry and included in our calculation of return of capital employed.

Cash flow
We use different alternative performance measures related to cash flow, such as free cash flow. We use free cash flow to measure how much cash we generate from our operations after maintaining our capital employed.

Financial position
We use different alternative performance measures related to the financial position, such as capital employed, net working capital and net interest-bearing debt. Capital employed and net working capital are included in our calculation of return of capital employed. Net working capital is also a measure we use in the daily management of our business, as it is closely related to the activity.

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.

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 2020 financial year, including:

- Amendments to References to the Conceptual Framework in IFRS Standards (issued 2018, effective date 1 January 2020)
- Amendments to IFRS 3, Business Combinations (issued 2018, effective date 1 January 2020)
- Amendments to IAS 1 and IAS 8, Definition of Material (issued 2018, effective date 1 January 2020)
- Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued 2019, effective date 1 January 2020)
- Amendment to IFRS 16, Leases COVID 19-Related Rent Concessions (issued May 2020, effective date 1 June 2020)

None of these have had a significant impact on the financial statements.

7.7 NEW IFRS NOT YET ADOPTED

Generally, we expect to implement all new or amended accounting standards and interpretations when they become mandatory and have been endorsed by the EU. IASB has issued new or amended accounting standards, which become effective after 31 December 2020. The following amendments are relevant for FLSmidth, but none of these are expected to have a significant impact on the financial statements:

IFRS	Description	Effective date
Interest Rate Benchmark Reform -Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Amendments to address issues following the changes to the interest rate benchmark (issued 2020)	01-Jan-21
Amendments to IFRS 3, Business Combinations	Amendment related to updating an outdated reference. No significant changes in requirements (issued May 2020)	01-Jan-22
Amendments to IAS 16, Property, Plant and Equipment	Amendment related to proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the intended manner (issued May 2020)	01-Jan-22
Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets	Amendment related to costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous (issued May 2020)	01-Jan-22
Annual improvements 2018-2020*; IFRS 9, Financial Instruments	The amendment clarifies which fees to include when applying the '10 per cent' test in assessing whether to derecognise a financial liability. Only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf are included (issued May 2020)	01-Jan-22
Annual improvements 2018-2020*; IFRS 16, Leases	Provides additional clarity regarding the treatment of lease incentives. Lease incentives have previously been excluded from the calculation of lease liabilities and lease assets. These incentives should now be included in the value of lease liabilities and lease assets by an estimated value (issued May 2020)	01-Jan-22
Amendments to IAS 1 Presentation of Financial Statements	Amendment related to promoting consistency when classifying a liability with an uncertain settlement date as current or non-current liability (issued January/July 2020)	01-Jan-23

*Other changes included in the Annual improvements 2018-2020 to other standards will not have an impact on our financial statements.

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.

Alternative performance measure
A financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified according to IFRS.

Book-to-bill
Order intake as a percentage of revenue.

BVPS (Book value per share)
FLSmidth & Co. A/S´ share of equity excluding minorities divided by year-end number of shares.

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) + lease assets + Net working capital.

Capital expenditure (CAPEX)
Investment in Property, plant and equipment.

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.

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.

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.

EBT
Earnings before tax.

EBT margin
EBT as a percentage of revenue.

Effective tax rate
Income tax expenses 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 assets.

Financial gearing (NIBD/EBITDA)
Net interest-bearing debt (NIBD) divided by EBITDA.

Free cash flow
CFFO + CFFI.

Free cash flow adjusted for acquisitions and disposals of enterprises and activities
CFFO + CFFI + acquisitions of enterprises and activities - disposals of enterprises and activities.

Free cash flow adjusted for acquisitions and disposals of enterprises and activities and IFRS 16, Leases
CFFO + CFFI + acquisitions of enterprises and activities - disposals of enterprises and activities + repayment of lease liabilities.

Gross margin
Gross profit as a percentage of revenue.

Growth
Increase/decrease in percentage compared to last year. Currency effect is current year amount compared to current year amount at last year's foreign exchange rate. Organic effect is growth +/- currency effect and acquisition effect.

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.

7.8 DEFINITION OF TERMS - – continued

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 outstanding performance obligations on current contracts at 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. On O&M contracts entered into after 2014, the order intake includes the next 12 months´ expected revenue, and subsequently order intake will be included on a monthly rolling basis.

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) 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, average.

Sales, General & Administrative costs (SG&A costs)
Sales cost + Administrative cost ± other operating items.

Special non-recurring items
Costs and income of a special nature in relation to the main activities of the continued activities, including gains and losses from acquisitions and disposals of enterprises and activities.

Total shareholder return
Share price increase and paid dividend.

TRIR
Total recordable incident rate.

PARENT COMPANY FINANCIAL STATEMENTS

Parent Company Financial statements

Notes

INCOME STATEMENT

Notes	DKKm	2020	2019
1	Other operating income	1	6
2	Staff costs	(4)	(14)
	Other operating costs	(11)	(7)
8	Impairment of investments in Group enterprises	(47)	(90)
7	Depreciation, amortisation and impairment	(1)	0
	EBIT	**(62)**	**(105)**
3	Financial income	1,177	776
4	Financial costs	(1,098)	(713)
	EBT	**17**	**(42)**
5	Tax for the year	(23)	0
	Profit for the year	**(6)**	**(42)**
6	Distribution of profit for the year:		
	Retained earnings	(109)	(42)
		(109)	**(42)**
	Distribution of dividend:		
	Proposed dividend	103	0
		103	**0**

Management review

Parent company FLSmidth & Co. A/S' activities include holding of shares in Group enterprises and the Group's Treasury function.

Dividend from Group enterprises to the parent company, FLSmidth & Co. A/S, was DKK 0m in 2020 (2019: DKK 0m) and the profit for the year was DKK -6m (2019: DKK -42m).

Increase in financial income and cost is related to foreign exchange gains and losses. Net financial income is DKK 79m (2019: DKK 63m).

The result is significantly impacted by write downs of investments in Group enterprises.

Total assets at year-end amounted to DKK 8,445m (2019: DKK 8,854m) and the equity was DKK 2,516m (2019: DKK 2,522m). Management consider the result to be lower than expected. For financial outlook of 2021 please refer to page 11.

BALANCE SHEET

Notes	DKKm	2020	2019
	ASSETS		
	Land and buildings	9	10
7	**Property, plant and equipment**	**9**	**10**
8	Investments in Group enterprises	2,512	2,579
8	Other securities and investments	19	21
9	Deferred tax assets	23	32
	Financial assets	**2,554**	**2,632**
	Total non-current assets	**2,563**	**2,642**
	Receivables from Group enterprises	5,688	6,071
10	Other receivables	105	130
	Receivables	**5,793**	**6,201**
	Cash and cash equivalents	**89**	**11**
	Total current assets	**5,882**	**6,212**
	Total assets	**8,445**	**8,854**

Notes	DKKm	2020	2019
	EQUITY AND LIABILITIES		
	Share capital	1,025	1,025
	Retained earnings	1,388	1,497
	Proposed dividend	103	0
	Equity	**2,516**	**2,522**
12	Provisions	8	7
	Provisions	**8**	**7**
14	Bank loans	2,006	2,633
14	Other liabilities	2	0
	Total non-current liabilities	**2,008**	**2,633**
14	Bank loans	150	0
14	Debt to Group enterprises	3,639	3,605
13+14	Other liabilities	124	87
	Total current liabilities	**3,913**	**3,692**
	Total liabilities	**5,929**	**6,332**
	Total equity and liabilities	**8,445**	**8,854**

EQUITY

DKKm	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2019	**1,025**	**1,505**	**461**	**2,991**
Profit for the year		(42)		(42)
Dividend paid		11	(461)	(450)
Share-based payment		2		2
Exercise of share options		21		21
Equity at 31 December 2019	**1,025**	**1,497**	**0**	**2,522**
Profit for the year		(6)		(6)
Proposed dividend		(103)	103	0
Equity at 31 December 2020	**1,025**	**1,388**	**103**	**2,516**

Number of shares (1,000):	2020	2019	2018	2017	2016
Share capital at 1 January	51,250	51,250	51,250	51,250	51,250
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.

Profit for the year DKK -6m (2019: DKK-42m) is transferred to retained earnings, of which DKK 103m (2019: DKK 0m) is proposed as dividend.

1. OTHER OPERATING INCOME

DKKm	2020	2019
Rent fee, etc.	1	6
	1	**6**

2. STAFF COSTS

DKKm	2020	2019
Salaries and other remuneration	(3)	(4)
Bonus	(1)	0
Share-based payment	0	(1)
Severance package	0	(9)
	(4)	**(14)**
Average number of employees	**8**	**7**

Remuneration of the Group company's Board of Directors for 2020 amounts to DKK 6m (2019: DKK 6m), including DKK 0m (2019: DKK 1m), which was incurred by the parent company. The total remuneration of the Group company's Executive Management amounted to DKK 51m (2019: DKK 43m), of which DKK 4m (2019: DKK 14m) was incurred by the parent company.

3. FINANCIAL INCOME

DKKm	2020	2019
Interest income from Group enterprises	88	104
Foreign exchange gains	1,089	672
	1,177	**776**

4. FINANCIAL COST

DKKm	2020	2019
Interest cost	(34)	(50)
Interest cost to Group companies	(16)	(36)
Foreign exchange losses	(1,048)	(627)
	(1,098)	**(713)**

5. TAX FOR THE YEAR

DKKm	2020	2019
Current tax on profit/loss for the year	(19)	(11)
Adjustments of deferred tax	(6)	(9)
Adjustments regarding previous years, deferred taxes	(3)	20
Adjustments regarding previous years, current taxes	5	0
Tax for the year	**(23)**	**0**

6. DISTRIBUTION OF PROFIT FOR THE YEAR

Proposed distribution of profit:

DKKm	2020	2019
Proposed dividend	103	0
Retained earnings	(109)	(42)
Profit for the year	**(6)**	**(42)**

7. PROPERTY, PLANT AND EQUIPMENT

DKKm	Land and buildings	Operating equipment, fixtures and fittings	Total
Cost at 1 January 2020	23	2	25
Cost at 31 December 2020	**23**	**2**	**25**
Depreciation and impairment at 1 January 2020	(13)	(2)	(15)
Depreciation	(1)	0	(1)
Depreciation and impairment at 31 December 2020	**(14)**	**(2)**	**(16)**
Carrying amount at 31 December 2020	**9**	**0**	**9**

8. FINANCIAL ASSETS

For specification of investments in Group enterprises, see note 6.5 in the consolidated financial statements.

Result of annual impairment test

As of 31 December 2020, the cost price of the investments in subsidiaries was tested for impairment. The impairment test identified impairment charges for 2020 amounting to DKK 54m (2019: DKK 90m). The impairment was related to the subsidiary FLSmidth Global Services A/S based on value in use. Reversal of prior year's impairment amounted to DKK 7m (2019: DKK 0m).

Key assumptions

The impairment test has been based on a five year forecast for FLSmidth Global Services A/S. The applied discount rate after tax is 7.5% 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.

DKKm	Investments in Group enterprises	Other securities and investments	Total
Cost at 1 January 2020	3,141	37	3,178
Share-based payment	(20)	0	(20)
Cost at 31 December 2020	**3,121**	**37**	**3,158**
Impairment at 1 January 2020	(562)	(16)	(578)
Reversal of prior year's impairment	7	0	7
Impairment	(54)	(2)	(56)
Impairment at 31 December 2020	**(609)**	**(18)**	**(627)**
Carrying amount at 31 December 2020	**2,512**	**19**	**2,531**

9. DEFERRED TAX ASSETS AND LIABILITES

Deferred tax relates to the following items:

DKKm	2020	2019
Tangible asset	15	15
Liabilities	8	17
Net value of deferred tax assets/(liability)	**23**	**32**

10. OTHER RECEIVABLES

Other receivables mainly include fair value of financial contracts (positive value) of DKK 67m (2019: DKK 77m), receivable from Canadian tax authorities DKK 17m (2019: DKK 18m) and tax on account for the Danish jointly taxed enterprises.

11. DERIVATIVES

The currency exposure is hedged according to the Financial Policy. At 31 December 2020 the fair value of our hedge agreements amounted to DKK -1m (2019: DKK 5m).

Economic hedge, DKKm		2020
Currency	**Notional amount**	**Net fair value**
AUD	23	2
USD	1,230	(4)
GBP	546	2
Other	-	(1)
Total		**(1)**

A negative notional amount represents a sale of the currency

Economic hedge, DKKm		2019
Currency	**Notional amount**	**Net fair value**
AUD	436	13
USD	929	(6)
GBP	477	(3)
Other	-	1
Total		**5**

A negative notional amount represents a sale of the currency

12. PROVISIONS

DKKm	2020	2019
Provisions at 1 January	7	12
Addition	4	0
Reversals	(3)	(5)
Provisions at 31 December	**8**	**7**

13. OTHER LIABILITIES

Other liabilities include fair value of financial contracts (negative value) of DKK 68m (2019: DKK 72m).

14. MATURITY PROFILE OF CURRENT AND NON-CURRENT LIABILITIES

Maturity profile of liabilities:

DKKm	2020	2019
Bank loans	150	0
Debt to Group enterprises	3,639	3,605
Other liabilities	124	87
Within one year	**3,913**	**3,692**
Bank loans	2,006	2,633
Other liabilities	2	0
Within one to five years	**2,008**	**2,633**
After five years	**0**	**0**
Total	**5,921**	**6,325**

15. AUDIT FEE

In addition to statutory audit, EY Godkendt Revisionspartnerselskab, the Parent company auditors provided other assurance engagements to the Parent company.

DKKm	2020	2019
Statutory audit	3	3
Total audit related services	**3**	**3**
Total fees to independent auditor	**3**	**3**

16. CONTRACTUAL AND CONTINGENT LIABILITIES

The parent company has provided guarantees primarily to financial institutions at a total amount of DKK 13,088m (2019: DKK 13,947m) of which DKK 4,208m have been utilised in 2020 (2019: DKK 5,670m).

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 2.9 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.

There has been no transactions with related parties in 2020 and 2019, apart from Group Executive Management´s remuneration stated in note 2 and Treasury activities as mentioned below. Capital transactions with subsidiaries are included in note 8 and balances are disclosed separately in the balance sheet.

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 2020:

One shareholder has reported a participating interest above 10%:

- Lundbeckfond Invest A/S, Denmark.

No shareholders have reported a participating interest above 5%.

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 2019.

The company's main activity, dividend income 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 trigger 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, an impairment test of the investment is triggered.

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. 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 2020.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU. The parent company 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 company financial statements give a true and fair view of the Group's and the Parent company's financial position at 31 December 2020 as well as of the results of their operations and the consolidated cash flows for the financial year 1 January – 31 December 2020.

In our opinion, the management's review gives a fair review of the development in the Group's and the Parent company's activities and financial matters, results of operations, consolidated cash flows and financial position as well as a description of material risks and uncertainties that the Group and the Parent company face.

In our opinion, the annual report for the financial year 1 January - 31 December 2020 with the file name FLS-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

We recommend the annual report for adoption at the Annual General Meeting.

Valby, 10 February 2021

Executive management

Thomas Schulz
Group CEO

Roland M. Andersen
Group CFO

Board of directors

Vagn Ove Sørensen
Chairman

Tom Knutzen
Vice chairman

Gillian Dawn Winckler

Thrasyvoulos Moraitis

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

Report on the audit of the consolidated financial statements and parent company financial statements

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 2020, 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 2020 and of the results of the Group's operations and cash flows for the financial year 1 January – 31 December 2020 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 2020 and of the results of the Parent Company's operations for the financial year 1 January – 31 December 2020 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 annually by resolution of the general meeting for a total consecutive period of 4 years including the financial year 2020.

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 2020. 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, 2.7 and 3.4 to the consolidated financial statements.

FLSmidth's Cement and Mining industries deliver long term projects, 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 as well as the risk of credit losses. Together with the impact from executing projects in parts of the world where macro-economic and political factors as well as COVID-19 related challenges 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 as well as the risk of credit losses. 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 demand for the inventory items is expected. The current market conditions 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 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 amortised costs net of impairment losses, 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 customer's ability to pay, access to securities and payment guarantees, as well as the ageing 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.

Report on compliance with the ESEF Regulation

As part of our audit of the financial statements of FLSmidth & Co. A/S we performed procedures to express an opinion on whether the annual report for the financial year 1 January - 31 December 2020 with the file name FLS-2020-12-31.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the consolidated financial statements.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the consolidated financial statements presented in human readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the consolidated financial statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited consolidated financial statements.

In our opinion, the annual report for the financial year 1 January - 31 December 2020 with the file name FLS-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 10 February 2021
EY 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 2020
1 January - 31 December 2020

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