FLSmidth A/S

Vigerslev Allé 77

2500 Valby

CVR no. 15 02 88 82

Annual Report for 2022

Adopted at the Annual General Meeting on 29 March 2023

Mads Nipper
chair

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Company details

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CVR-no. 15 02 88 82

Financial year: 1 January - 31 December 2022
Incorporated: 6 March 1991

Domicile: Copenhagen

Board of directors
Tom Knutzen, chair
Mads Nipper, deputy chair
Gillan Dawn Winckler
Thrasyvoulos Moraitis
Richard Robinson Smith
Anne Louise Eberhard
Claus Østergaard
Carsten Hansen
Leif Gundtoft

Executive Board
Mikko Juhani Keto, CEO
Roland Munkerod Andersen, CFO

Auditors
EY Godkendt Revisionspartnerselskab
Dirch Passers Allé 36
2000 Frederiksberg

Statement by management on the Annual Report

The Board of directors and Executive management have today discussed and approved the annual report of FLSmidth A/S for the financial year 1 January - 31 December 2022.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2022 and of the results of the company's operations for the financial year 1 January - 31 December 2022.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report shall be approved at the general meeting.

Valby, 29 March 2023

Executive management

Mikko Juhani Keto CEO	Roland Munkerod Andersen CFO

Board of directors

Tom Knutzen chair	Mads Nipper deputy chair	Gillan Dawn Winckler
Thrasyvoulos Moraitis	Richard Robinson Smith	Anne Louise Eberhard
Claus Østergaard	Carsten Hansen	Leif Gundtoft

Independent auditor's report

To the shareholder of FLSmidth A/S

Opinion

We have audited the financial statements of FLSmidth A/S for the financial year 1 January – 31 December 2022, which comprise accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Statement on management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 29 March 2023

EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jens Thordahl Nøhr
State Authorised Public Accountant
MNE no. mne32212

Kennet Hartmann
State Authorised Public Accountant
MNE no. mne40036

Financial highlights

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

	2022	2021	2020	2019	2018
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Profit/loss					
Revenue	2.306	2.202	2.119	3.590	3.551
Gross profit	-52	-70	-42	95	273
Operating profit/loss	-859	-614	-437	-305	-155
Profit/loss before net financials	-135	-201	-50	46	122
Net financials	-406	19	4	409	199
Profit/loss for the year	-547	-105	-154	441	283
Balance sheet					
Balance sheet total	12.117	12.776	10.827	11.976	10.875
Investment in property, plant and equipment	0	1	10	3	11
Equity	4.369	4.924	4.645	4.798	4.361
Number of employees	736	765	922	900	912
Financial ratios					
Gross margin	-2,3%	-3,2%	-2,0%	2,6%	7,7%
EBIT margin	-5,9%	-9,1%	-2,4%	1,3%	3,4%
Solvency ratio	36,1%	38,5%	42,9%	40,1%	40,1%
Return on equity	-11,8%	-2,2%	-3,3%	9,6%	6,7%

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

Numbers for 2018 have not been adjusted to reflect reclassification of amortizations of acquired patents from presentation in administrative costs to production costs adjusted from 1 January 2019.

Management's review

Business activities

FLSmidth A/S business activities are anchored around a unique combination of services, products and projects. Our key strategic focus is to expand the share of services and standardised products relative to the share of large projects, while simultaneously de-risking the project portfolio. This focus will help us obtain a more profitable business mix and a less cyclical business with a lower level of risk.

FLSmidth A/S is also the owner of the entire FLSmidth Group's patents, trademarks and knowhow and receives royalties from other Group companies for their use thereof.

Management's review

Strategy and business model

Transformation
FLSmidth is on a transformation journey from an engineering-based company with a legacy in large capital projects towards a technology company focused on service offerings. Our key purpose is rooted in the much-needed green transition in the mining and cement industries and how we at FLSmidth can support this.

The core drivers of our transformation are sustainability, innovation, simplification, de-risking, transparency, performance, speed, walking-the-talk and living our company values.

The foundation on which we embark on this transformation journey is solid and anchored in our unique competitive edge including our long-standing deep industry know-how, trust and expertise, our highly skilled employees, our large installed base, sustainability and technology innovation focus and world-class offerings across the full flowsheet and across all key commodities.

Pure play approach
To maximise our potential and value creation for all our stakeholders, we are pursuing a pure play approach for Mining and Cement. This approach has been chosen given limited synergies, low overlap in customer base and product offerings as well as different industry dynamics between the two segments.

We have a relatively asset-light business model and continue to focus on streamlining our setup. While localising our service footprint, we continue to pursue a strategy of consolidating our supply chain and execution centres as well as product lines to ensure the leanest possible organisation and high speed of delivery.

With less greenfield mining and fewer new cement plants being built, our overall strategic focus in Mining and Cement is shifting towards a service-led business. We pursue fewer large, complex orders and target more high margin service offerings.

We prioritise innovation and R&D that supports our sustainability agenda and service-focused ambitions, while exiting non-sustainable business and de-risking our operations and portfolio exposure.

Management's review

Financial review

The company's income statement for the year shows a revenue of MDKK 2.306 (2021: MDKK 2.202) in line with expectations.

The result before tax, but excluding impairments of investments in subsidiaries amounted in 2022 to MDKK 136 (2021: MDKK -94) which is slightly above our expectations. Compared to 2021, the improvement mainly relates to higher dividends from subsidiaries.

The loss for the year amounted to MDKK -547 (2021: MDKK -105), impacted by impairment of investments in subsidiaries. As at 31 December 2022, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment of entities located in Germany, Russia, China, and Iran for 2022 of MDKK 681 (2021: MDKK 242).

Total assets amounted to MDKK 12.117 at the end of 2022 (end of 2021: MDKK 12.776). The equity at the end of 2022 amounted to MDKK 4.369 (2021: MDKK 4.924), representing an equity ratio of 36,1% (2021: 38,5%). The return on shareholders' equity in 2022 amounted to -11,8% (2021: -2,2%).

The total order intake of FLSmidth A/S amounted to MDKK 2.287 in 2022, representing a 2,7% increase compared to the year before (2021: MDKK 2.226).

Management's review

Market trends

Mining Market

Despite ongoing global macroeconomic and geopolitical turmoil, the long-term demand for minerals essential to economic growth and a sustainable future remains resilient. Changing commodity prices, supply chain constraints, inflation and the threat of a global recession were key drivers of concern and uncertainty for the mining industry in 2022. Opportunities arose due to the constant and growing demands emerging from the energy transition, and these are expected to continue.

The uncertainty caused by inflation and the risk of recession have slowed down exploration projects, reduced the budget for advanced greenfields and shifted a focus on low-risk projects during the first half of 2022. In the last quarter of 2022, there has been a recovery in progression of activity related to copper, lithium, gold, and phosphates.

The acceleration of decarbonisation efforts and energy transition drive the increase in the demand for green metals and industrial commodities globally. ESG requirements and future demand for commodities such as lithium and copper are the drivers of the capital business and require us to adapt the project planning and execution activities to the changing environment. Miners are rethinking their business models to gain competitive advantage and ESG is becoming an integrated part of the mining companies' strategies. This creates multiple opportunities for water management, decarbonisation and productivity solutions in the mining sector.

Disruption in supply chain caused by COVID-19, China's zero COVID-19 policy and geopolitical turmoil have established a need for transforming the supply strategy into stronger partnerships and collaboration with our customers and suppliers. This has created a stronger momentum for the digitalisation and life-cycle services, as an important component of the supply chain risk mitigation.

Cement Market

During 2022, the cement industry has, like most other industries been navigating in a market with macroeconomic and geopolitical uncertainties. The volatile energy prices and inflation pressure have created a push for increased focus on productivity and we have experienced a continued focus on sustainability solutions.

The ongoing war in Ukraine, inflation and increasing interest rates have impacted the business climate in Europe. Customers have put large investments and upgrades on stand-by and we have experienced a slowdown in decision-making processes. However, the current situation has also opened up for increased dialogues on sustainability solutions.

During the quarters of 2022 there has been an accelerated shift in focus from capacity to sustainability – mainly driven by a concern around energy volatility – especially systems supporting fuel substitution.

Special risks apart from generally occurring risks in the industry

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

Risks are an integral part of our business with a constant evolving risk exposure. It requires a robust governance model and top management involvement to ensure that risks are minimized and mitigated while at the same time focusing on turning risks into opportunities where possible.

With the new strategic direction, Executive Management and the Board of Directors have lowered the overall risk profile by de-risking the portfolio and focusing on the core business.

However, our business is still subject to a number of risks and opportunities which can have both short- and long-term impact. The purpose of our risk management is to identify, quantify, manage and mitigate these risks and where possible ensure we turn them into opportunities.

This year's risk review resulted in the identification of the top risks and opportunities that have the potential to significantly impact the entire business and organisation. Many of this year's top risks – company transformation, compliance, looming recession, cyber security and geopolitical – have evolved into new, more complex risks compared to 2021.

Attracting and retaining employees remains a high priority. The industries we operate in are challenged by the ability to attract enough high-skilled and high-performing staff. We welcomed many new talented employees during the year and we continue to have an active recruitment and career development strategy.

Currency risks

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

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

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

Credit risks

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

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

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

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

The credit risk is governed by the Group's 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.

Management's review

Corporate Social Responsibility

Sustainability is a core component of our company strategies. As a technology leader in the mining and cement industries, we consider it our responsibility to be a key sustainability partner for our stakeholders, driving sustainable business practices across the industry value chains. Our approach focuses on the two main areas where we currently have the greatest impact: the sustainability performance of our customers and our own operations.

The impact of mining and cement on global greenhouse gas (GHG) emissions provides significant business opportunities. Through our research and development-based sustainability programme, MissionZero, we help our customers accelerate towards more sustainable operations, reduce their environmental footprint and benefit from the green transition and global infrastructure development. MissionZero also encompasses digital solutions, a key enabler in improving operational efficiency, and the adoption of product stewardship principles. We support the long-term phasing-out of coal. We are not entering into new, greenfield coal-related projects, and we will end our involvement in coal mining by 2030.

Through our environment, social and governance (ESG) efforts, we address the impact of our own operations, and those of our suppliers, across the value chain. We set measurable targets and corresponding actions related to material issues. These include: Addressing our scope 1, 2 and 3 GHG emissions in accordance with the Science Based Targets initiative; creating a safe, diverse and inclusive workplace for our people; establishing clear standards for our suppliers; and establishing clear standards within compliance and human rights – for our own business and our suppliers.

To embed sustainability in our business, we continue to work towards increased accountability and improved governance. Key performance indicators (KPIs) related to MissionZero and ESG are cascaded throughout the organisation. This is supported by increasing efforts to engage employees in all functions, business lines and regions in our sustainability activities.

Concurrently with the Annual Report, FLSmidth & Co. A/S has published its annual Sustainability Report, covering non-financial performance related to environmental and socio-economic impacts. The 2022 Sustainability Report is in full compliance with both Sections 99a 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 EY.

For FLSmidth A/S' statutory reporting cf. §99a, please refer to our Group report available at:
https://www.flsmidth.com/en-gb/company/sustainability/sustainability-reports

Research & Development activities

Mining and cement operations have a significant impact on the environment – together contributing approximately 10% of global CO2 emissions – and the use of our products by our customers generates around 99% of greenhouse gas (GHG) emissions from our entire value chain. With our MissionZero programme, we aim to enable zero emissions in mining and cement, and our Mission-Zero Mine and Green Cement Plant concepts articulate our vision for how to achieve sustainable mining operations and cement production.

Our research and development (R&D) efforts are central to our ability to meet our economic intensity target. Key innovations released include the Alumina Gas Suspension Calciner and the Indirect Cooler for lithium processing.

Technical partnerships with customers, universities and other organisations are essential to our MissionZero programme, enabling us to accelerate innovation and go-to-market. Through the FlotSim collaboration, we stepped up research into improving flotation recovery rates in mining.

Statutory report on the underrepresented gender

The Board of Directors of FLSmidth continually evaluates the diversity of the Board and the Executive Management as well as among managers and employees. In connection with recommendations and appointments, diversity is deliberately taken into account when considering the profiles and qualifications of potential candidates. When possible, the company makes sure that both genders are represented in the final stages of the recruitment process.

We continuously strive for a diverse workforce. In many ways, we have succeeded in achieving teams that are diverse in aspects such as nationality, age and experience. At the end of 2022, women accounted for 31% (end 2021: 28%) of the total workforce, while 24% of all managers were women (end 2021: 19%). To further improve on gender diversity, however, we have set a new target that, by 2030, 30% of our white collar jobs should be held by women and to have 25% women managers. To achieve this, we are working towards 30% of all open positions being held by women. In terms of our Board, women accounted for 33% of the shareholder-elected Board members at the end of 2022, fulfilling the target that at least 25% of the members elected at the Annual General Meeting should be women.

Significant events occurring after end of reporting period

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

Outlook for 2023

The outlook for the mining industry remains positive and following a strong 2022 we expect market growth in 2023 to remain largely stable versus 2022.

Short-term outlook for the Cement industry remains impacted by overcapacity and the potential recession is expected to impact market demand negatively over the coming period.

Guidance for 2023 is a revenue in the range of 2.4-2.7 bDKK and a result before tax, but excluding impairments of investments in subsidiaries in the range of 0.1-0.3 bDKK.

Guidance for 2023 is subject to uncertainty due to the global supply chain situation, potential recession and geopolitical turmoil.

Statement of policy for data ethics

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

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

Accounting policies

The annual report of FLSmidth A/S for 2022 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied are consistent with those of last year.

The annual report for 2022 is presented in MDKK.

Pursuant to sections §112 subsection 1 and §86 subsection 4 of the Danish Financial Statements Act, the Annual Report of FLSmidth A/S does not contain consolidated financial statements nor a cash flow statement. With the same reference, disclosure of audit fee is exluded in accordance with §96 subsection 3.

Intra-group business combinations

The book value method is applied to business combinations such as acquisition and disposal of equity investments, mergers, demergers, additions of assets and share conversions, etc. in which entities controlled by the parent company are involved, provided, that the combination is considered completed at the time of acquisition without any restatement of comparative figures. Differences between the agreed consideration and the carrying amount of the acquire are taken directly to equity.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any installments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

Accounting policies

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Revenue

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

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

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

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

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

Additionally, if we do not have an enforceable right to payment for work completed throughout the contract term, such sales will also be recognised at the point in time when the control transfers to the customer, usually upon customer acceptance. In the case of significant uncertainties with the collectability of contract consideration, revenue is recognised upon cash receipt.

Judgements are made when determining if a project, product or service is recognised as revenue over time or at a point in time. The judgements relate to if we have an alternative use of the assets sold and if we have an enforceable right to payment throughout the contractual term. When assessing if an asset has no alternative use we estimate the alternative use cost amount. We have limited historical data as we rarely redirect our assets. The estimate is based on the specifics of each contract. When assessing if we are entitled to payment throughout the contract term, a judgement is made based on the contract wording, legal entitlement and profit estimates.

Service sales (sale of service hours) are recognised over time, using the cost-to-cost method, as the customer receives and consumes the benefits as we perform the services.

In determining the transaction price revenue is reduced by probable penalties, payment of liquidated damages and any other claims that are payments to our customers. The transaction price is also adjusted for any variable elements, where we estimate the amount of the variable transaction price. The variable amount is estimated at contract inception and re-estimated periodically throughout the contract term. The variable amount is recognised as revenue when it is highly probable that reversal will not occur.

Warranties are granted in connection with the sale of equipment and systems and are classified as assurance-type warranties that are not accounted for as separate performance obligations.

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

Cost of production

Cost of production comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation.

Cost of production also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs.

Sales and distribution costs

Sales and distribution costs comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Administrative costs

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

Accounting policies

Other operating income

Other operating income and costs comprise income and costs of a secondary nature in relation to the activities of the Company, including certain grants, rentals and royalties, fees, etc.

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement.

Gain and loss from the disposal of individual fixed assets which cannot be considered part of the disposal of a complete activity is included in other operating income and costs.

Impairment of financial assets

Impairment and reversals of impairment of investments in subsidiaries and associates are presented net in the income statement.

Income from investment in subsidiaries

Dividend from investments in subsidiaries and associates is recognised as income in the income statement in the financial year in which the dividend is declared. This will typically be at the time of the approval by the Annual General Meeting of the distribution from the company concerned.

The liquidations proceeds related to the liquidation of a subsidiary is recognized as income in the financial statement in the year in which the liquidation is finalized and the liquidation proceeds are free to be distributed to the owner.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

The Company and its Danish Group enterprises are jointly taxed with the other Danish members of the FLSmidth & Co. A/S Group. The current Danish corporation tax is shared between the jointly taxed companies in proportion to their taxable incomes (full distribution with refund of tax losses).

Accounting policies

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use tax losses to reduce their own taxable profits.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Development projects, patents and licences

Development costs comprise costs, wages/salaries and amortisation losses that are directly and indirectly attributable to the company's development activities.

Development projects recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Clearly defined and identifiable development projects, for which the technical rate of utilisation, sufficient resources and a potential future market or application in the Company can be demonstrated and which are intended to be manufactured, marketed or used, are recognised as intangible assets if the cost can be determined reliably, and if it is sufficiently certain that the future earnings or the net selling price will cover production, selling and administrative costs plus the development costs. Other development costs are recognised in the income statement as the costs are incurred.

Amortisation of completed development projects except from software is charged on a straight line basis during their estimated useful life. Development projects are impaired to recoverable amount if lower. Development projects in progress are tested for impairment at least once a year.

Amortisation of patents, rights, customer relations and other intangible assets is charged over the remaining patent or agreement period or useful life if shorter. The amortisation profile is systematically based on the expected distribution of the assets' future economic benefits. The basis of amortisation is reduced by impairment losses if any.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually five years.

Amortisation takes place systematically over the estimated useful life of the assets which is as follows:
- Development costs, up to 8 years
- Software applications, up to 5 years
- Patents, rights and other intangible assets, up to 30 years
- Customer relations, up to 20 years

If under rare circumstances useful life can not be estimated reliably, useful life is set at 10 years.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight line basis over the estimated useful life.

Patents and licenses are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period, and licences are amortised over the term of the licence.

Gains and losses on the disposal of development projects, patents and licenses are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Tangible assets

Items of land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life. Land is not depreciated. Where individual components of an item of tangible assets have different useful lives, they are accounted for as separate items, which are depreciated separately.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

	Useful life	
Manufacturing plants	20-40	years
Other fixtures and fittings, tools and equipment	3-10	years
Leasehold improvements	5	years

Assets of low acquisition value or short life are recognised in the income statement in the years of acquisition.

The useful life and residual value of the company's property, plant and equipment is reassessed annually.

Gains or losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses, respectively.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

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

Currently the company has no financial leases.

Financial assets

Investment in subsidiaries and associates are measured at cost. If cost exceeds the recoverable amount, a write-down is made to this lower value.

Dividend from subsidiaries and associates is recognised in full as income in profit and loss for the year, not considering if distributed dividends exceed the accumulated earnings after the acquisition date.

Other investments

Other securities and investments are measured at cost.

Other securities and investments acquired in foreign currencies are translated at the exchange rate at the balance date.

Impairment of non-current assets

The carrying amount of intangible assets, items of property, plant and equipment and investments in subsidiaries and associates is tested annually for impairment, other than what is reflected through normal amortisation and depreciation.

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

The recoverable amount is the higher of the net present value and the value in use less expected costs to sell. The net present value is determined as the present value of the anticipated net cash flows from the use of the asset or group of assets and the anticipated net cash flows from the disposal of the asset or group of assets after the end of their useful life.

Inventories

Inventories are measured at cost using the weighted average method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The cost of goods for resale consumables comprises the purchase price plus delivery costs.

The net realisable value of inventories is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Accounting policies

Receivables

Receivables are measured at amortised cost or lower net realizable value. The company has chosen IFRS 9 as interpretation for impairment.

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

Contract work in progress

Contract work in progress is measured at the selling price of the work performed. The selling price is measured by reference to the stage of completion at the balance sheet date and the expected aggregated income from the individual work in progress. The stage of completion is determined as the share of the expenses incurred relative to the expected total expenses for the individual work in progress.

The stage of completion for the individual project is normally calculated as the ratio between the costs incurred and the total budgeted costs. In some projects, where costs cannot be used as a basis, the ratio between completed sub activities and the total project is used instead.

The individual work in progress is recognised in the balance sheet under receivables or payables. Net assets comprise the sum of work in progress where the selling price of the work performed exceeds invoicing on account. Net liabilities comprise the sum of work in progress where invoicing on account exceeds the selling price.

Contractual prepayments are recognised as prepayments received from customers among long-term and current liabilities.

Prepayments to subcontractors consist of prepayments to subcontractors in connection with work-in-progress for third parties and are measured at amortised cost.

Provision is made for loss making contracts on work-in-progress. This is based on individual assessment of the estimated loss until the work is completed.

Prepayments

Prepayments recognised under 'Current assets' comprises expenses incurred concerning subsequent financial years.

Accounting policies

Equity

Hedging reserve

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

Fair value changes of derivatives that are accounted for as cash flow hedging instruments are recognised in equity. Any ineffective portions of the cash flow hedges are recognised in the income statement within financial item. When the hedged cash flows materialises, the fair value of the hedging instrument is transferred from equity into the line item of the hedged item.

Reserve for development projects

An amount equivalent to internally generated development costs in the balance sheet is recognised in equity under reserve for development costs. The reserve is measured less deferred tax and reduced by amortisation and impairment losses on the asset. If impairment losses on development costs are subsequently reversed, the reserve will be restored with a corresponding amount. The reserve is dissolved when the development costs are no longer associated with the operations of the enterprise, and the remaining amount will be transferred to retained earnings.

Dividends

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability when declared by the annual general meeting of shareholders.

Provisions

Provisions comprise expected expenses relating to warranty commitments, losses on work in progress, restructuring, etc. Provisions are recognised when, as a result of a past event, the company has a legal or constructive obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

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

Warranty commitments include expenses for remedial action within the warranty period. Provisions for warranty commitments are measured and recognised based on Management's best estimate of the amount whereby the obligation is expected to be settled. Provisions with an expected maturity of more than one year from the balance sheet date are discounted using a rate that reflects the risk and maturity of the liability.

On corporate acquisitions, provisions for restructuring costs in the acquiree are included in the statement of the cost and, thus, in goodwill or goodwill on consolidation. Provisions for restructuring costs are made in so far as they have been decided no later than at the time of acquisition and the process has been initiated.

When it is probable that the total expenses will exceed the total revenue from contract work in progress, the total expected loss on the work in progress is recognised as a provision. The provision is recognised under production costs.

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the income statement, with the exception of items taken directly to equity.

Liabilities

Liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

In the balance sheet the cash pool accounts are recognised under receivables and payables to affiliated companies as part of assets and liabilities, respectively.

Prepayments received from costumers

Prepayments received from costumers recognised under current and non-current liabilities comprises payments received concerning income in subsequent financial years.

Accounting policies

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency instruments are considered cash flow hedges, any unrealised value adjustments are taken directly to a hedging reserve under 'Equity'.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Fixed assets acquired in foreign currencies are translated at the exchange rate at the transaction date.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Positive and negative fair values of derivative financial instruments are included in 'Other receivables' or 'Other payables', respectively.

Fair value adjustments of derivative financial instruments designated as and qualifying for hedging of future cash flows are recognised in other receivables or other payables and in the 'Hedge reserve' under 'Equity'. If the future transaction results in recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or the liability, respectively. If the future transaction results in income or expenses, amounts previously recognised in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

As for derivative financial instruments that do not qualify for hedge accounting, fair value adjustments are recognised in the income statement on a current basis.

Accounting policies

Financial highlights

Definitions of financial ratios.

Gross margin ratio

$$\frac{\text{Gross profit x 100}}{\text{Revenue}}$$

EBIT margin

$$\frac{\text{Profit/loss before financials x 100}}{\text{Revenue}}$$

Solvency ratio

$$\frac{\text{Equity, end of year x 100}}{\text{Total assets at year-end}}$$

Return on equity

$$\frac{\text{Profit/loss from ordinary operations after tax x 100}}{\text{Average equity}}$$

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.

Income statement 1 January 2022 - 31 December 2022

	Note	2022	2021
		MDKK	MDKK
Revenue	1	**2.306**	**2.202**
Cost of production	2-8-9	-2.358	-2.272
Gross profit		**-52**	**-70**
Sales and distribution costs	2-8-9	-252	-209
Administrative costs	2-8-9	-555	-335
Operating profit/loss		**-859**	**-614**
Other operating income	3	724	413
Profit/loss before financial income and expenses		**-135**	**-201**
Income from investments in subsidiares		351	185
Financial income	4	104	96
Impairment and reversals of impairment of investments in subsidiaries	10	-677	-88
Financial costs	5	-184	-174
Profit/loss before tax		**-541**	**-182**
Tax on profit/loss for the year	6	-6	77
Net profit/loss for the year		**-547**	**-105**
Distribution of profit/loss	7		

Balance sheet at 31 December 2022

	Note	2022 MDKK	2021 MDKK
Assets			
Completed development projects		202	232
Acquired patents		592	649
Development projects in progress		408	297
Other intangible assets		360	376
Intangible assets	8	**1.562**	**1.554**
Land and buildings	9	21	24
Other fixtures and fittings, tools and equipment	9	5	8
Tangible assets		**26**	**32**
Investments in subsidiaries	10	6.900	7.588
Investments in associates	11	0	0
Other investments	12	17	6
Deferred tax assets	18	790	638
Financial assets		**7.707**	**8.232**
Total non-current assets		**9.295**	**9.818**

Balance sheet at 31 December 2022

	Note	2022 MDKK	2021 MDKK
Assets			
Finished goods and goods for resale		120	82
Inventories		**120**	**82**
Trade receivables	13	597	662
Contract work in progress	14	238	377
Receivables from Group entities	15	1.683	1.720
Other receivables		47	43
Prepayments	16	128	66
Receivables		**2.693**	**2.868**
Cash		**9**	**8**
Total current assets		**2.822**	**2.958**
Total assets		**12.117**	**12.776**

Balance sheet at 31 December 2022

	Note	2022 MDKK	2021 MDKK
Equity and liabilities			
Share capital		500	500
Reserve for development expenditure		476	421
Retained earnings		3.408	4.007
Hedging reserve		-15	-4
Equity	17	**4.369**	**4.924**
Other provisions	19	363	191
Total provisions		**363**	**191**
Prepayments received from customers		363	441
Other payables		2	5
Total non-current liabilities	20	**365**	**446**
Banks		2	1
Prepayments received from customers		144	163
Trade payables		617	495
Contract work in progress	14	479	505
Payables to Group entities		5.492	5.826
Corporation tax		74	0
Other payables	21	212	225
Total current liabilities		**7.020**	**7.215**
Total liabilities		**7.385**	**7.661**
Total equity and liabilities		**12.117**	**12.776**
Contingent liabilities	22		
Mortgages and collateral	23		
Financial instruments	24		
Related parties and ownership structure	25		
Significant events occurring after end of reporting period	26		

Statement of changes in equity

	Share capital	Reserve for development expenditure	Retained earnings	Hedging reserve	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Equity at 1 January 2022	500	421	4.007	-4	4.924
Exchange adjustments	0	0	3	0	3
Value adjustment of hedging transactions	0	0	0	-11	-11
Net profit/loss for the year	0	55	-602	0	-547
Equity at 31 December 2022	**500**	**476**	**3.408**	**-15**	**4.369**

	Share capital	Reserve for development expenditure	Retained earnings	Hedging reserve	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Equity 1 January 2021	500	413	3.737	-5	4.645
Net effect from merger	0	0	383	0	383
Adjusted equity at January 2021	500	413	4.120	-5	5.028
Value adjustment of hedging transactions	0	0	0	1	1
Net profit/loss for the year	0	8	-113	0	-105
Equity 31 December 2021	**500**	**421**	**4.007**	**-4**	**4.924**

Notes

		2022	2021
		MDKK	MDKK
1	**Revenue**		
	Income recognised in accordance with the point-in-time principle	748	459
	Income recognised in accordance with the percentage-of-completion method	1.558	1.743
	Total revenue	**2.306**	**2.202**
	Geographical breakdown:		
	North America	25	14
	South America	150	328
	Europe, North Africa & Russia	1.249	885
	Sub-Saharan Africa, Middle East and South Asia	546	328
	Asia, Australia	336	647
	Total revenue	**2.306**	**2.202**
	Segment reporting:		
	Cement - Projects	744	889
	Cement - Products	1.085	928
	Cement - Service	341	268
	Mining - Projects	47	50
	Mining - Products	68	52
	Mining - Service	21	15
	Total revenue	**2.306**	**2.202**

Notes

1 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

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

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

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

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

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

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

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

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

1 Revenue

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

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

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

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

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

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

		2022	2021
		MDKK	MDKK
2	**Staff**		
	Wages and Salaries	659	586
	Pensions	19	16
	Other social security expenses	14	9
	Total staff cost	**692**	**611**
	Total staff cost	692	611
	Staff cost capitalised as part of development projects	-102	-116
	Total Executive Management	**590**	**495**
	Including remuneration to the registered Executive Management and Board of Directors:		
	Wages and salaries	10	12
	Bonus	6	6
	Share-based payments	3	3
	Benefits	1	1
	Severance	0	4
	Other incentives	0	5
	Total Executive Management	**20**	**31**
	Paid by other group companies	**-20**	**-31**
	Board of Directors fee	7	7
	Paid by other group companies	**-7**	**-7**
	Average number of employees	736	765

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

Notes

		2022	2021
		MDKK	MDKK
3	**Other operating income**		
	Other operating income	724	411
	Gain from sales of investments	0	2
		724	**413**

Other operating income and costs include royalties from Group Companies. The item also consists of refund of travel costs and insurance compensation.

4	**Financial income**		
	Other financial income	0	1
	Foreign exchange gains	86	83
	Derivatives	18	12
		104	**96**

Notes

		2022	2021
		MDKK	MDKK
5	**Financial costs**		
	Fair value adjustment of shares	3	4
	Interest paid to subsidiaries	72	61
	Other financial costs	1	1
	Foreign exchange losses	80	89
	Derivatives	28	19
		184	**174**
6	**Tax on profit/loss for the year**		
	Current tax for the year	-148	-91
	Deferred tax for the year	149	145
	Adjustment of tax concerning previous years	-7	-35
	Adjustment of deferred tax concerning previous years	0	52
	Deferred tax from merger	0	6
		-6	**77**
7	**Distribution of profit/loss**		
	Reserve for development projects	55	8
	Retained earnings	-602	-113
		-547	**-105**

8 Intangible assets

	Completed development projects	Acquired patents	Development projects in progress	Other intangible assets	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Cost at 1 January 2022	1.332	2.987	297	768	5.384
Additions for the year	0	65	242	0	307
Disposals for the year	-62	-14	0	0	-76
Transfers for the year	93	0	-131	38	0
Cost at 31 December 2022	1.363	3.038	408	806	5.615
Impairment losses and amortisation at 1 January 2022	1.100	2.338	0	392	3.830
Amortisation for the year	77	109	0	54	240
Disposal of amortisation for the year	-16	-1	0	0	-17
Impairment losses and amortisation at 31 December 2022	1.161	2.446	0	446	4.053
Carrying amount at 31 December 2022	**202**	**592**	**408**	**360**	**1.562**

Intangible assets under development consist of development projects and software. The transfer from intangible assets under development to completed development projects primarily relates to R&D projects finalised in 2022.

Development projects are measured at full cost value under the assumptions that the projects will bring future economic benefits when continuing the Company's normal operation with the current market shares and market conditions.

Development projects in progress are not amortised but are tested for impairment at least once a year.

Once a development project has been completed it is amortised on a straight-line basis over the estimated useful life.

Amortisation for year 2022 MDKK 42 is included in administration costs and MDKK 198 as production costs in the financial statement.

Notes

9 Tangible assets

	Land and buildings	Other fixtures and fittings, tools and equipment	Total
	MDKK	MDKK	MDKK
Cost at 1 January 2022	76	160	236
Cost at 31 December 2022	76	160	236
Impairment losses and depreciation at 1 January 2022	52	152	204
Depreciation for the year	3	3	6
Impairment losses and depreciation at 31 December 2022	55	155	210
Carrying amount at 31 December 2022	**21**	**5**	**26**

Depreciation for year 2022 MDKK 5 is included in production costs and MDKK 1 is included in administration costs in the financial statement.

Notes

		2022	2021
		MDKK	MDKK
10	**Investments in subsidiaries**		
	Cost at 1 January 2022	8.299	6.714
	Net effect from merger and acquisition	0	1.561
	Additions for the year	2	24
	Disposals for the year	-13	0
	Cost at 31 December 2022	8.288	8.299
	Revaluations at 1 January 2022	-711	-225
	Disposals for the year	2	0
	Net effect from merger and acquisition	0	-397
	Reversals of impairment changes for the year	2	153
	Impairment changes for the year	-681	-242
	Revaluations at 31 December 2022	-1.388	-711
	Carrying amount at 31 December 2022	**6.900**	**7.588**

As at 31 December 2022, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment for entities located in Germany, Russia, China and Iran in 2022 of MDKK 681 (2021: MDKK 242). In 2021, impairments of MDKK 242 was recognised related to entities in Germany and France and reversal of prior year's impairment of entities in Austria and US of MDKK 153 in total.

Key assumptions:
Value in use of Group companies, expressing their recoverable amount, is calculated by discounting expected future cash flow to net present value. Expected future cash flow is based on Management estimates including expected growth rates, etc. The discounting factor is also based on Management estimates which include both general capital market conditions and a specific risk profile. The calculations of value in use consist of discounted expected cash flow for the next six to eight years and a calculated terminal value of cash flow for the subsequent period. The calculation of terminal value is based on Management's growth rate estimate for each of the cash generating units.

Impairment tests have been performed for the activities in USA, Germany, and Brazil. The recoverable amount determined in the impairment test is based on a value-in-use calculation. To determine the value-in-use, management is required to estimate 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 six to eight-year period is used to reflect a full business cycle. Significant parameters in the estimate of the present value are discount rate, revenue growth, EBITA margin, expected investments and growth expectations for the terminal period. The discount rate is determined separately for the Mining and Cement industries to reflect the risks specific for the entities. The classification of an entity within one of the two industries is based on how much of the entity's sales activities are within each of the industries. The discount rate applied is the weighted average cost of capital (WACC) and reflects the latest market assumptions for the cost of equity and the cost of debt. The applied discount rate after tax is 9.5% for Mining entities (2021: 8%) and 10.0% for Cement entities (2021: 8.5%). In some of the impairments tests we have added a country specific market risk rate between 1-2 % based on the official rating of the countries Government Bonds.

The expected annual growth rate and the expected margins in the budget periods are based on historical experience and the assumptions about expected market developments. The long-term growth rate for the terminal period is based on the expected growth in the world economy, specifically for the industries. Based on this we have applied a long-term growth rate for the terminal period of 3.0 % (2021: 1.5%).

Investments reflect both maintenance and expectations of organic growth.

Based on those assumptions, an impairment loss of MDKK 681 is recognised.

Sensitivity analysis

Following the impairment loss on the investments in Germany there is no excess value as the investments were written down to the recoverable amount. Hence, any adverse change in the assumptions will lead to further impairment losses. For example, if the discount rate was increased by 1.0%, the impairment loss would increase by MDKK 309.

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

Based on current assumptions regarding USA and Brazil 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.

10 Investments in subsidiaries

Investments in subsidiaries are specified as follows:

Name		Registered office	Ownership interest/voting rights	Equity	Profit/ loss for the year
773	FLS Maroc	Morocco	100	-27	37
529	FLSmidth (Private) Ltd.	Pakistan	100	2	1
803	FLSmidth (Thailand) Co. Ltd.	Thailand	100	27	15
940	FLSmidth (UK) Limited	United Kingdom	100	380	13
781	FLSmidth A/S (Jordan) Ltd.	Jordan	100	-3	-1
156	FLSmidth Argentina S.A.	Argentina	100	0	0
774	FLSmidth Caucasus Limited Liability Company (LLC)	Armenia	100	3	0
750	FLSmidth Co. Ltd.	Vietnam	100	11	1
951	FLSmidth GmbH	Austria	100	0	59
800	FLSmidth Iranian (PJSCo)	Iran	100	0	-9
776	FLSmidth Kenya Limited	Kenya	100	-4	-2
808	FLSmidth Limited	Ghana	100	118	65
780	FLSmidth LLP	Kazakhstan	100	104	121
286	FLSmidth Ltda.	Brazil	100	132	59
765	FLSmidth Mekanik Sistemler Satis Bakim Ltd. Sti	Turkey	100	6	3
710	FLSmidth Mongolia	Mongolia	100	42	21
907	FLSmidth MAAG Gear AG	Switzerland	100	84	-17
523	FLSmidth MAAG Gear Sp. z o.o.	Poland	100	174	30
825	FLSmidth Nepal Private Limited	Nepal	100	0	0
829	FLSmidth Panama Inc.	Panama	100	1	1
775	FLSmidth Philippines, Inc.	Philippines	100	8	2
988	FLSmidth Qingdao Ltd.	China	100	209	96
958	FLSmidth Rusland Holding A/S	Denmark	90	13	0
959	FLSmidth Rus OOO	Russia	100	27	-60
87	FLSmidth S.A.	Spain	94	53	1
760	FLSmidth S.A.S	Colombia	100	-35	-5
832	FLSmidth S.A.	Ecuador	100	2	-1
764	FLSmidth Sales and Services Limited	Nigeria	75	1	0
942	FLSmidth SAS	France	100	22	6
985	FLSmidth Shanghai Ltd.	China	100	53	11
617	FLSmidth Spol. s.r.o.	Czech Republic	100	64	6
281	FLSmidth Ventomatic SpA	Italy	100	604	7
999	FLSmidth MAAG Gear S.p.A	Italy	100	95	3
984	FLSmidth Zambia Ltd.	Zambia	90	0	0
807	NHI-Fuller (Shenyang) Mining Co. Ltd.	China	50	22	-5
440	PT FLSmidth Indonesia	Indonesia	100	86	40
827	Saudi FLSmidth Co.	Saudi Arabia	100	15	7
709	The Pennies and Pounds Holding, Inc.*	Philippines	33	0	0
860	FLSmidth Paraguay S.A.	Paraguay	90	7	6
861	Cement Knowledge Center	Saudi Arabia	51	1	1

Notes

114	FLS Germany Holding GmbH	Germany	100	1.127	-39
113	FLSmidth Pfister GmbH	Germany	100	29	30
117	FLSmidth Real Estate GmbH	Germany	100	6	1
906	FLSmidth Wadgassen GmbH	Germany	100	129	-17
830	FLSmidth Wadgassen Ltd.	Russia	100	2	0
941	FLSmidth Wiesbaden GmbH	Germany	100	129	-108
881	FLSmidth Mining Technologies GmbH	Germany	100	3.146	-100
872	FLSmidth Industrial Solutions (Botswana) (Proprietary) Limited	Botswana	100	0	0
873	FLSmidth Industrial Solutions Ltda.	Brazil	100	175	-2
874	Mining Plants & Systems Bulgaria EOOD	Bulgaria	100	0	0
875	FLSmidth Industrial Solutions (Canada) Inc	Canada	100	699	7
876	FLSmidth Industrial Solutions Chile Limitada	Chile	100	124	17
877	thyssenkrupp BulkTec (China) Ltd.	China	100	12	-15
880	KH Mineral S.A.S.	France	100	47	-4
883	PT. FLSmidth Industries Southeast Asia	Indonesia	100	45	3
884	TOO FLSmidth Industrial Solutions Kazakhstan	Kazakhstan	100	46	7
885	TOO FLSmidth Plant Construction Kazakhstan	Kazakhstan	100	1	0
886	TOO FLSmidth Plant Engineering Kazakhstan	Kazakhstan	100	2	1
889	thyssenkrupp Industrial Solutions Maroc SARL	Morocco	100	1	-6
890	FLSmidth Industrial Solutions Mozambique Limitada	Mozambique	100	-10	0
891	thyssenkrupp Industrial Solutions (Peru) S.A.	Peru	100	174	8
892	OOO FLSmidth Mining Technologies (RUS)	Russia	100	4	-4
893	FLSmidth Industrial Solutions (Africa)(Pty) Ltd.	South Africa	100	279	-5
894	FLSmidth Industrial Solutions South Africa (Pty) Ltd.	South Africa	70	-44	-4
897	FLSmidth Mining Technologies (Thailand) Ltd.	Thailand	100	-1	0
898	FLSmidth Industrial Solutions Makine Sanayi Ve Ticaret A.Ş.	Turkey	100	27	-5
899	FLSmidth Mining Technologies USA Inc.	United States	100	-116	-8

643	FLSmidth Minerals Holding ApS	Denmark	100	1.259	123
543	FLSmidth (Pty.) Ltd.	South Africa	100	650	-7
838	FLSMIDTH-SOCIEDADE UNIPESSOAL, LDA	Angola	100	0	0
736a	FLSmidth Mozambique Limitada	Mozambique	100	-8	-1
989	FLSmidth (Pty) Ltd.	Botswana	85	5	-1
639	FLSmidth South Africa (Pty.) Ltd.	South Africa	75	-103	-53
311	FLSmidth Ltd.	Canada	100	290	10
544	FLSmidth Private Limited	India	100	333	-85
309	FLSmidth Pty. Ltd.	Australia	100	907	-283
870	FLSmidth Industrial Solutions (Australia) Pty. Ltd.	Australia	100	-40	-2
753	DMI Holdings Pty. Ltd. ****	Australia	100	0	0
754	DMI (Australia) Pty. Ltd. ****	Australia	100	0	0
991	ESSA Australia Limited ****	Australia	100	0	0
756	Fleet Rebuild Pty. Ltd. ****	Australia	100	0	-42
758	Mayer Bulk Group Pty. Ltd. ****	Australia	100	0	-28
757	FLSmidth Mayer Pty. Ltd. ****	Australia	100	0	0
546	FLSmidth ABON Pty. Ltd.	Australia	100	348	69
947	FLSmidth Krebs Australia Pty. Ltd. ****	Australia	100	0	0
755	FLSmidth M.I.E. Enterprises Pty. Ltd. ****	Australia	100	0	0
715	Ludowici Pty. Limited	Australia	100	0	-1.060
839	IMP Group Pty Ltd	Australia	100	0	-195
840	Intertek Robotic Laboratories Pty Ltd *	Australia	50	0	0
717	Ludowici Australia Pty. Ltd.	Australia	100	0	0
718	Ludowici China Pty Limited	Australia	100	0	0
719	Ludowici Hong Kong Limited ***	Hong Kong	100	0	-31
722	Rojan Advanced Ceramics Pty. Ltd. ****	Australia	100	0	0
744	Ludowici Hong Kong Investments Ltd. ***	Hong Kong	100	0	12
737	Ludowici Packaging Australia Pty. Ltd. ****	Australia	100	0	0
158a	FLSmidth S.A.	Chile	100	764	63
532	FLSmidth S.A. de C.V.	Mexico	100	180	76

Notes

296	FLS US Holdings, Inc.	United States	100	3.623	-15
299	FLSmidth Inc.	United States	100	0	0
304	Fuller Company	United States	100	0	0
924	FLSmidth Dorr-Oliver Eimco SLC Inc.	United States	100	0	0
925	FLSmidth Dorr-Oliver Inc.	United States	100	15	0
927	FLSmidth Dorr-Oliver International Inc.	United States	100	0	0
724	Ludowici Mineral Processing Equipment Inc.	United States	100	0	0
703	Phillips Kiln Services (India) Pvt. Ltd.*	India	50	0	0
322	SLS Corporation	United States	100	0	0
				16.555	**-1.181**

* Associate
** Joint Venture
*** under Members voluntary winding up
****in Members voluntary liquidation
All other enterprises are Group enterprises

Notes

	2022	2021
	MDKK	MDKK
11 Investments in associates		
Cost at 1 January 2022	8	8
Cost at 31 December 2022	8	8
Revaluations at 1 January 2022	-8	-8
Revaluations at 31 December 2022	-8	-8
Carrying amount at 31 December 2022	**0**	**0**

12 Financial assets

	Other investments
	MDKK
Cost at 1 January 2022	21
Additions for the year	14
Cost at 31 December 2022	35
Revaluations at 1 January 2022	15
Revaluations of the year	3
Revaluations at 31 December 2022	18
Carrying amount at 31 December 2022	**17**

	2022	2021
	MDKK	MDKK
13 Trade receivables		
Not due for payment	449	534
Overdue up to 60 days	93	101
Overdue between 60-180 days	34	21
Overdue between 180-360 days	17	5
Overdue more than 1 year	5	1
Trade receivables at 31 December	**598**	**662**
Trade receivables not due for payment with retentions on contractual terms	**330**	**268**
Write-down at 1 January	49	23
Additions	7	34
Reversals	-28	-8
Realised	0	0
Write-down at 31 December	**28**	**49**

14 Contract work in progress

	2022 MDKK	2021 MDKK
Sales price value of production for the period	7.721	7.016
Payments received on account	-7.483	-6.639
	238	**377**
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	238	377
Prepayments received recognised in debt	-479	-505
	-241	**-128**

15 Receivables from Group entities

Receivables from Group entities include receivable dividend at the amount of MDKK 41 (2021: MDKK 49).

16 Prepayments

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

Notes

17 Equity

The share capital consists of:

	Nominal value
3 shares of MDKK 100	300
2 shares of MDKK 100.000	200.000
1 shares of MDKK 299.700	299.700
	500.000

There have been no changes in the share capital during the last 5 years.

	2022 MDKK	2021 MDKK
18 Deferred tax assets		
Deferred tax at 1 January 2022	638	435
Deferred tax recognised in income statement	149	145
Deferred tax recognised in equity	3	0
Provisions for deferred tax through mergers and business combinations	0	6
Changes in relation to previous years	0	52
Provision for deferred tax at 31 December 2022	**790**	**638**

The deferred tax assets is not fully recognized as the tax assets are not likely to be fully utilized within the next five years based on management's forecast earnings. The nonrecognised deferred tax asset amounts DKK 129 million.

	2022	2021
	MDKK	MDKK
19 Other provisions		
Balance at beginning of year at 1 January 2022	191	187
Addition during the year	283	82
Used during the year	-74	-57
Reversal during the year	-37	-21
Balance at 31 December 2022	**363**	**191**
The expected due dates of other provisions are:		
Within one year	240	112
Between 1 and 5 years	123	79
	363	**191**

Additions to provisions during the year mainly related to ongoing legal disputes.

20 Long term debt

	Debt at 1 January 2022	Debt at 31 December 2022	Installment next year	Debt outstanding after 5 years
	MDKK	MDKK	MDKK	MDKK
Prepayments received from customers	441	363	0	0
Other payables	5	2	0	0
	446	**365**	**0**	**0**

21 Other payables

Other payables include holiday pay, other employee, other accruals and public taxes. Financial instruments is included at fair value mDKK 9 (2021: mDKK 0).

22 Contingent liabilities

	2022 MDKK	2021 MDKK
Guarantees	4.526	1.650
Rental agreements	14	14
Operational lease	3	5
Other contingent liablities	130	-
	4.673	**1.669**

The Company has through its banks provided usual security in the form of performance guarantees etc. for contracts and supplies. At the end of 2022 the total number of performance and payment guarantees issued amounted to DKK 1.536m (2021: 987m) and parent company guarantees issued amounted to DKK 2.990m (2021: 663m). In cases where a guarantee is expected to materialise, a provision for this amount is made in the Annual Report under the heading of Provisions.

In addition, the Company is from time to time involved in disputes regarding material amounts that are normal for its business. This is not expected to impose significant liabilities upon the Company, and the outcome is not expected to have significant impact on the Company's financial position.

Other contingent liabilities include DKK 130m that is recognized related to a customer's unsubstantiated cash withdrawal on a performance guarantee. Our subsidiary has rejected the claim and recognized the cash withdrawal as a receivable.

The company is part of a Danish joint taxation scheme for which FLSmidth & Co. A/S is the administrator. As part of the joint taxation, FLSmidth A/S is liable with other companies in the joint taxation scheme for Danish corporate taxes on dividend, interest and royalties within the joint taxation group.

23 Mortgages and collateral

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

24 Financial instruments

Currency hedging

The Company uses forward exchange contracts in order to hedge currency risks on underlying contractual and budgeted payments and currency risks on loans and investments.

The figures below show the principals and the fair value of pending forward exchange contracts at 31 December 2022, which have been made to hedge currency risks. All fair values are based on officially fixed quotations, if available, alternatively in prices quoted by banks. Principals are translated at balance sheet date rates of exchange. Pending forward exchange contracts at 31 December 2022 have up to two years' time to maturity.

In the case of forward exchange contracts, negative principals indicate net sale of the currency concerned and positive principals indicate net purchase of the currency concerned.

Currency	2022	2021
	MDKK	MDKK
AUD	0	18
USD	184	177
ZAR	0	14
CNY	44	59
RUB	0	1
	228	**269**

25 Related parties and ownership structure

Transactions

Cash pool accounts are legally owned by FLSmidth & Co. A/S. The accounts are therefore considered balances with related parties. In the balance sheet the cash pool accounts are recognised under receivables and payables to affiliated companies as part of assets and liabilities, respectively.

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

	2022	2021
	MDKK	MDKK
Revenue	189	250
Cost of production	-403	-338
Royalties	723	410
Group fees	524	524
Group cost	-184	-153
Interest cost	-71	-61
Receivables from Group entities	1.683	1.720
Payables to Group Entities	5.492	5.826

During 2021, the Company legally merged with the subsidiary, FLSmidth Tyskland A/S.

Consolidated financial statements

FLSmidth A/S is a fully consolidated subsidiary in the Parent's (largest group) consolidated financial statements, FLSmidth & Co. A/S, Valby, Denmark, CVR no. 58180912.

The Group Annual Report 2022 is available on www.flsmidth.com:

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

26 Significant events occurring after end of reporting period

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