FLSmidth A/S

Vigerslev Allé 77

2500 Valby

CVR no. 15 02 88 82

Annual report for 2020

Adopted at the annual general meeting on 24 March 2021

Tom Knutzen
Chair

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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 2020.

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 2020 and of the results of the company's operations for the financial year 1 januar - 31 December 2020.

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

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

Valby, 24 March 2021

Executive management

Thomas Schulz CEO	Roland Munkerod Andersen CFO

Board of directors

Vagn Ove Sørensen Chair	Tom Knutzen Vice chair	Gillan Dawn Winckler
Thrasyvoulos Moraitis	Richard Robinson Smith	Anne Louise Eberhard
Claus Østergaard	Søren Dickow Quistgaard	Mette Dobel

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 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. 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 2020 and of the results of the Company's operations for the financial year 1 January – 31 December 2020 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' 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.

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.

Independent auditor's report

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 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 24 March 2021

EY Godkendt Revisionspartnerselskab
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jens Thordahl Nøhr
State Authorised Public Accountant
mne32212

Kennet Hartmann
State Authorised Public Accountant
mne40036

Company details

FLSmidth A/S
Vigerslev Allé 77
2500 Valby

Telephone:	+4536181000
Fax:	+4536301820
Website:	www.flsmidth.com
CVR-no.	15 02 88 82
Financial year:	1 January - 31 December 2020
Incorporated:	6 March 1991
Domicile:	Copenhagen

Board of directors
Vagn Ove Sørensen, Chair
Tom Knutzen, Vice chair
Gillan Dawn Winckler
Thrasyvoulos Moraitis
Richard Robinson Smith
Anne Louise Eberhard
Claus Østergaard
Søren Dickow Quistgaard
Mette Dobel

Executive Board
Thomas Schulz, CEO
Roland Munkerod Andersen, CFO

Auditors
EY Godkendt Revisionspartnerselskab
Dirch Passers Alle 36
2000 Frederiksberg

Financial highlights

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

	2020	2019	2018	2017	2016
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Profit/loss					
Revenue	2.119	3.590	3.551	3.235	3.401
Gross profit	-42	95	273	376	244
Profit/loss before financial income and expenses	-50	46	122	318	23
Net financials	4	409	199	-395	35
Profit/loss for the year	-154	441	283	-152	225
Balance sheet					
Total assets	10.827	11.976	10.875	9.884	9.016
Investment in property, plant and equipment	10	3	11	0	24
Equity	4.645	4.798	4.361	4.095	4.366
Number of employees	922	900	912	928	1.085
Financial ratios					
Gross margin	-2,0%	2,6%	7,7%	11,6%	7,2%
EBIT margin	-2,4%	1,3%	3,4%	9,8%	0,7%
Solvency ratio	42,9%	40,1%	40,1%	41,4%	48,4%
Return on equity	-3,3%	9,6%	6,7%	-3,6%	5,3%

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

Numbers for 2016-2017 have not been adjusted to reflect IFRS 15, adopted 1 January 2018.

The accounting policies for presentation of amortization of acquired patents were changed cf. accounting policies.
Comparative figures for 2019 were changed to reflect this change in accounting policies. As a result, amortization of MDKK 195 was reclassified from administrative costs to cost of production for 2019, reducing gross profit.
The key figures for the years 2016-2018 have not been amended to the change in accounting policies. The effect, had the key figures been amended, would be similar to the effect for 2019.

Management's review

Business activities

FLSmidth A/S is a market-leading supplier of equipment and services to the global cement and minerals industries. The company supplies everything from single machinery to complete cement plants and minerals facilities including services before, during and after the construction.

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

Business review

The company's income statement for the year shows a revenue of MDKK 2.119 (2019: MDKK 3.590)

The operating profit in 2020 amounted to MDKK -50 (2019: MDKK 46) which is in below expectations due to COVID19.

Total assets amounted to MDKK 10.827 at the end of 2020 (end of 2019: MDKK 11.976). The equity at the end of 2020 amounted to MDKK 4.645 (2019: MDKK 4.798), representing an equity ratio of 42,9% (2019: 40,1%). The return on shareholders' equity in 2020 amounted to -3,3% (2019: 9,6%).

The loss for the year amounted to MDKK -154 (2019: MDKK 441), impacted by impairment of investments in subsidiaries. As at 31 December 2020, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment of entities in US, Germany and France for 2020 of MDKK 193 (2019: MDKK 12). Further, the test showed reversal of prior year's impairment of entity in Brazil of total MDKK 26 (2019: MDKK 387)

The total order intake of FLSmidth A/S amounted to MDKK 2.188 in 2020, representing a 28% decrease compared to the year before (2019: MDKK 3.044).

Management's review

Market trends

Mining:

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.

Cement:

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.

Special risks apart from generally occurring risks in the industry

Risk reporting

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.

2020 Key risk assessments

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.
- 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.

The most significant risks have been identified through a risk mapping of probability and consequence, as illustrated below.

Risk assessment and mitigating actions:

RISK	POTENTIAL IMPACT	MITIGATION
Digitalization	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 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 wellbeing 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.
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 cyberattack 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.

Currency risks

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.

Management's review

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.

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.

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.

Research and development activities and Corporate Social Responsibility

Combined, cement and minerals production currently account for approximately 10% of all global CO2 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.

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 EY.

The report is available at: www.flsmidth.com/SustainabilityReport2020

Statutory report on the underrepresented gender

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.

More information in Sustainability report: www.flsmidth.com/SustainabilityReport2020

Significant events occurring after end of reporting period

Effective 1 January 2021, we have divested IP rights related to our fabric filters system 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 were 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 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 Company's financial position.

Outlook for 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.

Accounting policies

The annual report of FLSmidth A/S for 2020 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 except for the change below.

The annual report for 2020 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.

Changes in accounting policies

Presentation of amortisations on acquired patents

The accounting policies for presentation of amortization of acquired patents were changed from presentation in administrative cost to cost of production.
Comparative figures for 2019 were changed to reflect the change in accounting policies. As a result, amortization of MDKK 195 were reclassified from administrative costs to cost of production for 2019.

The change in accounting policies of presentation of amortization of acquired patents has no impact on Net profit/loss, Tax or Equity.

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

Basis of recognition and measurement

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

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

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

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

Accounting policies

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

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

Accounting policies

Income statement

Revenue

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.

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

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 costs comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

Other operating income

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

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

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

Compensations from the Danish Government due to COVID-19 pandeminic have been recognized as other operating income.

Impairment of financial assets

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

Dividend from Group enterprises

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

Financial income and expenses

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

Tax on profit/loss for the year

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

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

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

Accounting policies

Balance sheet

Intangible assets

Development 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.

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

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

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

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

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 licences 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.

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.

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.

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 acguisition date.

Other securities and investments, including listed shares are measured at fair value via the income statement.

In particular circumstances where the value quoted on the stock exchange is considered not to represent the actual fair value, the shares concerned are carried at an estimated fair value. Value adjustments are recognised in the income statement as financial items.

Other securities and investments includes shares in cement plants acquired in connection with orders received are measured at fair value. If the fair value is not immediately ascertainable, the shares are measured at a prudently assessed value.

Impairment of non-current assets

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

Where there is evidence of impairment, an impairment test is performed for each individual asset or group of assets, respectively. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

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

Inventories

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

The cost of goods for resale, raw materials and consumables comprises the purchase price plus delivery costs.

The cost of finished goods includes the cost of raw materials, consumables, direct cost of labour and production/production overheads.

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

Accounting policies

Assets are designated as ''held for sale'' if the carrying amount will be recovered principally through a sale rather than through continuing use, and the sale is expected to be completed within one year in accordance with an overall, coordinated plan. Assets are not depreciated or amortised from the time when they are designated as ''held for sale''."

Receivables

Receivables are measured at amortised cost.

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

Contract work in progress

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

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

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

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

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

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

Prepayments

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

Equity

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 are measured at the value in use.

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

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

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

Accounting policies

Income tax and deferred tax

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

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

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

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

Liabilities

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

Prepayments received from costumers

Prepayments received from costumers recognised under 'Current liabilities' comprises payments received concerning income in subsequent financial years.

Foreign currency translation

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

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

Accounting policies

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

Derivative financial instruments

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

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

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

Financial highlights

Definitions of financial ratios:

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

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

Solvency ratio
$$\frac{\text{Equity at year-end x 100}}{\text{Total assets at year-end}}$$

Return on equity
$$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$

Income statement 1 January 2020 - 31 December 2020

	Note	2020 MDKK	2019 MDKK
Revenue	1	**2.119**	**3.590**
Cost of production	2-9 10	-2.161	-3.495
Gross profit		**-42**	**95**
Sales and distribution costs	2-9 10	-108	-170
Administrative costs	2-9 10	-287	-230
Operating profit/loss		**-437**	**-305**
Other operating income	3	387	351
Profit/loss before financial income and expenses		**-50**	**46**
Income from investments in subsidiares	4	205	63
Impairment and reversals of impairment of investments in subsidiaries	11	-167	375
Financial income	5	128	94
Financial costs	6	-162	-123
Profit/loss before tax		**-46**	**455**
Tax on profit/loss for the year	7	-108	-14
Net profit/loss for the year		**-154**	**441**

Appropriation of profit:

	2020	2019
Reserve for development projects	-38	178
Retained earnings	-116	263
	-154	**441**

Balance sheet at 31 December 2020

	Note	2020 MDKK	2019 MDKK
Assets			
Completed development projects		242	204
Acquired patents		786	948
Development projects in progress		288	361
Other intangible assets		371	285
Intangible assets	9	**1.687**	**1.798**
Land and buildings		26	28
Other fixtures and fittings, tools and equipment		12	12
Tangible assets	10	**38**	**40**
Investments in subsidiaries	11	6.489	6.661
Investments in associates	12	0	0
Other investments	13	10	8
Deferred tax assets	20	435	469
Financial assets		**6.934**	**7.138**
Total non-current assets		**8.659**	**8.976**

Balance sheet at 31 December 2020 (Fortsat)

	Note	2020 MDKK	2019 MDKK
Assets			
Finished goods and goods for resale		63	34
Inventories	14	**63**	**34**
Trade receivables	15	329	515
Contract work in progress	16	303	793
Receivables from subsidiaries	17	1.330	1.475
Other receivables		77	57
Prepayments	18	61	109
Receivables		**2.100**	**2.949**
Cash		**5**	**17**
Total current assets		**2.168**	**3.000**
Total assets		**10.827**	**11.976**

Balance sheet at 31 December 2020

	Note	2020 MDKK	2019 MDKK
Equity and liabilities			
Share capital		500	500
Reserve for development projects		413	451
Retained earnings		3.737	3.851
Hedging reserve		-5	-4
Equity	19	**4.645**	**4.798**
Other provisions	21	187	181
Total provisions		**187**	**181**
Prepayments received from customers		122	225
Other payables		71	25
Total non-current liabilities	22	**193**	**250**
Banks		1	4
Prepayments received from customers		275	548
Trade payables		414	938
Contract work in progress	16	522	514
Payables to subsidiaries		4.297	4.457
Corporation tax		2	55
Other payables	23	291	230
Deferred income		0	1
Total current liabilities		**5.802**	**6.747**
Total liabilities		**5.995**	**6.997**
Total equity and liabilities		**10.827**	**11.976**
Staff	2		
Contingencies, etc.	24		
Mortgages and collateral	25		
Financial instruments	26		
Related parties and ownership structure	27		

Statement of changes in equity

	Share capital	Reserve for develop-ment projects	Retained earnings	Hedging reserve	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Equity at 1 January 2020	500	451	3.851	-4	4.798
Value adjustment of hedging transactions	0	0	0	-2	-2
Net profit/loss for the year	0	-38	-116	0	-154
Tax regarding changes in equity	0	0	0	1	1
Equity at 31 December 2020	**500**	**413**	**3.737**	**-5**	**4.645**

	Share capital	Reserve for develop-ment projects	Retained earnings	Hedging reserve	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Equity 1. januar 2019	500	273	3.586	2	4.361
Value adjustment of hedging transactions	0	0	0	-7	-7
Net profit/loss for the year	0	178	263	0	441
Tax regarding changes in equity	0	0	0	1	1
Equity 31. december 2019	**500**	**451**	**3.851**	**-4**	**4.798**

Notes

		2020	2019
		MDKK	MDKK
1	**Revenue**		
	Income recognised in accordance with the point-in-time principle	42	244
	Income recognised in accordance with the percentage-of-completion method	2.077	3.346
	Total revenue	**2.119**	**3.590**
	Geographical breakdown:		
	North America	24	50
	South America	694	1.244
	Europe, North Africa & Russia	660	1.008
	Sub-Saharan & Middle east	371	547
	Asia	275	387
	Subcontinental India	91	341
	Australia	4	13
	Total revenue	**2.119**	**3.590**
	Segment reporting:		
	Projects	947	2.391
	Products	896	870
	Service	202	292
	Cement	**2.045**	**3.553**
	Projects	35	25
	Products	32	9
	Service	7	3
	Mining	**74**	**37**
	Total revenue	**2.119**	**3.590**

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

Notes

1 Revenue (Fortsat)

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.

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.

Notes

1 Revenue (Fortsat)

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.

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

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

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

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.

		2020	2019
		MDKK	MDKK
2	**Staff**		
	Wages and Salaries	759	707
	Pensions	17	21
	Other social security expenses	8	13
		784	**741**
	Staff cost capitalised as part of development projects	-115	-71
		669	**670**
	Including remuneration to the Executive and Supervisory Boards of:		
	Wages and salaries	13	14
	Bonus	1	0
	Share-based payments	-2	1
	Benefits	2	1
	Other incentives	5	0
	Severance	0	9
	Executive Board	**19**	**25**
	Reinvoiced or paid by other group companies	-19	-25
	Board of Directors fee (incl. paid by other group companies)	6	6
		6	**6**
	Average number of employees	922	900

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

		2020	2019
		MDKK	MDKK
3	**Other operating income**		
	Other operating income	375	351
	Gain from sales of investments	12	0
		387	**351**

Other operating income and costs include IT, royalty and management fee from Group Companies. The item also consists of refund of travel costs, insurance compensation, compensation from Danish Authorities due to COVID-19 etc.

		2020	2019
4	**Income from investments in subsidiares**		
	Dividend from subsidiaries	205	63
		205	**63**

		2020	2019
5	**Financial income**		
	Fair value adjustment of shares	2	6
	Other financial income	0	5
	Foreign exchange gains	71	47
	Derivatives	55	36
		128	**94**

		2020	2019
		MDKK	MDKK
6	**Financial costs**		
	Fair value adjustment of shares	0	3
	Interest paid to subsidiaries	31	27
	Other financial costs	1	0
	Foreign exchange losses	77	47
	Derivatives	53	46
		162	**123**

7	**Tax on profit/loss for the year**		
	Current tax for the year	-62	125
	Deferred tax for the year	53	-104
	Adjustment of tax concerning previous years	-12	42
	Adjustment of deferred tax concerning previous years	27	-50
	Impairment deferred tax assets	-114	0
		-108	**13**
	Which breaks down as follows:		
	Tax on profit/loss for the year	-108	14
	Tax on changes in equity	0	-1
		-108	**13**

8	**Distribution of profit**		
	Reserve for development projects	-38	178
	Retained earnings	-116	263
		-154	**441**

9 Intangible assets

	Completed develop-ment projects	Acquired patents	Develop-ment projects in progress	Other intangible assets	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Cost at 1 January 2020	1.093	3.002	361	600	5.056
Transfer to assets held for sale	0	-7	0	0	-7
Additions for the year	0	2	166	18	186
Transfers for the year	128	0	-239	111	0
Cost at 31 December 2020	1.221	2.997	288	729	5.235
Impairment losses and amortisation at 1 January 2020	889	2.054	0	315	3.258
Impairment losses for the year	0	11	0	0	11
Depreciation for the year	90	146	0	43	279
Impairment losses and amortisation at 31 December 2020	979	2.211	0	358	3.548
Carrying amount at 31 December 2020	**242**	**786**	**288**	**371**	**1.687**

Intangible assets under development consist of development projects and software. The transfer from intangible assets under development to completed development projects primarily relates to several R&D projects finalised in 2020.

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.

Depreciation for year 2020 MDKK 43 is included in administration costs and MDKK 236 as production costs in the financial statement.

10 Tangible assets

	Land and buildings	Other fixtures and fittings, tools and equipment	Total
	MDKK	MDKK	MDKK
Cost at 1 January 2020	76	180	256
Additions for the year	0	10	10
Disposals for the year	0	-30	-30
Cost at 31 December 2020	76	160	236
Impairment losses and depreciation at 1 January 2020	48	168	216
Depreciation for the year	2	10	12
Reversal of impairment and depreciation of sold assets	0	-30	-30
Impairment losses and depreciation at 31 December 2020	50	148	198
Carrying amount at 31 December 2020	**26**	**12**	**38**

Depreciation for year 2020 MDKK 11 is included in production costs and MDKK 1 is included in administration costs in the financial statement.

11 Investments in subsidiaries

	2020 MDKK	2019 MDKK
Cost at 1 January 2020	6.733	6.703
Additions for the year	3	30
Disposals for the year	-22	0
Cost at 31 December 2020	6.714	6.733
Revaluations at 1 January 2020	-72	-447
Disposals for the year	14	0
Reversals of impairment changes for the year	26	387
Impairment changes for the year	-193	-12
Revaluations at 31 December 2020	-225	-72
Carrying amount at 31 December 2020	**6.489**	**6.661**

As at 31 December 2020, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment for USA, France and Austria 2020 of MDKK 193 (2019: MDKK 12). Further, the test showed reversal of prior year's impairment of entities in Brazil of total MDKK 26 (2019: MDKK 387)

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

Impairment tests have been performed for the USA, France, Austria and Brazil activities. For each test an individual growth rate and earnings before interest and tax has been assessed. The applied discount rate after tax is 8% + a country specific market risk rate.

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

11 Investments in subsidiaries (Fortsat)

Investments in subsidiaries, associates and joint ventures are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
FLS Maroc	Morocco	100%	-50	-2
FLSmidth (Pvt.) Ltd.	Pakistan	100%	2	0
FLSmidth (Thailand) Co. Ltd.	Thailand	100%	7	-1
FLSmidth (UK) Limited	United Kingdom	100%	371	-7
FLSmidth A/S (Jordan) Ltd.	Jordan	100%	-2	0
FLSmidth AB (under liquidation)	Sweden	100%	15	15
FLSmidth Argentina S.A.	Argentina	100%	0	0
FLSmidth Caucasus Limited Liability Company (LLC)	Armenia	100%	1	0
FLSmidth Co. Ltd.	Vietnam	100%	14	2
FLSmidth GmbH	Austria	100%	65	32
FLSmidth Iranian (PJSCo)	Iran	100%	7	0
FLSmidth Kenya Limited	Kenya	100%	1	3
FLSmidth Limited	Ghana	100%	58	22
FLSmidth LLP	Kazakhstan	100%	121	46
FLSmidth Ltda.	Brazil	100%	111	22
FLSmidth Mekanik Sistemler Satis Bakim Ltd. Sti	Turkey	100%	3	1
FLSmidth Milano S.R.L.	Italy	100%	81	1
FLSmidth Mongolia	Mongolia	100%	26	5
FLSmidth MAAG Gear AG	Switzerland	100%	60	-18
FLSmidth MAAG Gear Sp. z o.o.	Poland	100%	123	19
FLSmidth Nepal Private Limited	Nepal	100%	0	0
FLSmidth Panama Inc.	Panama	100%	0	-1
FLSmidth Philippines, Inc.	Philippines	100%	10	4
FLSmidth Qingdao Ltd.	China	100%	115	28
FLSmidth Rusland Holding A/S	Denmark	90%	13	0
FLSmidth Rus OOO	Russia	100%	41	11
FLSmidth S.A.	Spain	90%	47	2
FLSmidth SAS	Colombia	100%	-28	-7

Notes

FLSmidth S.A.	Ecuador	100%	1	-1
FLSmidth Sales and Services Limited	Nigeria	100%	1	0
FLSmidth SAS	France	100%	20	-6
FLSmidth Shanghai Ltd.	China	100%	45	9
FLSmidth Spol. s.r.o.	Czech Republic	100%	46	0
FLSmidth Ventomatic SpA	Italy	100%	486	29
FLSmidth MAAG Gear S.p.A	Italy	100%	86	2
FLSmidth Zambia Ltd.	Zambia	90%	0	0
NHI-Fuller (Shenyang) Mining Co. Ltd.	China	50%	17	-4
P.T. FLSmidth Construction Indonesia	Indonesia	67%	7	0
Pfister Holding GmbH	Germany	100%	0	-2
PT FLSmidth Indonesia	Indonesia	100%	66	17
Saudi FLSmidth Co.	Kingdom of Saudi Arabia	100%	4	-1
The Pennies and Pounds Holding, Inc.*	Philippines	33%	0	0
FLSmidth Paraguay S.A.	Paraguay	90%	0	0
FLSmidth Tyskland A/S	Denmark	100%	1.252	-19
FLS Germany Holding GmbH	Germany	100%	1.538	-159
FLSmidth Hamburg GmbH	Germany	100%	25	-21
FLSmidth Pfister GmbH	Germany	100%	38	51
FLSmidth Real Estate GmbH	Germany	100%	4	2
FLSmidth Wadgassen GmbH	Germany	100%	159	4
FLSmidth Wadgassen Ltd.	Russia	100%	4	2
FLSmidth Wiesbaden GmbH	Germany	100%	93	-15
FLSmidth Minerals Holding ApS	Denmark	100%	1.122	-8
FLSmidth (Pty.) Ltd.	South Africa	100%	626	45
Euroslot KDSS (South Africa) (Pty.) Ltd.	South Africa	100%	0	0
FLSMIDTH-SOCIEDADE UNIPESSOAL, LDA	Angola	100%	0	0

FLSmidth Mozambique Limitada	Mozambique	100%	0	0
FLSmidth Roymec (Pty) Ltd.	South Africa	100%	14	0
FLSmidth (Pty) Ltd.	Botswana	100%	13	-2
FLSmidth South Africa (Pty.) Ltd.	South Africa	75%	-224	-50
FLSmidth Ltd.	Canada	100%	242	33
FLSmidth Private Limited	India	100%	589	-56
FLSmidth Pty. Ltd.	Australia	100%	776	36
DMI Holdings Pty. Ltd.	Australia	100%	0	0
DMI Australia Pty. Ltd.	Australia	100%	3	0
ESSA Australia Limited	Australia	100%	0	0
Fleet Rebuild Pty. Ltd.	Australia	100%	41	0
Mayer Bulk Group Pty. Ltd.	Australia	100%	40	0
FLSmidth Mayer Pty. Ltd.	Australia	100%	24	0
FLSmidth ABON Pty. Ltd.	Australia	100%	350	50
FLSmidth Krebs Australia Pty. Ltd.	Australia	100%	26	0
FLSmidth M.I.E. Enterprises Pty. Ltd.	Australia	100%	173	0
Ludowici Pty. Limited	Australia	100%	1.002	0
IMP Group Pty Ltd	Australia	100%	336	5
Intertek Robotic Laboratories Pty Ltd *	Australia	50%	0	0
Ludowici Australia Pty. Ltd.	Australia	100%	0	0
Ludowici China Pty Limited	Australia	100%	0	0
Ludowici Hong Kong Limited	Hong Kong	100%	44	19
Rojan Advanced Ceramics Pty. Ltd.	Australia	100%	0	0
Ludowici Hong Kong Investments Ltd.	Hong Kong	100%	-9	-1
Ludowici Packaging Australia Pty. Ltd.	Australia	100%	0	0
Ludowici Packaging Limited	New Zealand	100%	0	0
FLSmidth S.A.	Chile	100%	0	0
FLSmidth S.A. de C.V.	Mexico	100%	159	17
FLS US Holdings, Inc.	United States	100%	3.167	-24
FLSmidth Inc.	United States	100%	0	0
Fuller Company	United States	100%	0	0
FLSmidth Dorr-Oliver Eimco SLC Inc.	United States	100%	0	0
FLSmidth Dorr-Oliver Inc.	United States	100%	13	0
FLSmidth Dorr-Oliver International Inc.	United States	100%	0	0
Ludowici Mineral Processing Equipment Inc.	USA	100%	0	0
Phillips Kiln Services (India) Pvt. Ltd.*	India	50%	0	0
SLS Corporation	United States	100%	0	0
Total			**13.633**	**128**

Notes

* Associate

All other enterprises are Group enterprises.

Notes

	2020	2019
	MDKK	MDKK
12 Investments in associates		
Cost at 1 January 2020	8	8
Cost at 31 December 2020	8	8
Revaluations at 1 January 2020	-8	-8
Revaluations at 31 December 2020	-8	-8
Carrying amount at 31 December 2020	**0**	**0**

13 Financial assets

	Other investments
	MDKK
Cost at 1 January 2020	22
Cost at 31 December 2020	22
Impairment losses at 1 January 2020	14
Reversal impairment losses for the year	-2
Impairment losses at 31 December 2020	12
Carrying amount at 31 December 2020	**10**

Other securities and investments include shares in cement plants acquired in connection with signing of orders. As part of a normal procedure, shareholder agreements have been signed that entail an obligation to make a general offer in connection with resale and, with regard to a few items, limitations in negotiability for short periods.

14 Inventories

Inventories include assets held for sale of MDKK 7.

	2020	2019
	MDKK	MDKK
15 Receivables		
Ageing:		
Not due for payment	249	303
Overdue up to 60 days	47	143
Overdue between 60-180 days	20	41
Overdue between 180-360 days	9	18
Overdue more than 1 year	4	8
Trade receivables at 31 December 2019	**329**	**515**
Trade receivables not due for payment with retentions on contractual terms	69	126
Write-down of trade receivables:		
Write-down at 1 January 2019	23	23
Additions	9	7
Reversals	-9	-3
Realised	0	-4
Write-down at 31 December 2019	**23**	**23**

	2020	2019
	MDKK	MDKK
16 Contract work in progress		
Sales price value of production for the period	6.143	7.804
Payments received on account	-5.840	-7.011
	303	**793**
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	303	793
Prepayments received recognised in debt	-522	-514
	-219	**279**

17 Receivables from subsidiaries

Receivables from affiliated companies include receivable dividend from prior years at the amount of MDKK 0 (2019: MDKK 0).

18 Prepayments

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

19 Equity

The share capital consists of:

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

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

20 Deferred tax

	2020 MDKK	2019 MDKK
Deferred tax at 1 January 2020	469	314
Movements via the income statement	53	104
Movements via equity	-1	1
Changes in relation to previous years	28	50
Impairment deferred tax assets	-114	0
Deferred tax at 31 December 2020	**435**	**469**

The deferred tax assets is 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 non-recognised deferred tax asset amounts DKK 114 million, corresponding to the write-down in 2020.

		2020	2019
		MDKK	MDKK
21	**Other provisions**		
	Balance at beginning of year at 1 January 2020	181	222
	Addition during the year	107	70
	Used during the year	-79	-70
	Reversals during the year	-22	-41
	Balance at 31 December 2020	**187**	**181**

	2020	2019
The expected due dates of other provisions are:		
Within one year	102	113
Between 1 and 5 years	85	68
	187	**181**

When assessing work-in-progress and completed projects, various project related risks including performance guarantees have been taken into account for which allowances have been made on the basis of Management's estimates.

A few issues are pending in respect of previously supplied goods. In this context, provisions have been made to counter any losses.

Provisions mainly consist of provisions for the usual warranties and provisions for loss-making contracts.

22 Long term debt

	Debt at 1 January 2020	Debt at 31 December 2020	Instalment next year	Debt outstanding after 5 years
	MDKK	MDKK	MDKK	MDKK
Prepayments received from customers	225	122	0	0
Other payables	25	71	0	0
	250	**193**	**0**	**0**

23 Other payables

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

Financial instruments is included at fair value mDKK 5 (2019: mDKK 11).

24 Contingencies, etc.

	2020 MDKK	2019 MDKK
Guarantees	3.426	4.980
Rental agreements	14	14
Operational lease	8	5
	3.448	**4.999**

The Company has through its banks provided usual security in the form of performance guarantees etc. for contracts and supplies. At the end of 2020 the total number of performance and payment guarantees issued amounted to DKK 1.144m (2019: 1.199m). 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.

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.

25 Mortgages and collateral

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

26 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 2020, 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 2020 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	2020	2019
	MDKK	MDKK
AUD	0	-91
CHF	0	-5
USD	60	-357
ZAR	-43	-90
INR	7	-55
MXN	0	-19
GBP	5	-12
CAD	0	-28
CNY	-7	210
Other currencies	-59	-53
	-37	**-500**

Fair value of financial assets and liabilities not measured at fair value

The book value of receivables and payables at 31 December 2020 largely corresponds to the fair value.

27 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.

	2020	2019
	MDKK	MDKK
Revenue	232	220
Cost of production	-234	-241
Royalties	465	494
Group fees	644	477
Group cost	-260	-204
Interest cost	-30	-27

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 2020 is available on www.flsmidth.com:

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