FLSmidth A/S

Vigerslev Allé 77

2500 Valby

CVR no. 15 02 88 82

Annual report for 2021

Adopted at the annual general
meeting on 30 March 2022

Tom Knutzen
chair

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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 2021
Incorporated:	6. March 1991
Domicile:	Copenhagen

Board of directors
Vagn Ove Sørensen, chair
Tom Knutzen, 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 2021.

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

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2021 and of the results of the company's operations for the financial year 1 January - 31 December 2021.

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

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

Valby, 30 March 2022

Executive management

Mikko Juhani Keto CEO	Roland Munkerod Andersen CFO

Board of directors

Vagn Ove Sørensen chair	Tom Knutzen 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 2021, 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 2021 and of the results of the Company's operations for the financial year 1 January – 31 December 2021 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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, 30 March 2022

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:

	2021	2020	2019	2018	2017
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Profit/loss					
Revenue	2.202	2.119	3.590	3.551	3.235
Gross profit	-70	-42	95	273	376
Profit/loss before net financials	-201	-50	46	122	318
Net financials	19	4	409	199	-395
Profit/loss for the year	-105	-154	441	283	-152
Balance sheet					
Balance sheet total	12.776	10.827	11.976	10.875	9.884
Investment in property, plant and equipment	1	10	3	11	0
Equity	4.924	4.645	4.798	4.361	4.095
Number of employees	765	922	900	912	928
Financial ratios					
Gross margin	-3,2%	-2,0%	2,6%	7,7%	11,6%
EBIT margin	-9,1%	-2,4%	1,3%	3,4%	9,8%
Solvency ratio	38,5%	42,9%	40,1%	40,1%	41,4%
Return on equity	-2,2%	-3,3%	9,6%	6,7%	-3,6%

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

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

Numbers for 2017-2018 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. While projects provide us with process expertise that is key to deliver productivity improvements to our customers and provides access to a large installed base for our service and aftermarket business, we remain selective in taking on large projects to ensure that terms and conditions support our profitability targets.

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.

Financial review

The company's income statement for the year shows a revenue of MDKK 2.202 (2020: MDKK 2.119)

The profit/loss before financial income and expenses in 2021 amounted to MDKK -201 (2020: MDKK -50) which is below expectations due to COVID19.

Total assets amounted to MDKK 12.776 at the end of 2021 (end of 2020: MDKK 10.827). The equity at the end of 2021 amounted to MDKK 4.924 (2020: MDKK 4.645), representing an equity ratio of 38,5% (2020: 42,9%). The return on shareholders' equity in 2021 amounted to
-2,2% (2020: -3,3%).

The loss for the year amounted to MDKK -105 (2020: MDKK -154), impacted by impairment of investments in subsidiaries. As at 31 December 2021, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment of entities in Germany and France for 2021 of MDKK 242 (2020: MDKK 193). Further, the test showed reversal of prior year's impairment of entity in Austria and US of total MDKK 153 (2020: MDKK 26).

The total order intake of FLSmidth A/S amounted to MDKK 2.226 in 2021, representing a 2% increase compared to the year before (2020: MDKK 2.188).

Management's review

Market trends

Mining Market

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

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

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

In the fourth quarter, industry conditions remained largely stable compared to previous quarters. Some miners are increasingly replacing equipment as they catch up on certain maintenance that has been postponed during the pandemic.

Activity in South America has been accelerated by the strong copper price and the quantity of enquiries has returned to pre-pandemic levels in Africa, Middle East and India. Iron ore has been a strong commodity driver for new projects in India, whereas copper and gold continued to dominate in Africa as well as in the Middle East. Activity in Asia (ex-China) was significantly impacted by the pandemic in the beginning of the year, but has gradually recovered in the second half of the year indicating a slightly positive trend.

In North America and Europe, we see increased market activity despite the fact that direct customer visits are still difficult in certain areas due to the pandemic. The surge in demand and subsequent bottlenecks in global supply chains also continue to cause challenges across markets and we are still seeing delays in some regions.

In Australia, service demand is strong, but logistics remain a challenge as the pandemic continues to create uncertainty around the supply of labour due to hard border closures.

Cement Market

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

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

In Europe, increasing focus on emission regulations and carbon taxes highlights the risk of adding costs to non-sustainable production. We have a healthy pipeline for upgrade projects driven by ongoing conversion to alternative cement production with improved environmental footprint. However, the new virus variant Omicron quickly surged to dominance during the last months of the year and many customers started to delay plant visits, which complicated on-site technical services.

Market activity in Africa, Middle East and India was hampered by lockdowns in the beginning of 2021. Activity stabilised towards the end of the year and the higher level of plant utilisation was reflected positively in our spare and wear parts business in the fourth quarter. During the year, the successful vaccination programme and improvement in business sentiment started to remove some of the uncertainty that held back investments in North America. In the fourth quarter, demand in the region was strong with high project activity, and we have a solid pipeline of upgrades and retrofits opportunities. In South America, high infection rates slowed the activity in the first half of the year, but started to recover in the fourth quarter. However, high inflation and increasing interest rates are concurrently adding pressure on infrastructure investments.

In Asia, China has been the main driver throughout 2021, whereas the rest of the region remained challenged by pandemic restrictions which tightened during the second half of the year. Cement producers in Australia and New Zealand continue to operate all their plants, and there are some signs of growth driven by proposed government infrastructure projects.

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

Special risks apart from generally occurring risks in the industry

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

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

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

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

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

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

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

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.

Corporate Social Responsibility and Research & Development activities

Sustainability is an embedded part of our culture and business model. In 2021 our Science Based Targets were validated, confirming that by 2030 we aim to be carbon neutral in our own operations (Scope 1 and 2) and cut our Scope 3 downstream economic intensity by 56% versus 2019. We will do this by delivering MissionZero solutions that will reduce customer-associated CO2 emissions. The new EU Taxonomy will drive more investments towards sustainable projects, and this presents a strong business opportunity with our MissionZero programme. This year, we are reporting our eligibility for the first time. Our in-house sustainability performance has progressed on several areas during 2021 including diversity, safety and carbon intensity from our own operations.

During 2021 the climate agenda has been elevated to a new level, and rightfully so. The global society stands at a critical juncture in the efforts to limit global warming to 1.5 Celsius above pre-industrial levels by the end of the century. Many governments and companies have increased their carbon emission reduction pledges and commitments. While a clear step in the right direction, even more decisive actions are required. This was also witnessed at COP26 at the end of 2021, where FLSmidth had a prominent presence with our flagship MissionZero programme.

Acceleration of the green transition, whether being for electric vehicles or renewable energy, will drive greater demand for more sustainably mined minerals such as copper, gold, lithium, and other battery metals as well as green cement. The global cement industry is among the world's most carbon intensive industries accounting for 7-8% of global CO2 emissions. Cement serves as the floor of the world and 75% of the infrastructure needed in 2050 is yet not built. FLSmidth considers these challenges a great opportunity, and together with partners and our customers, we relentlessly work to help decarbonise these hard to abate industries by bringing new technologies and innovations to the global mining and cement industries.

Progress on MissionZero:
With around 99% of our overall emissions derived from customers' use of our sold products, MissionZero is our opportunity to have the greatest positive impact on emissions reduction. Over the last two years, we have been actively working on integrating MissionZero into our business activities.

Technological innovation is at the core of this programme. Achieving transformative goals requires rethinking of organisational processes, reinventing business models and deepening customer relationships. We have made good progress in these areas, but we need to further accelerate our efforts together with the industry.

To achieve our MissionZero ambition of delivering all the technologies needed for our customers to operate with zero emissions by 2030, we have started to develop R&D solution roadmaps, which help us assess the technology gaps that we need to close to achieve our goal, and subsequently develop the pipeline of solutions needed for both the mining and cement industries.

During 2021, we introduced the MissionZero Mine and the Green Cement Plant, which outlines how we bring the MissionZero ambition to life from a technology point of view between now and 2030. We are excited to already have introduced some of the technologies from these roadmaps to our customers this year, such as the calcined clay solution, which enables a reduction of CO_2 emissions from cement production of up to 40%.

Achieving MissionZero also requires us to rethink our approach to partnerships in order to fast-track the development and deployment of breakthrough solutions at the same time as bridging our competence gap. Examples include the Carbon capture and storage (CCS) collaboration with Carbon8 Systems and the development of mining flotation technology with the University of Newcastle, Australia.

For FLSmidth A/S' statutory reporting cf. §99a, please refer to our Group report available at: www.flsmidth.com/SustainabilityReport2021

Management's review

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.

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 2021, women accounted for 28% (end 2020: 16%) of the total workforce, while 19% of all managers were women (end 2020: 13%). 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 2021, 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

FLSmidth are closely following the situation in Ukraine and the sanctions made by EU, USA and other western countries towards Russia. Although the mining and cement industries are currently not subject to sanctions, FLSmidth has suspended new business in Russia and Belarus and will wind down our activities in Russia. We are, however, obliged to fulfil our legal obligations with regards to ongoing activities to the extent possible.

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

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

Outlook for 2022

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

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

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

Guidance for 2022 is a revenue in the range of 2-2.3 bDKK and a result before tax, but excluding impairments of investments in subsidiaries of 0 DKK.

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

Statement of policy for data ethics

During 2021, FLSmidth issued its Policy on Data Ethics. The policy addresses the data ethic principles applied by FLSmidth and describes the approach to data processing covering all data types. When using artificial intelligence and the like, we strive to ensure that the results are not discriminatory or biased. The short- and 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 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

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

The annual report for 2021 is presented in 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

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.

Accounting policies

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 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).

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.

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.

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.

Accounting policies

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

	Useful life
Manufacturing plants	20-40 years
Andre anlæg, driftsmateriel og inventar	3-10 years
Indretning af lejede lokaler	5 years

Assets costing less than DKK 30.700 are expensed in the year of acquisition.

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 acguisition date.

Other investments

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, items of property, plant and equipment and investments in subsidiaries, associates and participating interests is tested annually for impairment, other than what is reflected through normal amortisation and depreciation.

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

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

Inventories

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

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

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

The net realisable value of inventories is calculated as the 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.

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.

Accounting policies

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 - 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.

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 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.

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.

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

Accounting policies

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

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

Derivative financial instruments

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

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

As for derivative financial instruments that 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 $\frac{\text{Equity, end of year x 100}}{\text{Total assets at year-end}}$

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

Income statement 1 January 2021 - 31 December 2021

	Note	2021 MDKK	2020 MDKK
Revenue	1	**2.202**	**2.119**
Cost of production	2-8-9	-2.272	-2.161
Gross profit		**-70**	**-42**
Sales and distribution costs	2-8-9	-209	-108
Administrative costs	2-8-9	-335	-287
Operating profit/loss		**-614**	**-437**
Other operating income	3	413	387
Profit/loss before financial income and expenses		**-201**	**-50**
Income from investments in subsidiares		185	205
Financial income	4	96	128
Impairment and reversals of impairment of investments in subsidiaries	10	-88	-167
Financial costs	5	-174	-162
Profit/loss before tax		**-182**	**-46**
Tax on profit/loss for the year	6	77	-108
Net profit/loss for the year		**-105**	**-154**
Distribution of profit	7		

Balance sheet at 31 December 2021

	Note	2021 MDKK	2020 MDKK
Assets			
Completed development projects		232	242
Acquired patents		649	786
Development projects in progress		297	288
Other intangible assets		376	371
Intangible assets	8	**1.554**	**1.687**
Land and buildings	9	24	26
Other fixtures and fittings, tools and equipment	9	8	12
Tangible assets		**32**	**38**
Investments in subsidiaries	10	7.588	6.489
Investments in associates	11	0	0
Other investments	12	6	10
Deferred tax assets	19	638	435
Financial assets		**8.232**	**6.934**
Total non-current assets		**9.818**	**8.659**

Balance sheet at 31 December 2021

	Note	2021 MDKK	2020 MDKK
Assets			
Finished goods and goods for resale		82	63
Inventories	13	**82**	**63**
Trade receivables	14	662	329
Contract work in progress	15	377	303
Receivables from Group entities	16	1.720	1.330
Other receivables		43	77
Prepayments	17	66	61
Receivables		**2.868**	**2.100**
Cash		**8**	**5**
Total current assets		**2.958**	**2.168**
Total assets		**12.776**	**10.827**

Balance sheet at 31 December 2021

	Note	2021	2020
		MDKK	MDKK
Equity and liabilities			
Share capital		500	500
Reserve for development expenditure		421	413
Retained earnings		4.007	3.737
Hedging reserve		-4	-5
Equity	18	**4.924**	**4.645**
Other provisions	20	191	187
Total provisions		**191**	**187**
Prepayments received from customers		441	122
Other payables		5	71
Total non-current liabilities	21	**446**	**193**
Banks		1	1
Prepayments received from customers		163	275
Trade payables		495	414
Contract work in progress	15	505	522
Payables to Group entities		5.826	4.297
Corporation tax		0	2
Other payables	22	225	291
Total current liabilities		**7.215**	**5.802**
Total liabilities		**7.661**	**5.995**
Total equity and liabilities		**12.776**	**10.827**
Contingent liabilities	23		
Mortgages and collateral	24		
Financial instruments	25		
Related parties and ownership structure	26		
Significant events occurring after end of reporting period	27		

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 2021	500	413	3.737	-5	4.645
Net effect from merger	0	0	383	0	383
Adjusted equity at 1 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 at 31 December 2021	**500**	**421**	**4.007**	**-4**	**4.924**

	Share capital	Reserve for development expenditure	Retained earnings	Hedging reserve	Total
	MDKK	MDKK	MDKK	MDKK	MDKK
Equity 1. januar 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
Changes in equity of tax	0	0	0	1	1
Equity 31. december 2020	**500**	**413**	**3.737**	**-5**	**4.645**

Notes

		2021	2020
		MDKK	MDKK
1	**Revenue**		
	Income recognised in accordance with the point-in-time principle	31	42
	Income recognised in accordance with the percentage-of-completion method	2.171	2.077
	Total revenue	**2.202**	**2.119**
	Geographical breakdown:		
	North America	14	24
	South America	328	694
	Europe, North Africa & Russia	885	660
	Sub-Saharan & Middle East	247	371
	Asia	641	275
	Subcontinental India	81	91
	Australia	6	4
	Total revenue	**2.202**	**2.119**
	Segment reporting:		
	Cement - Projects	889	947
	Cement - Products	928	896
	Cement - Service	268	202
	Mining - Projects	50	35
	Mining - Products	52	32
	Mining - Service	15	7
	Total revenue	**2.202**	**2.119**

1 **Revenue** (continued)

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** (continued)

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.

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.

		2021	2020
		MDKK	MDKK
2	**Staff**		
	Wages and Salaries	586	759
	Pensions	16	17
	Other social security expenses	9	8
	Total staff cost	**611**	**784**
	Total staff cost	611	784
	Staff cost capitalised as part of development projects	-116	-115
	Total	**495**	**669**
	Including remuneration to the Executive and SupervisoryBoards of:		
	Wages and salaries	15	13
	Bonus	7	1
	Share-based payments	4	-2
	Benefits	1	2
	Severance	5	0
	Other incentives	6	5
	Total	**38**	**19**
	Reinvoiced or paid by other group companies	*-38*	*-19*
	Board of Directors fee (incl. paid by other group companies)	7	6
	Average number of employees	765	922

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

		2021	2020
		MDKK	MDKK

3 Other operating income

	2021 MDKK	2020 MDKK
Other operating income	411	375
Gain from sales of investments	2	12
	413	**387**

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

4 Financial income

	2021 MDKK	2020 MDKK
Fair value adjustment of shares	0	2
Other financial income	1	0
Foreign exchange gains	83	71
Derivatives	12	55
	96	**128**

Notes

		2021	2020
		MDKK	MDKK
5	**Financial costs**		
	Fair value adjustment of shares	4	0
	Interest paid to subsidiaries	61	31
	Other financial costs	1	1
	Foreign exchange losses	89	77
	Derivatives	19	53
		174	**162**
6	**Tax on profit/loss for the year**		
	Current tax for the year	-91	-62
	Deferred tax for the year	133	53
	Adjustment of tax concerning previous years	-35	-12
	Adjustment of deferred tax concerning previous years	52	27
	Impairment deferred tax assets	12	-114
	Deferred tax from merger	6	0
		77	**-108**
7	**Distribution of profit**		
	Reserve for development projects	8	-38
	Retained earnings	-113	-116
		-105	**-154**

8 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 2021	1.221	2.997	288	729	5.235
Additions for the year	0	9	177	0	186
Disposals for the year	-5	-19	0	-13	-37
Transfers for the year	116	0	-168	52	0
Cost at 31 December 2021	1.332	2.987	297	768	5.384
Impairment losses and amortisation at 1 January 2021	979	2.211	0	358	3.548
Reversal of impairment losses	0	-11	0	0	-11
Depreciation for the year	121	145	0	44	310
Reversal of depreciation	0	-7	0	-10	-17
Impairment losses and amortisation at 31 December 2021	1.100	2.338	0	392	3.830
Carrying amount at 31 December 2021	**232**	**649**	**297**	**376**	**1.554**

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 2021.

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 2021 MDKK 44 is included in administration costs and MDKK 266 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 2021	76	161	237
Additions for the year	0	1	1
Disposals for the year	0	-2	-2
Cost at 31 December 2021	76	160	236
Impairment losses and depreciation at 1 January 2021	50	148	198
Depreciation for the year	2	6	8
Reversal of impairment and depreciation of sold assets	0	-2	-2
Impairment losses and depreciation at 31 December 2021	52	152	204
Carrying amount at 31 December 2021	**24**	**8**	**32**

Depreciation for year 2021 MDKK 7 is included in production costs and MDKK 1 is included in administration costs in the financial statement.

10 Investments in subsidiaries

	2021	2020
	MDKK	MDKK
Cost at 1 January 2021	6.714	6.733
Net effect from merger and acquisition	1.561	0
Additions for the year	24	3
Disposals for the year	0	-22
Cost at 31 December 2021	8.299	6.714

	2021	2020
	MDKK	MDKK
10 Investments in subsidiaries (continued)		
Revaluations at 1 January 2021	-225	-72
Disposals for the year	0	14
Net effect from merger and acquisition	-397	0
Reversals of impairment changes for the year	153	26
Impairment changes for the year	-242	-193
Revaluations at 31 December 2021	-711	-225
Carrying amount at 31 December 2021	**7.588**	**6.489**

As at 31 December 2021, the cost price of the investments in subsidiaries was tested for impairment. The impairment test showed an impairment for entities in Germany and France in 2021 of MDKK 242 (2020: MDKK 193). Further, the test showed reversal of prior year's impairment of entities in Austria and US of total MDKK 153 (2020: MDKK 26)

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

Impairment tests have been performed for the USA, France, Austria, Germany, and Brazil activities. 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 six to 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, EBITDA 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 8.0 % for Mining entities and 8.5 % for Cement entities. In some of the impairments tests we have added a country specific market risk rate between 1-3 % 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 1.5 %.

Investments reflect both maintenance and expectations of organic growth.

Sensitivity analysis
Based on current assumptions regarding USA, Austria, 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.

Following the impairment loss on the investments in Germany and France, 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 DKK 185m.

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

10 Investments in subsidiaries (continued)

Investments in subsidiaries are specified as follows:

Name		Registered office	Ownership interest	Profit/ loss for the year	Equity
773	FLS Maroc	Morocco	100	-14	-66
529	FLSmidth (Pvt.) Ltd.	Pakistan	100	0	1
803	FLSmidth (Thailand) Co. Ltd.	Thailand	100	-10	16
940	FLSmidth (UK) Limited	United Kingdom	100	-7	391
781	FLSmidth A/S (Jordan) Ltd.	Jordan	100	0	-2
156	FLSmidth Argentina S.A.	Argentina	100	0	0
774	FLSmidth Caucasus Limited Liability Company (LLC)	Armenia	100	1	3
750	FLSmidth Co. Ltd.	Vietnam	100	2	17
951	FLSmidth GmbH	Austria	100	23	179
800	FLSmidth Iranian (PJSCo)	Iran	100	0	8
776	FLSmidth Kenya Limited	Kenya	100	-3	-2
808	FLSmidth Limited	Ghana	100	40	99
780	FLSmidth LLP	Kazakhstan	100	49	176
286	FLSmidth Ltda.	Brazil	100	80	130
765	FLSmidth Mekanik Sistemler Satis Bakim Ltd. Sti	Turkey	100	6	6
710	FLSmidth Mongolia	Mongolia	100	23	26
907	FLSmidth MAAG Gear AG	Switzerland	100	-2	67
523	FLSmidth MAAG Gear Sp. z o.o.	Poland	100	25	147
825	FLSmidth Nepal Private Limited	Nepal	100	0	1
829	FLSmidth Panama Inc.	Panama	100	0	0
775	FLSmidth Philippines, Inc.	Philippines	100	-1	9
988	FLSmidth Qingdao Ltd.	China	100	50	156

Notes

958	FLSmidth Rusland Holding A/S	Denmark	100	0	13
959	FLSmidth Rus OOO	Russia	90	72	119
87	FLSmidth S.A.	Spain	94	5	53
760	FLSmidth SAS	Colombia	100	-10	-34
832	FLSmidth S.A.	Ecuador	100	0	1
764	FLSmidth Sales and Services Limited	Nigeria	75	0	1
942	FLSmidth SAS	France	100	-4	17
985	FLSmidth Shanghai Ltd.	China	100	15	57
617	FLSmidth Spol. s.r.o.	Czech Republic	100	6	55
281	FLSmidth Ventomatic SpA	Italy	100	39	525
999	FLSmidth MAAG Gear S.p.A	Italy	100	6	92
938	FLSmidth Milano S.R.L.	Italy	100	-9	71
984	FLSmidth Zambia Ltd.	Zambia	90	0	0
807	NHI-Fuller (Shenyang) Mining Co. Ltd.	China	50	2	27
771	P.T. FLSmidth Construction Indonesia	Indonesia	67	0	7
440	PT FLSmidth Indonesia	Indonesia	100	43	63
827	Saudi FLSmidth Co.	Kingdom of Saudi Arabia	100	3	7
709	The Pennies and Pounds Holding, Inc.*	Philippines	33	0	0
860	FLSmidth Paraguay S.A.	Paraguay	100	1	2
114	FLS Germany Holding GmbH	Germany	100	-65	1.447
113	FLSmidth Pfister GmbH	Germany	100	13	37
117	FLSmidth Real Estate GmbH	Germany	100	17	6
906	FLSmidth Wadgassen GmbH	Germany	100	-22	129
830	FLSmidth Wadgassen Ltd.	Russia	100	-1	4
941	FLSmidth Wiesbaden GmbH	Germany	100	-12	116

Notes

982	NLSupervision Company Angola, LDA.*	Angola	10	-1	38
711	NL Supervision Company Tunisia*	Tunisia	5	-3	-37
643	FLSmidth Minerals Holding ApS	Denmark	100	14	1.136
543	FLSmidth (Pty.) Ltd.	South Africa	100	38	656
734	Euroslot KDSS (South Africa) (Pty.) Ltd.	South Africa	100	0	0
838	FLSMIDTH-SOCIEDADE UNIPESSOAL, LDA	Angola	100	0	0
736	FLSmidth Mozambique Limitada	Mozambique	100	0	-6
987	FLSmidth Roymec (Pty) Ltd.	South Africa	100	0	0
639	FLSmidth South Africa (Pty.) Ltd.	South Africa	75	-51	-231
311	FLSmidth Ltd.	Canada	100	20	280
544	FLSmidth Private Limited	India	100	-39	578
309	FLSmidth Pty. Ltd.	Australia	100	287	1.215
753	DMI Holdings Pty. Ltd.	Australia	100	0	0
754	DMI (Australia) Pty. Ltd.	Australia	100	-4	0
991	ESSA Australia Limited	Australia	100	0	0
756	Fleet Rebuild Pty. Ltd.	Australia	100	-2	41
758	Mayer Bulk Group Pty. Ltd.	Australia	100	-13	27
757	FLSmidth Mayer Pty. Ltd.	Australia	100	-25	0
546	FLSmidth ABON Pty. Ltd.	Australia	100	113	426
947	FLSmidth Krebs Australia Pty. Ltd.	Australia	100	-27	0
755	FLSmidth M.I.E. Enterprises Pty. Ltd.	Australia	100	-176	0
989	FLSmidth (Pty) Ltd.	Botswana	100	-7	6

Notes

715	Ludowici Pty. Limited	Australia	100	0	1.029
839	IMP Group Pty Ltd	Australia	100	0	190
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	47
722	Rojan Advanced Ceramics Pty. Ltd.	Australia	100	0	0
744	Ludowici Hong Kong Investments Ltd.	Hong Kong	100	-1	-11
737	Ludowici Packaging Australia Pty. Ltd.	Australia	100	0	0
158	FLSmidth S.A.	Chile	100	70	635
532	FLSmidth S.A. de C.V.	Mexico	100	12	179
296	FLS US Holdings, Inc.	United States	100	-7	3.423
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	0	14
927	FLSmidth Dorr-Oliver International Inc.	United States	100	0	0
724	Ludowici Mineral Processing Equipment Inc.	USA	100	0	0
703	Phillips Kiln Services (India) Pvt. Ltd.*	India	50	0	0
322	SLS Corporation	United States	100	0	0
				559	**13.818**

All foreign subsidiaries are recognised and measured as separate entities.
* Associated

Notes

	2021	2020
	MDKK	MDKK
11 Investments in associates		
Cost at 1 January 2021	8	8
Cost at 31 December 2021	8	8
Revaluations at 1 January 2021	-8	-8
Revaluations at 31 December 2021	-8	-8
Carrying amount at 31 December 2021	**0**	**0**

12 Financial assets

	Other investments
	MDKK
Cost at 1 January 2021	21
Cost at 31 December 2021	21
Impairment losses at 1 January 2021	11
Impairment losses and depreciation of actuarial gains (losses)	4
Impairment losses at 31 December 2021	15
Carrying amount at 31 December 2021	**6**

13 Inventories

Inventories include assets held for sale of MDKK 23 (2020: MDKK 7). In 2021 Inventory includes distribution rights for certain products and in 2020 it included certain IPR.

	2021	2020
	MDKK	MDKK
14 Trade receivables		
Not due for payment	534	249
Overdue up to 60 days	101	47
Overdue between 60-180 days	21	20
Overdue between 180-360 days	5	9
Overdue more than 1 year	1	4
Trade receivables at 31 December	**662**	**329**
Trade receivables not due for payment with retentions on contractual terms	**268**	**69**
Write-down at 1 January	23	23
Additions	34	9
Reversals	-8	-9
Realised	0	0
Write-down at 31 December	**49**	**23**

		2021	2020
		MDKK	MDKK
15	**Contract work in progress**		
	Sales price value of production for the period	7.016	6.143
	Payments received on account	-6.639	-5.840
		377	**303**
	Recognised in the balance sheet as follows:		
	Contract work in progress recognised in assets	377	303
	Prepayments received recognised in debt	-505	-522
		-128	**-219**

16 Receivables from Group enterprises

Receivables from Group enterprises include receivable dividend from prior years at the amount of MDKK 49 (2020: MDKK 0).

17 Prepayments

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

18 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.

19 Provision for deferred tax

	2021 MDKK	2020 MDKK
Deferred tax at 1 January 2021	435	469
Deferred tax recognised in income statement	133	53
Deferred tax recognised in equity	0	-1
Provisions for deferred tax through mergers and business combinations	6	0
Changes in relation to previous years	52	28
Impairment deferred tax assets	12	-114
Provision for deferred tax at 31 December 2021	**638**	**435**

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 non-recognised deferred tax asset amounts DKK 102 million, corresponding to the net impairment at 31 December 2021.

Notes

20 Other provisions

Balance at beginning of year at 1 January 2021	187	181
Addition during the year	82	107
Used during the year	-57	-79
Reversal during the year	-21	-22
Balance at 31 December 2021	**191**	**187**

The expected due dates of other provisions are:		
Within one year	112	102
Between 1 and 5 years	79	85
	191	**187**

21 Long term debt

	Debt at 1 January 2021	Debt at 31 December 2021	Installment next year	Debt outstanding after 5 years
	MDKK	MDKK	MDKK	MDKK
Prepayments received from customers	122	441	0	0
Other payables	71	5	0	0
	193	**446**	**0**	**0**

22 Other payables

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

Financial instruments is included at fair value mDKK 0 (2020: mDKK 5).

Notes

		2021	2020
		MDKK	MDKK
23	**Contingent liabilities**		
	Guarantees	1.650	3.426
	Rental agreements	14	14
	Operational lease	5	8
		1.669	**3.448**

The Company has through its banks provided usual security in the form of performance guarantees etc. for contracts and supplies. At the end of 2021 the total number of performance and payment guarantees issued amounted to DKK 987m (2020: 1.144m). 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.

24 Mortgages and collateral

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

25 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 2021, 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 2021 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	2021	2020
	MDKK	MDKK
AUD	18	0
USD	177	60
ZAR	14	-43
INR	0	7
GBP	0	5
CNY	59	-7
RUB	1	0
Other currencies	0	-59
	269	**-37**

26 Related parties and ownership structure

Transactions

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

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

	2021	2020
	MDKK	MDKK
Revenue	250	232
Cost of production	-218	-234
Royalties	410	465
Group fees	524	644
Group cost	-153	-260
Interest cost	-61	-30

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 2021 is available on www.flsmidth.com:

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

Notes

27 Significant events occurring after end of reporting period

FLSmidth are closely following the situation in Ukraine and the sanctions made by EU, USA and other western countries towards Russia. Although the mining and cement industries are currently not subject to sanctions, FLSmidth has suspended new business in Russia and Belarus and will wind down our activities in Russia. We are, however, obliged to fulfil our legal obligations with regards to ongoing activities to the extent possible.

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

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