

ANNUAL REPORT 2019

REVENUE
(DKKm)

20,646

Up from 18,750

EBITA margin

8.1%

Down from 8.5%

ROCE

10.9%

Down from 11.0%

CFFO
(DKKm)

948

Up from 385

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MANAGEMENT REVIEW

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Read more about
MissionZero on page 33

2019 IN BRIEF

Order intake
(DKKm)

19,554

Down from 21,741

Revenue
(DKKm)

20,646

Up from 18,750

EBITA
(DKKm)

1,663

Up from 1,585

EBITA margin

8.1%

Down from 8.5%

Earnings per share
(DKK)

15.5

Up from 12.8

Net working
capital ratio

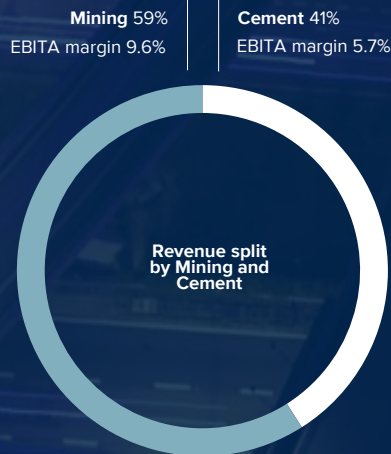
13.3%

Up from 11.7%

ROCE

10.9%

Down from 11.0%



Safety (TRIFR)¹⁾

1.6

Down from 3.0

Quality (DIFOT)²⁾

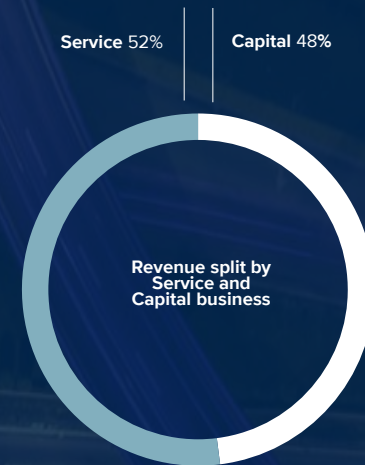
88%

Up from 87%

1) TRIFR = Total recordable injury frequency rate

2) DIFOT = Delivery in full on time

All highlights are compared to full year 2018



6 NOVEMBER 2019, WE LAUNCHED



2019 IN BRIEF

Q4 Highlights

A long history of technology leadership, a sustainability focus, and continued innovation culminated in the launch of MissionZero¹ in Q4 2019. Also, a global framework agreement for fixed equipment was signed with one of the leading mining companies, Rio Tinto.

Revenue in Q4 picked up 10% to the highest level in six years. The growth was driven by both Mining and Cement and attributable to growth in capital as well as service business.

The higher revenue, combined with internal efficiency improvements, drove operating leverage and improved profitability in Cement.

As anticipated, earnings in Mining were affected by lower profitability on projects and costs related to business improvements. Consequently, group EBITA declined 5% and the EBITA margin declined to 8.1%.

We see rising demand for our solutions to help customers achieve a more sustainable production, and service orders grew 8%, underpinned by record high service order intake in Cement. Still, order intake for the group declined 3% owing to ongoing customer delays on large capital investments.

Q4 showed an increase in free cash flow and a reduction in net debt.

2019 Highlights

In May 2019, we successfully finalised the acquisition of IMP Automation Group, which completed our portfolio of automated laboratory solutions to the global mining industry. IMP is now well-integrated into FLSmidth.

Revenue grew 10% in 2019 and ended at the upper end of the initial guidance for the year. The growth was driven primarily by Mining.

EBITA increased 5%, but we did not manage to meet our target to increase the EBITA margin.

During the year, we experienced an unfavourable development in business mix and a weakening business environment. The latter led to delayed customer decisions and postponement of capital orders, and some mining projects delivered lower profit than anticipated. As a result, the EBITA margin guidance was changed to around 8%. EBITA for the full year ended at 8.1%, in line with the revised guidance.

Cement profitability improved following internal efficiency measures and a more selective approach to large projects. This was a significant achievement in light of continued challenging market conditions.

2019 showed significantly improved free cash flow, despite net working capital headwinds.

Management focus

At the Capital Markets Day in November 2019, FLSmidth demonstrated its leadership in driving sustainable productivity. We showcased our capabilities and ambitions within digital and sustainable solutions, including the launch of MissionZero - sending a strong message to customers that we are determined to provide zero emissions technology to mining and cement by 2030.

Sustainability and digitalization will be key differentiators in the years to come, and we are strongly positioned to benefit from the opportunities. In 2019, we made step-changing progress, including the launch of a new Low NOx Calciner, an advanced mixedROW™ flotation system and a whole range of new digital solutions empowering our customers with full transparency on machinery, process, and plant KPIs, in real-time.

By staying at the innovation forefront, we drive expansion of the higher-margin product and service business, while being selective on large projects.

Looking ahead, our eyes are set on profit improvement and cash generation. During the third quarter of 2019, it was decided to accelerate ongoing business improvement initiatives, including a strengthening of the mining project organisation. The initiatives are progressing well and will support a future of sustainable, profitable growth.

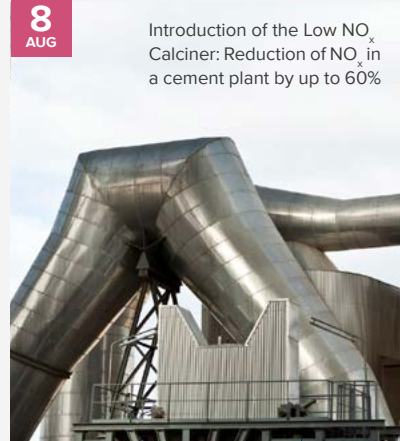
¹ With MissionZero, we enable our customers in cement and mining to move towards zero emissions by 2030

KEY EVENTS 2019

FLSmidth exits non-mining bulk material handling business



9
JAN



8
AUG

Introduction of the Low NO_x Calciner: Reduction of NO_x in a cement plant by up to 60%

Launch of the mixedROW™ Flotation System for mining: Up to 40% lower energy consumption and 5% improved recovery rate



29
OCT

6
NOV

Launch of MissionZero: Enabling our customers in cement and mining to move towards zero emissions by 2030



11
FEB

Acquisition of IMP Automation Group: Automated and digitalized laboratory equipment for mining



29
MAR

Order for a large, energy-efficient cement production line in Vietnam



25
OCT

FLSmidth and Rio Tinto enter into a global framework agreement for fixed equipment



6
NOV

Capital Markets Day with the theme "Driving sustainable productivity"

FINANCIAL KEY FIGURES

DKKm	2015	2016	2017	2018	2019
INCOME STATEMENT					
Revenue	19,682	18,192	18,000	18,750	20,646
Gross profit	4,946	4,581	4,597	4,693	4,849
EBITDA before special non-recurring items	1,878	1,588	1,732	1,826	2,008
EBITA	1,582	1,289	1,515	1,585	1,663
EBIT	1,141	881	1,115	1,220	1,286
Financial items, net	(256)	(54)	(311)	(161)	(118)
EBT	885	827	796	1,059	1,171
Profit for the year, continuing activities	603	590	417	811	798
Loss for the year, discontinued activities	(178)	(68)	(343)	(176)	(22)
Profit for the year	425	522	74	635	776
ORDERS					
Order intake (gross), continuing activities	18,490	18,303	19,170	21,741	19,554
Order backlog, continuing activities	14,858	13,887	13,654	16,218	14,192
EARNING RATIOS					
Gross margin	25.1%	25.2%	25.5%	25.0%	23.5%
EBITDA margin before special non-recurring items	9.5%	8.7%	9.6%	9.7%	9.7%
EBITA margin	8.0%	7.1%	8.4%	8.5%	8.1%
EBIT margin	5.8%	4.8%	6.2%	6.5%	6.2%
EBT margin	4.5%	4.5%	4.4%	5.6%	5.7%
CASH FLOW					
Cash flow from operating activities (CFFO)	538	1,447	1,065	385	948
Acquisitions of property, plant and equipment	(139)	(203)	(174)	(288)	(177)
Cash flow from investing activities (CFFI)	750	(194)	(113)	(285)	(661)
Free cash flow	1,288	1,253	952	100	287
Free cash flow adjusted for acquisitions and disposals of enterprises and activities	415	1,253	846	(15)	574

Use of alternative performance measures

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

DKKm	2015	2016	2017	2018	2019
BALANCE SHEET					
Net working capital	2,583	2,099	1,833	2,200	2,739
Net interest-bearing debt (NIBD)	(3,674)	(2,525)	(1,545)	(1,922)	(2,492)
Total assets	24,362	24,112	22,364	21,743	23,532
Equity	7,982	8,462	8,038	8,266	8,793
Dividend to shareholders, proposed	205	307	410	461	410
FINANCIAL RATIOS					
CFFO / Revenue	2.7%	8.0%	5.9%	2.1%	4.6%
Book-to-bill	93.9%	100.6%	106.5%	116.0%	94.7%
Order backlog / Revenue	75.5%	76.3%	75.9%	86.5%	68.7%
Return on equity	5.4%	6.3%	0.9%	7.8%	9.1%
Equity ratio	32.8%	35.1%	35.9%	38.0%	37.4%
ROCE	10.3%	8.5%	10.4%	11.0%	10.9%
Net working capital ratio, end	13.1%	11.5%	10.2%	11.7%	13.3%
NIBD/EBITDA	2.0	1.6	0.9	1.1	1.2
Capital employed, average	15,162	15,157	14,533	14,338	15,251
Number of employees	12,969	12,187	11,716	11,368	11,765
SHARE RATIOS					
Cash flow per share, diluted	11.0	29.5	21.4	7.7	18.9
Earnings per share (EPS), diluted	8.6	10.6	1.5	12.8	15.5
Dividend yield	1.7	2.0	2.2	3.1	3.0
Dividend per share, proposed	4	6	8	9	8
Share price	240.0	293.0	361.3	293.1	265.4
Number of shares (1,000), end	51,250	51,250	51,250	51,250	51,250
Market capitalisation, end	12,300	15,016	18,517	15,021	13,602

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

IFRS 16, Leases, was adopted 1 January 2019. No figures prior to 1 January 2019, throughout the report, have been restated. Refer to note 7.6 for IFRS 16 implementation effects.

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

LETTER TO OUR SHAREHOLDERS

Vagn Sørensen
Chairman



Thomas Schulz
CEO



The transitions of the mining and cement industries to sustainable forms of production are critical to solve the challenges of climate change. Improved infrastructure, renewable energy options, electric cars, wind and solar energy are considered to be the future, and all of this requires cement and minerals. Energy-intensive industries, such as mining and cement, are indispensable to the global economy and that's why it is essential to decarbonise and modernise these sectors.

As a leader in the mining and cement industries, we recognise our role and shared responsibility to bring these industries into a sustainable future.

Looking back

2019 has been a year of challenges but also successes. The service business gained momentum over the year and good progress was made on digital and sustainable innovations. Our launch of 'MissionZero' with ambitious targets to help customers reduce emissions from minerals and cement production was very well received by our customers, investors and our own employees. We maintained a stable growth in revenue but we did not manage to reach our profitability targets. As a result, we revised our full year guidance in October. While this was very disappointing, we



Minerals and cement provide the essential building blocks of economic development and green energy transition. The renewable energy industry and the global digital transformation require both cement and minerals such as copper, lithium, cobalt, nickel and iron ore. We can make a good business of helping miners and cement plant owners produce more with less environmental footprint.

are confident that our new business improvements and the actions we are taking will create a strong foundation to deliver sustainable profitable growth and shareholder value.

2019 marked the second consecutive year of revenue growth. The business environment unfortunately turned more challenging during the year, which caused customers to postpone decisions on larger capital investments. In addition, a few mine projects that were anticipated to get a green light this year were deferred due to challenges regarding 'license to operate'. Delayed customer decisions and unsatisfactory project execution caused lower profitability in Mining than anticipated. We are adjusting the Mining project organisation to drive focus and increase profitability. By consolidating project execution in fewer centres, we are strengthening competencies in the main centres and ensuring better absorption of resources in line with fluctuating capital order intake.

LETTER TO OUR SHAREHOLDERS

– CONTINUED

The Cement business showed profit improvement despite continued fierce competition, and FLSmidth stands out as the clear leader in the premium cement market. This position has given us the opportunity to be more selective on large projects and the conditions we accept for these projects.

In 2019, conversion of the service backlog was slower than anticipated which impacted business mix, especially in the first half of the year. Nevertheless, the service business gained momentum during the year with service order intake surpassing last year's level in both Mining and Cement. Two of the cornerstones of the reorganisation that took place in 2018 were to expand the service business and to drive digitalization. We have experienced a positive development in both regards with increased coverage of new geographical regions and a range of new digital solutions.

We delivered several step-changes in the digital revolution within cement and mining, demonstrating our ability to be innovative in increasing productivity. SiteConnect™, for example, is a new Mobile Insights App which allows our customers to monitor real-time performance and health of their critical assets.

At a well-attended Capital Markets Day in November we announced the global launch of MissionZero; truly demonstrating our leadership within sustainable productivity and sending a strong message to customers that we are determined to provide zero emissions technology to the mining and cement industries by 2030. This transition is supported by our employees who, despite challenges during the year, showed a high level of commitment and motivation.



FLSmidth supports the UN Sustainable Development Goals
www.flsmidth.com/misionzero



Sustainability and digitalization will be key differentiators in the years to come and help expand the gap to the mid-market. We are well-positioned in both areas and have made step-changing progress in 2019.

Looking ahead

Looking ahead, our eyes are set on profit improvement and cash generation. At the Capital Markets Day, we introduced a medium-term EBITA margin target of around 10%, supplementing our existing long-term targets. Key drivers for reaching 10% EBITA are business mix, margin improvement, operating leverage and continued competitiveness with innovative and sustainable solutions.

We will drive an improved business mix by expanding the products and service business, while being selective on large projects. We are adjusting the Mining project execution model to improve profitability on mining projects, and we are implementing additional business improvement initiatives to further improve margins across the group. We have demonstrated our ability to grow revenue and keep SG&A cost largely stable, and we will continue to ensure a relatively low increase in SG&A relative to the growth in revenue.

Whilst the service business gained momentum during the year, the challenging business environment in 2019 resulted in lower activity for large capital orders which will influence the level of capital revenue for 2020. We have adjusted our

workforce to match the anticipated level of activity.

2019 also marked a year of announced consolidation among suppliers to both the mining and the cement industries. We maintain an agile organisation and will be ready to participate in consolidation if the right opportunity arises.

While supplier consolidation is changing the competitive landscape, so are two of the mega trends dominating the world today: sustainability and digitalization. Both are well anchored in our business model and organisational setup – and at the same time represent key strategic focus areas.

Increased customer attention to digital solutions and more sustainable production will expand the gap between premium players, such as FLSmidth, and the mid-market as well as single product suppliers. FLSmidth's innovation and productivity mindset, combined with a full flowsheet of solutions, position us strongly to capture the opportunities within a more digital and sustainable society, and we have set a high bar for sustainable development.

MissionZero goes beyond what is feasible today, and requires a paradigm shift in how industry players collaborate and innovate. As a leader in the mining and cement industries, we take responsibility to accelerate the adoption of sustainable solutions.

Vagn Sørensen, Chairman and Thomas Schulz, CEO

FINANCIAL TARGETS

MEDIUM-TERM TARGETS

On the Capital Markets Day 6 November 2019, we introduced medium-term targets to supplement our existing long-term targets.

The medium-term Group EBITA margin target is around 10%. To achieve this target, it is expected that the Mining segment will be in the EBITA margin range of 11-13% and the Cement segment in the range of 7-8%. Key drivers for the margin improvement are expected to be:

1. Business mix: Increased share of higher-margin product and service business relative to the share of lower-margin project business
2. Margin improvement: Recovery of Mining project profitability, business improvement, standardisation and procurement savings, and strategic pricing

3. Operating leverage: A relatively lower increase in SG&A relative to the growth in revenue

LONG-TERM TARGETS

FLSmidth's long-term targets are unchanged. Our targets are to achieve an annual growth in revenue above market average, an EBITA margin of 10-13% and return on capital employed (ROCE) above 20%. ROCE depends on growth, profit and capital efficiency. In practice, and for operational purposes, this means growth in order intake and revenue, expansion of the EBITA margin and optimisation of net working capital.

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

The three long-term financial targets related to our capital structure are net interest-bearing debt/EBITDA, equity ratio and pay-out ratio. We are currently well within target with respect to NIBD/EBITDA and equity ratio. The pay-out ratio has been above the 30-50% range in some years due to a combination of good cash generation and exceptional items impacting the net profit.

GROWTH RATES OVER THE CYCLE

Mining and cement are growth industries but also cyclical industries and the growth in a given year is influenced by the cycle. Over the cycle, we expect Mining to grow faster than Cement. The expected average annual revenue growth rate over the cycle for Mining is 6-8% (market growth of 3-4% and growth above market of 3-4%). The corresponding rate for Cement is 2-4% (market growth of 1-2% and growth above market of 1-2%). The key drivers for growth above the market are expected to be:

1. Expansion of the service business
2. Increased coverage of new geographical regions
3. New innovative technologies to meet the increasing demand for sustainable productivity enhancing solutions



MEDIUM-TERM FINANCIAL TARGETS

Subject to normalised market conditions

Group EBITA margin	Around 10%
Mining EBITA margin	11-13%
Cement EBITA margin	7-8%



LONG-TERM FINANCIAL TARGETS

Subject to normalised market conditions

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

2020 GUIDANCE

FLSmidth guides for revenue of DKK 18.5-20.5bn and an EBITA margin of 8-9% for the full-year 2020. The return on capital employed (ROCE) is expected to be 9-12%.

The mid-point of the 2020 revenue guidance (DKK 19.5bn) is below the 2019 revenue of DKK 20.6bn because of the lower capital order intake in 2019 and the resulting lower backlog entering 2020, particularly in Cement.

Revenue is expected to have a phasing with a seasonally low level of activity at the beginning of the year and a seasonally high level of activity towards year-end.

The mid-point of the 2020 EBITA margin guidance (8.5%) is above the 2019 EBITA margin of 8.1%.

The lower anticipated capital revenue is expected to have a slight negative effect on operating leverage. Conversely, the higher expected share of services relative to capital revenue

in both Mining and Cement is anticipated to carry a positive effect on the EBITA margin compared to 2019.

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

Additionally, the guidance for 2020 is based on the following assumptions:

- Prevailing foreign exchange rates
- Stable demand for projects, products and services
- Mining project profitability to remain at a sub-normalised level in 2020
- Implementation costs related to business improvement initiatives of DKK 110m
- EBITA improvement run-rate related to Business improvement initiatives of DKK 25m at the start of the year and DKK 100m at the end of 2020.

KEY PERFORMANCE INDICATORS FOR 2020

The financial key performance indicators that are part of management's incentive programmes for 2020 are in line with those of 2019: order intake, EBITA margin, cash flow from operating activities and net working capital ratio.



Key financial performance indicators for 2020:

- **Order intake**
- **EBITA margin**
- **Cash flow from operating activities and net working capital ratio**

¹⁾ We are facing a volatile business environment including the current coronavirus outbreak in China, of which the full impact is not yet known.



GUIDANCE 2019

DKK	Realised 2019	Guidance 2019	Initial guidance	Realised 2018
Revenue (bn)	20.6	20-21	19-21	18.8
EBITA margin	8.1%	~8%	9-10%	8.5%
ROCE	10.9%	10-12%	12-14%	11.0%



GUIDANCE 2020¹⁾

DKK	Realised 2019	Guidance 2020
Revenue (bn)	20.6	18.5-20.5
EBITA margin	8.1%	8-9%
ROCE	10.9%	9-12%

WHY INVEST IN FLSMIDTH



Exposure to growth markets in sustainable transition

An investment in FLSmidth is an investment in the sustainable development of the world. With economic growth, urbanisation and increasing populations comes the demand for infrastructure and modern conveniences, such as laptops and smartphones. Renewable energy options, electric cars, wind and solar energy are the future, and all of this requires cement and minerals.

The transitions of the mining and cement industries to sustainable forms of production are critical to solve the challenges of climate change. Energy-intensive industries, such as mining and cement, are indispensable to the global economy and that's why it is essential to decarbonise and modernise these sectors. Many countries are already adopting carbon taxes and the EU recently released its Green Deal, stating that the EU will aim to reach net-zero greenhouse gas emissions by 2050. As a leader in the mining and cement industries, we recognise our role and shared responsibility to bring these industries into a sustainable future.

We offer sustainable productivity enhancing solutions

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

Please see the Innovation section on page 35-38 if you would like to learn more about a few examples of our many solutions that are driving sustainable productivity.

Unique business model and operational excellence

Through our unique combination of engineering, products and services, we can outgrow the market by helping our customers increase their production output, decrease operating costs and reduce environmental impact. Our streamlined organisation and decentralised service footprint allows us to make more frequent customer visits and ensures that all FLSmidth offerings are available to all customers.

We have an asset-light business model with outsourced manufacturing and flexible cost structure, which allows us to manoeuvre safely through the cycles. We take advantage of significant synergies between our mining and cement operations, which includes shared infrastructure, shared engineering resources, shared service technicians, shared project know-how, shared procurement and a significant technology overlap. Our full lifecycle approach combined with our strong focus on sustainability and digitalization is what makes us stand out from competition and expand the gap between the premium and mid-market.

QUARTERLY PERFORMANCE

GROWTH

Order intake in Q4 decreased 3% due to continued customer hesitation on large capital investments which could not be fully offset by an 8% increase in service orders. Revenue increased 10%, attributable to both Mining and Cement.

Order intake

Order intake in Q4 decreased 3% to DKK 4,389m (Q4 2018: DKK 4,503m). Foreign exchange translation effects had a 1% positive impact on order intake. Service orders accounted for 66% of the order intake.

Mining order intake declined 5%, due to lower capital order intake, partly offset by a 6% increase in service orders. Service orders accounted for 64% of the Mining orders. The acquisition of IMP had a 1% positive impact on Mining order intake.

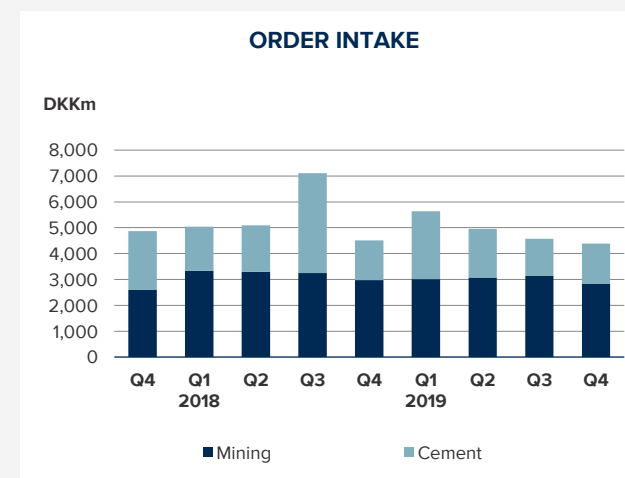
Order intake in Cement increased 2%, comprising an 11% increase in service orders, partly offset by a 14% decline in capital orders. Cement service orders reached a record high level and accounted for 70% of the order intake. The increase related to parts and especially upgrades to improve productivity and decarbonise cement plants.

Currency had a 2% positive impact on Cement order intake.

Growth in order intake in Q4 2019 (vs. Q4 2018)	Mining	Cement	FLSmidth Group
Organic	-6%	0%	-4%
Acquisition	1%	0%	0%
Currency	0%	2%	1%
Total growth	-5%	2%	-3%

GROUP (Continuing activities)

(DKKm)	Q4 2019	Q4 2018	Change (%)	2019	2018	Change (%)
Order intake (gross)	4,389	4,503	-3%	19,554	21,741	-10%
- Hereof service order intake	2,890	2,680	8%	11,250	10,907	3%
- Hereof capital order intake	1,499	1,823	-18%	8,304	10,834	-23%
Order backlog	14,192	16,218	-12%	14,192	16,218	-12%
Revenue	6,022	5,450	10%	20,646	18,750	10%
- Hereof service revenue	2,866	2,613	10%	10,777	10,208	6%
- Hereof capital revenue	3,156	2,837	11%	9,869	8,542	16%
Gross profit	1,327	1,312	1%	4,849	4,693	3%
Gross profit margin	22.0%	24.1%		23.5%	25.0%	
SG&A cost	(747)	(730)	2%	(2,841)	(2,867)	-1%
SG&A ratio	12.4%	13.4%		13.8%	15.3%	
EBITDA before special non-recurring items	580	582	0%	2,008	1,826	10%
EBITDA margin before special non-recurring items	9.6%	10.7%		9.7%	9.7%	
EBITA	487	511	-5%	1,663	1,585	5%
EBITA margin	8.1%	9.4%		8.1%	8.5%	
EBIT	393	419	-6%	1,286	1,220	5%
EBIT margin	6.5%	7.7%		6.2%	6.5%	
Number of employees	11,762	11,253	5%	11,762	11,253	5%



Order backlog

Order backlog for the Group decreased 12% to DKK 14,192m (Q3 2019: DKK 16,088m), due to a high level of revenue conversion and absence of large capital orders in the quarter. 73% of the backlog is expected to be converted to revenue in 2020, 18% in 2021, and 9% in 2022 and beyond.

Revenue

Revenue went up 10% to DKK 6,022m in Q4 2019 (Q4 2018: DKK 5,450m), comprising a 13% increase in Mining and a 6% increase in Cement. Both services and capital business contributed to the high activity level. Organic revenue growth was 8%.

Foreign exchange translation effects and the acquisition of IMP Automation Group each had a 1% positive impact on revenue.

Growth in revenue in Q4 2019 (vs. Q4 2018)	Mining	Cement	FLSmidth Group
Organic	12%	4%	8%
Acquisition	1%	0%	1%
Currency	0%	2%	1%
Total growth	13%	6%	10%

PROFIT

Gross profit was unchanged in Q4, despite higher revenue, and the EBITA margin declined to 8.1%. The decline related to Mining, whereas Cement profitability improved.

Business improvement initiatives

In the third quarter of 2019, we announced that we would accelerate ongoing business improvement initiatives.

The initiatives include site consolidation, an improved logistical setup and a reduction of headcount. Within Mining, our project execution is being consolidated into fewer centres to strengthen competencies in the main centres and ensure better absorption of resources in line with fluctuating capital order intake. Within procurement, we are optimising our warehouse infrastructure and ensuring a better utilisation at manufacturing and assembly sites.

In total, the initiatives are expected to generate an annual EBITA improvement of DKK 100m with a full run-rate from end of 2020. The implementation costs are anticipated to be around DKK 150m.

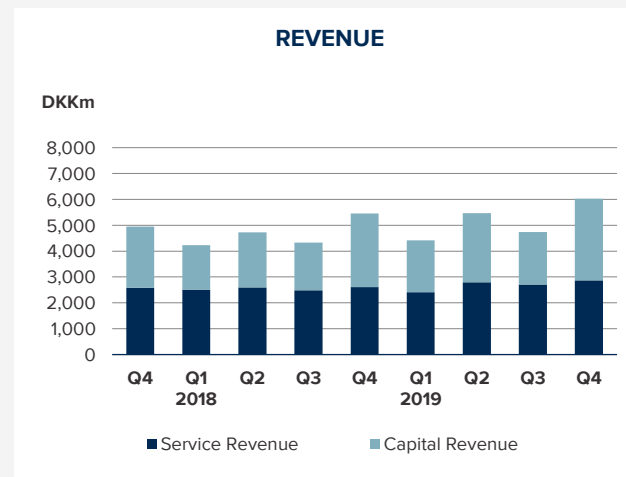
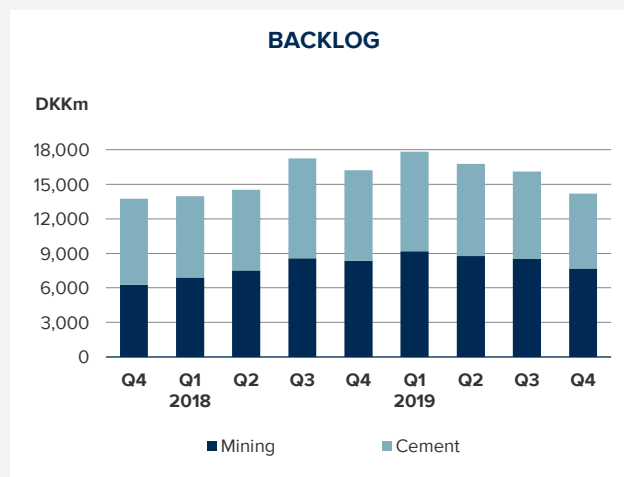
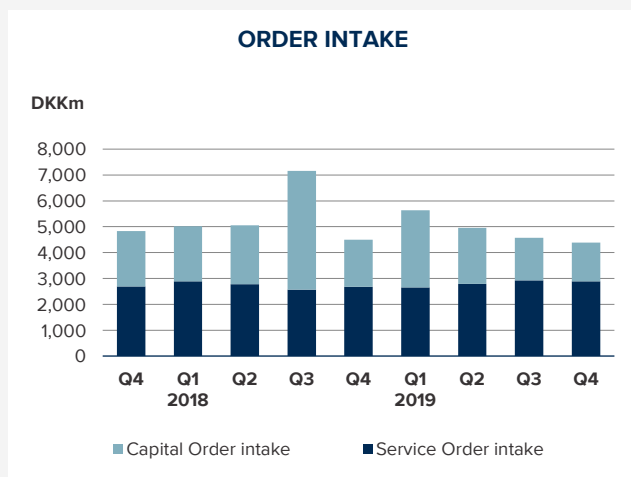
Realised and expected financial impact:

Savings, DKKm	Total	Run-rate	Run-rate
		end 2019	end 2020
EBITA improvement	100	25	100

Cost, DKKm	Total	Q4 2019	2020
Implementation costs	(150)	(40)	(110)

The EBITA improvement run-rate by the end of 2019 was DKK 25m, and the implementation cost in Q4 was DKK 40m.

In January 2020, FLSmidth reduced its workforce by about 500 employees, as part of the business improvement initiatives and as a consequence of current industry caution and delays tied to large capital investments.



Gross profit and margin

Despite the higher level of revenue, gross profit was largely unchanged at DKK 1,327m (Q4 2018: DKK 1,312m), and the gross margin declined to 22.0% (Q4 2018: 24.1%). The decrease related to a 4.0 percentage point decline in Mining, caused by less profitable projects as well as business mix. The effect of IFRS 16 on gross profit was a DKK 17m improvement vs. Q4 2018.

In Q4 2019, total research and development costs (R&D) amounted to DKK 93m (Q4 2018: DKK 87m), representing 1.6% of revenue (Q4 2018: 1.6%), of which DKK 59m was capitalised (Q4 2018: DKK 36m) and the balance of DKK 34m expensed as production costs (Q4 2018: DKK 51m). R&D costs in Q4 related to several projects, including dry stack tailings, new sustainable cement technologies, digitalization, standardisation and ROL. In addition, project-financed developments are taking place in cooperation with customers.

SG&A costs

Sales, general and administrative costs (SG&A) and other operating items amounted to DKK 747m (Q4 2018: DKK 730m). The cost percentage was 12.4% of revenue (Q4 2018: 13.4%). The effect of IFRS 16 on SG&A was a cost reduction of DKK 15m. Without IFRS 16 the cost ratio would have been 12.7%.

Depreciation increased to DKK 93m (Q4 2018: DKK 66m), explained by IFRS 16 effects which led to a DKK 33m increase.

EBITA and margin

EBITA decreased 5% to DKK 487m (Q4 2018: DKK 511m) due to the lower gross margin, as explained above. The corresponding EBITA margin was 8.1% (Q4 2018: 9.4%).

Amortisation of intangible assets amounted to DKK 94m (Q4 2018: DKK 92m). The effect of purchase price allocations amounted to DKK 36m (Q4 2018: DKK 40m) and other amortisation to DKK 58m (Q4 2018: DKK 52m). Earnings before interest and tax (EBIT) decreased 6% to DKK 393m (Q4 2018: 419m).

Net financial items amounted to DKK -71m (Q4 2018: DKK -93m), of which foreign exchange and fair value adjustments amounted to DKK -43m (Q4 2018: DKK -78m) and net interest amounted to DKK -28m (Q4 2018: DKK -15m).

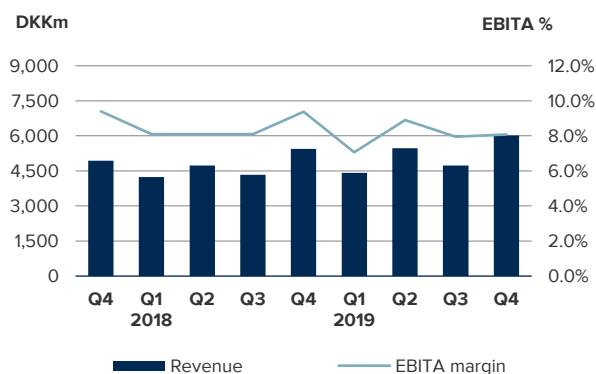
Tax for Q4 2019 totalled DKK -94m (Q4 2018: DKK -21m), corresponding to an effective tax rate of 29% (Q4 2018: 6%). Tax in Q4 2018 was unusually low due to recognition of Group tax assets of DKK 110m, previously valued at nil.

Profit for the period increased to DKK 227m (Q4 2018: DKK 169m), equivalent to DKK 4.5 per share (diluted) (Q4 2018: DKK 3.6).

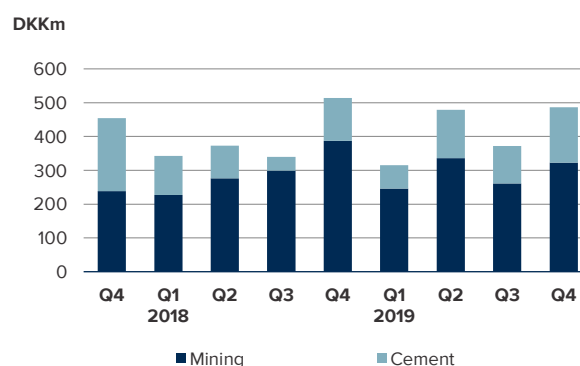
Profit from continuing activities decreased to DKK 229m (Q4 2018: DKK 305m), mainly due to the low tax level in Q4 2018.

Discontinued activities had a DKK -2m impact on profit and loss in Q4 2019 (Q4 2018: DKK -136m). As disclosed in the annual report 2018, FLSmidth retains the responsibility to finalise legacy projects, which are expected to be finalised in 2020. See note 2.11 for further information about discontinued activities.

REVENUE AND EBITA MARGIN



EBITA



CAPITAL

Strong improvement in free cash flow compared to Q4 2018. Net working capital increased modestly, mainly due to a reduction in prepayments from customers.

Net working capital

Net working capital increased to DKK 2,739m at the end of Q4 2019 (end of Q3 2019: DKK 2,624m), mainly related to a reduction in prepayments from customers. The net working capital ratio was 13.3% of revenue (Q3 2019: 13.1% of revenue). High year-end activity led to increased trade receivables, partly offset by a significant reduction in inventories and higher trade payables.

Supply chain financing

Supply chain financing had no impact on the net working capital development from Q3 to Q4 2019 and had a marginal impact when compared to Q4 2018 (see note 3.6).

Equity ratio

Equity at the end of Q4 2019 increased slightly to DKK 8,793m (end of Q3 2019: DKK 8,704m). The equity ratio was 37.4% (end of Q3 2019: 37.6%), well above the long-term target of minimum 30%.

Net interest-bearing debt

Due to a positive free cash flow, net interest-bearing debt (NIBD) decreased to DKK 2,492m (end of Q3 2019: DKK 2,693m). Consequently, the Group's financial gearing was 1.2 (end of Q3 2019: 1.3), well below the long-term maximum threshold of two times NIBD to EBITDA.

Cash flow

Cash flow from operating activities increased to DKK 327m in Q4 2019 (Q4 2018: DKK 97m). The improvement related to discontinued activities and net working capital. Discontinued activities amounted to DKK -25m in Q4 2019 (Q4 2018: DKK -59m) and are not expected to generate any significant net cash flow in 2020. There can, however, be a timing difference between cash paid and cash received related to the outstanding net working capital and provision balances (refer to note 2.11).

Change in net working capital had a DKK 138m negative impact in Q4 2019 (Q4 2018: DKK 254m negative impact), of which discontinued activities accounted for a DKK 23m positive impact (Q4 2018: DKK 56m negative impact).

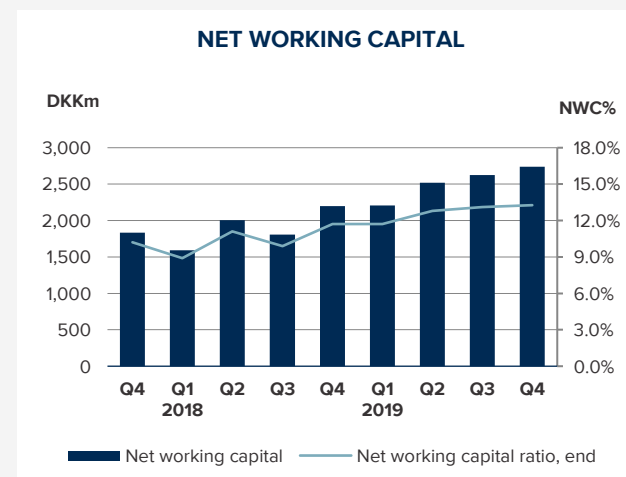
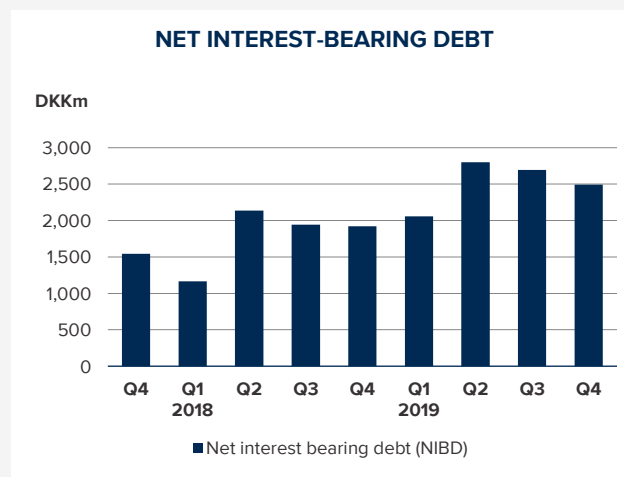
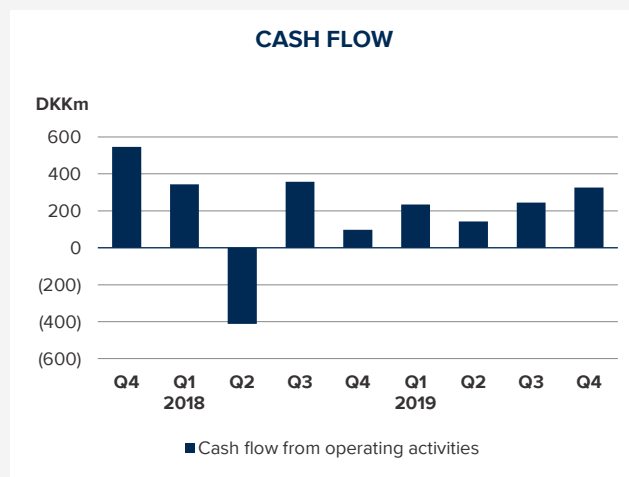
Change in provisions had a DKK 55m positive impact in Q4 2019 (Q4 2018: DKK 57m positive impact). The change related to high project activity in the quarter and the associated build-up of warranty provisions. The impact from discontinued activities was negative DKK 29m.

Cash flow from investing activities amounted to DKK -92m (Q4 2018: DKK -51m), and the free cash flow (cash flow from operating and investing activities) in Q4 amounted to DKK 235m (Q4 2018: DKK 46m).

Free cash flow adjusted for IFRS 16 effects as well as acquisition and disposal of enterprises and activities amounted to DKK 189m (Q4 2018: DKK 46m).

Employees

The number of employees was 11,762 at the end of Q4 2019 (end of Q4 2018: 11,253). Part of the 5% increase on the same quarter last year was due to changed practice for headcount. In Q4 2019, temporary employees were included in the headcount. In Q4 2018, they were not. The other part of the increase was explained by the addition of 130 employees from the acquisition of IMP Automation Group, as well as maintenance workers in South America.



MINING

FINANCIAL PERFORMANCE IN Q4 2019

Despite a 6% growth in service orders, order intake in Q4 2019 decreased by 5% to DKK 2,833m (Q4 2018: DKK 2,980m), due to the prevailing business environment which is causing customers to postpone decisions on large capital investments. The acquisition of IMP had a 1% positive impact on order intake

Revenue increased 13% to DKK 3,537m in Q4 2019 (Q4 2018: DKK 3,117m), driven by both service and capital revenue which increased by 14% and 12% respectively. The increase in revenue was a result of the strong order backlog that has been built up in previous quarters, combined with a continued good momentum in the service business. Acquisitions had a 1% positive impact on revenue in the quarter.

As anticipated, Mining profitability in the fourth quarter was negatively impacted by a changed business mix, the reassessment of the project portfolio and implementation costs related to business improvements. Gross profit, before allocation of shared cost decreased by 3% to DKK 829m (Q4 2018: DKK 853m), and the corresponding gross margin decreased to an unsatisfactory 23.4% (Q4 2018: 27.4%). EBITA decreased by 17% to DKK 323m (Q4 2018: DKK 387m), and the EBITA margin decreased to 9.1%, (Q4 2018: 12.4%). Business improvement initiatives are being implemented to re-establish a satisfactory level of profitability.

FINANCIAL PERFORMANCE IN 2019

In 2019, order intake decreased by 6% to DKK 12,064m (2018: DKK 12,866m), explained by increased customer hesitation on large capital investments. The hesitation related to

increased macroeconomic uncertainty and, in particular, issues regarding miners' license to operate. The market for services remained stable at a good level, and service orders grew 1%. The acquisition of IMP had a 1% positive impact on order intake.

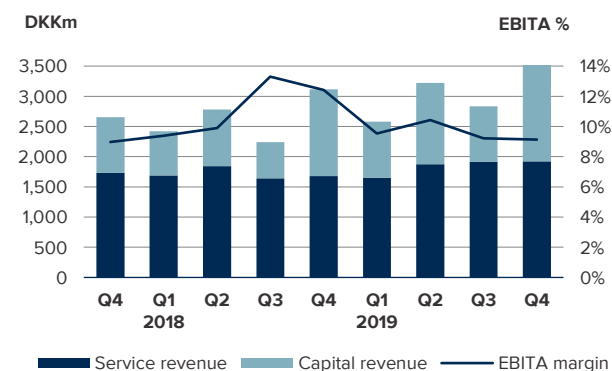
As a result of the strong capital order intake in 2018 and continued good momentum in the service business during 2019, revenue increased 15% to DKK 12,169m (2018: DKK 10,557m). The capital business was the main driver and represented a revenue increase of 30%, whilst the service revenue increased by 7%.

EBITA decreased by 2% to DKK 1,166m (2018: DKK 1,189m), mainly as a result of the unfavourable development in business mix and a lower than expected profitability on some mining projects. The corresponding EBITA margin decreased to 9.6% (2018: 11.3%).

MINING

(DKKm)	Q4 2019	Q4 2018	Change (%)	2019	2018	Change (%)
Order intake (gross)	2,833	2,980	-5%	12,064	12,866	-6%
- Hereof service order intake	1,807	1,707	6%	7,534	7,441	1%
- Hereof capital order intake	1,026	1,273	-19%	4,530	5,425	-16%
Order backlog	7,683	8,350	-8%	7,683	8,350	-8%
Revenue	3,537	3,117	13%	12,169	10,557	15%
- Hereof service revenue	1,924	1,681	14%	7,370	6,858	7%
- Hereof capital revenue	1,613	1,436	12%	4,799	3,699	30%
Gross profit before allocation of shared cost	829	853	-3%	3,071	2,956	4%
Gross profit margin before allocation of shared cost	23.4%	27.4%		25.2%	28.0%	
EBITA before allocation of shared cost	528	589	-10%	1,974	1,972	0%
EBITA margin before allocation of shared cost	14.9%	18.9%		16.2%	18.7%	
EBITA	323	387	-17%	1,166	1,189	-2%
EBITA margin	9.1%	12.4%		9.6%	11.3%	
EBIT	256	323	-21%	905	937	-3%
EBIT margin	7.2%	10.4%		7.4%	8.9%	
Number of employees	5,392	4,738	14%	5,392	4,738	14%

REVENUE AND EBITA MARGIN



CEMENT

FINANCIAL PERFORMANCE IN Q4 2019

Despite challenging market conditions, the overall financial performance of Cement showed a positive development in 2019, driven by internal efficiency improvements.

Order intake increased by 2% to DKK 1,556m in Q4 2019 (Q4 2018: DKK 1,524m), driven by a record high service order intake. Service orders increased by 11% compared to Q4 2018 and 20% compared to Q3 2019. No large orders were received in the fourth quarter, and capital order intake decreased by 14% compared to the same quarter last year.

Revenue increased by 6% to DKK 2,485m in Q4 2019 (Q4 2018: DKK 2,335m), mainly as a result of high order backlog conversion but also a 2% positive currency impact.

Internal efficiency measures and a selective approach to large projects have had a material positive impact on the results. Gross profit, before allocation of shared cost increased 14% to DKK 543m (Q4 2018: DKK 475m), and the corresponding gross margin increased to 21.9% (Q4 2018: 20.4%). EBITA increased 28% to DKK 163m (Q4 2018: DKK 127m) and the EBITA margin increased to 6.6%, (Q4 2018: 5.4%).

FINANCIAL PERFORMANCE IN 2019

Order intake decreased 16% to DKK 7,490m in 2019 (2018: DKK 8,881m), due to a lower level of large capital orders, which could not be fully offset by a strong 7% increase in service orders.

2018 contained two very large project orders awarded in the third quarter, together worth DKK 1.9bn. Adjusting for this,

the capital order intake was at the same level as in 2018. The lower capital order intake should also be seen in the context of our efforts to increase profitability by improving our pricing discipline and being more selective on large projects. Currency had a 2% positive impact on order intake.

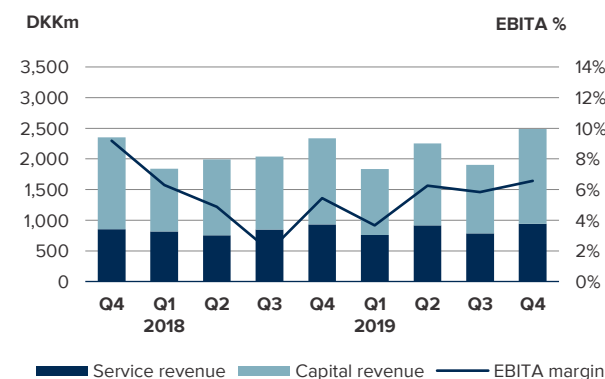
Revenue in 2019 increased by 3% to DKK 8,477m (2018: DKK 8,204m), partly due to currency effects which had a 2% positive impact.

Internal efficiency measures and a selective approach to large projects have allowed for a 28% increase in EBITA to DKK 486m (2018: DKK 381m) and an increase of the EBITA margin to 5.7% (2018: 4.6%).

CEMENT

(DKKm)	Q4 2019	Q4 2018	Change (%)	2019	2018	Change (%)
Order intake (gross)	1,556	1,524	2%	7,490	8,881	-16%
- Hereof service order intake	1,083	973	11%	3,716	3,466	7%
- Hereof capital order intake	473	551	-14%	3,774	5,415	-30%
Order backlog	6,509	7,872	-17%	6,509	7,872	-17%
Revenue	2,485	2,335	6%	8,477	8,204	3%
- Hereof service revenue	942	932	1%	3,407	3,350	2%
- Hereof capital revenue	1,543	1,403	10%	5,070	4,854	4%
Gross profit before allocation of shared cost	543	475	14%	1,881	1,796	5%
Gross profit margin before allocation of shared cost	21.9%	20.4%		22.2%	21.9%	
EBITA before allocation of shared cost	331	321	3%	1,148	1,070	7%
EBITA margin before allocation of shared cost	13.3%	13.7%		13.5%	13.0%	
EBITA	163	127	28%	486	381	28%
EBITA margin	6.6%	5.4%		5.7%	4.6%	
EBIT	136	99	37%	370	268	38%
EBIT margin	5.5%	4.2%		4.4%	3.3%	
Number of employees	4,882	5,087	-4%	4,882	5,087	-4%

REVENUE AND EBITA MARGIN



QUARTERLY KEY FIGURES

DKKm	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
INCOME STATEMENT												
Revenue	4,371	4,585	4,101	4,943	4,235	4,730	4,335	5,450	4,416	5,472	4,736	6,022
- Hereof service revenue	2,675	2,613	2,609	2,583	2,507	2,599	2,489	2,613	2,414	2,794	2,703	2,866
- Hereof capital revenue	1,696	1,972	1,492	2,360	1,728	2,131	1,846	2,837	2,002	2,678	2,033	3,156
Gross profit	1,134	1,164	1,065	1,234	1,074	1,181	1,126	1,312	1,081	1,315	1,126	1,327
SG&A costs and other operating items	(698)	(759)	(667)	(741)	(678)	(741)	(718)	(730)	(686)	(741)	(667)	(747)
EBITDA before special non-recurring items	436	405	398	493	396	440	408	582	395	574	459	580
Special non-recurring items	0	0	(4)	55	3	0	0	(5)	0	0	0	0
Depreciations and write-downs of property, plant and equipment	(64)	(63)	(58)	(83)	(56)	(59)	(58)	(66)	(83)	(87)	(82)	(93)
EBITA	372	342	336	465	343	381	350	511	312	487	377	487
Amortisation and impairment of intangible assets	(100)	(105)	(102)	(93)	(95)	(82)	(96)	(92)	(94)	(106)	(83)	(94)
EBIT	272	237	234	372	248	299	254	419	218	381	294	393
Income from associates	0	0	0	0	0	0	0	0	0	0	2	1
Financial income/costs, net	(34)	(94)	(101)	(82)	(35)	(16)	(17)	(93)	(3)	(32)	(12)	(71)
EBT	238	143	133	282	213	283	237	326	215	349	284	323
Tax for the period	(60)	(51)	(38)	(230)	(66)	(95)	(66)	(21)	(70)	(115)	(94)	(94)
Profit/loss on continuing activities for the period	178	92	95	52	147	188	171	305	145	234	190	229
Profit/loss on discontinued activities for the period	(17)	(17)	(72)	(237)	(11)	(20)	(9)	(136)	(9)	(11)	0	(2)
Profit/loss for the period	161	75	23	(185)	136	168	162	169	136	223	190	227
Effect of purchase price allocation	(55)	(55)	(55)	(55)	(40)	(40)	(40)	(40)	(30)	(30)	(32)	(36)
<i>Gross margin</i>	25.9%	25.4%	26.0%	25.0%	25.4%	25.0%	26.0%	24.1%	24.5%	24.0%	23.8%	22.0%
<i>EBITDA margin before special non-recurring items</i>	10.0%	8.8%	9.7%	10.0%	9.4%	9.3%	9.4%	10.7%	8.9%	10.5%	9.7%	9.6%
<i>EBITA margin</i>	8.5%	7.5%	8.2%	9.4%	8.1%	8.1%	8.1%	9.4%	7.1%	8.9%	8.0%	8.1%
<i>EBIT margin</i>	6.2%	5.2%	5.7%	7.5%	5.9%	6.3%	5.9%	7.7%	4.9%	6.9%	6.2%	6.5%
Cash flow from operating activities	149	(44)	414	546	343	(412)	357	97	234	143	244	327
Cash flow from investing activities	(35)	(65)	(69)	56	(42)	(83)	(109)	(51)	(85)	(373)	(111)	(92)
Net working capital	2,182	2,477	2,232	1,833	1,590	2,003	1,809	2,200	2,207	2,519	2,624	2,739
Order intake, continuing activities (gross)	5,561	4,580	4,193	4,836	5,018	5,056	7,164	4,503	5,640	4,954	4,571	4,389
- Hereof service order intake	2,868	2,653	2,501	2,693	2,885	2,773	2,569	2,680	2,648	2,784	2,928	2,890
- Hereof capital order intake	2,693	1,927	1,692	2,143	2,133	2,283	4,595	1,823	2,992	2,170	1,643	1,499
Order backlog, continuing activities	14,998	14,115	13,799	13,654	13,874	14,454	17,228	16,218	17,824	16,762	16,088	14,192

Unaudited figures

DKKm	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SEGMENT REPORTING												
Mining												
Revenue	2,338	2,468	2,310	2,653	2,418	2,780	2,242	3,117	2,579	3,221	2,832	3,537
- Hereof service revenue	1,659	1,672	1,761	1,729	1,689	1,844	1,644	1,681	1,654	1,876	1,916	1,924
- Hereof capital revenue	679	796	549	924	729	936	598	1,436	925	1,345	916	1,613
Gross profit before allocation of shared costs	666	717	672	695	653	739	711	853	689	840	713	829
EBITA before allocation of shared costs	442	469	463	488	434	493	456	589	442	541	463	528
EBITA	238	269	263	238	227	276	299	387	246	336	261	323
EBIT	174	202	198	175	165	221	228	323	180	274	195	256
<i>Gross margin before allocation of shared costs</i>	28.5%	29.1%	29.1%	26.2%	27.0%	26.6%	31.7%	27.4%	26.7%	26.1%	25.2%	23.4%
<i>EBITA margin before allocation of shared costs</i>	18.9%	19.0%	20.0%	18.4%	18.0%	17.8%	20.3%	18.9%	17.1%	16.8%	16.3%	14.9%
<i>EBITA margin</i>	10.2%	10.9%	11.4%	9.0%	9.4%	9.9%	13.3%	12.4%	9.5%	10.4%	9.2%	9.1%
<i>EBIT margin</i>	7.4%	8.2%	8.6%	6.6%	6.8%	7.9%	10.2%	10.4%	7.0%	8.5%	6.9%	7.2%
Order intake (gross)	2,670	2,407	2,737	2,589	3,339	3,297	3,250	2,980	3,008	3,075	3,148	2,833
- Hereof service order intake	1,863	1,788	1,609	1,714	2,084	1,948	1,702	1,707	1,802	1,901	2,024	1,807
- Hereof capital order intake	807	619	1,128	875	1,255	1,349	1,548	1,273	1,206	1,174	1,124	1,026
Order backlog	6,529	6,064	6,230	6,261	6,900	7,526	8,579	8,350	9,171	8,757	8,544	7,683
Cement												
Revenue	2,076	2,159	1,843	2,352	1,841	1,990	2,038	2,335	1,837	2,251	1,904	2,485
- Hereof service revenue	1,022	928	848	853	818	754	846	932	760	918	787	942
- Hereof capital revenue	1,054	1,231	995	1,499	1,023	1,236	1,192	1,403	1,077	1,333	1,117	1,543
Gross profit before allocation of shared costs	464	484	367	573	433	456	432	475	408	496	434	543
EBITA before allocation of shared costs	297	249	250	427	304	295	150	321	235	319	263	331
EBITA	116	76	79	216	116	97	41	127	69	143	111	163
EBIT	81	37	42	186	82	71	16	99	41	99	94	136
<i>Gross margin before allocation of shared costs</i>	22.4%	22.4%	19.9%	24.4%	23.5%	22.9%	21.2%	20.4%	22.2%	22.0%	22.8%	21.9%
<i>EBITA margin before allocation of shared costs</i>	14.3%	11.5%	13.6%	18.2%	16.5%	14.8%	7.4%	13.7%	12.8%	14.1%	13.8%	13.3%
<i>EBITA margin</i>	5.6%	3.5%	4.3%	9.2%	6.3%	4.9%	2.0%	5.4%	3.7%	6.3%	5.8%	6.6%
<i>EBIT margin</i>	3.9%	1.7%	2.3%	7.9%	4.5%	3.6%	0.8%	4.2%	2.2%	4.4%	4.9%	5.5%
Order intake (gross)	2,918	2,205	1,489	2,277	1,707	1,792	3,858	1,524	2,632	1,879	1,423	1,556
- Hereof service order intake	1,008	857	891	979	801	825	867	973	846	883	904	1,083
- Hereof capital order intake	1,910	1,348	598	1,298	906	967	2,991	551	1,786	996	519	473
Order backlog	8,650	8,197	7,697	7,473	7,057	7,003	8,653	7,872	8,653	8,005	7,544	6,509

Unaudited figures

BUSINESS



FLSMIDTH AT A GLANCE

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

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



We are

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



MissionZero

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



60+

Countries

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



11,765

Employees

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



Our vision

We drive success through sustainable productivity enhancement

Our brand promise

We discover potential

FLSMIDTH IN THE WORLD

7

Regional headquarters

3

Global technology or shared service centres

76

Local sales and service offices

6

Service super centres in mining clusters

23

In-house workshops (70-80% outsourced)



INDUSTRY TRENDS AND DRIVERS

DEMAND DRIVERS

Demand for minerals and cement are driven by economic growth and growing populations. Continued industrialisation and urbanisation in emerging markets drives demand for infrastructure and higher standards of living. Economic growth across the globe creates a steady need for new homes, office buildings, roads and ports, all driving the demand for cement.

Metals are an essential part of modern living and they play a very important role in creating a more sustainable future. The world is becoming more committed to decarbonisation and getting there will take a monumental shift from traditional fossil fuels to a higher level of renewable generation. As energy becomes cleaner and cheaper, electrification of transport and other energy-heavy sectors will accelerate. The green transition is increasing the demand for the metals and minerals needed to produce wind turbines, solar panels, electric vehicles, refrigeration, air conditioning and other electronic equipment. Technological advancement and decarbonisation will accelerate demand for minerals.



DEMAND DRIVERS

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

SUPPLY TRENDS

Environmental approvals and community issues continue to be the main reason for stalled new mining projects, and a number of mining companies are experiencing increasing difficulties to obtain licenses for new projects. At the same time, the declining grades of most of the world's mining resources is one of the biggest challenges faced by mining operations around the world today. Mining companies will have to embrace new ways to cope with the declining ore grades and they must find new ways in which to mine smarter, improve extraction rates and reduce operational costs. As mining companies look to secure long-term growth, they are also increasingly expanding their operations to countries with a higher geopolitical risk profile or to more remote environments.

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



SUPPLY TRENDS

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

TRENDS AND POLITICAL BARRIERS

The challenges of climate change and the green transition is one of today's most important themes. It is imperative to improve the methods used to produce cement and to operate mines, and companies in both industries are increasingly leveraging the development of digital and innovative solutions to transition to sustainable forms of production. In both mining and cement, the race to transform business models calls for suppliers, such as FLSmidth, who can offer new sustainable technologies to address challenges such as rising costs, tighter regulations and increased sustainable and societal expectations.

At the same time, the industry faces enormous challenges as trade wars and political barriers are escalating. Companies will need to find a way to navigate through import and export limitations, and plan for the potential effect on their business and how to mitigate the risks.



TRENDS AND POLITICAL BARRIERS

- Sustainability
- Productivity
- Innovation and digitalization
- Full service supply
- Trade war tensions

MINING MARKET TRENDS

Continued good aftermarket and hesitation on large investments

Global economic headwinds combined with challenges regarding community relations have dominated the sentiment in the mining market during 2019. The social and regulatory license to operate is considered the key risk for miners, escalated by the significant disruption caused by issues regarding permits during the year. Social unrest and political instability have become a concern especially in South America, and mining companies have experienced fierce opposition from local residents who fear pollution and loss of water supply. Consequently, we continue to receive strong interest in our sustainable technologies and tailings management, which can help mining companies maximise safety and attain a license to operate.

The slowdown in global trade flows, headwinds to Chinese demand for base metals as well as the weakness in global industrial output pushed down prices for most commodities during the year. Copper prices fell during the larger part of 2019, but surged to the highest level in seven months in mid-December after reports that the US and China were closing in on a limited trade deal. The gold price soared to its highest in nearly seven years towards the end of the year.

The tendency of cautious investment behaviour continued throughout 2019. Greenfield activity and other large capital investments have been limited and main activities have been focused on smaller brownfield expansions, single equipment and OPEX to improve productivity and reduce production costs. Miners are, overall, in a healthy financial position and have the ability and fundamental need to invest. This is reflected in our pipeline which remains encouraging, and includes opportunities for larger investments.

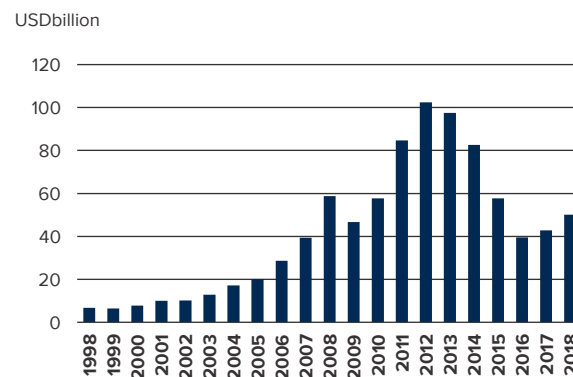
Metals are vital for the development of the green economy

Trade war tensions will likely continue to influence the price of copper and other minerals in 2020. However, as the global trend of decarbonisation accelerates, there will be a growing demand for minerals. The green economy is metal intensive and especially copper plays a key role in creating a more sustainable future. Copper is needed for the electrification of transport and it is also central to the production of a variety of technologies, including batteries, smart phones and laptops. An electric vehicle contains five times more copper than an internal combustion engine vehicle. The biggest offshore wind turbines contain up to 30 tonnes of copper and each high-speed train uses about 20 tonnes of copper-containing components. At the same time, copper

grades are declining which means more material needs to be processed to keep supply at similar levels.

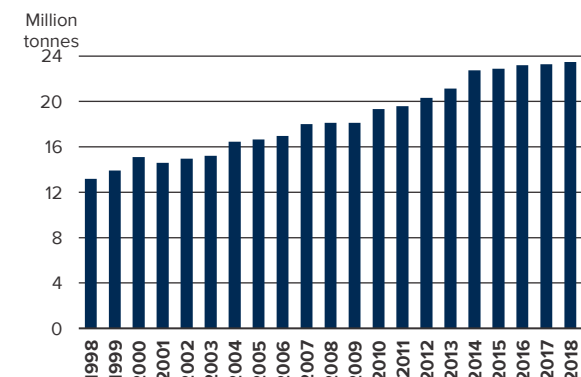
Furthermore, the manufacturing sector is facing greater scrutiny from end consumers, demanding a transparent, ethical supply chain. As an example, carmakers are pressured to ensure the materials used for electric vehicle production are responsibly sourced. This clearly points to an increasing need for leading solution providers, like FLSmidth, who can help miners make their production more digital and sustainable.

CAPEX TREND IN MINING



Source: Bloomberg

GLOBAL COPPER CONSUMPTION



Source: Bloomberg

CEMENT MARKET TRENDS

Global growth remains subdued

GDP growth, urbanisation and infrastructure investments continue to be the main drivers for cement demand. As trade tensions between the US and China escalated throughout 2019, global GDP growth slowed to an estimated 2.9%. Persistent monetary stimulus has cushioned the impact, but uncertainty prevails for 2020 due to the lack of visibility on the macro risks. However, the phase-one trade agreement between the US and China and a potential de-escalation of the trade war could provide a recovery in business confidence, which should be able to help stabilise the economy and boost global growth in 2020.

Stable level of market activity

The cement market remained stable during the year with a resilient pricing environment. The market for new cement capacity remains subdued on a global scale, and despite recent hesitation on large capital investments, we see good local opportunities and a steady demand for equipment and sustainability-driven efficiency improvements. We are experiencing an activity increase in parts of Africa, South America and Southeast Asia, as these regions further develop their infrastructure. We see continued good momentum in the service business, and we have a strong pipeline of opportunities relating to operation efficiency, digitalization and solutions supporting a lower environmental impact.

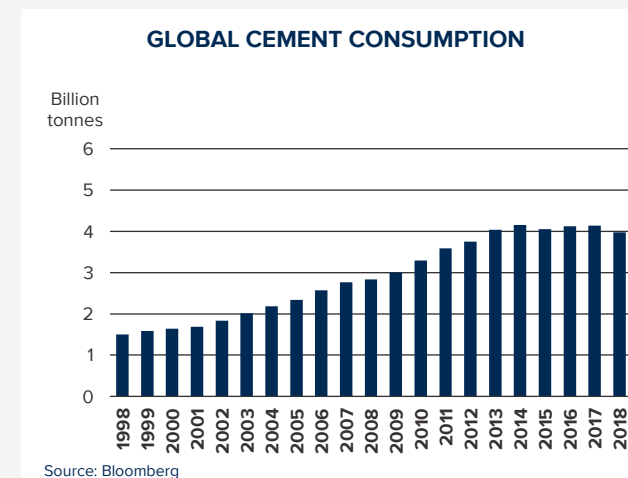
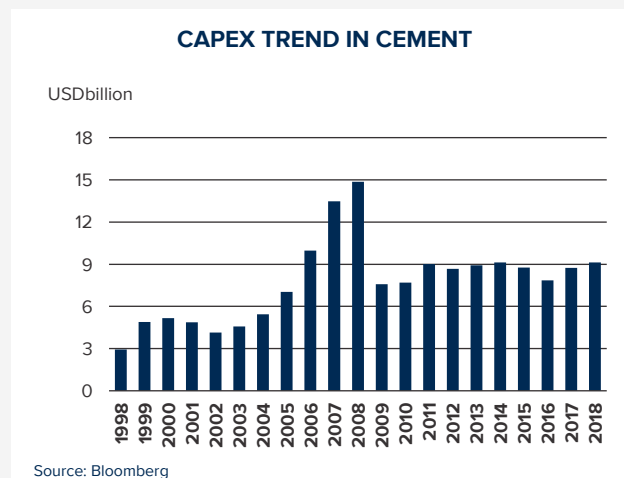
Sustainability as a driver for growth

The cement industry is transforming from traditional stand-alone machinery to fully integrated, digitalized manufacturing to cope with sustainability demands and to increase productivity.

During the course of 2019, the sustainability agenda has truly gained traction and one of the major trends in the industry is the rising demand for green cement. Low utilisation levels still prevail in many parts of the developed world, but the increasing use of energy efficient and low emission technologies drive growth prospects and our customers are increasingly stepping up investments in reducing their carbon emissions as both regulators and investors are putting pressure to reduce global warming. CO2 allowance prices are ramp-

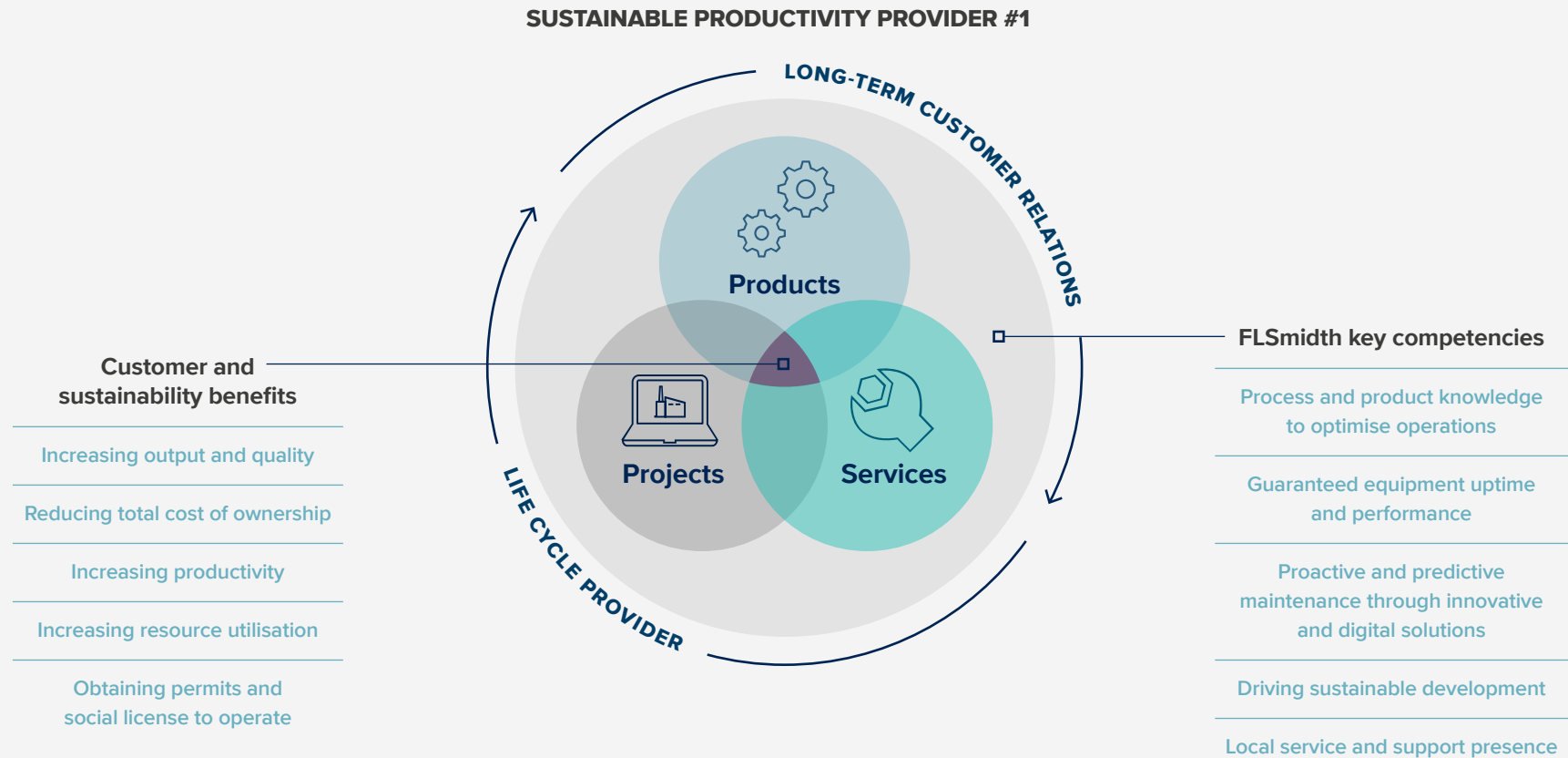
ing up and environmental regulations will likely start to constrain supply in developed markets like Europe and North America.

As carbon emission allowances become an increasing share of producers' cost base, their incentive to replace and upgrade equipment should increase over time.



STRATEGY AND BUSINESS MODEL

BUSINESS MODEL A UNIQUE COMBINATION OF PROJECTS, PRODUCTS AND SERVICES



INDUSTRY SYNERGIES

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

Scale benefits and shared services

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

The main part of a typical project is relatively standardised engineering, which allows for sharing and moving resources between mining and cement projects.

India and China host the Group’s shared assembly and production facilities.

Shared know-how

A significant advantage of having mining and cement business under the same roof is the technology overlap. Many of the products used in the two industries are similar, including crushing, grinding, material handling, automation and air pollution control systems.

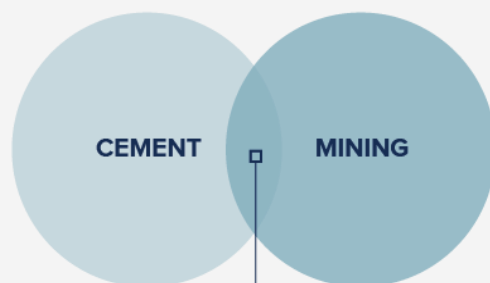
This allows for shared strategic procurement and to some extent co-innovation. Further, the project management skills needed in mining and cement (process know-how, risk management, project execution, etc.) are largely the same and best practices are shared between the two businesses.

Cyclical industries

Although they do not follow exactly the same cycle, mining and cement are both cyclical industries by nature, particularly regarding investments in new capacity. FLSmidth has a dynamic business model with mostly outsourced manufacturing and a flexible cost structure, which allows us to manoeuvre safely through the cycles. Further, a high share of service business (50-60%) reduces the cyclicity of the entire Group as the service business is more resilient and stable by nature.



FLSmidth benefits from substantial cost synergies across its Mining and Cement business. A dynamic business model with mostly outsourced manufacturing and a flexible cost structure allows us to manoeuvre safely through the cycles.



Scale benefits

- Shared global infrastructure
- Shared global supply chain

Shared services

- Engineering
- Procurement
- IT
- Finance
- HR

Know-how

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

MINING

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

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

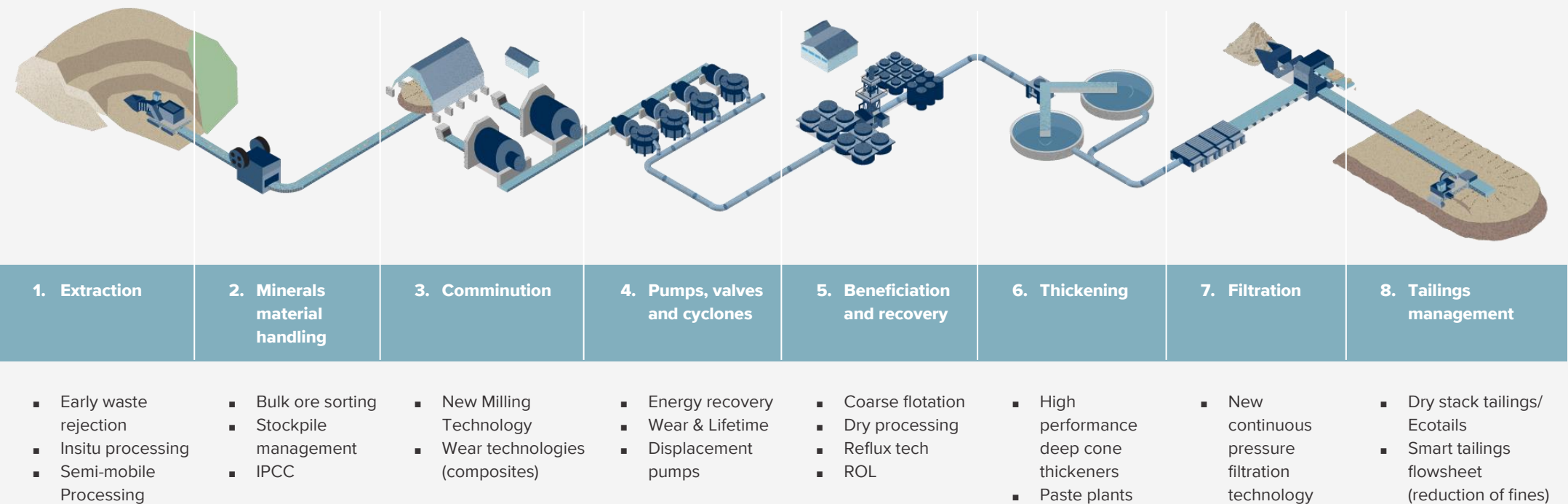
We increase customer productivity of the complete "pit to plant" operation by integrating upstream mining with downstream processing. Our broad offering ranges all the way from 'in-pit-crushing-and-conveying' (IPCC) to recovery and refining of the minerals and tailings management.

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

hardness and the minerals concentration, which is used to determine the optimal grinding and separation process.

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

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



CEMENT

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

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

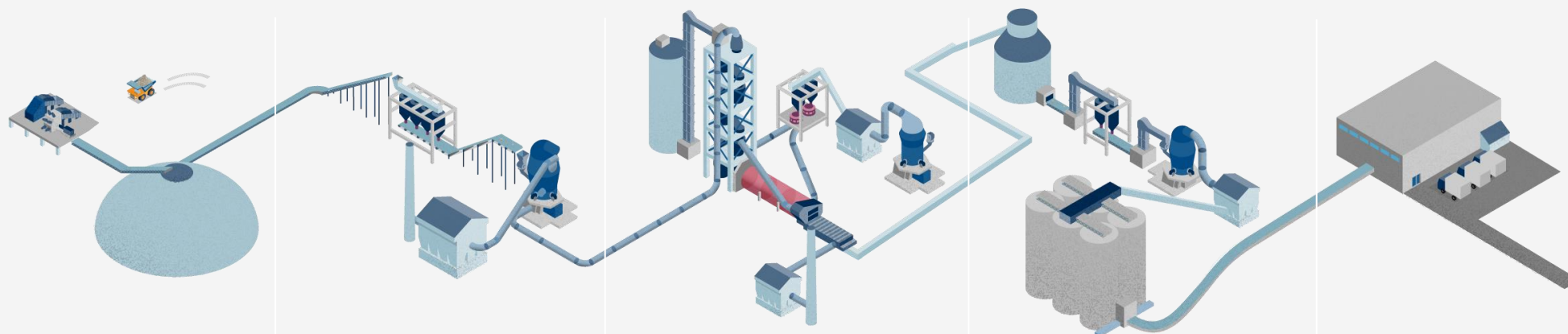
Years ago, the cement market divided into a premium market and a mid-market. The premium market consists of customers valuing lower total cost of ownership, more flexible and environmentally friendly cement plants and local construction. FLSmidth caters to the premium market with equipment, services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

The mid-market is characterised by customers preferring the lowest initial investment. This market is dominated by Asian suppliers. When Asian suppliers sell a complete cement plant (outside of China) the customer will most often require that the key equipment for the plant is delivered by a premium original equipment manufacturer (OEM). It is

our ambition to be the preferred OEM for such deals. To that end, we are consequently working on offering not only the best complete cement plants, but to become the preferred brand for all key equipment in a cement plant. For example, we have strongly improved our mill performance in recent years, which has resulted in a market-leading position and significantly increased mill orders.

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

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



1. Crushing and material handling

- Advanced quarry management with alternative raw materials to optimise the mix

2. Raw meal grinding

- High-efficiency mills with lower power consumption

3. Pyro process and clinker cooling

- Alternative fuels
- Conversion of emitted gases into useful products
- Power generation from gas flow
- Advanced dust collection
- Improved refractories

4. Cement grinding and storage

- Reduced clinker content through use of e.g. slag, fly ash, limestone, natural pozzolans or recycled fillers
- Low-water use mill design

5. Cement handling and packaging

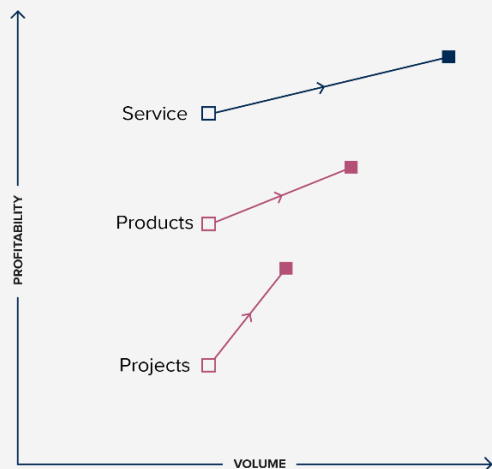
- Truck loaders
- Packers and palletisers
- Silo equipment

STRATEGY

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

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

Our business model is anchored around a unique combination of projects, products and services. However, we have a strategic focus to expand the share of services and standardised products relative to the share of large projects.



With this focus we will, over time, obtain a more profitable business mix and a less cyclical business with a lower level of risk. Projects will remain core in our offering, and the process expertise we gain from doing projects is key to offering customers productivity. We will, nonetheless, be selective on large projects to ensure that terms and conditions are supporting our profitability targets.

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

CUSTOMERS

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

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

Being close to our customers is key. Combining local presence with global support and expertise makes it possible to deliver premium solutions where our customers need them. Our large number of local sales and service offices ensures frequent customer interaction and high speed of delivery, and we continue to open new sales and service offices around the world to cover new geographical regions and overcome the increasing challenge of trade barriers.

Despite cyclical end markets, we consistently give priority to maintaining and developing a strong and competent sales force, keeping in mind that our customer relationships during the downturn define our success in the industry upturn. We always strive to minimise administrative functions and allocate resources to sales and service.

STRATEGIC FOCUS AREAS



As a result, a much greater share of our employees today has direct customer contact. Our customers recognise us for our high quality and reliability, which is also reflected in our quality KPI, DIFOT (Delivery in full on time). DIFOT has risen from 84% in 2016 to 88% in 2019.

SUSTAINABILITY

FLSmidth's relatively asset light business model means that our in-house environmental footprint is very modest compared to that of our customers. One of the large cement producers has a carbon footprint about 4,000 times that of FLSmidth, and our annual water consumption equals roughly two weeks of water consumed by a copper mine (100,000 tpy). Still, we work to minimise our in-house footprint, but we clearly have a much greater impact helping our customers reduce their footprint. For that reason, we launched Mission-Zero, which is explained in more detail on page 33-34.

INNOVATION & DIGITALIZATION

We have strong digital capabilities founded on our extensive experience in automating cement plants, which positions us as a market leader in analysing and understanding performance data. An increasing share of our products and solutions offered to the cement as well as the mining industry is becoming intelligent and self-learning.

We sell more than services, products and plants. We deliver sustainable productivity, and the benefits to the customers are clear: more reliable operations, increased uptime as well as proactive, predictive and increasingly also prescriptive maintenance.

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

where FLSmidth has a leading position and a strong competitive edge.

Our key to productivity is a full flow-sheet of premium sustainable technologies (see page 28-29), combined with strong process know-how and a broad range of services.

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

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

Digitalization offers a huge potential, but first and foremost we see it as an enabler. It will become a natural and integral part of our current product portfolio and will only to a limited extent become a new and independent business area.

Read more about innovation and digitalization at FLSmidth on page 35-40.

LIFE CYCLE APPROACH

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

Our digitalization efforts will help pave the way for growing our spare- and wear parts business in the years to come, as customers increasingly buy solutions rather than single parts and equipment. Over the years, we have successfully built a



large service business focusing on spare parts, upgrades and maintenance. However, there is also a high-potential business area that we only started addressing a few years back: the market for wear parts, which accounts for a large share of the overall aftermarket. Although wear parts are more exposed to competition than spare parts, they represent a big potential for profitable growth, enabling us to offer complete life cycle solutions and being our customers' preferred business partner. Our customers now benefit from the most comprehensive combined product portfolio in the industry, and they will be able to increase the productivity of the complete value chain. A full flowsheet facilitates digital access to all key processes and equipment. To be able to address issues before equipment breaks down, we create powerful connections between physical and digital systems which lay the foundation for analytics-driven predictive maintenance. We can then digitalise the entire supply chain to provide pro-active condition monitoring and data collection, identifying damage or wear ahead of any failure.

FLSmidth has a strong portfolio of market leading products with a potential for expanding in existing or adjacent markets. We have been growing our product sales in recent years, but we have not realised the full potential of our strong product brands. In 2018, we changed our operating model to accelerate growth, and this has proven to be the ideal platform for further strengthening product and service sales in the coming years.

STANDARDISATION

Through value engineering and modularisation, we rethink the designs of our products to reduce cost and complexity without compromising on quality and functionality.

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

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

OUR VALUES

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



TOWARDS ZERO EMISSIONS IN MINING AND CEMENT

With MissionZero, we enable our customers in cement and mining to move towards zero emissions by 2030. As a leader in the cement and mining industries, we see a significant business opportunity in bringing these industries into a sustainable future.

The Zero emission cement plant

Commercially competitive with cement quality guaranteed



Zero emissions



100% fuel substitutions



Zero waste

The Zero emission mining process

Commercially competitive with a minimised environmental footprint



Zero water waste



Zero emissions



Zero energy waste

MISSIONZERO

In 2019, we announced the global launch of MissionZero, sending a strong message to our customers that we are determined to provide zero emissions technology to mining and cement industries by 2030.



With economic growth, urbanisation and growing populations comes the demand for infrastructure, such as housing, schools, hospitals and roads. Added to this, modern conveniences such as air conditioning, appliances and smartphones are high in demand, and renewable energy options such as electric cars, wind and solar energy are looked to as the future. All of that requires cement and minerals, and demand will only continue to rise. In 2019, we launched MissionZero to seize the opportunity to maintain and increase production and at the same time drive emissions towards zero.

Central to MissionZero is our focus on enabling our customers in mining and cement to move towards zero emissions. We will do so by leveraging the development of digital and innovative solutions tied to sustainable productivity, offering our customers the required technological solutions.

We will develop solutions that will enable our customers to operate cement plants with zero emissions, 100% fuel substitution and zero waste in 2030.

Also, we will develop solutions that will enable our customers to manage mining processes with zero water waste, zero emissions and zero energy waste in 2030.

TOWARDS A WATERLESS MINING PROCESS

Water is a scarce resource in many parts of the world and represents a rising cost for our mining customers. We have set a goal to offer customers solutions that support zero water waste by 2030, building on the success of recent developments, such as our dry stack tailings solution (DST). Utilising DST can recover up to 95% of process water while being economically competitive with alternative water management options such as desalination, even for high tonnages.

Ambitious goals require collaborative efforts

Underlining our commitment to drive sustainable solutions, FLSmidth was among the first companies to join the GCCA's Innovandi - Global Cement and Concrete Research Network. This new network brings together the cement and concrete industry with scientific institutions to drive and support global innovation with actionable research. It aims to decisively build on the industry's sustainability progress with the focus on reducing emissions and achieving better use of alternative fuels.

TOWARDS ZERO EMISSIONS IN CEMENT

We estimate that we can reduce the CO₂ emissions per kg cement by approximately 70% by 2030 by leveraging opportunities within existing pioneering technologies, innovation projects and early-stage R&D. To achieve this, we are developing solutions such as blending clinker with alternative materials, exploring the use of new types of cements and providing solutions to cement producers to operate 100% alternative fuelled cement plants including waste-to-energy solutions.

In addition, we will accelerate solutions to close the remaining gap (30%). As these solutions do not exist today, we will

actively seek knowledge partnerships with other companies and suppliers to co-create solutions.



MissionZero goes beyond what is feasible today, and requires a paradigm shift in how industry players collaborate and innovate. As a leader in the mining and cement industries, we have a responsibility to accelerate the development and adoption of sustainable solutions.

With MissionZero, we commit to our most ambitious goals to date. We are doing it because it is necessary, because it is sound business, and because it provides us with a competitive edge. We are the go-to-partner for sustainable productivity, and are perfectly positioned to address the challenges our customers face such as rising costs, tighter regulations and increased societal expectations.

We focus on

UN Sustainable Developments Goals:



INNOVATIONS

In 2019, we increased our spend on innovation and digitalization by 4% to DKK 302m. Our strong focus on sustainable innovations is what makes us stand out from competition and expand the gap between the premium and mid-market.

With MissionZero, we leverage the development of digital and innovative solutions tied to sustainable productivity to be able to offer our customers the required technology to operate zero emissions cement plants and mining processes by 2030. By doing so, we can increase our customers productivity and at the same time bring these industries into a sustainable future.

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

In-house innovation

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

On-site customer cooperation

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

Innovation through partnerships

Ambitious goals require collaboration. Since the goals of MissionZero go beyond what is feasible with technology available today, it requires a paradigm shift in how industry players collaborate and innovate. As a leader in both the cement and mining industries, we are ready to accelerate the development and adoption of new technology and seek new knowledge partnerships with other companies and suppliers to co-create the necessary solutions to close the gap between our 2030 ambition and what is possible today.

As an example, we have made a fund investment in Chrysalix, a venture capital firm that specialises in transformational industrial innovation. The fund has attracted a global base of strategic investors and strong industry clusters have been established particularly around mining and metals, engineering and construction. Investments will be made in innovative intelligent systems

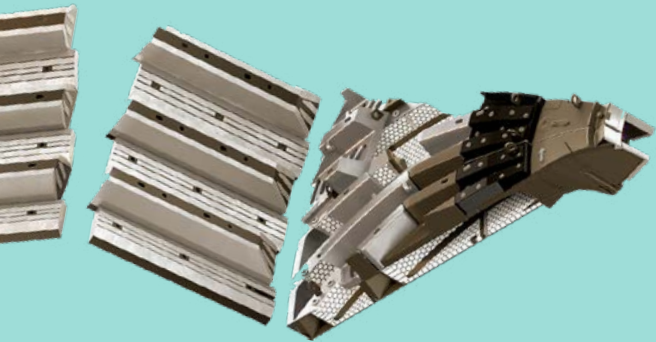
that drive energy transition and decarbonisation, such as artificial intelligence (AI), robotics, machine learning, Internet of things (IoT), blockchain, sensors, as well as the development of new materials and technologies that will fundamentally transform the world's largest industries.

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

The next two pages contain examples of innovations completed in 2019 and the subsequent page provides a short update on two of our largest and most significant development projects.



INNOVATIONS IN MINING




THE CHALLENGE
Today's mines require sustainable and productivity enhancing solutions for their milling operations



THE BENEFITS

- Improves safety
- Increases throughput
- Additional uptime



THE SOLUTION
Composite liners that last longer, are lightweight and use less volume in the mill

PULPMAX™ COMPOSITE MILL LINERS

HIGH-PERFORMANCE LINERS

SAG and ball mill liners for all minerals processing applications

PulpMax™ composite mill liners can lower costs and improve throughput rates.



Zero energy waste



Zero emissions



Zero energy waste


mixedROW™ FLOTATION SYSTEM

TECHNOLOGY FOR SUSTAINED PRODUCTIVITY

The FLSmidth mixedROW™ Flotation System provides better recovery and greater efficiency

Combines the unique individual benefits of forced air and self-aspirated flotation cells to provide the best metallurgical performance possible

- Lowers energy consumption by up to 40%
- Up to 5% improved recovery rates



THE BENEFITS

- Higher recovery
- Lowers energy consumption
- Improves grade



THE CHALLENGE
Today's mines need to produce high grade product as efficiently as possible




THE SOLUTION
Exploit the unique characteristics of both nextSTEP™ and WEMCO® technologies to maximise performance

INNOVATIONS IN CEMENT

OPTISIZE™ & PULSEGUARD™

SUSTAINABLE FILTER BAGS & AUTO-CLEANING

The optimal filtration system for reducing emission

The combination of OptiSize™, PulseGuard™ and the Evo II controller delivers the highest levels of filtration through efficient bag design and on-demand cleaning, whilst minimising environmental footprint.



Zero emissions



THE CHALLENGE

Effectively managing dust emission levels is a constant and difficult challenge in a modern Cement plant



THE SOLUTION

Optimised filter bag design and automatically controlled on-demand filter cleaning



THE BENEFITS

- Minimise environmental footprint
- 15% extra filtration
- Increase filter reliability



Zero emissions

LOW NO_x CALCINER

EMISSION REDUCTION WITHIN THE PYRO PROCESS

Reducing emissions of both new and existing Pyro systems

The bespoke design changes, ensure an optimised Calcining process for both conventional as well as alternative fuels types.



THE CHALLENGE

Producing cement is harmful to the environment and solutions are urgently needed to reduce the effect



THE SOLUTION

Significant NO_x reductions through intelligent design and Computational Fluid Dynamics modelling



THE BENEFITS

- Up to 60% NO_x reductions
- Reduce or eliminate the use of Ammonia SNCR systems
 - OPEX reduction

DEVELOPMENT UPDATE



Dry stack tailings

Dry Stack Tailings can recirculate up to 95% of mine process water and eliminate the risks of catastrophic tailings flow when a dam fails. According to a recent Moody's report, about 70% of mines operated by the "Big Five" – BHP, Rio Tinto, Anglo American, Vale and Glencore – are located in countries where water stress is considered a major risk. Several tailings slurry dam failures in Brazil in recent years have highlighted the consequence of dam failures in terms of the human, economic and environmental impact. Utilising EcoTails™, jointly developed by Goldcorp and FLSmidth, we can take a large step towards reusing maximum water and eliminating wet tailings dams. This is a process which blends filtered tailings with waste rock, creating a stable waste product and eliminating the need to keep conventional slurry tailings contained behind a dam. The resulting benefits are no tailings dams, lower fresh water use, reduced potential for acid rock drainage, a smaller mine footprint and significantly reduced overall risk. To make it economically viable for large mining operations to use dry stacked tailings, we have developed the 5-metre x 3-metre AFP-IV® filter, which is the largest in the world. This filter can dewater high tonnages to the scale of more than 30,000 tonnes of tailings a day per filter. The EcoTails™ R&D project has successfully completed the feasibility testing phase. The next stage is a demonstration scale project. To learn more, watch the video published by Goldcorp [here](#).

In 2019, FLSmidth won complete systems orders for Filtered Paste plants with Hindustan Zinc and Lundin Gold. In addition to this, FLSmidth is supplying the world's largest Paste Thickener plant system to a mine in Kazakhstan, which includes three Paste thickeners along with a paste pumping system. We have also entered into a collaboration with a large customer in Brazil, including a first order of 30 disc filters.



Zero water
waste



Zero
emissions

DEVELOPMENT UPDATE



Rapid Oxidative Leaching (ROL)

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

We are currently testing concentrates from several interested copper miners at our pilot plant in Salt Lake City, USA, and at a third-party independent laboratory. The purpose of these tests is to establish data for the customers to determine if they would like to move ahead with pre-feasibility studies. During 2017-2018, the concentrates from one customer have been tested and indicated a positive return on investment. We have supplied the relevant equipment to this customer in 2019 in order to operate a demonstration scale ROL process plant at their facility in South America. This is an important step in scaling up and commercialising the ROL process. Preliminary operation started at end of 2019 and is expected to conclude by mid-2020.

In addition to copper, we have tested ROL with refractory gold (gold not easily recovered by standard methods), and it has proved possible to apply the technology in the laboratory to significantly improve gold recovery. We are currently working with several gold producers in research and development of this process, with the goal of potentially moving on to pilot scale testing in 2020.

DIGITALIZATION

DIGITAL ENABLES PRODUCTIVITY

Digitalization is a major driver for change and it is speeding up the ever-ongoing process of improving sustainable productivity. At FLSmidth, we leverage digital technologies to empower our business strategy and it is our digital premium offering that differentiates us from competitors and enable us to capture a larger part of the service business.

The mining and cement industries are currently transforming into 'Industry 4.0', which covers the current trend of digitalization and data exchange in automation and manufacturing technology. Process improvement is one of the main factors driving digitalization and developments in connectivity and data analytics have become increasingly important to optimise processes to drive productivity.

Create powerful connections between physical and digital systems

In 2019, we leveraged the digital foundation that was put in place in 2018 with our IoT (Internet of Things) platform. Our IoT platform is where we connect all products to the internet, so we can monitor them remotely, which lays the foundation for analytics-driven predictive maintenance.

The purpose is to address issues before the equipment breaks down, which requires sensors attached to all critical machines to monitor conditions such as vibration, temperature and pressure. Through machine-learning, producers are able to uncover root causes of past failures and predict the risk of failure for each machine. Today, more than 800 plants and pieces of equipment are connected to the FLSmidth IoT platform and we deliver remote monitoring and optimisation service packages to more than 200 plants globally.



UpTimeGo, a tool allowing plant staff to find the root causes of problems that impact plant productivity.



INDUSTRY 4.0
The Smart Factory.
Autonomous systems, IoT
and machine learning

800

plants and pieces of equipment are connected to the FLSmidth IoT platform.

200

we deliver remote monitoring and optimisation service packages to more than 200 plants globally.

The successful launch of our new control system for cement fabric filters, EVO II, clearly demonstrates our ability to drive sustainability through digitalized solutions. With cement plants being subject to strict emissions standards, ensuring compliance is top priority for our customers. The EVO II filter improves productivity and optimises processes by adjusting differential pressure according to actual dust loads from the cement plant. Online monitoring allows the plant operator to receive preventive maintenance suggestions, which is reducing unplanned production shutdowns and costly emissions fines.

Our digital tools can also be used to improve energy management in a cement plant. The usage of alternative fuels in cement production gives a less stable output and a higher process variability. We have developed advanced digital control systems that stabilises the process, which enables the usage of up to 100% alternative fuels, a 2-5% reduction

in emissions while at the same time increasing production by 2-6%. This further demonstrates how our digital technology works as the enabler, not the driver, of sustainable productivity.

To unlock value, our customers are also increasingly looking at end-to-end processes to integrate digital solutions across the entire value chain. During 2019 we launched a whole range of new digital products within SiteConnect™ – a mobile insights app that delivers full transparency on machinery, process, and plant KPIs, in real-time. SiteConnect is part of a new suite of management information systems to deliver real-time operations intelligence, including plant data management and UpTimeGo, a tool allowing plant staff to find the root causes of problems that impact plant productivity. New solutions have also been launched to streamline our customer interaction and one example is an e-commerce platform for spare parts, integrating straight into customers' procurement solutions and ERP systems.

To strengthen internal productivity, we are leveraging 137 years of history by mining our historic data to generate better, data-driven sales leads and forecasting of parts, increasing the topline while lowering net working capital requirements.

2019 clearly demonstrated that we are on the right track with our digital strategy and customer feedback supports that our digital solutions are executing their targets to unlock value and drive efficiency.



SITECONNECT™
– a mobile insights app that delivers full transparency on machinery, process, and plant KPIs, in real-time.

**FLSMIDTH
ENABLR**

Digital solutions to power your productivity

We are building a growing portfolio of digital solutions that connect, monitor and optimise performance. We call it FLSmidth ENABLR because it enables our customers to simplify operations and improve productivity

GOVERNANCE



IN-HOUSE SUSTAINABILITY PERFORMANCE

To ensure that our work is prioritised and focused on the right topics, we conduct a materiality assessment to help us identify the sustainability issues that matter most to our organisation. In 2019, we updated our materiality assessment to ensure that we are covering the full environmental and socio-economic risks and impacts in our value chain.

A clear outcome of this process was that our main impact lies in the use of our products, while the main impact of customers is the environment, notably water, energy, waste and CO2 emissions. The effective management of these has direct consequences for establishing their license to operate, which is the number one risk to the mining industry for the second year in a row, according to Ernst & Young. Furthermore, the materiality assessment showed that safety and compliance were the highest common material topics across the value chain.

Concurrently with the Annual Report, FLSmidth has published its annual Sustainability Report, covering non-financial performance related to environmental and socio-economic impacts. The 2019 Sustainability Report is in full compliance with both Section 99a of the Danish Financial Statements Act and the Global Reporting Initiative (GRI) core requirements, and also serves as the Advanced Communication on Progress to the United Nations Global Compact. This year marked the first year that it was externally assured by Ernst & Young, alongside the annual report.

The report is available at: <http://www.flsmidth.com/SustainabilityReport2019>

We made stronger progress on many of our targets than anticipated and are close to reaching some of them within the next year. To this end, we are performing a review on our targets and will, in line with our MissionZero targets, set new 2030 goals for our own performance. This review will include the Science Based Target methodology for our carbon footprint, and new targets will be communicated early 2021 at the latest.

SAFETY

Safety is a fundamental element of our culture and we see it as a precondition for success. It is inherent in how we deliver our services to customers, and we strive to be best in class. We improve our safety performance because we want to achieve zero harm for all people under our control.

In 2019, we showed significant progress on our safety performance, bringing us up to best in class in our peer group of Nordic equipment suppliers to the mining industry. We focus on risk-reduction and identified 545 risks that have been mitigated. We anticipate that this will set us on the right track for future performance improvements.

COMPLIANCE

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

In 2019, we developed a new policy framework that covers a broader range of risks, while bringing our previous commitments up-to-date. This was escalated through the company using e-learning and face-to-face training of new employees.

During the year, we have focused on increasing awareness around whistleblowing to promote the disclosure of potential wrongdoings in the organisation. Communication campaigns have been implemented to increase attention on internal investigations and we also expanded the hotline to function as a grievance mechanism for human rights. As a result of our efforts to encourage whistleblowing, the amount of cases increased by 31%. We take all cases very seriously and we will continue to strengthen our efforts to make sure that the requirement and support for ethical behaviour is well-communicated throughout the organisation.

ESG PERFORMANCE

In 2019, FLSmidth & CO. A/S received a rating of AA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment. This reflected our commitment and focus on sustainability, most notably regarding safety, compliance and governance.

PEOPLE

Our enduring aim is to be an employer of choice, so we recognise the strategic importance of attracting, developing and retaining a highly qualified, competent and value-based workforce. We recognise that embracing a diverse and competent workforce means accessing a broader pool of talent, which can result in improved productivity.

In 2019, we built on our commitment to increase diversity by developing regional action plans and targets. We also continued to link performance to the long-term incentive plans, while rolling-out an unconscious bias workshop. The number of women managers increased, which puts us in a better position to support our leadership pipeline in the future.

ENVIRONMENT

We firmly believe that in order to offer our customers sustainable solutions, we must always ensure that we address sustainability systematically within our own organisation. That is why improving our internal impacts is a key part of our culture and day-to-day work, even though our internal environmental footprint is limited in comparison to that of our customers. We improve our environmental performance to reduce both costs and environmental impacts.

Although our environmental footprint is limited compared to our customers footprint, we are fully committed to operate our business responsibly. We have an environmental program that serves to decrease the amount of water we use, while mitigating our impact on the climate. We recognise that in order to be the premium supplier of sustainable productivity, we need to create a culture where environmental considerations are integrated into everyday thinking.

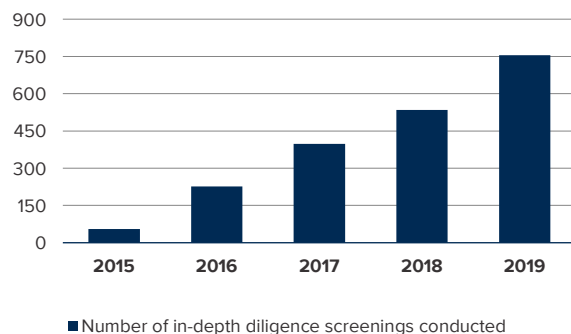
This year we worked on aligning our CO₂ accounting methodology to the Greenhouse Gas Protocol, which resulted in less CO₂ being accounted for due to our own operations. We have also adjusted our scope 2 emissions to be more accurate. We have nonetheless maintained our commitment to 2% year-on-year reduction until 2023.

SUPPLY CHAIN

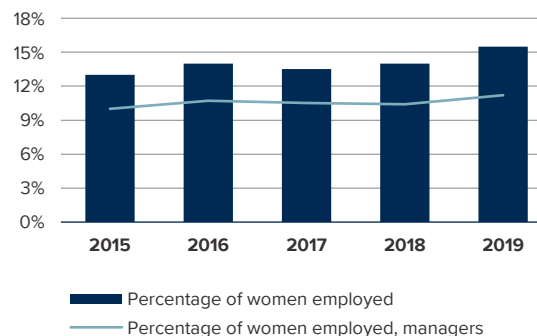
We value building strong business ties and long-standing relationships with our suppliers and can forge and maintain these bonds through high standards of responsible business conduct. One of our values, responsibility, applies to all aspects of our business – including the parts that originate from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

In 2019, we worked on integrating sustainable supply chain audits into everyday business. This meant ensuring that our staff perform the sustainability audit when they visit a supplier site. We saw that the adoption rate was higher than anticipated, which is a clear sign that our staff are highly engaged and realise the benefits of doing business responsibly.

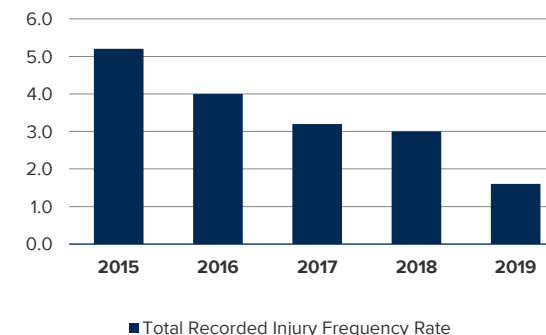
CONDUCTED DUE DILIGENCE SCREENINGS



GENDER BALANCE



TRIFR



HUMAN RIGHTS

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

In 2019, we conducted a number of on-site human rights impact assessments of country operations, which allowed for targeted remediation of identified violations. It also showed that we should focus our efforts more narrowly on analyses with a view to improve specific problems identified. For this reason, the total number of on-site assessments were lower, but more granular than we targeted for. We have postponed our planned training until 2020, as the new compliance policy framework took precedence. This means that we have staggered training, which should create a continuous and improved learning process.

PERFORMANCE SUMMARY

Material topic	2017	2018	2019	2019 Target	2020 Target	Long term target	By
SAFETY							
Lost Time Injury Frequency Rate (including contractors)	1.8	1.3	0.6	≤ 1.2	≤ 1.0	≤ 0.5	2023
Total Recorded Injury Frequency Rate (including contractors)	3.2	3.0	1.6	≤ 2.7	≤ 2.5	≤ 1.5	2023
PEOPLE							
% Women total	13.5%	14.0%	15.5%	14.7%	16.5%	18.0%	2023
% Women managers	10.5%	10.4%	11.2%	11.0%	12.5%	13.6%	2023
Internal participants having undergone corporate development programs	541	1,031	911	806			
COMPLIANCE							
Total number of whistle-blower reports submitted	51	65	85				
Numbers of in-depth due diligence screenings conducted (cumulative from 2016)	398	535	755	750	200/year		
ENVIRONMENT							
Absolute CO2 emissions, scope 1 & scope 2 (in tonnes)	64,267	64,270	44,861		43,965	41,379	2023
Water withdrawal (m3)	241,651	227,272	221,613		217,181	204,409	2023
SUPPLY CHAIN							
Number of suppliers screened for sustainability	113	195	689	300	800	1,000	2030
% of findings / non-conformities that have improvement plans agreed upon with suppliers		87.5%	54.1%		80.0%	95.0%	2030
HUMAN RIGHTS							
Human rights reviews (off site)		20	52	50	30		
Human rights impact assessments (on site audits)		10	7	15	10		

RISK MANAGEMENT



Risk is an inherent part of our business and managing risks is a very high priority at FLSmidth. Our approach to risk is aligned with our strategy and financial targets and managing potential impacts is a key focus within all areas of the organisation.

Risk management framework

Our risk management framework consists of a simple, standardised enterprise risk management practice with an annual top-down/bottom-up risk mapping allowing for the identification of key risks at group level as well as the key risks, that the business is facing. We assess the risks based on the potential impact on our reputation, values and integrity, and ultimately our financial position, as well as the likelihood of the risks occurring within the next 1-3 years.

Our risk management framework aims to identify, monitor, assess and mitigate risks as early as possible to lower the likelihood and potential impact. The most significant risks are reviewed by the Group Executive Management and the Board of Directors.

The Board of Directors has overall responsibility of determining the risk management strategy for the group, whereas the Group Executive Management owns the risk management policy and insures risk awareness throughout the group. Group risk management and the Risk Committee own the risk management process and ensures compliance with the

policy. The Risk Committee is chaired by the Group CFO and the other members are Cement President, Mining President and Head of Group Risk Management.

The regions own the local risk management process and are responsible for risk identification and establishing adequate mitigation plans.

Risk assessment

The annual assessment resulted in the identification of the following key risks which pose a potential threat and/or opportunity:

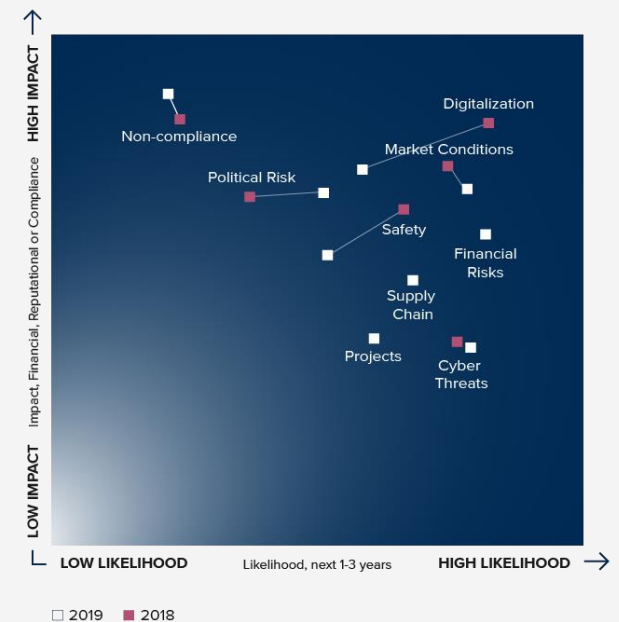
- Market Conditions – Challenging macroeconomic environment
- Political instability – Volatile risk environment in many countries where FLSmidth conducts business
- Digitalization – Changing customer demands
- Non-compliance with rules and regulation

- Safety – Severe impact on health and safety of personnel
- Cyber Threats – Continuously evolving as technology advances
- Supply Chain – Staying flexible and agile
- Project Execution – Delivering on time and as promised
- Financial risk – Liquidity risk, credit risk and foreign exchange risk
- Climate related risks (not included in risk map below, please refer to page 33-34 for information)

See next two pages for elaborating comments regarding the risks, potential impacts and mitigation efforts. For more details related financial risks please refer to note 5.3.



GROUP RISK MAP



RISK MITIGATION

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 and it has had a positive impact on the Company's internal productivity as well as with customers. With the launch of digitally enabled products and digital offerings aimed at increasing productivity at customer sites and the appointment of Regional Product Line Managers as well as implementation of AI in parts of Procurement, Finance and other Group Functions the Company continues to move forward with its productivity agenda.
Political Risk	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 potentially increasing delays and costs to procure materials.	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.
Non-compliance with rules and regulation	Compliance has top-priority in FLSmidth with zero tolerance for any violation that could impact the FLSmidth brand and reputation. As the Company continues to expand through business opportunities, acquisitions and establishment of local offices in challenging environments, 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 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. Training is conducted on a continuous basis to ensure that employees at all times adhere to the applicable policies and guidelines. The training is mandatory for all employees.
Safety	The risk of serious injury or death given the nature of 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 and ultimately business for FLSmidth. The domino effect that such an event would have on the organisations reputation as a reputable supplier would be catastrophic.	The Group has zero tolerance for safety risks both at third party sites as well as its own. Safety is a high priority for everyone. Focus remains on improving TRIFR/ LTIFR. 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 each year to those demonstrating great safety practices.
Market Conditions	The company is exposed to a challenging macroeconomic environment with many mining customers facing permit delays and having a more cautious approach to large new capital investments. For more information please see Market Trends, page 24-25.	As part of the company's business improvement activities, it will continue to leverage synergies and consolidate competencies. Regional, Industry and Group functions are continuously considering and adjusting their organisations in response to changing business environments, fluctuating order intake and market outlook to ensure stronger customer relationships.

RISK	POTENTIAL IMPACT	MITIGATION
Cyber Threats	The continuously evolving threat of cyber security, data leakage and data security is a key area of focus. A major cyber-attack could result in an extended period of down time resulting in delays to customers and additional costs for the organisation. FLSmith equipment on customer sites could be used by hackers to gain access to customer's IT systems. Customers are beginning to ask for products and services where cyber security is imbedded by design.	The Group is focused on IT Security and awareness; conducting regular audits and updates to our IT Security Committee. In 2019, increased use of cloud-based solutions and continuous cyber awareness training across the organisation are helping to mitigate this risk. In early 2020 an initiative was launched to imbed cyber security in the full value chain of our products from R&D to commissioning and operations.
Supply Chain	High demands on trusted supply chains could result in delays in deliveries to customers which could lead to penalties and disruptions in executing projects.	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.
Projects	The inherent risks in a project business could impact our global effectiveness and execution of projects.	The company is consolidating project execution in fewer centres to ensure the right level of competencies and expertise is available in each centre. Ongoing control of project profitability, cash flow and execution risks.

CORPORATE GOVERNANCE



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

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

CAPITAL AND SHARE STRUCTURE

FLSmidth & Co. A/S is listed on NASDAQ Copenhagen. At the end of 2019, FLSmidth had about 38,000 registered shareholders and a free-float of around 80%. Three shareholders had flagged major shareholdings in FLSmidth & Co. A/S at the end of 2019. Lundbeckfond Invest A/S' investment exceeded 10%. The investments of Novo Holding A/S and Bestinver Gestión S.A SGIIIC both exceeded 5%. FLSmidth's holding of treasury shares at the end of 2019 accounted for 2.3% of the share capital.

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

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

MANAGEMENT STRUCTURE

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

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

THE BOARD OF DIRECTORS

Composition of the Board of Directors

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

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

CORPORATE GOVERNANCE HIGHLIGHTS

	2019	2018
Number of registered shareholders (1,000)	38	37
Treasury shares (1,000)	1,194 (2.3%)	1,384 (2.7%)
Numbers of shares held by Board and Group Executive Management (1,000)	49	35
Total Board remuneration (DKK)	6.4m	6.5m
Total Executive Management remuneration (DKK)	25.2m	23.1m
Number of Board members (elected at the AGM)	6	6
Female representation on Board of Directors (elected at the AGM)	33%	33%
Independent directors, excluding employee elected members	100%	100%
Number of board committees	4	4
Number of board meetings held (overall meeting attendance%)	12 (100%)	7 (92%)

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

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

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

Twelve Board meetings were held in 2019. Apart from contemporary business issues, the most important issues dealt with in 2019 were: sustainability, diversity, digitalization, mining projects and market consolidation. All members of the Board of Directors participated, physically or virtually, in all relevant board and committee meetings in 2019, except one member who was unable to attend a Technology Committee meeting held on the last day he served on the Board.

To achieve a highly informed debate with the Group Executive Management, the Company strives for a Board membership profile reflecting substantial managerial experience from internationally operating industrial companies.

At least one member of the Board must have CFO experience from a major listed company and all other members must preferably have CEO experience from a major internationally operating and preferably listed company. To the extent possible, all members elected at the Annual General

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

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

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

The Nomination Committee

The nomination committee consists of Mr. Vagn Sørensen, Mr. Tom Knutzen and Mr. Thrasyvoulos Moraitis. In 2019, the committee met three times. Its main activities in 2019 involved assessing the composition of the Board of Directors and the nomination of a new Group CFO.

The Compensation Committee

The Compensation Committee consists of Mr. Vagn Sørensen, Mr. Tom Knutzen and Mr. Thrasyvoulos Moraitis. The Compensation Committee met eight times in 2019 and the committee's main activities in 2019 were related to the approval of incentive plans and overall remuneration schemes for Group Executive Management and the management layer reporting to the Group Executive Management.

MEETING ATTENDANCE IN 2019

	Board meetings attended	Audit Committee meetings attended	Compensation Committee meetings attended	Nomination Committee meetings attended	Technology Committee meetings attended
Board of directors					
Vagn Ove Sørensen (Chairman) ¹⁾	●●●●●●●●●●	●●●●	●●●●●●●●	●●●	
Tom Knutzen (Vice chairman)	●●●●●●●●●●	●●●●●●	●●●●●●●●	●●●	
Richard Robinson Smith	●●●●●●●●●●				●●●
Anne Louise Eberhard	●●●●●●●●●●	●●●●●●			
Gillian Dawn Winckler ²⁾	●●●●●●●●●●	●●●●●●			
Thrasyvoulos Moraitis ²⁾	●●●●●●●●●●		●●●●●●	●●	●●●
Caroline Grégoire Sainte Marie ³⁾	●●●	●			●
Marius Jacques Kloppers ³⁾	●●●		●●●	●	○
Mette Dobel (employee-elected)	●●●●●●●●●●				
Søren Dickow Quistgaard (employee-elected)	●●●●●●●●●●				●●●
Claus Østergaard (employee-elected)	●●●●●●●●●●				

1) Voluntary participation (not member of Audit Committee) 2) Elected at the 2019 AGM. Participated as guests in meetings prior to election. 3) Stepped down at the 2019 AGM

The Audit Committee

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

In 2019, the Audit Committee met six times and the committee's main activities were to consider specific financial risks, including tax risk, accounting and auditing matters, as well as paying special attention to financial processes, internal control environment and cyber security.

The Technology Committee

The Technology Committee consists of three Board members, Mr. Richard Robinson Smith (Chairman), Mr. Thrasyvoulos Moraitis and Mr. Søren Dickow Quistgaard. The Technology Committee met three times in 2019. The main tasks in 2019 were to monitor the major development projects across the two industries, to ensure the right and appropriate KPIs are set for R&D across both industries and to approve the strategic focus areas for the coming years.

GROUP EXECUTIVE MANAGEMENT

Composition of the Management

The officially registered Executive Management of FLSmidth consists of the Group CEO and, on an interim basis until our new CFO joins, the Head of Group Legal and Strategy.

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

In March 2019, FLSmidth appointed Annette Terndrup, Head of Group Legal and Strategy, and Cori Petersen, Head of Group HR, to its Group Executive Management. Their combined experience will support our ability to navigate increased business complexity and enhance our talent development. Annette Terndrup joined FLSmidth in 2004 as corporate counsel. In 2013, she was appointed Group General Counsel, and in 2016 her role was expanded to include Group Strategy and M&A. Cori Petersen joined FLSmidth in 2016 as the leader of Human Resources for the United States. Shortly thereafter her role expanded to leader of HR for North America. In April 2018, she was appointed the role of Head of Group HR.

Roland M. Andersen has been appointed new Group CFO and a member of the Group Executive Management, taking the baton from Lars Vestergaard who served with commitment and dedication for five years at FLSmidth. Roland will join FLSmidth latest on 1 July 2020, and brings 25 years of solid experience and competences through his time as CFO with public as well as private equity owned companies, including A.P. Moller Maersk and NKT.

Mark Clifford, former Region President for Australia, has been appointed Head of Regions, taking over from Brian Day who has retired after a long and accomplished career at FLSmidth. In his new position, Mark Clifford joins Group Executive Management.

Effective July 2020, Mikko Keto will join FLSmidth as President, Mining Industry and member of Group Executive Management. Mikko Keto joins FLSmidth from Metso, where he has worked for 10 years of which the last two years as President, Minerals Services and Pumps. The appointment comes following Manfred Schaffer's decision to retire in 2020, having contributed strongly to FLSmidth's Mining business since 2014.

Chief Digital Officer and a member of the Group Executive Management, Mikael Lindholm, has resigned from his position due to family reasons. The search for a replacement is ongoing.

DIVERSITY IN BOARD AND MANAGEMENT

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

At the end of 2019, women accounted for 33% (end 2018: 33%) of the shareholder-elected Board members, fulfilling the target that minimum 25% of the members elected at the Annual General Meeting should be female.

At the end of 2019, women accounted for 16% (end 2018: 14%) of the total workforce, while 11% of all managers were female (end 2018: 10%). The Group target is minimum 18% woman in the workforce by 2023, and 14% of all managers should be female by 2023. When filling management vacancies externally, at least one female candidate must be in the run-up.

Due to FLSmidth's global presence in over 60 countries, the total workforce naturally reflects a multitude of cultures and nationalities. The Board of Directors has set a long-term goal according to which global managers (top 70) should to a greater extent reflect the representation of nationalities among all employees and the geographical location of FLSmidth's technology centres in Denmark, the USA and India.

Today 67% (2018: 60%) of Group Executive Management and 91% (end 2018: 91%) of the total number of employees have another nationality than Danish.

EMPLOYEES

FLSmith is a learning organisation, and our people are our most valuable resource. 51% of the workforce is below the age of 40. 46% have less than 5 years seniority, which is a reflection of the transition FLSmith has gone through over the past six years.

PRESENTATION OF FINANCIAL STATEMENTS AND INTERNAL CONTROLS

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

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

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

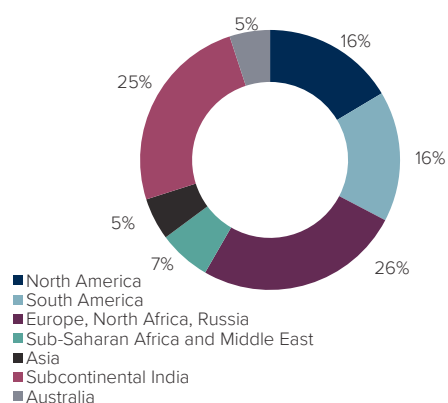
COMPLIANCE WITH RECOMMENDATIONS FOR CORPORATE GOVERNANCE

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

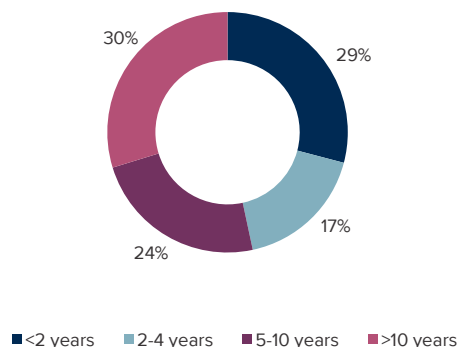
FLSmith’s position on each specific recommendation is summarised in the corporate governance statement available at: <http://www.flsmith.com/GovernanceStatement2019>.

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

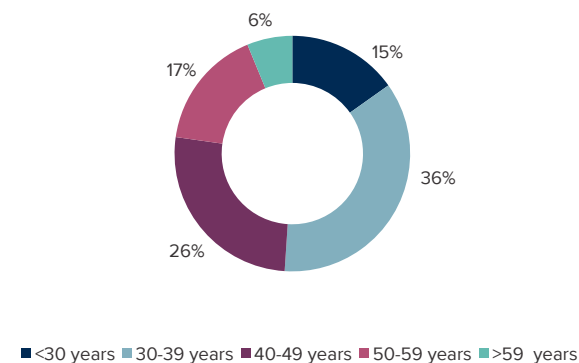
EMPLOYEES - GEOGRAPHICAL DISTRIBUTION



EMPLOYEES - LENGTH OF SERVICE



EMPLOYEES - AGE DISTRIBUTION



GROUP EXECUTIVE MANAGEMENT



Name	Thomas Schulz	Annette Terndrup	Jan Kjaersgaard	Manfred Schaffer	Cori Petersen	Mark Clifford
Title	Group Chief Executive Officer. Employed by FLSmidth since 2013*	Group Executive Vice President, Head of Group Legal & Strategy. Employed by FLSmidth since 2004*	Cement President. Employed by FLSmidth since March 2018	Mining President. Employed by FLSmidth since 2014	Head of Group HR and HSE. Employed by FLSmidth since 2016	President of Regions. Employed by FLSmidth since 2014
Age	53	50	52	60	50	57
Nationality	German	Danish	Danish	Austrian	American	Australian
Gender	Male	Female	Male	Male	Female	Male
Education	MSc (Engineering), PhD (Mining Engineering with dissertation in Mineral Mining and Quarrying)	Master of Law (Denmark) and LLM (England)	MSc, (Business Administration)	Mechanical engineering degree, IFL Executive Education, People Development and Business Strategy (IMD)	B.S. in Business administration: Human Resource management, Senior Professional in Human Resources. Certified by Human Resource Certification Institute	Studied BSc Mining Engineering at University of NSW Sydney, IFL executive education, IMD strategic development
Number of shares in FLSmidth	18,323	1,344	None	2,798	None	None
Past experience	Various managerial positions in Sandvik: Member of Group Executive Management (2011-2013), Chairman of SJL Shaan Bao (2011-2012), President of the Business Area Construction (2011-2012), President, Construction, and SVP, Mining and Construction (2005-2011), Regional President Mining and construction Central Europe (2001-2002), With Svedala, Germany (1998-2001).	Head of Group Legal (2013-2016). Various managerial positions in FLSmidth (2006-2013). Corporate counsel FLSmidth (2004-2006). Lawyer Ashurst 1998-2003. Trainee lawyer Lett, Viistrup & Partnere 1994-1997.	Chief Executive Officer, Bladt Industries (2014-2018). Various managerial positions in Siemens Wind Power (2004-2014): CEO, business unit EMEA (2011-2014), CEO, Americas (2008-2011). Senior Vice President, Bonus Energy (2001-2004). Managing Director, DS Staalkonstruktion (1999-2001). Group Vice President, Global Product Supply, Aalborg Industries (1997-1999).	Group Executive Vice President, Minerals Division, FLSmidth (2015-2018). Group Executive Vice President, Mineral Processing Division, FLSmidth (2014-2015). Various managerial positions in Sandvik: President, Mining Systems (2012-2013), and President, Surface Mining (2006-2012), Voest-Alpine: Various managerial positions (1979-2003).	Director Human Resources, US, FLSmidth (2016), Director, Human Resources, North America, FLSmidth (2017). Various managerial positions in Rio Tinto (2011 – 2016). Various managerial and specialist positions (1987-2011).	Country Head Australia, FLSmidth (2014-2018), Numerous management roles with Sandvik Mining and Construction: Vice President, Underground hard rock & Surface Mining Region Australia (2012-2014), Global Aftermarket Manager, Sandvik Construction Division (2008-2012), General Manager underground Hard Rock Mining Region Australia (2005-2008).
Non-Executive positions	Member of the Board of Directors Norsk Hydro ASA (Norway)	None	Chairman of the Board of Directors Jupiter Bach A/S (Denmark). Member of the Board of Directors Frontmatec (Denmark)	None	None	None

* Registered with Erhvervsstyrelsen (The Danish Business Authority)

BOARD OF DIRECTORS



Name	Vagn Ove Sørensen Chairman	Tom Knutzen Vice chairman	Richard Robinson Smith	Anne Louise Eberhard	Gillian Dawn Winckler
Age	60	57	54	56	57
Nationality	Danish	Danish	German/American	Danish	British/Canadian
Gender	Male	Male	Male	Female	Female
Member of the Board since	2009, Chairman since 2011 (elected at the AGM). Member of the Nomination and Compensation Committees	2012 (elected at the AGM). Chairman of the Audit Committee. Member of the Nomination and Compensation Committees	2016 (elected at the AGM). Chairman of the Technology Committee	2017 (elected at the AGM). Member of the Audit Committee	2019 (elected at the AGM). Member of the Audit Committee
Number of shares in FLSmidth	10,633	15,000	1,000	1,000	None
Executive and non-executive positions in Denmark	Chairman of the Boards of Directors of TIA Technology A/S, Zebra A/S and Scandlines. Vice Chairman of the Board of Directors of Nordic Aviation Capital A/S. Member of the Board of Directors of CP Dyvig & Co. A/S. Senior Advisor to EQT Partners	Chairman of the Board of Directors of Tivoli A/S and Chr. Augustinus Fabrikker A/S	None	Member of the Board of Directors of Topdanmark A/S, Bavarian Nordic A/S, Finansiell Stabilitet SOV, Knud Højgaard's Fond. Faculty member at Copenhagen Business School (CBS Executive, Board Education)	None
Executive and non-executive positions outside Denmark	Chairman of the Board of Directors of Air Canada (Canada). Member of the Board of Directors of Braganza AS (Sweden), Unilode Aviation Solutions (Switzerland), Royal Caribbean Cruises Ltd. (USA), and VFS Global (Switzerland), Senior Advisor to Morgan Stanley	CEO at Jungbunzlauer Suisse AG (Switzerland)	President & Chief Executive Officer of Kone Cranes PLC (FIN)	None	Member of the Board of Directors at Pan American Silver Corporation (CA) and West Fraser Timber Limited (CA), and member of the Board of Directors for Trans Canada Trail (CA), non-profit organisation

BOARD OF DIRECTORS

- CONTINUED



Name	Thrasylvoulos Moraitis	Mette Dobel	Søren Dickow Quistgaard	Claus Østergaard
Age	57	52	41	53
Nationality	British/Greek	Danish	Danish	Danish
Gender	Male	Female	Male	Male
Member of the Board since	2019 (elected at the AGM). Member of the Technology Committee, Nomination Committee and Compensation Committee.	2009 (elected by the employees)	2013 (elected by the employees) Member of the Technology Committee.	2016 (elected by the employees)
Number of shares in FLSmidth	None	864	65	429
Executive and non-executive positions in Denmark	None	None	None	None
Executive and non-executive positions outside Denmark	Chief Development Officer and member of the Management Board of EuroChem. Member of the Board of Directors of Reload Greece Foundation.	None	None	None

BOARD COMPETENCIES

BOARD COMPETENCIES

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

REMUNERATION REPORT

The challenging business environment during the year had a negative impact on profitability and target fulfilling, and as a result total management remuneration decreased in 2019.

REMUNERATION OF EXECUTIVE MANAGEMENT

The Board has adopted overall guidelines for incentive pay for the Group Executive Management establishing a framework for variable salary components in order to support the company's short- and long-term goals. The purpose is to ensure that the remuneration structure does not lead to imprudence, short-term behaviour or unreasonable risk acceptance on the part of the Group Executive Management. The Board's Compensation Committee considers from time to time the Group Executive Management's remuneration. There were no changes to the guidelines for incentive pay in 2019.

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

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

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

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

Short term incentive Programme (STIP)

As a consequence of lower target fulfilling, Management's salary had no variable pay related to 2019. Payments in 2019 related to the performance in 2018.

In 2019 and 2018, the allocation of cash bonus was tied to the following key performance indicators:

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

In 2020, the allocation of cash bonus will be tied to the same key performance indicators as applied in 2019.

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

Long term incentive programs (LTIP)

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

Share option plans (being phased out)

At the end of 2019, a total of 107 key employees and managers are part of the share option plan which currently includes share options issued from 2012 to 2015. Please see note 6.2 for more information.

At the end of 2019, there were a total of 826,154 unexercised share options under the incentive plan and their fair value was DKK 30m. The fair value is calculated by means of a Black & Scholes model based on a current share price of 265.4, a volatility of 34.95% and future annual dividend of DKK 9 per share. The effect of the plan on the income statement in 2019 was DKK 0m (2018: DKK -10m) (2017: DKK -21m).

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

Performance shares (introduced in 2016)

At the end of 2019, FLSmidth had granted a maximum of 396,510 performance share units to 298 key employees. Full vesting after three years will depend on achievement of stretched financial targets related to the EBITA margin and the net working capital ratio. The programme includes a threshold for EBITA. If actual results are lower than the threshold, the entire award lapses. The effect of the plan on the income statement for 2019 was DKK -13m (2018: DKK -35m) (2017: DKK -21m).

Key Performance Indicators in 2017-2019

Full vesting of performance shares after three years will depend upon continued employment and on the achievement of stretched financial targets related to:

- EBITA margin
- Net working capital ratio

REMUNERATION OF THE BOARD OF DIRECTORS

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

Cash payment currently consists of a base fee of DKK 450,000 to each Board member, graded in line with additional tasks and responsibilities as follows:

- Ordinary Board members 100% of the base fee
- Board Vice chairman 200% of the base fee
- Board Chairman 300% of the base fee
- Committee Chairman fee DKK 225,000
- Committee members fee DKK 125,000

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

The fee structure was last adjusted in 2017.



REMUNERATION FACTS

- Total remuneration of the Board of Directors in 2019: DKK 6.4m (2018: DKK 6.5m; 2017: DKK 6.6m)
- Total remuneration of Executive Management registered with The Danish Business Authority in 2019: DKK 25.2m (2018: DKK 23.1m; 2017: DKK 20.8m)

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

SHAREHOLDER INFORMATION

Total shareholder return was negative 6% in 2019, impacted by a weakening business environment for large capital investments and a guidance revision in connection with the third quarter of 2019.

Capital and share structure

FLSmith & Co. A/S is listed on Nasdaq Copenhagen. The share capital is DKK 1,025,000,000 (end of 2018: DKK 1,025,000,000) and the total number of issued shares is 51,250,000 (end of 2018: 51,250,000). Each share entitles the holder to 20 votes. The FLSmith & Co. A/S share is included in some 160 Danish, Nordic, European and global share indices, including the leading Danish stock index C25.

The company had approximately 38,000 shareholders at the end of 2019 (end of 2018: approximately 37,000). In addition, some 2,000 present and former employees hold shares in

the company (end of 2018: some 2,000). The FLSmith & Co. A/S share has a free float of around 80%. Three shareholders had flagged major shareholdings in FLSmith & Co. A/S at the end of 2019. Lundbeckfond Invest A/S' investment exceeded 10%. The investments of Novo Holding A/S and Bestinver Gestión S.A SGIC both exceeded 5%.

2019 saw an increase in the share of foreign investors to approximately 44%, including the Bestinver Gestión S.A holding (2018: 41%). The share of Danish institutional investors, including Lundbeckfond Invest A/S and Novo Holdings A/S decreased to 23% (2018: 26%). FLSmith's holding of treasury shares declined to 2.3% (2018: 2.7%). The share of Danish private investors increased to 21% (2018: 18%).

Return on the FLSmith share in 2019

The total return on the FLSmith & Co. A/S share in 2019 was -6% (2018: -17%), calculated as share price appreciation and dividend paid.

The share price ended 2018 at 293.1 and ended 2019 at 265.4, having ranged between 221.6 and 334.5 during the year.

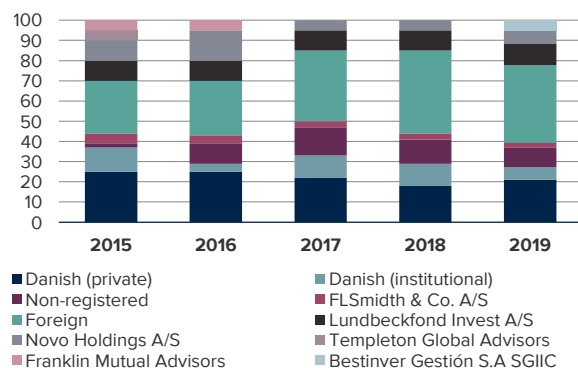
Capital structure and dividend for 2019

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

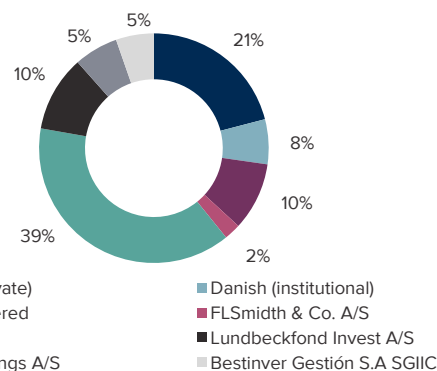
The Board of Directors' priority for capital structure and capital allocation is as follows:

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

DEVELOPMENT IN SHAREHOLDER STRUCTURE



SHAREHOLDER STRUCTURE 2019



SHARE PRICE DEVELOPMENTS IN 2019



The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 8 per share (2018: DKK 9) corresponding to a dividend yield of 3.0% (2018: 3.1%) and a pay-out ratio of 53% (2018: 72%) be distributed for 2019.

FLSmidth Investor Relations

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

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

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

To achieve these goals, an open and active dialogue is maintained with the stock market both through FLSmidth's website and electronic communication services and via investor presentations, investor meetings, webcasts, teleconferences, roadshows, the Annual General Meeting and Capital Market Days.

Management and Investor Relations attended 290 investor meetings and presentations in 2019 (2018: 300) held in cities including Amsterdam, Brussels, Chicago, Copenhagen, Frankfurt, Geneva, The Hague, London, Madrid, Milan, New York, Oslo, Paris, Singapore, Stockholm, Tokyo, Toronto and Zurich.

FLSmidth & Co. A/S is generally categorised as a capital goods or industrial company and is currently being covered by 16 stockbrokers, 10 of which are based outside Denmark.

For further details regarding analyst coverage, please see the company website (<http://www.FLSmidth.com/analysts>). All investor relations materials and investor relations contact information are available to investors at the company website (<http://www.FLSmidth.com/investor>).

SHARE AND DIVIDEND KEY FIGURES

Share and dividend figures	2015	2016	2017	2018	2019
CFPS (cash flow per share), DKK (diluted)	11.0	29.5	21.4	7.7	18.9
EPS (earnings per share), DKK (diluted)	8.6	10.6	1.5	12.8	15.5
BVPS (book value per share), DKK	155	164	156	161	171
DPS (dividend per share), DKK, proposed	4	6	8	9	8
Pay-out ratio (%)	49	59	539	72	53
Dividend yield (dividend as percent of share price end of year)	1.7	2.0	2.2	3.1	3.0
FLSmidth & Co. A/S share price, end of year, DKK	240.0	293.0	361.3	293.1	265.4
Listed number of shares (1,000), end of year	51,250	51,250	51,250	51,250	51,250
Number of shares excl. own shares (1,000), end of year	48,922	48,931	49,521	49,866	50,056
Average number of shares (1,000), (diluted)	48,996	48,985	49,690	50,051	50,092
Market capitalisation, DKKm	12,300	15,016	18,517	15,021	13,602



FINANCIAL CALENDAR 2020

25 Mar 2020	Annual General Meeting
28 Apr 2020	1st Quarter Interim Report 2020
4 Aug 2020	Half-year Interim Report 2020
3 Nov 2020	1st-3rd Quarter Interim Report 2020

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GROWTH

Order intake

In 2019, order intake decreased by 10% to DKK 19,554m (2018: DKK 21,741m), explained by a lower level of large capital orders due to the increased market uncertainty and delay in customer decisions. The service business maintained a good momentum, and service orders increased by 3%. Service orders accounted for 58% of the order intake. Currency effects had a 1% positive impact on order intake.

Mining order intake decreased by 6%, comprised of a 1% increase in service orders and a 16% decline in capital orders. Service orders accounted for 62% of Mining order intake.

Cement order intake declined 16%, comprised of 7% growth in service orders and a 30% decline in capital orders. Growth in the service business related, in particular, to increased demand for our solutions to help customers ensure a more sustainable production.

Growth in order intake in 2019

(vs. 2018)	Mining	Cement	FLSmidth Group
Organic	-7%	-17%	-12%
Acquisition	1%	0%	1%
Currency	0%	1%	1%
Total growth	-6%	-16%	-10%

Service orders accounted for 50% of Cement order intake.

The decrease in large cement orders related to customer hesitation on large capital investments but should also be seen in the context of our efforts to increase profitability by improving our pricing discipline and being more selective on large orders.

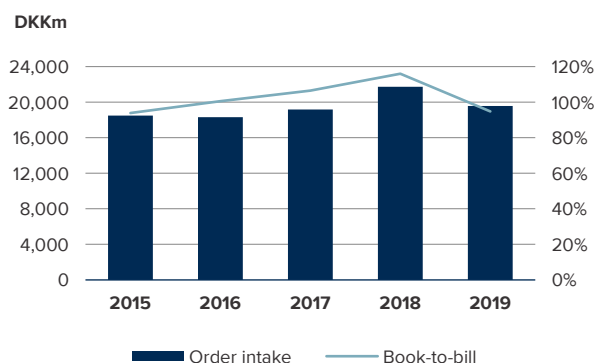
Order backlog

In 2019, order backlog declined by 12% to DKK 14,192m (2018: DKK 16,218m) as a consequence of the lower level of capital order intake during the year. Order backlog in Mining decreased by 8%, while order backlog in Cement decreased by 17%.

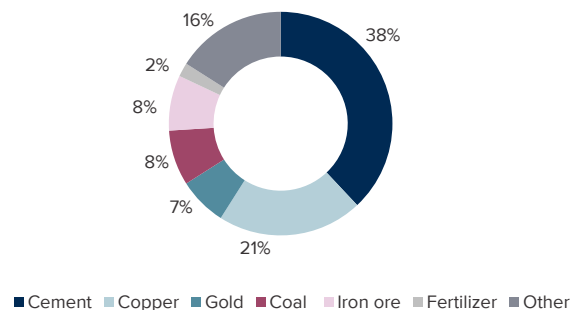
Order backlog maturity

Based on the order backlog maturity profile, the majority, 73% (2018: 70%) of the order backlog is expected to be converted into revenue in 2020, while 27% (2018: 30%) is expected to be converted to revenue in subsequent years.

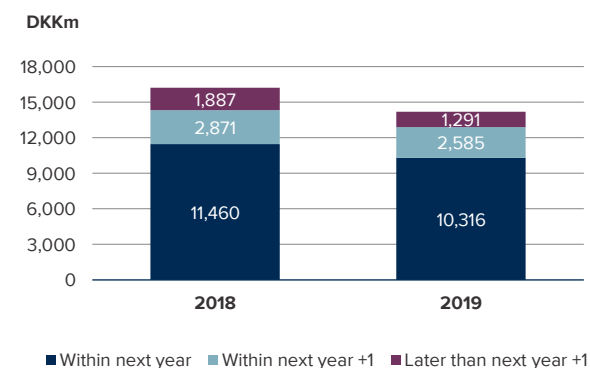
ORDER INTAKE AND BOOK-TO-BILL



ORDER INTAKE BY COMMODITY



BACKLOG MATURITY



GROWTH

Revenue

Revenue increased 10% to DKK 20,646m (2018: DKK 18,750m), explained by a 15% growth in Mining and a 3% growth in Cement. Currency and acquisitions both had a 1% positive impact on revenue. Organic growth was 8%.

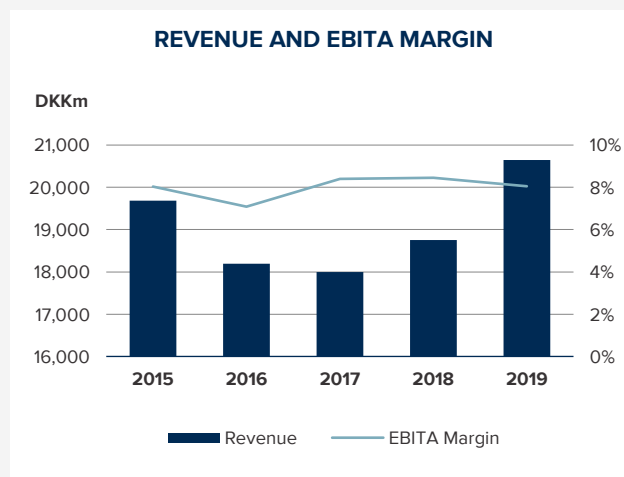
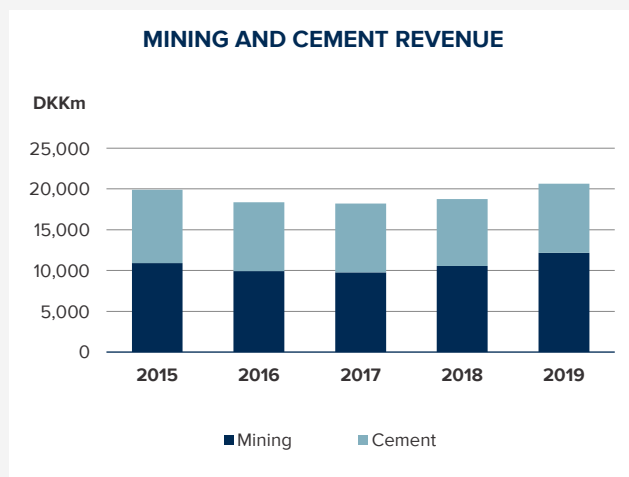
Service revenue, comprising spare- and wear parts, upgrades and retrofits, and operation & maintenance accounted for 52% of total revenue (2018: 54%), while the capital revenue (projects and products) accounted for 48% (2018: 46%).

Service revenue increased by 6% in 2019, attributable to both the mining and cement business which increased by 7% and 2% respectively.

Capital revenue increased by 16% in 2019, mainly driven by the strong capital order intake in Mining during 2018. As a result, mining capital revenue increased by 30% in 2019. Cement capital revenue increased by 4%.

Growth in revenue in 2019 (vs. 2018)

	Mining	Cement	FLSmidth Group
Organic	13%	2%	8%
Acquisition	1%	0%	1%
Currency	1%	1%	1%
Total growth	15%	3%	10%



PROFIT

Gross profit and margin

Gross profit in 2019 increased 3% to DKK 4,849m (2018: DKK 4,693m), while the corresponding gross margin declined to 23.5% (2018: 25.0%). The gross margin declined due to a higher share of lower-margin capital business and delayed customer decisions which led to disruption in workflow and under-absorption. Some Mining projects were less profitable than anticipated, and initiatives are being implemented to improve profitability.

In 2019, research and development costs were DKK 302m (2018: DKK 289m), of which DKK 142m were capitalised (2018: DKK 128m) and the balance of DKK 160m reported as production costs. The R&D costs related to several innovations, including Dry Stack Tailings, digital solutions, new sustainable cement technologies and ROL, as described in the Innovation section.

SG&A costs

Regardless of the 10% growth revenue, sales, general and administrative costs and other operating items declined by 1% in 2019, representing a cost percentage (SG&A ratio) of 13.8% of revenue (2018: 15.3%).

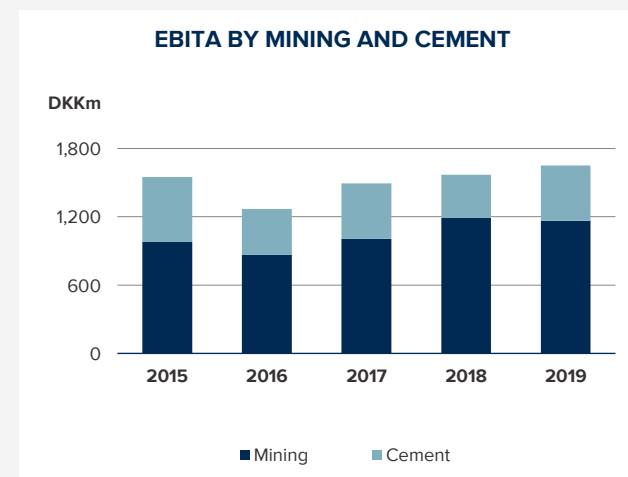
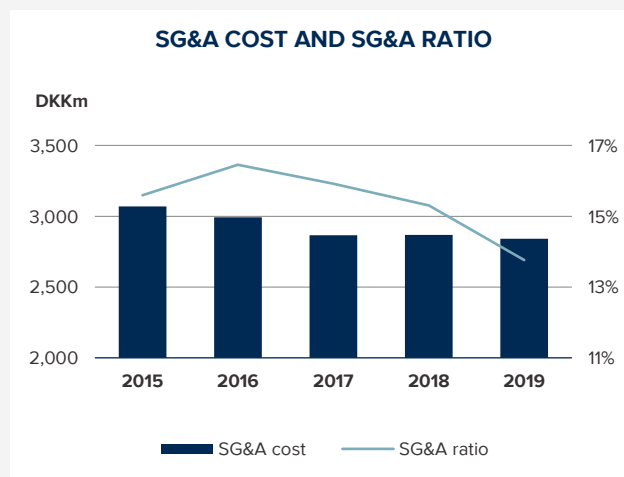
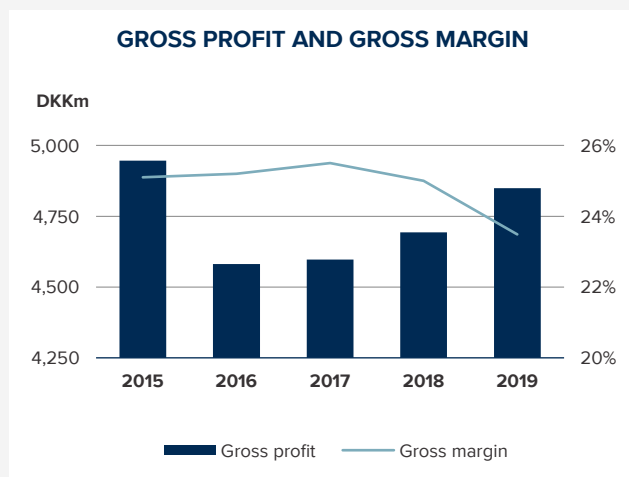
The effect of IFRS 16 on SG&A was a cost reduction of DKK 72m. Without IFRS 16 the SG&A ratio would have been 14.1%.

EBITA and margin

EBITA increased by 5% in 2019, related to the increase in revenue. As a result of the lower gross margin, as explained above, the EBITA margin declined to 8.1% (2018: 8.5%), in line with the revised guidance announced in October 2019.

Financial items

Net financial items amounted to DKK -118m (2018: DKK -161m) of which net interest cost including interest from leasing amounted to DKK -65m (2018: DKK -65m) and foreign exchange and fair value adjustments accounted for the remaining balance.



PROFIT

Tax

Tax for the year amounted to DKK -373m (2018: DKK -248m), corresponding to an effective tax rate of 31.9% (2018: 23.4%).

Profit for the year

Profit for the year increased to DKK 776m (2018: 635m) due to less negative results in discontinued activities.

Profit from continuing activities decreased to DKK 798m (2018: DKK 811m), explained by the higher tax expense for the year.

Loss from discontinued activities decreased to DKK -22m (2018: DKK -176m). Discontinued activities were predominantly related to bulk material handling activities. On 9 January 2019, it was announced that FLSmidth had sold its non-mining bulk material handling business to Rainbow Heavy Machineries.

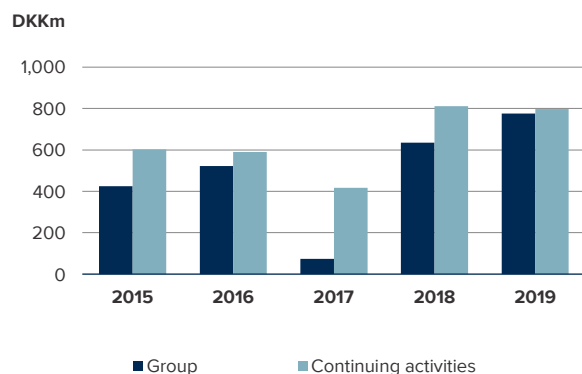
Earnings per share

Earnings per share increased to DKK 15.5 (2018: DKK 12.9) as profit for the year increased by 22% to DKK 776m (2018: 635m).

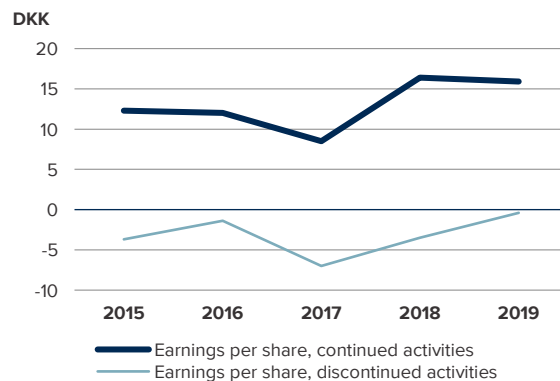
Return on capital employed

ROCE decreased slightly to 10.9% (2018: 11.0%) as a result of the higher capital employed. ROCE was negatively impacted by 0.1%-point due to implementation of IFRS 16.

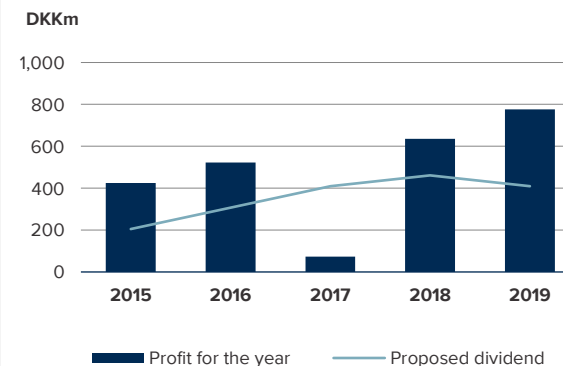
PROFIT FOR THE YEAR



EARNINGS PER SHARE



PROFIT DISTRIBUTION



INCOME STATEMENT

Notes	DKKm	2019	2018
1.4	Revenue	20,646	18,750
	Production costs	(15,797)	(14,057)
	Gross profit	4,849	4,693
	Sales costs	(1,479)	(1,470)
	Administrative costs	(1,414)	(1,454)
	Other operating income	52	57
	EBITDA before special non-recurring items	2,008	1,826
	Special non-recurring items	0	(2)
2.4, 2.5	Depreciation and impairment of property, plant and equipment and lease assets	(345)	(239)
	EBITA	1,663	1,585
2.2	Amortisation and impairment of intangible assets	(377)	(365)
	EBIT	1,286	1,220
2.6	Income from associates	3	0
5.4	Financial income	821	930
5.4	Financial costs	(939)	(1,091)
	EBT	1,171	1,059
4.1	Tax for the year	(373)	(248)
	Profit for the year, continuing activities	798	811
1.2, 2.11	Loss for the year, discontinued activities	(22)	(176)
	Profit for the year	776	635
	Attributable to:		
	Shareholders in FLSmidth & Co. A/S	775	642
	Minority interests	1	(7)
		776	635
5.2	Earnings per share (EPS):		
	Continuing and discontinued activities per share	15.5	12.9
	Continuing and discontinued activities per share, diluted	15.5	12.8
	Continuing activities per share	15.9	16.4
	Continuing activities per share, diluted	15.9	16.3

STATEMENT OF COMPREHENSIVE INCOME

Notes	DKKm	2019	2018
	Profit for the year	776	635
	Items that will not be reclassified to profit or loss:		
	Actuarial gains on defined benefit plans	(44)	10
4.3, 4.4	Tax hereof, including reversal of impairment of tax assets	32	9
	Items that are or may be reclassified subsequently to profit or loss:		
	Currency adjustments regarding translation of entities	154	(131)
	Cash flow hedging:		
	Value adjustments for the year	4	(9)
	Value adjustments transferred to work in progress	21	(14)
4.3, 4.4	Tax hereof	(3)	3
	Other comprehensive income for the year after tax	164	(132)
	Comprehensive income for the year	940	503
	Attributable to:		
	Shareholders in FLSmidth & Co. A/S	939	509
	Minority interests	1	(6)
		940	503

IFRS 16, Leases, was adopted 1 January 2019. No figures prior to 1 January 2019, throughout the report, have been restated. Refer to note 7.6 for IFRS 16 implementation effects.

CASH FLOW

Cash flow from operating activities

Cash flow from operating activities increased significantly to DKK 948m (2018: DKK 385m). CFFO adjusted for IFRS 16 implementation was DKK 842m. CFFO from continuing activities was DKK 1,139m (2018: DKK 953m). 2019 saw a negative impact of DKK 230m (2018: DKK 379m) from change in provisions. Furthermore, the cash flow was negatively impacted by a change in net working capital of DKK 448m (2018: DKK 502m), as explained in the section Financial Position.

Cash flow from investing activities

Cash flow from investing activities amounted to DKK -661m (2018: DKK -285m) due to an increased outflow related to the acquisition of IMP Automation Group. In the comparative period the acquisition of Sandvik Mining Systems contributed positively by DKK 105m.

Less spent on investments in property, plant and equipment

is offset by an increase in investments in intangible assets and no sale of financial assets. Compared to prior years we have received dividend from associates of DKK 12m.

Free cash flow

The free cash flow increased to DKK 287m (2018: DKK 100m) as a result of the higher cash flow from operating activities. Free cash flow adjusted for business acquisitions and disposals was DKK 574m compared to negative DKK 15m last year. Free cash flow adjusted for IFRS 16 effect was DKK 181m.

Cash flow from financing activities

Cash flow from financing activities was DKK -156m (2018: DKK -578m). The dividend approved at the Annual General Meeting was paid out in Q2 2019, with a net pay-out of DKK 450m.

During the year a DKK 5bn revolving credit facility was re-financed. We repaid DKK -1,968m and received proceeds from new loans of DKK 2,340m.

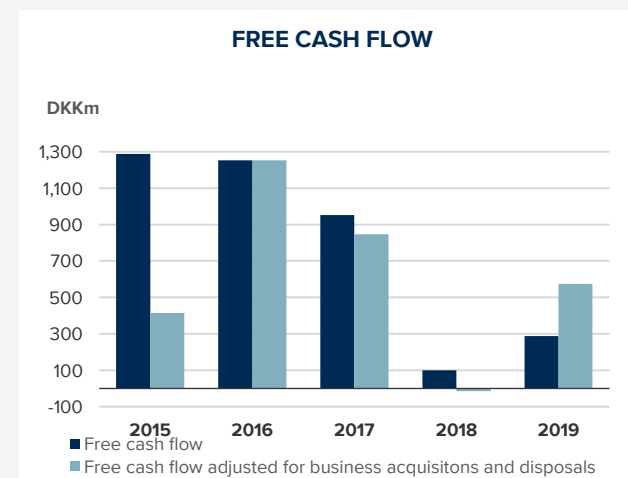
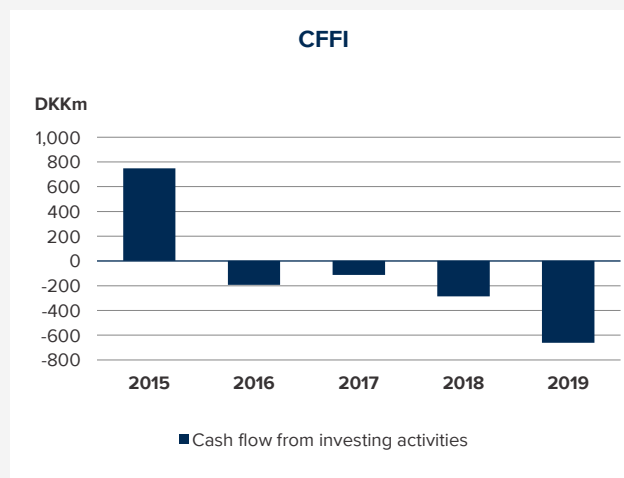
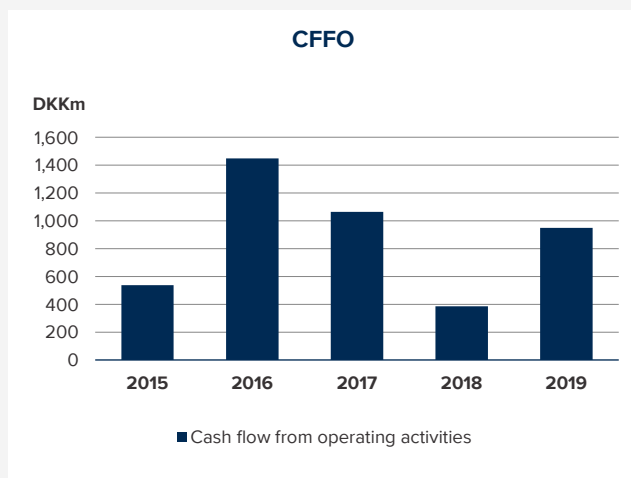
Following the implementation of IFRS 16, the repayment of lease liabilities, DKK 106m, was presented as part of CFFF.

Cash position

Cash and cash equivalents amounted to DKK 1,001m, an increase from DKK 875m in 2018.

Restricted cash

Cash and cash equivalents included cash with currency restrictions amounting to DKK 824m (2018: DKK 817m). The cash and cash equivalents with currency restrictions were primarily related to bank deposits located in countries with currency restrictions. The deposits were part of local daily cash management in countries where we have operating activities.



CASH FLOW STATEMENT

Notes	DKKm	2019	2018
	EBITDA before special non-recurring items, continuing activities	2,008	1,826
	EBITDA before special non-recurring items, discontinued activities	(19)	(159)
	EBITDA	1,989	1,667
	Adjustment for gain on sale of property, plant and equipment and other non-cash items	7	16
	Adjusted EBITDA	1,996	1,683
2.7	Change in provisions, pension and employee benefits	(230)	(379)
3.1	Change in net working capital	(448)	(502)
	Cash flow from operating activities before financial items and tax	1,318	802
5.4	Financial items received and paid	(59)	(37)
4.2	Taxes paid	(311)	(380)
	Cash flow from operating activities	948	385
2.10	Acquisition of enterprises and activities	(287)	105
2.2	Acquisition of intangible assets	(242)	(220)
2.4	Acquisition of property, plant and equipment	(177)	(288)
	Acquisition of financial assets	(2)	(19)
	Disposal of enterprises and activities	0	10
	Disposal of property, plant and equipment	35	80
	Disposal of financial assets	0	47
2.6	Dividend from associates	12	0
	Cash flow from investing activities	(661)	(285)
	Dividend paid	(450)	(421)
	Addition of minority interests	7	2
	Acquisition of treasury shares	0	(42)
	Exercise of share options	21	133
5.7	Repayment of lease liabilities	(106)	0
5.7	Repayment of debt	(1,968)	(250)
5.7	Proceeds from new loans	2,340	0
	Cash flow from financing activities	(156)	(578)
	Change in cash and cash equivalents	131	(478)
	Cash and cash equivalents at 1 January	875	1,425
	Foreign exchange adjustment, cash and cash equivalents	(5)	(72)
	Cash and cash equivalents at 31 December	1,001	875

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

IFRS 16, Leases, was adopted 1 January 2019. No figures prior to 1 January 2019, throughout the report, have been restated. Refer to note 7.6 for IFRS 16 implementation effects.

DKKm	2019	2018
Free cash flow	287	100
Free cash flow, adjusted for acquisitions and disposals of enterprises and activities	574	(15)
Free cash flow, adjusted for acquisitions and disposals of enterprises and activities and IFRS 16, Leases	468	(15)

Accounting policy

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

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

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

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

Cash and cash equivalents mainly consist of bank deposits.

FINANCIAL POSITION

Capital

Balance sheet

Total assets increased to DKK 23,532m at the end of 2019 (2018: DKK 21,743m) due to various effects, mainly the acquisition of IMP Automation Group, implementation of IFRS 16 with lease assets having an effect of DKK 312m and net working capital developments.

Capital employed

Average capital employed increased to DKK 15,251m (2018: DKK 14,338m), mainly as a result of an increase in working capital and lease assets. Consequently, ROCE decreased slightly to 10.9% (2018: 11.0%). Capital employed amounted to DKK 15,870m at the end of 2019 and consists primarily of intangible assets of DKK 10,619m, which is mostly historical goodwill as well as patents and rights, and customer relations. Property, plant and equipment amounted to DKK 2,200m, lease assets at DKK 312m and net working capital to DKK 2,739m at the end of 2019.

Net working capital

Net working capital increased to DKK 2,739m at the end of 2019 (2018: DKK 2,200m), representing 13.3% of revenue (2018: 11.7% of revenue). The increase was primarily related to trade receivables and work in progress, however partly counterbalanced by an increase in trade payables including supply chain finance.

Delay in Mining projects and the absence of prepayments from customers on large capital orders challenged our efforts to reduce net working capital.

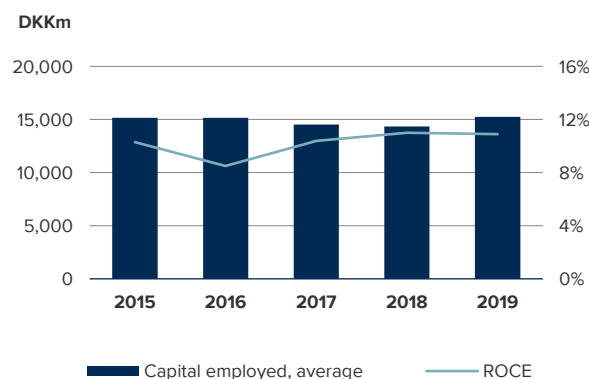
No assets and liabilities were held for sale at the end of 2019.

Net interest-bearing debt

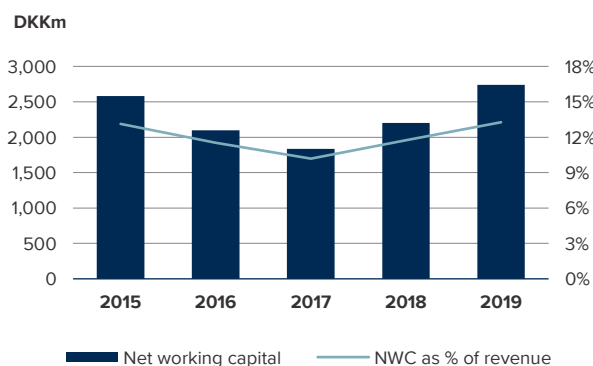
Net interest-bearing debt at the end of 2019 amounted to DKK 2,492m (2018: DKK 1,922m). The effects of IFRS 16 was a DKK 318m increase. Without IFRS 16 net debt would have been DKK 2,174m, still a modest increase on 2018 explained by the difference in dividend payments and free cash flow.

The financial gearing (NIBD/ EBITDA) increased to 1.2 (2018: 1.1), still well below the NIBD long term maximum threshold of two times EBITDA.

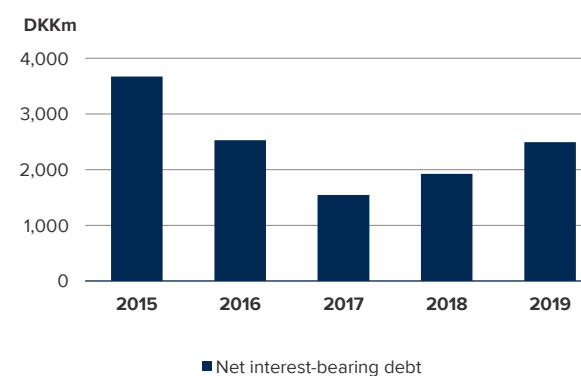
RETURN ON CAPITAL EMPLOYED



NET WORKING CAPITAL



NET INTEREST-BEARING DEBT



BALANCE SHEET

Notes	DKKm	31/12/2019	31/12/2018
	ASSETS		
	Goodwill	4,376	4,238
	Patents and rights	967	1,026
	Customer relations	609	686
	Other intangible assets	94	59
	Completed development projects	203	249
	Intangible assets under development	362	260
2.2	Intangible assets	6,611	6,518
	Land and buildings	1,575	1,598
	Plant and machinery	439	474
	Operating equipment, fixtures and fittings	106	98
	Tangible assets in course of construction	80	65
2.4	Property, plant and equipment	2,200	2,235
2.5	Lease assets	312	0
4.3	Deferred tax assets	1,246	1,174
2.6	Investments in associates	165	0
	Other securities and investments	44	42
	Other non-current assets	1,455	1,216
	Non-current assets	10,578	9,969
3.2	Inventories	2,714	2,685
3.3	Trade receivables	5,068	4,586
3.4	Work in progress	2,612	2,252
	Prepayments	591	364
	Income tax receivables	164	233
3.5	Other receivables	804	779
	Cash and cash equivalents	1,001	875
	Current assets	12,954	11,774
	Total assets	23,532	21,743

Notes	DKKm	31/12/2019	31/12/2018
	EQUITY AND LIABILITIES		
5.1	Share capital	1,025	1,025
	Foreign exchange adjustments	(300)	(454)
	Cash flow hedging	(28)	(53)
	Retained earnings	8,082	7,738
	Shareholders in FLSmidth & Co. A/S	8,779	8,256
	Minority interests	14	10
	Equity	8,793	8,266
4.3	Deferred tax liabilities	352	313
2.8	Pension obligations	362	270
2.7	Provisions	467	499
5.7	Lease liabilities	204	0
5.7	Bank loans and mortgage debt	2,890	2,627
	Prepayments from customers	251	207
3.7	Other liabilities	90	41
	Non-current liabilities	4,616	3,957
2.8	Pension obligations	4	12
2.7	Provisions	551	780
5.7	Lease liabilities	114	0
5.7	Bank loans and mortgage debt	285	175
	Prepayments from customers	1,517	1,595
3.4	Work in progress	1,578	1,453
3.6	Trade payables	4,350	3,698
	Income tax liabilities	315	259
3.7	Other liabilities	1,409	1,548
	Current liabilities	10,123	9,520
	Total liabilities	14,739	13,477
	Total equity and liabilities	23,532	21,743

IFRS 16, Leases, was adopted 1 January 2019. No figures prior to 1 January 2019, throughout the report, have been restated. Refer to note 7.6 for IFRS 16 implementation effects.

EQUITY & VALUE

Equity

Equity at the end of 2019 increased to DKK 8,793m (2018: DKK 8,266m) as a result of the positive profit for the year and currency adjustments regarding translation of entities, partly offset by dividend payments.

Equity ratio

The equity ratio amounted to 37.4% (2018: 38.0%), which was well above the long-term target of minimum 30%.

Return on equity

Return on equity increased to 9.1% (2018: 7.8%) as a result of the increase in profit for the year.

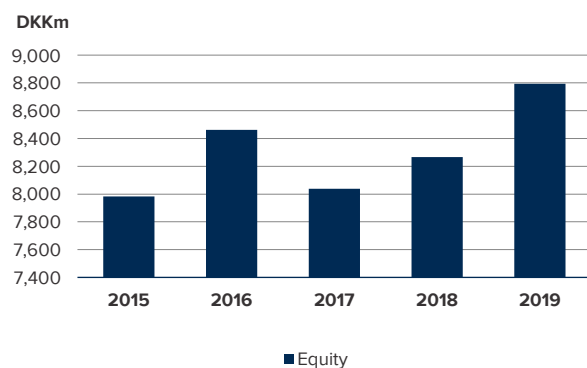
Treasury shares

The holding of treasury shares was 1,193,538 shares at the end 2019 (2018: 1,383,638 shares), representing 2.3% of the total share capital (2018: 2.7%). Treasury shares are used to hedge our share-based incentive programmes.

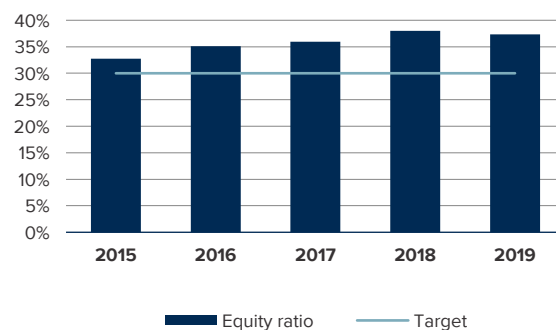
Dividend

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 8 per share, (2018: DKK 9) corresponding to a dividend yield of 3.0% (2018: 3.1%) and a pay-out ratio of 53% (2018: 72%), be distributed for 2019. Total dividend proposed amounts to DKK 410m (2018: DKK 461m).

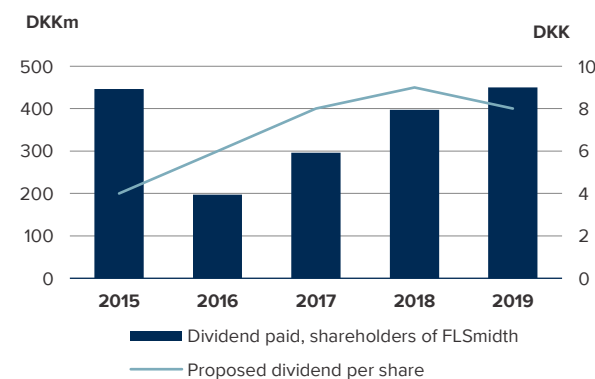
EQUITY DEVELOPMENT



EQUITY RATIO AND TARGET



DIVIDEND






EQUITY STATEMENT

	2019							2018						
DKKm	Share capital	Currency adjustments	Cash flow hedging	Retained earnings	Shareholders in FLSmidth & Co A/S	Minority interests	Total	Share capital	Currency adjustments	Cash flow hedging	Retained earnings	Shareholders in FLSmidth & Co A/S	Minority interests	Total
Equity at 1 January	1,025	(454)	(53)	7,738	8,256	10	8,266	1,025	(322)	(33)	7,338	8,008	38	8,046
Comprehensive income for the year														
Profit/loss for the year				775	775	1	776				642	642	(7)	635
Other comprehensive income														
Actuarial gain/loss on defined benefit plans				(44)	(44)		(44)				10	10		10
Currency adjustments regarding translation of entities		154			154		154		(132)			(132)	1	(131)
Cash flow hedging:														
Value adjustments for the year			4		4		4			(9)		(9)		(9)
Value adjustments transferred to work in progress			21		21		21			(14)		(14)		(14)
Tax on other comprehensive income				29	29		29			3	9	12		12
Other comprehensive income total	0	154	25	(15)	164	0	164	0	(132)	(20)	19	(133)	1	(132)
Comprehensive income for the year	0	154	25	760	939	1	940	0	(132)	(20)	661	509	(6)	503
Transactions with owners:														
Dividend paid				(450)	(450)		(450)				(397)	(397)	(24)	(421)
Share-based payment				13	13		13				45	45		45
Exercise of share options				21	21		21				133	133		133
Acquisition of treasury shares				0	0		0				(42)	(42)		(42)
Addition of minority interests					0	7	7					0	2	2
Disposal of minority interests					0	(4)	(4)					0	0	0
Equity at 31 December	1,025	(300)	(28)	8,082	8,779	14	8,793	1,025	(454)	(53)	7,738	8,256	10	8,266

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

When preparing the financial statements we are required to make several estimates and judgements. The estimates and judgements that can have a significant impact on the financial statements are categorised as key accounting estimates and judgements.

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

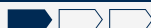







Key accounting estimates and judgements	Low	
	Medium	
	High	

Key accounting estimate

Key accounting estimates are expectations of the future based on assumptions, that we to the extent possible are supported by historical trends or reasonable expectations. Our assumptions may change to adapt to the market conditions and changes in political and economic factors. We believe that our estimates are the most likely outcome of future events.

Key accounting judgements

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

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

1. OPERATING PROFIT & SEGMENTS

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20,646

DKKm
Revenue

52%

Service revenue

8.1%

EBITA

6

DKKm
Improvement in EBITA
due to IFRS 16

1.1 INCOME STATEMENT BY FUNCTION

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

DKKm	2019	2018
Revenue	20,646	18,750
Production costs, including depreciation and amortisation	(16,051)	(14,291)
Gross profit	4,595	4,459
Sales costs, including depreciation and amortisation	(1,571)	(1,556)
Administrative costs, including depreciation and amortisation	(1,790)	(1,738)
Special non-recurring items	0	(2)
Other operating income	52	57
EBIT	1,286	1,220
Depreciation, amortisation and impairment consist of:		
Depreciation and impairment of property, plant and equipment and lease assets	(345)	(239)
Amortisation and impairment of intangible assets	(377)	(365)
	(722)	(604)
Depreciation, amortisation and impairment are divided into:		
Production costs	(254)	(234)
Sales costs	(92)	(86)
Administrative costs	(376)	(284)
	(722)	(604)

1.2 SEGMENT INFORMATION

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

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

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

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

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

1.2 SEGMENT INFORMATION – continued

2019 DKKm	Mining	Cement	Shared costs	Other compa- nies	Con- tinuing activities	Discon- tinued activities	FLSmidth Group
External revenue	12,169	8,477	0	0	20,646	0	20,646
Internal revenue	0	0	0	0	0	0	0
Total revenue	12,169	8,477	0	0	20,646	0	20,646
Production costs	(9,098)	(6,596)	(103)	0	(15,797)	(4)	(15,801)
Gross profit	3,071	1,881	(103)	0	4,849	(4)	4,845
SG&A costs	(930)	(662)	(1,261)	12	(2,841)	(15)	(2,856)
EBITDA before special non-recurring items	2,141	1,219	(1,364)	12	2,008	(19)	1,989
Special non-recurring items	0	0	0	0	0	0	0
Depreciation and impairment of property, plant and equipment and lease assets	(167)	(71)	(107)	0	(345)	0	(345)
EBITA before allocation of shared costs	1,974	1,148	(1,471)	12	1,663	(19)	1,644
Allocation of shared costs	(808)	(662)	1,471	(1)	0	0	0
EBITA	1,166	486	0	11	1,663	(19)	1,644
Amortisation of intangible assets	(261)	(116)	0	0	(377)	0	(377)
EBIT	905	370	0	11	1,286	(19)	1,267
Order intake (gross)	12,064	7,490			19,554	0	19,554
Order backlog	7,683	6,509			14,192	0	14,192
<i>Gross margin</i>	25.2%	22.2%			23.5%		23.5%
<i>EBITDA margin before special non-recurring items</i>	17.6%	14.4%			9.7%		9.6%
<i>EBITA margin before allocation of shared costs</i>	16.2%	13.5%			8.1%		8.0%
<i>EBITA margin</i>	9.6%	5.7%			8.1%		8.0%
<i>EBIT margin</i>	7.4%	4.4%			6.2%		6.1%
Number of employees at 31 December 2019	5,392	4,882	1,488		11,762	3	11,765
Reconciliation of profit/(loss) for the year							
EBIT					1,286	(19)	1,267
Income from associates					3	0	3
Financial income					821	2	823
Financial costs					(939)	(9)	(948)
EBT					1,171	(26)	1,145
Tax for the year					(373)	4	(369)
Profit/(loss) for the year					798	(22)	776

Accounting policy

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

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

Additionally, the divisions are supported by Group Functions related to procurement, logistics and marketing.

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

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

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

1.2 SEGMENT INFORMATION - continued

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

1.3 GEOGRAPHICAL INFORMATION

1 NORTH AMERICA

Revenue: DKK **4,199m** (2018: DKK 3,964m)
 Non-current assets: DKK **3,696m** (2018: DKK 3,622m)
 Employees: **1,934** (2018: 1,911)

USA

Revenue: DKK **2,732m** (2018: DKK 2,404m)
 Non-current assets: DKK **3,069m** (2018: DKK 3,027m)

3 EUROPE, NORTH AFRICA & RUSSIA

Revenue: DKK **3,830m** (2018: DKK 4,099m)
 Non-current assets: DKK **3,623m** (2018: DKK 3,445m)
 Employees: **3,017** (2018: 3,410)

Denmark

Revenue: DKK **108m** (2018: DKK 96m)
 Non-current assets: DKK **1,394m** (2018: DKK 1,341m)

5 ASIA

Revenue: DKK **1,514m** (2018: DKK 1,358m)
 Non-current assets: DKK **113m** (2018: DKK 105m)
 Employees: **617** (2018: 620)

6 SUBCONTINENTAL INDIA

Revenue: DKK **2,650m** (2018: DKK 1,719m)
 Non-current assets: DKK **289m** (2018: DKK 312m)
 Employees: **2,926** (2018: 2,689)

India

Revenue: DKK **2,273m** (2018: DKK 1,292m)
 Non-current assets: DKK **289m** (2018: DKK 312m)

4 SUB-SAHARAN AFRICA & MIDDLE EAST

Revenue: DKK **2,043m** (2018: DKK 2,627m)
 Non-current assets: DKK **217m** (2018: DKK 194m)
 Employees: **767** (2018: 698)

7 AUSTRALIA

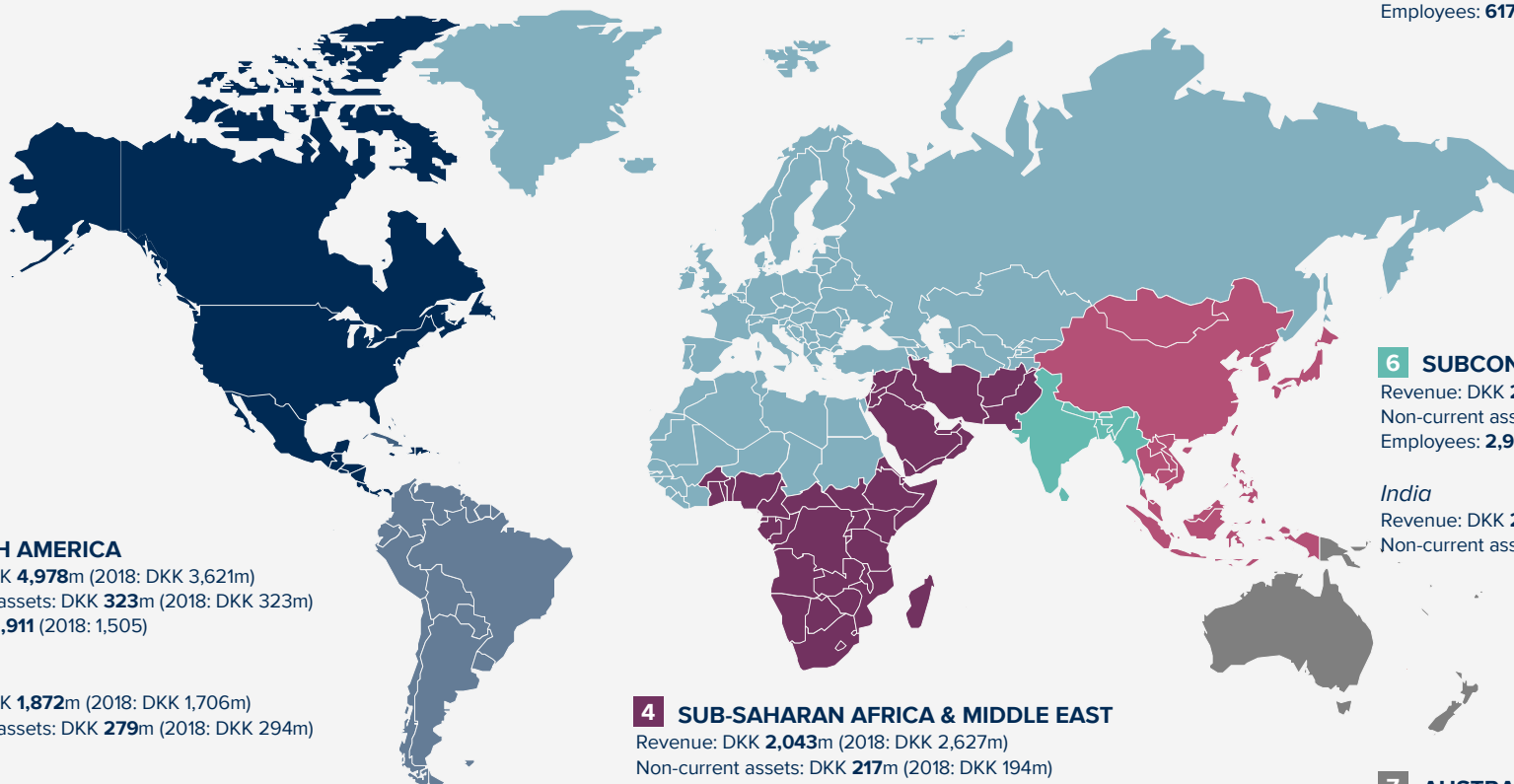
Revenue: DKK **1,432m** (2018: DKK 1,361m)
 Non-current assets: DKK **862m** (2018: DKK 752m)
 Employees: **593** (2018: 535)

2 SOUTH AMERICA

Revenue: DKK **4,978m** (2018: DKK 3,621m)
 Non-current assets: DKK **323m** (2018: DKK 323m)
 Employees: **1,911** (2018: 1,505)

Chile

Revenue: DKK **1,872m** (2018: DKK 1,706m)
 Non-current assets: DKK **279m** (2018: DKK 294m)



1.4 REVENUE

Revenue split on Industry and category:

	2019		
DKKm	Mining	Cement	Group
Projects	3,422	3,676	7,098
Products	1,377	1,394	2,771
Capital business	4,799	5,070	9,869
Service business	7,370	3,407	10,777
Total revenue	12,169	8,477	20,646

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

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 is usually recognised over time; apply-

ing 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.

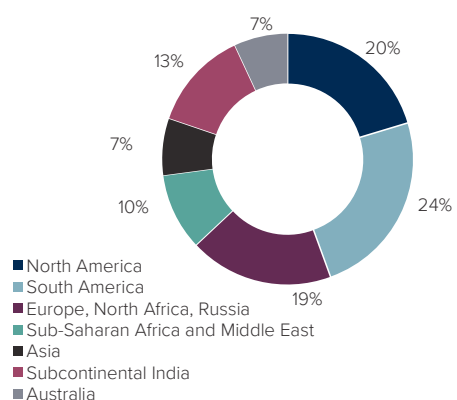
Products

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.

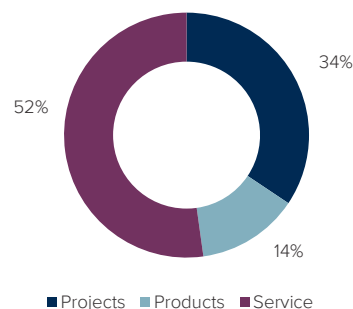
Each product is considered as one performance obligation. Most of the products are sold at a fixed price and revenue is usually recognised over time, applying the cost-to-cost method.

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.

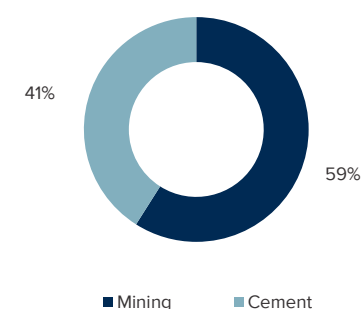
REVENUE SPLIT BY REGIONS



REVENUE BY REVENUE STREAM



REVENUE BY MINING AND CEMENT



1.4 REVENUE - continued

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

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

Service

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

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

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

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

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

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

Revenue split on timing of revenue recognition principle:

				2019
DKKm	Mining	Cement	Group	
Point in time	7,354	2,298	9,652	
Percentage of completion	4,815	6,116	10,931	
Cash	0	63	63	
Total revenue	12,169	8,477	20,646	

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

KEY ACCOUNTING JUDGEMENTS

Judgement regarding performance obligations

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

Judgement regarding recognition method

Judgements are made when determining if a project, product or service is recognised as revenue over time or at a point in time.

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

When assessing if an asset has no alternative use we estimate the alternative use cost amount. We have limited historical data as we rarely redirect our assets. The estimate is based on the specifics of each contract.

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

Accounting policy

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

1.4 REVENUE - continued

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

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

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

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

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

In determining the transaction price revenue is reduced by probable penalties, payment of liquidated damages and any other claims that are payments to our customers. The transaction price is also adjusted for any variable elements, where we estimate the amount of the variable transaction price.

The variable amount is estimated at contract inception and re-estimated periodically throughout the contract term. The variable amount is recognised as revenue when it is highly probable that reversal will not occur.

Warranties are granted in connection with the sale of equipment and systems and are classified as assurance-type warranties that are not accounted for as separate performance obligations. Please refer to section 2.7, Provisions, for accounting policy on warranties provisions.

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

1.5 STAFF COSTS

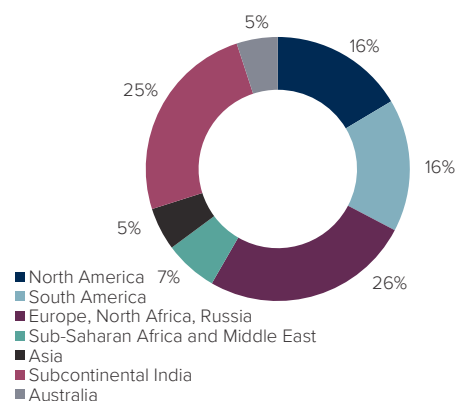
The average number of employees in 2019 in the continuing activities was 11,669 (2018: 11,470).

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

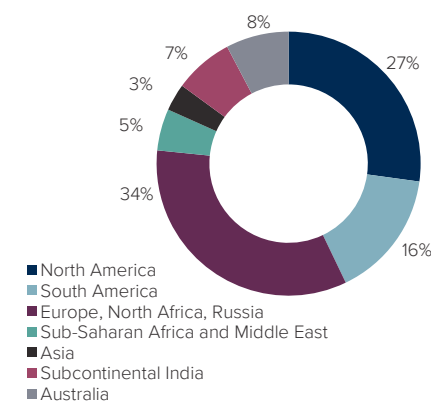
DKKm	2019	2018
Wages, salaries and other remuneration	4,004	3,776
Contribution plans and other social security costs, etc.	596	531
Defined benefit plans	53	14
Share-based payment	13	45
Other staff costs	212	262
	4,878	4,628
The amounts are included in the items:		
Production costs	3,073	2,710
Sales costs	1,052	1,093
Administrative costs	753	825
	4,878	4,628

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

NUMBER OF EMPLOYEES PER REGION



STAFF COST PER REGION



2. CAPITAL EMPLOYED AND OTHER BALANCE SHEET ITEMS

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15,251

DKKm
Average capital employed

10.9%

ROCE

1.3%

Lease assets of total assets



Acquisition of IMP Automation Group

2.1 RETURN ON CAPITAL EMPLOYED

DKKm	31/12/2019	31/12/2018
Intangible assets at cost value, note 2.2	10,619	10,198
Property, plant and equipment at carrying amount, note 2.4	2,200	2,235
Lease assets, note 2.5	312	0
Working capital, note 3.1	2,739	2,200
Capital employed	15,870	14,633
Capital employed, average	15,251	14,338

Capital employed has increased from last year, and the average capital employed has followed. The increase was related to higher net working capital as well as investments in intangible assets, including goodwill, research and development projects and software. Implementation of IFRS 16 has had an effect of DKK 312m increase on capital employed and DKK 156m on average capital employed.

DKKm	2019	2018
EBITA	1,663	1,585
Capital employed, average	15,251	14,338
ROCE, average	10.9%	11.0%

Our return on capital employed is calculated based on average capital employed to reflect the annual development. ROCE has decreased slightly during the year, driven by the increased average capital employed and despite the improved EBITA. ROCE was negatively impacted by 0.1%-point due to implementation of IFRS 16.

2.2 INTANGIBLE ASSETS

Carrying amount of goodwill increased in 2019 due to the acquisition of IMP Automation Group and translation effect of foreign currencies.

Our intangible assets under development consist of research and development (R&D) projects and software. The transfer from intangible assets under development to completed development projects primarily relates to R&D projects finalised in 2019.

Much of the knowhow we generate originates from work performed for customers. In 2019, R&D costs totalled DKK 302m (2018: DKK 289m). The addition of intangible assets under development amounts to DKK 242m (2018: DKK 214m), where capitalised development cost accounts for DKK 142m (2018: DKK 128m). R&D costs not capitalised are included in production costs. The remaining capitalisation relates to IT related projects. Internally generated cost capitalised amounts to DKK 98m (2018: DKK 68m).

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

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

Intangible assets considered to have an indefinite useful life:

	2019		
DKKm	Mining	Cement	Group
Goodwill	4,194	182	4,376
Trademarks	612	311	923
Carrying amount	4,806	493	5,299

Accounting policy

Goodwill

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

Intangible assets other than goodwill

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

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

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

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

2.2 INTANGIBLE ASSETS – continued

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

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

Goodwill and trademarks are considered to have indefinite useful life and are not amortised.

DKKm	2019							2018						
	Goodwill	Patents and rights	Customer relations	Other intangible assets	Completed development projects	Intangible assets under development	Total	Goodwill	Patents and rights	Customer relations	Other intangible assets	Completed development projects	Intangible assets under development	Total
Cost at 1 January	4,238	2,074	1,896	674	1,056	260	10,198	4,218	2,068	1,895	656	956	169	9,962
Foreign exchange adjustments	71	8	34	7	0	0	120	20	6	1	7	0	0	34
Acquisition of group enterprises	67	34	33	7	0	0	141	0	0	0	0	0	0	0
Additions	0	0	0	0	0	242	242	0	0	0	6	0	214	220
Disposals	0	0	0	(6)	(76)	0	(82)	0	0	0	(22)	0	0	(22)
Transferred between categories	0	2	0	83	55	(140)	0	0	0	0	27	100	(123)	4
Cost at 31 December	4,376	2,118	1,963	765	1,035	362	10,619	4,238	2,074	1,896	674	1,056	260	10,198
Amortisation and impairment at 1 January	0	(1,048)	(1,210)	(615)	(807)	0	(3,680)	0	(947)	(1,089)	(603)	(690)	0	(3,329)
Foreign exchange adjustment	0	(4)	(21)	(8)	0	0	(33)	0	(3)	1	(6)	0	0	(8)
Disposals	0	0	0	6	76	0	82	0	0	0	22	0	0	22
Amortisation	0	(99)	(123)	(54)	(101)	0	(377)	0	(98)	(122)	(28)	(117)	0	(365)
Amortisation and impairment at 31 December	0	(1,151)	(1,354)	(671)	(832)	0	(4,008)	0	(1,048)	(1,210)	(615)	(807)	0	(3,680)
Carrying amount at 31 December	4,376	967	609	94	203	362	6,611	4,238	1,026	686	59	249	260	6,518

2.3 IMPAIRMENT OF ASSETS

Result of annual impairment test

We perform an annual impairment test of our intangible assets with indefinite useful life. In 2019 the test showed no impairment need (2018: DKK 0m). Intangible assets are primarily related to acquisition of enterprises and activities, software and research and development projects. When performing the annual impairment test of assets, an assessment is made as to whether the cash generating units to which assets are allocated will be able to generate sufficient positive net cash flow in the future to support the value of the assets.

Management believes that no changes in the key assumptions are likely to reduce the headroom in any of the cash generating units to zero or less.

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

	2019		
DKKm	Mining	Cement	Group
Goodwill	4,161	215	4,376
Patents and rights	620	347	967
Customer relations	598	11	609
Other intangible assets	47	47	94
Completed development projects	101	102	203
Intangible assets under development	188	174	362
Total	5,715	896	6,611

Cash generating units

The cash generating units equal our operating and reportable segments, Mining and Cement, these being the smallest group of assets which together generate incoming cash flow from continued use of the assets and which are independent of cash flow from other assets or groups of assets. The definition of the cash generating units is reconsidered once a year, and the definition is unchanged compared to last year.

Key assumptions

An estimate is made of the present value of the future free net cash flow based on budgets and strategy for the coming eight years as well as projections for the terminal period. Significant parameters in these estimates are discount rate, revenue growth, EBITA margin, expected investments and growth expectations for the terminal period.

Key assumptions	Mining	Cement
Investments % of revenue	2.4%	2.5%
Average growth rate in the budget period	6.4%	2.4%
Growth rate in the terminal period	1.5%	1.5%
Discount rate after tax	7.5%	7.5%
Discount rate before tax	10.9%	10.9%
EBITA margin in the budget period	11-13%	6-8%

The discount rate applied reflects the latest market assumptions for the risk-free rate based on a 10-year Danish government bond, the equity risk premium and the cost of debt.

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

Due to the current negative interest rate environment, a conservative approach regarding the long-term growth rate for the terminal period has been applied. This methodology has been applied to ensure consistency with the level of the risk-free rate applied as a basis for the estimation of discount rate (WACC) and the long-term growth rate. Based on these factors, a long term annual growth rate for the terminal period of 1.5% has been applied.

Investments reflect both maintenance and expectations of organic growth.

Mining

2019 showed increasing mining capital expenditures which was also reflected in our revenue growth. However, global economic headwinds combined with challenges regarding license to operate caused hesitation on large capital investments which led to declining capital order intake in 2019. Greenfield activity and other large capital investments have been limited and main activities have been focused on smaller brownfield expansion, single equipment and OPEX to improve productivity. We have seen a continued good demand for services, driven by high production volumes, supporting commodity prices, declining ore grades and a need for miners to lower their cash cost of production.

Mining companies are, overall, in a healthy financial position and have the ability and fundamental need to invest. This is reflected in our pipeline which remains encouraging, including opportunities for larger investments. Timing is uncertain due to lengthy processes tied to environmental approvals, internal Board approvals and, in some cases, financing.

2.3 IMPAIRMENT OF ASSETS - continued

As the global trend of decarbonisation accelerates, there will be a growing demand for minerals. The green economy is metal intensive and especially copper plays a key role in creating a more sustainable future.

Based on the above it is management's expectations that growth for Mining will be modest in 2020, followed by an annual growth in the subsequent years of up to 8%. EBITA margins are expected around 11-13% for the budget period.

Cement

GDP growth, urbanisation and infrastructure investments continue to be the main drivers for cement demand. As trade tensions between the US and China escalated throughout 2019, global GDP growth slowed to an estimated 2.4%. Uncertainty prevails for 2020 due to the lack of visibility on the macro risks. However, the phase-one trade agreement between the US and China and a potential de-escalation of the trade war could provide a recovery in business confidence, which should be able to help stabilise the economy and boost global growth in 2020.

The cement market remained stable during the year with a resilient pricing environment. The market for new cement capacity remains subdued on a global scale, and despite recent hesitation on large capital investments, which led to declining capital order intake in 2019, we see good local opportunities and a steady demand for equipment and sustainability-driven efficiency improvements.

We see continued good momentum in the service business, and we have a strong pipeline of opportunities relating to operation efficiency, digitalization and solutions supporting a lower environmental impact.

During the course of 2019, the sustainability agenda has truly gained traction and one of the major trends in the industry is the rising demand for green cement. Low utilisation levels still prevail in many parts of the developed world, but the increasing use of energy efficient and low emission technologies drive growth prospects and our customers are increasingly stepping up investments in reducing their carbon emissions as both regulators and investors are putting pressure to reduce global warming.

Based on the above it is management's expectations that growth for Cement will be flat or negative in 2020, followed by 2-4% annual growth in the subsequent years. EBITA margins are expected to move towards 7-8% in the medium-term.

Sensitivity analysis

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

Accounting policy

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

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

Factors that could trigger an impairment test include the following:

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

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

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

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

2.4 PROPERTY, PLANT AND EQUIPMENT

Land and buildings with a carrying amount of DKK 48m (2018: DKK 48m) are pledged against mortgage debt of DKK 273m (2018: DKK 288m).

Accounting policy

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

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

Estimated useful life is as follows:

- Buildings, 20-40 years
- Plant and machinery, 3-15 years
- Operating equipment and fixtures and fittings, 3-15 years
- Leasehold improvements up to 5 years or following the corresponding lease agreement

Land is not depreciated.

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

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

	2019					2018				
DKKm	Land and buildings	Plant and machinery	Operating equipment, fixtures and fittings	Property, plant and equipment under construction	Total	Land and buildings	Plant and machinery	Operating equipment, fixtures and fittings	Property, plant and equipment under construction	Total
Cost at 1 January	2,450	1,547	978	65	5,040	2,375	1,466	946	64	4,851
Foreign exchange adjustments	29	28	9	2	68	4	3	(3)	(2)	2
Acquisitions of enterprises	3	3	1	6	13	0	0	0	0	0
Disposals of enterprises	0	0	0	0	0	0	(6)	(2)	0	(8)
Additions	10	33	57	77	177	84	62	28	114	288
Disposals	(30)	(24)	(44)	(2)	(100)	(46)	(22)	(21)	0	(89)
Transferred between categories	36	33	(1)	(68)	0	33	44	30	(111)	(4)
Cost at 31 December	2,498	1,620	1,000	80	5,198	2,450	1,547	978	65	5,040
Depreciation and impairment at 1 January	(852)	(1,073)	(880)	0	(2,805)	(778)	(979)	(846)	0	(2,603)
Foreign exchange adjustment	(6)	(16)	(10)	0	(32)	(3)	(8)	5	0	(6)
Disposals of enterprises	0	0	0	0	0	0	3	2	0	5
Disposals	6	25	41	0	72	1	17	20	0	38
Depreciation	(71)	(119)	(43)	0	(233)	(70)	(118)	(51)	0	(239)
Transferred between categories	0	2	(2)	0	0	(2)	12	(10)	0	0
Depreciation and impairment at 31 December	(923)	(1,181)	(894)	0	(2,998)	(852)	(1,073)	(880)	0	(2,805)
Carrying amount at 31 December	1,575	439	106	80	2,200	1,598	474	98	65	2,235

2.5 LEASES

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

In previous years, all lease contracts were classified as operating leases according to IAS 17, Leases, based on an assessment of the terms and conditions of each contract. Therefore, no lease assets and lease liabilities were previously recognised in the balance sheet.

1 January 2019 we adopted IFRS 16, Leases. Upon adoption of IFRS 16, Leases the majority of all lease contracts have

been included in the balance sheet. Leases are included in the balance sheet with the below amounts.

The majority of the lease assets relate to land and buildings and the lease contracts are typically made for fixed periods of 1 to 9 years, with a weighted average lease term of 5 years. The weighted average discount rate applied for land and buildings is 3.66%.

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

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

DKKm	Land and buildings	Plant and machinery	Operating equipment	Total
Changes in accounting policies, IFRS 16, 1 January 2019	241	10	66	317
Acquisitions of enterprises	4	0	0	4
Remeasurement	1	0	0	1
Additions	99	0	5	104
Disposals	(1)	0	(1)	(2)
Depreciation	(84)	(2)	(26)	(112)
Carrying amount at 31 December 2019	260	8	44	312

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

Depreciation on lease assets amounted to DKK 112m and interest on lease debt was DKK 12, see note 5.4.

During 2019 we have had total cash outflow for leases of DKK 118m, of which DKK 12m was interest related to leases (included in CFFO) and DKK 106m repayment of lease debt (included in CFFF). Please refer to note 5.8 Financial assets and liabilities for maturity analysis of lease liabilities. Further to the above cash outflow DKK 15m was included in CFFO for costs relating to short-term, low-value and variable lease payments not recorded on the balance sheet.

During 2019 we entered into a contingent sale and lease-back transaction of the headquarters in Valby, Denmark. Please refer to note 2.9 Contractual obligation for further information.

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

Accounting policy

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

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

The lease payments have been split into an interest cost and a repayment of the lease liability.

2.5 LEASES - continued

Lease assets are measured at cost comprising the following:

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

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

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

The following factors are normally the most relevant:

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

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

The accounting policies applied have changed for 2019. Effect from implementing IFRS 16, Leases, is described in note 7.6 Impact from new IFRS.

2.6 INVESTMENTS IN ASSOCIATES

Investments in associates includes investment in Intertek Robotic Laboratories Pty Ltd, Australia, with a 50% share. The investment was acquired as part of the IMP acquisition relating to our Mining business, see note 2.10 for further information.

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

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

The primary object of the company is to carry on the business of providing automated and robotic sample preparation, fusion and analytical testing services including the procurement, construction and commissioning of a laboratory.

As the investment was acquired as part of the IMP acquisition the investment has been part of the purchase price allocation from the business acquisition. The value uplift relates primarily to identified intangible assets and will be amortised over the period 2019-2039.

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

Financial information of 100% of Intertek Robotic Laboratories Pty Ltd for 2019 (not only FLSmith's share). The income statement includes the result from 1 June - 31 December 2019 and the balance sheet numbers are as of 31 December 2019. The financial information reflects the adjustments made in relation to the acquisition.

DKKm	31/12/2019
Revenue	70
Profit for the period	6
Other comprehensive income	0
Total comprehensive income	6
Dividend paid	(24)
Current assets	36
Customer relations	140
Non-current assets	33
Current liabilities	(21)
Non-current liabilities	0
Equity	188

DKKm	31/12/2019
FLSmith's share of equity, 50%	94
Goodwill	71
Carrying value at 31 December	165

2.7 PROVISIONS

Provisions consist of:

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

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

Other provisions have decreased and primarily contain provisions for ongoing legal disputes including provisions related to discontinued activities.

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

DKKm	2019	2018
Pensions and employee benefits	51	(1)
Provisions	(261)	(346)
Foreign exchange adjustments	(20)	(32)
Cash flow effect	(230)	(379)

Used provisions in 2018 primarily related to a settlement of a dispute with a customer on a legacy project.

Used provisions in 2019 were mainly to cover our warranty obligations and loss making projects including the obligations related to acquired projects from Sandvik. Used provision related to discontinued activities amounted to DKK 107m.

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

Continued activities' share of Group provisions:

DKKm	2019	2018
Provisions at 1 January	961	1,163
Foreign exchange adjustments	16	0
Additions	439	685
Used	(418)	(315)
Reversals	(191)	(463)
Reclassification to/from other liabilities	0	(109)
Transfer from assets held for sale	0	0
Provisions	807	961

DKKm	2019				2018			
	Warranties	Restructuring	Other	Total	Warranties	Restructuring	Other	Total
Provisions at 1 January	628	59	592	1,279	825	27	578	1,430
Foreign exchange adjustments	6	3	7	16	1	3	0	4
Acquisition of Group enterprises	0	0	0	0	0	0	0	0
Disposal of Group enterprises	0	0	0	0	(2)	0	0	(2)
Additions	255	16	168	439	332	25	327	684
Used	(188)	(37)	(300)	(525)	(181)	(9)	(370)	(560)
Reversals	(110)	(1)	(80)	(191)	(337)	(14)	(135)	(486)
Reclassification to other liabilities	0	0	0	0	(84)	(6)	(19)	(109)
Transfer between categories	(13)	0	13	0	(21)	0	21	0
Transfer from asset held for sale	0	0	0	0	95	33	190	318
Provisions at 31 December	578	40	400	1,018	628	59	592	1,279

KEY ACCOUNTING ESTIMATES

Estimated warranty provision

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

2.7 PROVISIONS

– continued

Accounting policy

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

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

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

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

2.8 PENSION OBLIGATIONS

Defined contribution plans

The majority of our pension plans are defined contribution plans and we have no further payment obligations once the contributions are paid. Under these pension plans, we recognise regular payments, e.g. a fixed amount or a fixed percentage of the salary. Pension costs related to defined contribution plans are recognised in staff costs (note 1.5) and amounted to DKK 596m (2018: DKK 531m).

Defined benefit plans

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

	2019			2018		
	Present value of pension obligations	Fair value of plan assets	Net obligations	Present value of pension obligations	Fair value of plan assets	Net obligations
DKKm						
Value at 1 January	(1,000)	718	(282)	(1,039)	759	(280)
Interest on obligation/asset	(34)	26	(9)	(29)	23	(6)
Service costs	(53)	0	(53)	(14)	0	(14)
Recognised in the income statement	(87)	26	(62)	(43)	23	(20)
Actuarial gains and losses from financial assumptions*	(126)	82	(44)	53	(43)	10
Recognised in other comprehensive income	(126)	82	(44)	53	(43)	10
Foreign exchange adjustments	(20)	18	(2)	(35)	30	(5)
Employer contributions	0	3	3	0	4	4
Participant contributions	(1)	2	1	(2)	3	1
Benefits paid to employees	82	(62)	20	66	(58)	8
Other changes	61	(39)	22	29	(21)	8
Value at 31 December	(1,152)	787	(366)	(1,000)	718	(282)

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

2.8 PENSION OBLIGATIONS

– continued

The majority of the total pension obligations are partially funded with assets placed in pension funds and through insurance. In 2020 we expect to make a contribution to the defined benefit plans of DKK 4.6m (2019: 5.6m). The weighted average duration of the obligations is 13 years (2018: 13 years).

Actuarial assumptions applied (weighted):

	2019	2018
Average discounting rate applied	1.2%	2.0%
Expected future pay increase rate	1.3%	1.7%

Sensitivity analysis

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

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

DKKm	2019	2018
Discount rate - 1%, increase	152	129
Discount rate + 1%, decrease	(131)	(112)

Accounting policy

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

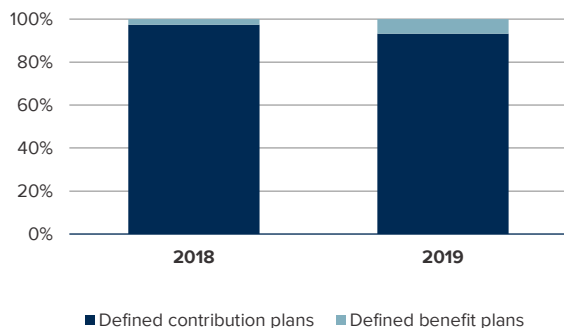
For defined benefit plans, annual actuarial calculations are made of the present value of future benefits payable under the pension plan using the projected unit credit method.

The present value is calculated based on assumptions about future developments in variables such as salary levels, interest, inflation and mortality rates. The present value is only calculated for benefits earned by the employees through their employment with the Group to date. The actuarial calculation of present value less the fair value of any plan assets is recognised in the balance sheet as pension obligations.

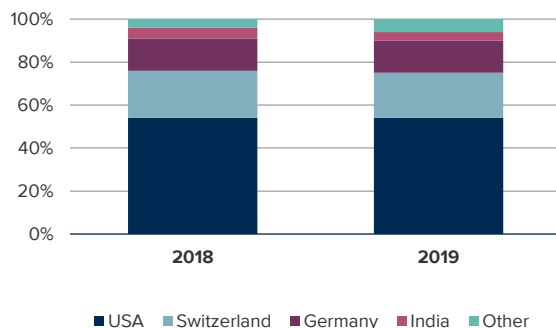
The pension costs for the year, based on actuarial estimates and financial forecasts at the beginning of the year, are recognised in the income statement. The difference between the forecast development in pension assets and liabilities and the realised values is called actuarial gains or losses and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

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

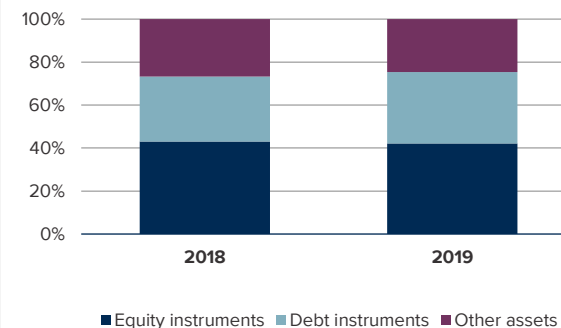
PENSION CONTRIBUTIONS BY PLAN TYPES



PENSION OBLIGATIONS BY COUNTRY



FAIR VALUE OF PLAN ASSETS BY INSTRUMENTS



2.9 CONTRACTUAL OBLIGATIONS AND CONTINGENT ASSETS AND LIABILITIES

Sale and leaseback of headquarters

FLSmidth has entered into a conditional agreement to sell all and lease back part of its headquarters in Valby, Denmark. The parties involved are currently negotiating the more specific terms and conditions of the conditional agreement and timing and outcome of the agreement is therefore uncertain.

Contractual commitments

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

The fund has attracted a global base of strategic investors and strong industry clusters have been established particularly around mining and metals, engineering and construction. Investments will be made in innovative intelligent systems that drive energy transition and decarbonisation, such as artificial intelligence (AI), robotics, machine learning, Internet of things (IoT), blockchain, sensors, as well as the development of new materials and technologies that will fundamentally transform the world's largest industries.

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

We have made a capital commitment of USD 10m. The capital can be called up until 2029, investment period being the first 5 years. The timing and amounts of each capital call are uncertain. The undrawn part of the capital commitment at 31 December 2019 amounted to DKK 62m (2018: DKK: 0m).

Contingent assets

In a customer contract, our customer has failed to meet its obligations to an extent that has caused material breach of the contract. An arbitration case is expected to be settled in our favour, representing a contingent asset of approx. DKK 40m at 31 December 2019.

Guarantees

To cover project-related risks, such as performance, payment, quality and delay, we issue usual security in the form of performance and payment guarantees for projects and supplies towards our customers. At 31 December 2019, the value of issued guarantees amounted to DKK 2,474m (2018: DKK: 2,498m). In the event a guarantee is expected to materialise, a provision is recognised to cover the risk.

Other contingent liabilities

We are involved in legal disputes, certain of which are already pending with courts or other authorities and others of which some may or may not lead to formal legal proceedings being instigated against us, including by public authorities. The outcome of such proceedings and disputes is by nature unknown but is not expected to have significant impact on our financial position. Contingent liabilities related to legal proceedings where formal claims have been raised against us amount to DKK 333 million (2018: DKK 278m).

2.10 BUSINESS ACQUISITIONS

In February 2019, we reached an agreement to acquire IMP Automation Group, subject to certain conditions. The acquisition closed at 31 May 2019. IMP Automation Group (IMP) is the established global leader in automated laboratory solutions for the mining industry.

The acquisition enables us to support the expanding market for automated laboratories, and supports the increased focus on productivity, automation and digitalization. The acquisition strongly complements the products we offer for quality control and optimisation of the mining process.

Following the closing of the IMP acquisition, we are working on realising the synergies between the digital initiatives of FLSmidth and IMP's automated solutions to further enhance processing optimisation and ultimately provide greater value to customers.

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

The IMP business has been integrated into the Mining segment and is included in the consolidated financial statement from 1 June – 31 December 2019 (comparison figures are from last year's partial Sandvik acquisition):

DKKm	2019	2018
Revenue	91	31
Profit for the period	3	5
Headcount	138	26

2.10 BUSINESS ACQUISITIONS – continued

Acquisition related costs amounted to DKK 5m and are recognised in the income statement as administrative cost.

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

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

Accounting policy

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

DKKm	Other	IMP Auto- mation Group	Net assets acquired 2019	Net assets acquired 2018
Property, plant and equipment	5	8	13	0
Patents and rights acquired	0	34	34	0
Customer relations	0	33	33	0
Other intangible assets	0	7	7	0
Investment in associate	0	173	173	0
Inventories	0	31	31	0
Trade receivables	0	34	34	0
Prepayments to subcontractors	0	23	23	0
Other accounts receivables	0	4	4	0
Cash and cash equivalents	0	39	39	0
Trade payables	0	(5)	(5)	0
Prepayments from customers	0	(25)	(25)	0
Deferred tax	0	(38)	(38)	0
Other liabilities	0	(12)	(12)	(7)
Carrying amount of net assets acquired	5	306	311	(7)
Goodwill	1	66	67	(3)
Transaction price	6	372	378	(10)
Cash and cash equivalents acquired	0	(39)	(39)	0
Deferred payment, payable	0	(34)	(34)	0
Deferred payment, receivable, prior acquisitions	(18)	0	(18)	(95)
Net cash effect	(12)	299	287	(105)

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

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

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

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

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

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

2.11 DISCONTINUED ACTIVITIES

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

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

Under the sales agreement we retain the responsibility to finalise legacy projects. The projects were from a revenue perspective completed at year end 2018. Subsequent handling of claims and collection activities projects are however expected to be finalised during 2019-2020. Accordingly, the discontinued activities reported include these legacy projects related to the ceased non-mining bulk material handling business.

Please refer to segment note 1.2 for full disclosure of income statement including revenue, costs, EBT, tax and loss for the year for discontinued activities.

Discontinued activities effect on cash flow from operating activities:

DKKm	2019	2018
EBITDA, see segment note 1.2	(19)	(159)
Adjustment for gain on sale of property, plant and equipment etc.	3	0
Adjusted EBITDA	(16)	(159)
Change in provisions	(108)	(136)
Change in net working capital	(58)	(253)
Cash flow from operating activities before financial items and tax	(182)	(548)
Financial items received and paid	(9)	(16)
Taxes paid	0	(4)
Cash flow from operating activities	(191)	(568)
Cash flow from investing activities	0	(3)
Cash flow from financing activities	0	0

Discontinued activities are not expected to generate any significant net cash flow in 2020. The expectations are based on a net working capital balance of DKK 227m, provisions of DKK 211m and moderate SG&A cost. There can, however, be a timing difference between cash paid and cash received related to the outstanding net working capital and provision balances.

Cash flow from discontinued operating activities totalled DKK -191m (2018: DKK -568m). The negative cash flow is mainly due to change in provisions of DKK 108m (2018: DKK -136m). Hereof, DKK 31m relates to redundancies, while the remaining relates to legacy projects that we retained as part of the sales agreement.

Cash flow from net working capital from discontinued activities amounted to DKK -58m (2018: -253m), as net working capital related to discontinued business increased from DKK 164m end of 2018 to DKK 227m end of 2019.

Loss for the period from discontinued activities total DKK -22m (2018: DKK -176m), primarily consisting of SG&A cost.

Discontinued activities' share of Group provisions:

DKKm	2019	2018
Provisions at 1 January	318	452
Foreign exchange adjustments	0	4
Disposal of Group enterprises	0	(2)
Additions	0	175
Used	(107)	(282)
Reversals	0	(29)
Provisions	211	318

Accounting policy

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

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

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

3. WORKING CAPITAL

3.1	Net working capital	96
3.2	Inventories	96
3.3	Trade receivables	97
3.4	Work in progress	98
3.5	Other receivables	99
3.6	Trade payables	99
3.7	Other liabilities	99

2,739

DKKm
Net working capital

13.3%

Net working capital ratio

539

DKKm
Increase in net working capital

No significant
NWC impact from
supply chain financing

3.1 NET WORKING CAPITAL

DKKm	31/12/2019	31/12/2018
Inventories	2,714	2,685
Trade receivables	5,068	4,586
Work in progress, asset	2,612	2,252
Prepayments	591	364
Other receivables	710	683
Derivative financial instruments	36	41
Prepayments from customers	(1,768)	(1,802)
Trade payables	(4,350)	(3,698)
Work in progress, liability	(1,578)	(1,453)
Other liabilities	(1,242)	(1,407)
Derivative financial instruments	(54)	(51)
Net working capital	2,739	2,200

DKKm	2019	2018
Inventories	57	(336)
Trade receivables	(392)	(172)
Trade payables	633	373
Work in progress	(245)	(187)
Prepayments from customers	(71)	27
Prepayments	(205)	(154)
Other receivables and other liabilities	(245)	40
Foreign exchange gain/(loss)	20	(93)
Cash flow effect	(448)	(502)

The increase in net working capital was caused by a higher activity level end of year compared to last year. The high revenue level in Q4 2019 resulted in an increase in trade receivables and net work in progress, however partly offset by an increase in trade payables. The impact from the supply chain financing program on trade payables was largely unchanged to last year.

3.2 INVENTORIES

Inventory net of write downs is specified as follows:

DKKm	31/12/2019	31/12/2018
Raw materials and consumables	282	375
Work in progress	370	392
Finished goods and goods for resale	2,062	1,918
Inventories	2,714	2,685

Write down of inventories:

DKKm	2019	2018
Write down at 1 January	323	286
Foreign exchange adjustments	4	2
Additions	38	75
Realised	(31)	(26)
Reversals	(19)	(14)
Write down at 31 December	315	323

Inventory level has increased 1% in 2019. Inventory write-down has declined compared to 2018 reflecting a lower share of slow moving inventory.

Accounting policy

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

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

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

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

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

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

KEY ACCOUNTING ESTIMATES

Estimated valuation of inventories

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

3.3 TRADE RECEIVABLES

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

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

DKKm	31/12/2019	31/12/2018
Not due for payment	3,240	2,888
Overdue < one month	683	586
Overdue one - two months	357	262
Overdue two - three months	152	140
Overdue > three months	636	710
Trade receivables	5,068	4,586
Trade receivables not due for payment with retentions on contractual terms	493	402

Write down of trade receivables:

DKKm	2019	2018
Write down at 1 January	369	391
Foreign exchange adjustments	7	(7)
Additions	116	114
Reversals	(69)	(80)
Realised	(84)	(50)
Transfer from assets held for sale	0	1
Write down at 31 December	339	369

Write down on trade receivables specified according to ageing:

2019 DKKm	Expected default rate	Gross carrying amount	Write down
Not due for payment	1.3%	3,282	42
Overdue < one month	4.8%	718	35
Overdue one - two months	10.1%	397	40
Overdue two - three months	16.9%	183	31
Overdue > three months	23.1%	827	191
Total		5,407	339

2018 DKKm	Expected default rate	Gross carrying amount	Write down
Not due for payment	1.3%	2,925	37
Overdue < one month	5.9%	623	37
Overdue one - two months	11.8%	297	35
Overdue two - three months	19.1%	173	33
Overdue > three months	24.2%	937	227
Total		4,955	369

The write down in 2019 is based on historical observed default rates adjusted for estimates of uncertainties in project related activities and market conditions.

The lower rates in 2019 are primarily driven by improved cash collection for our more than one month overdue receivables.

KEY ACCOUNTING ESTIMATES

Estimated level of expected losses

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

Accounting policy

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

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

3.4 WORK IN PROGRESS

DKKm	2019	2018
Total costs incurred	29,666	24,690
Profit recognised as income, net	2,479	2,145
Work in progress	32,145	26,835
Invoicing on account to customers	(31,111)	(26,036)
Net work in progress	1,034	799
Of which is recognised as work in progress:		
Under assets	2,612	2,252
Under liabilities	(1,578)	(1,453)
Net work in progress	1,034	799

The work in progress balance can change from being presented as an asset in one period to being presented as a liability in the next period.

KEY ACCOUNTING ESTIMATES

Estimated total cost to complete

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

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

Estimated variable transaction price

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

Accounting policy

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

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

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

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

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

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

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

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

Prepayments from customers are recognised as a liability.

3.5 OTHER RECEIVABLES

In 2019, other receivables amounted to DKK 804m (2018: DKK 779m), mainly including fair value of derivatives of DKK 36m (2018: DKK 41m) and VAT of DKK 467m (2018: DKK 463m).

3.6 TRADE PAYABLES

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

The amounts payable to suppliers included in the supply chain financing programme are classified as trade payables in the balance sheet. The trade payables covered by the supply chain financing programme arise in the ordinary course of business from supply of goods and services and amounted to DKK 1,083m at 31 December 2019 (2018: DKK 1,028m).

3.7 OTHER LIABILITIES

In 2019, other liabilities amounted to DKK 1,499m (2018: DKK 1,589m), including fair value of derivatives of DKK 54m (2018: DKK 51m) and VAT of DKK 211m (2018: DKK 249m). Employee related liabilities amount to DKK 630m (2018: DKK 623m).

Other liabilities have decreased compared to 2018 due to revised expectations for short term incentive pay.

4. TAX

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373

DKKm
Tax for the year

31.9%

Effective tax rate

311

DKKm
Paid income tax

1,246

DKKm
Deferred tax asset

4.1 INCOME TAX

The income tax expense for the year amounted to DKK 373m (2018: DKK 248m), corresponding to an effective tax rate of 31.9% (2018: 23.4%).

Uncertain tax positions reflect the annual assessment by management of the risk of a position taken by the Group being disputed by a tax authority. The assessment considers the inherent risk and uncertainty of undertaking complex

projects and operating in a variety of developed and developing countries. The assessment includes the most likely outcome of both ongoing and potential future tax audits.

Accounting policy

Tax for the year comprises current tax and changes in deferred tax including valuation of deferred tax assets, adjustments to previous years, foreign paid withholding taxes including available credit relief and changes in provisions for uncertain tax positions.

Tax is recognised in the Consolidated Income Statement with the share attributable to the profit/loss of the year, and in other comprehensive income with the share attributable to items recognised in other comprehensive income. Exchange rate adjustments of deferred tax are included as part of the year's adjustments to deferred tax.

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

Uncertain tax positions are measured at the amount estimated to be required to settle such potential future obligations. We measure these uncertain tax positions on a yearly basis through interviews with key stakeholders in the main Group entities.

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

We will determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty will be followed. Uncertain tax positions are measured at the most likely outcome method.

The liability is recognised under income tax liabilities or deferred tax liabilities, depending in how the realisation of the tax position will affect the financial statements.

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

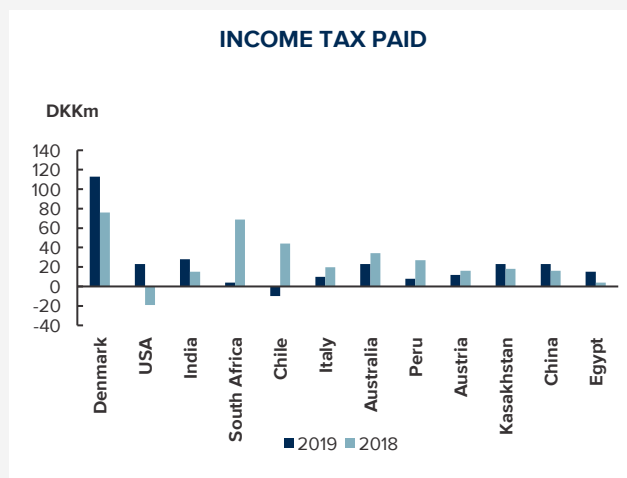
DKKm	2019	2018
Current tax on profit/(loss) for the year	(330)	(380)
Withholding tax	(42)	(59)
Change in deferred tax	52	199
Change in tax rate on deferred tax	1	5
Adjustments regarding previous years, deferred tax	(7)	22
Adjustments regarding previous years, current tax	38	(42)
Uncertain tax positions	(85)	7
Tax for the year, continuing activities	(373)	(248)
Earnings before tax on continuing activities	1,171	1,059
Earnings before tax on discontinued activities	(26)	(164)
Total earnings before tax	1,145	895

DKKm	2019		2018	
	Tax	Effective tax rate	Tax	Effective tax rate
Tax according to Danish tax rate	(258)	22.0%	(233)	22.0%
Differences in the tax rates in foreign subsidiaries relative to 22%	(40)	3.4%	(57)	5.4%
Non-taxable income and non-deductible costs	18	-1.5%	(11)	1.0%
Income utilised against previous years capital loss not recognised	0	0.0%	9	-0.8%
Differences in tax assets valued at nil	2	-0.2%	111	-10.5%
Differences due to adjustment of tax rate	1	-0.1%	5	-0.5%
Adjustments regarding previous years, deferred tax	(7)	0.6%	22	-2.1%
Adjustments regarding previous years, current tax	38	-3.2%	(42)	4.0%
Withholding tax	(42)	3.6%	(59)	5.6%
Uncertain tax positions	(85)	7.3%	7	-0.7%
Total tax for the year and effective tax rate	(373)	31.9%	(248)	23.4%

4.2 PAID INCOME TAX

Income tax paid in 2019 amounted to DKK 311m (2018: DKK 380m). Most of these payments are attributable to Group enterprises in the countries shown in the graph below.

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



4.3 DEFERRED TAX

Deferred tax assets end of 2019 amount to DKK 1,246m (2018: DKK 1,174m) and deferred tax liabilities amount to DKK 352m (2018: DKK 313m). The net deferred tax assets amount to DKK 894m (2018: DKK 861m).

Deferred tax assets valued at nil amounting to DKK 165m (2018: DKK 176m) relate to tax losses and tax assets mainly in discontinued and dormant entities.

Temporary differences regarding investments in Group enterprises are estimated as a tax liability of DKK 300-350m in 2019 (2018: DKK 300-350m) and tax liability related to future repatriation of profit from entities in foreign countries are estimated at DKK 300-350m in 2019 (2018: DKK 350-400m).

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

DKKm **2019**

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

DKKm **2018**

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

4.3 DEFERRED TAX - continued

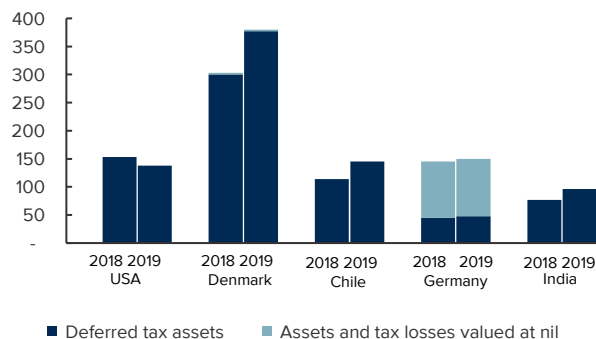
DKKm	2019	2018
Deferred tax assets	1,246	1,174
Deferred tax liabilities	(352)	(313)
	894	861

DKK 61m (2018: DKK 53m) of foreign paid withholding taxes in USA is not recognised as a future benefit due to uncertainties relating to the effect of the Base Erosion Anti-Abuse Tax (BEAT) in USA.

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

The deferred tax asset in Germany is not fully recognised as this is not likely to be utilised within the next five years. This is based on the current market situation relative to the size of the deferred tax asset in this country. Forecasted earnings have considered cost savings and the recovery of the market.

SIGNIFICANT DEFERRED TAX ASSETS



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

DKKm	2019	2018
Within one year	79	54
Between one and five years	93	152
After five years	426	416
	598	622
Tax value	165	176
Deferred tax assets fully written down consist of:		
Temporary differences	14	19
Tax losses	584	603
	598	622

KEY ACCOUNTING ESTIMATES

Estimated value of deferred tax assets

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

Accounting policy

Deferred tax is calculated using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to initial recognition of goodwill. Deferred tax is calculated based on the applicable tax rates for the individual financial years.

The effect of changes in the tax rates is stated in the income statement unless they are items previously entered in the statement of other comprehensive income.

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

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

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

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

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

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

4.4 TAX ON OTHER COMPREHENSIVE INCOME

Deferred tax of other comprehensive income DKK 29m (2018: DKK 11m) includes assets held for sale of DKK 0m (2018:DKK 0m).

4.5 OUR APPROACH TO TAX AND TAX RISK

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

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

<https://www.flsmidth.com/en-gb/company/sustainability/our-commitments-and-policies>

DKKm	2019			2018		
	Deferred tax	Current tax	Tax income/cost	Deferred tax	Current tax	Tax income/cost
Value adjustments of hedging instruments	(3)	0	(3)	2	1	3
Actuarial gains/losses on defined benefit plans	32	0	32	(3)	0	(3)
Tax assets valued at nil - actuarial gains/losses	0	0	0	12	0	12
Tax on other comprehensive income	29	0	29	11	1	12

5. FINANCIAL RISKS & CAPITAL STRUCTURE

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2,492

DKKm
Net interest bearing debt

8

DKK
Proposed dividend per share

6.5

DKKbn
Available for cash drawings

5.0

DKKbn
New revolving credit facility

5.1 SHARES AND CAPITAL STRUCTURE

Shares

Share capital is DKK 1,025m (end of 2018: DKK 1,025m) and the total number of issued shares is 51,250,000 (end of 2018: 51,250,000). Each share entitles the holder to 20 votes and no shares have special rights attached to it.

Shareholders at the end of 2019

One shareholder has reported a participating interest above 10%:

- Lundbeckfond Invest A/S, Denmark.

Two shareholders have reported a participating interest above 5%:

- Novo Holdings A/S, Denmark
- Bestinver Gestión S.A SGIC, Spain

Capital structure

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

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

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

For further information please refer to Shareholder information section page 58.

Treasury shares

Our holding of treasury shares at the end of 2019 accounted for 2.3% of the share capital (2018: 2.7%).

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

The treasury shares are used to hedge employees' exercise of share-based incentive programmes, and are recognised directly in equity in retained earnings (zero value in the balance sheet).

The year's movements in holding of treasury shares (1,000):

	2019	2018
Treasury shares at 1 January	1,384	1,729
Acquisition of treasury shares	0	59
Used for share options exercised	(190)	(404)
Treasury shares at 31 December	1,194	1,384
Issued shares net of Treasury shares:		
Outstanding shares 1 January	49,866	49,521
Movement	190	345
Outstanding shares at 31 December	50,056	49,866

Dividend per share

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 8 per share (2018: DKK 9) corresponding to a dividend yield of 3.0% (2018: 3.1%) and a pay-out ratio of 53% (2018: 72%) be distributed for 2019.

	2019		2018	
	Number of shares (1,000)	Value (DKKm)	Number of shares (1,000)	Value (DKKm)
The year's movements in holding of shares				
Share capital at 1 January	51,250	1,025	51,250	1,025
Share capital at 31 December	51,250	1,025	51,250	1,025

5.2 EARNINGS PER SHARE

Earnings per share from continuing activities decreased to DKK 15.9 in 2019 (2018: DKK 16.4) primarily driven by reduced profit for the year. Earnings per share from discontinued activities improved to DKK -0.4 in 2019 (2018: DKK -3.5).

The dilutive effect of share options in the money is less than 0.2% in 2019 (2018: 0.7%).

As of 31 December 2019 number of share options in-the-money totalled 826,154 (2018: 1,024,553).

DKKm	2019	2018
Profit for the year, continuing activities	798	811
Minority interests	(1)	7
FLSmidth's share of profit, continuing activities	797	818
Loss for the year, discontinued activities	(22)	(176)
FLSmidth's share of loss, discontinuing activities	(22)	(176)
FLSmidth's share of profit	775	642

Number of shares (1,000)	2019	2018
Average number of outstanding shares	49,994	49,727
Dilutive effect of share options in the money	98	324
Average diluted number of outstanding shares	50,092	50,051

DKK	2019	2018
Earnings per share from continuing activities	15.9	16.4
Earnings per share from discontinued activities	(0.4)	(3.5)
Earnings per share from continuing and discontinued activities	15.5	12.9

DKK	2019	2018
Diluted earnings per share from continuing activities	15.9	16.3
Diluted earnings per share from discontinued activities	(0.4)	(3.5)
Diluted earnings per share from continuing and discontinued activities	15.5	12.8

5.3 FINANCIAL RISKS

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

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

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

Interest rate risk

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

According to the Financial Policy, hedging of interest rates is governed by a duration range and is managed by using derivatives such as interest rate swaps. No interest derivatives have been used during 2018 or 2019.

As of 31 December 2019, the majority of our interest-bearing debt is carrying a floating rate.

All other things being equal, a 1% point increase in the interest rate will increase our interest cost by DKK 25m (2018: DKK 19m), calculated as 1% of the net interest bearing debt as of 31 December 2019.

5.3 FINANCIAL RISKS - continued

Currency risk

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

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

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

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

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

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

The below analysis is based on the assumption that all other variables, exposures and interest rates in particular, remain constant.

Transaction impact, DKKm		2019		2018	
Currency	Change	Net profit for the year	Other comprehensive income	Net profit for the year	Other comprehensive income
USD	5.0%	(4)	(13)	9	(20)
CNY	5.0%	(1)	7	(1)	11
AUD	5.0%	(2)	0	-	-
GBP	5.0%	(2)	0	-	-
PLN	5.0%	-	-	4	0
ZAR	5.0%	-	-	(2)	0

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

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

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

Translation impact, DKKm	Change	2019	2018
USD	5.0%	74	52
INR	5.0%	45	45
AUD	5.0%	93	69
ZAR	5.0%	18	16

Credit risk

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

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

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

For commercial risks the credit risks are governed by the Credit Risk Policy. For receivables credit risk is managed by continuous risk assessments and credit evaluations of customers and trading partners; having country specific risk factors in mind. To the extent possible, the credit risks are mitigated through use of payment securities, such as letters of credit and guarantees issued by first class rated banks, or by securing positive cash flow throughout the project execution. At the end of 2019, 26% (2018: 21%) of our work in progress asset and 7% (2018: 7%) of our trade receivables balance were covered by payment securities.

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

At 31 December 2019 total credit risk was measured as DKK 9,596m (2018: DKK 8,541m).

5.3 FINANCIAL RISKS - continued

We consider the maximum credit risk to financial counterparties to be DKK 1,003m (2018: DKK 877m). All financial assets, excluding other securities and investments, are expected to be settled during 2020.

Liquidity risk

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

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

During the year our DKK 5bn club deal was refinanced with the same banking group and largely the same terms and conditions.

At the end of 2019, committed facilities totalled DKK 6,486m (2018: 6,450m), available for cash drawings. The committed facilities will mature during the years 2022-2025. Short-term liquidity risks are managed through cash pools in various currencies and by having short-term overdraft facilities in place with several financial institutions, mainly on a committed basis, but also through uncommitted facilities.

According to the Financial Policy the available financial resources must not be lower than DKK 2bn at any point. The liquidity position is monitored on a daily basis. As of 31 December 2019 the financial resources are well above the threshold.

The committed facilities contain standard clauses such as pari passu, negative pledge, change of control and a leverage financial covenant. We did not default or fail to fulfil any of our financial covenants, neither in 2018 nor in 2019.

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

Restricted cash

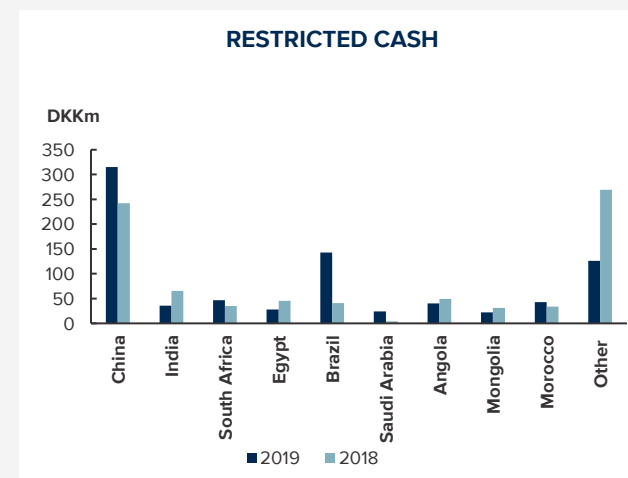
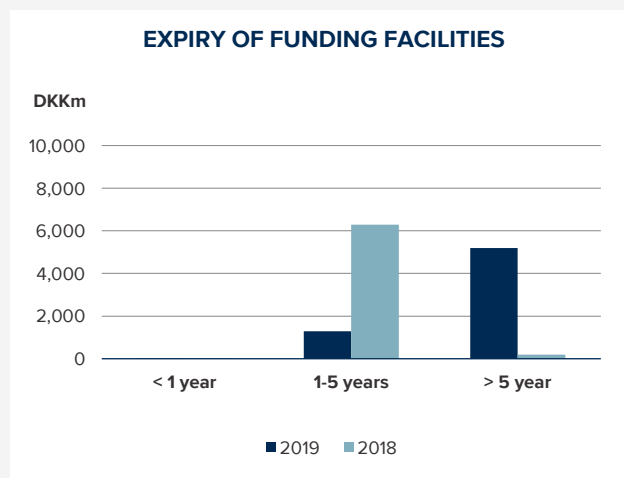
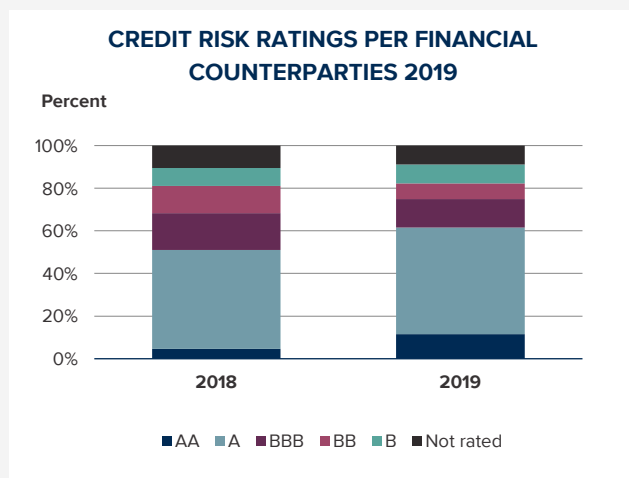
Cash and cash equivalents included cash with currency restrictions. The cash is part of the local daily operations and is not restricted to FLSmidth.

5.4 FINANCIAL INCOME AND COSTS

Foreign exchange adjustments, net of hedging effect, amounted to DKK 43m (2018: DKK -95m), primarily related to the cost of hedging the loan portfolio to the functional currency of the borrowing entity (forward points) and exposures in non-hedgeable emerging market currencies, as well as timing differences between cash flows and hedges.

The net interest cost totalled DKK 53m (2018: DKK 65m) related to loans and deposits.

Lease interest cost amounted to DKK 12m against no cost in 2018 due to the implementation of IFRS 16 1 January 2019.



5.4 FINANCIAL INCOME AND COSTS

- continued

Fair value adjustment of shares of net DKK -10m (2018: DKK -1m) relates to shareholdings in cement companies.

DKKm	2019	2018
Interest income	25	38
Fair value adjustment of derivatives	207	268
Foreign exchange gains	586	614
Fair value adjustment of shares	3	10
Total financial income	821	930
Interest cost	(78)	(103)
Lease interest cost	(12)	0
Fair value adjustment of derivative	(179)	(281)
Foreign exchange losses	(657)	(696)
Fair value adjustment of shares	(13)	(11)
Total financial costs	(939)	(1,091)
Net financial costs	(118)	(161)

DKKm	2019	2018
Interest received	25	38
Interest paid	(84)	(75)
Cash flow effect	(59)	(37)

Accounting policy

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

5.5 DERIVATIVES

DKKm	Economic hedge	Cash flow hedge	2019
Financial instruments asset	7	29	36
Financial instruments liability	(18)	(36)	(54)
Total	(11)	(7)	(18)

Economic hedge

Fair value adjustments recognised in financial items in the income statement amounted to DKK 28m (2018: DKK -13m). At 31 December 2019 the fair value of our hedge agreements that are not recognised as hedge accounting amounted to DKK -11m (2018: DKK 9m).

Economic hedge, DKKm	2019	
Currency	Notional amount	Net fair value
USD	(237)	5
AUD	(162)	(17)
Other	-	1
Total		(11)

A negative notional amount represents a sale of the currency

Cash flow hedge

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

The fair value reserve of the derivatives is recognised in other comprehensive income until the hedged items are included in work in progress. The fair value of derivatives is recognised in other receivables and other liabilities. The majority of the cash flow hedge instruments are expected to settle and affect the income statement within one year.

At 31 December 2019, the fair value of our cash flow hedge instruments amounted to DKK -7m (2018: DKK -19m).

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

A negative notional amount represents a sale of the currency

Changes in the cash flow hedging reserve:

DKKm	2019	2018
Change in cash flow hedge reserve	4	(9)
Reclassified from other comprehensive income to work in progress	21	(14)

Accounting policy

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

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

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

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

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

5.6 FAIR VALUE MEASUREMENT

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

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

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

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

There have been no transfers between the levels in 2019 or 2018.

2019				
DKKm	Level 1	Level 2	Level 3	Total
Securities and investments	6	0	38	44
Hedging instruments asset	0	36	0	36
Hedging instruments liability	0	(54)	0	(54)
	6	(18)	38	26

2018				
DKKm	Level 1	Level 2	Level 3	Total
Securities and investments	9	0	33	42
Hedging instruments asset	0	41	0	41
Hedging instruments liability	0	(51)	0	(51)
	9	(10)	33	32

5.7 NET INTEREST BEARING DEBT

2019 DKKm	Effective interest rate	Carrying amount 1 January 2019	Cash flows	Implemen- tation of IFRS 16, Leases	Additional lease liability during the year	Foreign exchange effect	Carrying amount 31 December 2019
Lease liabilities	3.66%	0	(106)	317	108	(1)	318
Mortgage debt	0.70%	288	(15)	0	0	0	273
Bank debt	1.50%	2,514	387	0	0	1	2,902
Interest bearing debt		2,802	266	317	108	0	3,493
Cash and cash equivalents		875	131	0	0	(5)	1,001
Other receivables		5	(5)	0	0	0	0
Interest bearing assets		880	126	0	0	(5)	1,001
Net interest bearing debt		1,922	140	317	108	5	2,492

2018 DKKm	Effective interest rate	Carrying amount 1 January 2018	Cash flows	Implemen- tation of IFRS 16, Leases	Additional lease liability during the year	Foreign exchange effect	Carrying amount 31 December 2018
Mortgage debt	0.70%	306	(18)	-	-	0	288
Bank debt	1.92%	2,644	(167)	-	-	37	2,514
Other liabilities		65	(65)	-	-	0	0
Interest bearing debt		3,015	(250)	-	-	37	2,802
Cash and cash equivalents		1,382	(435)	-	-	(72)	875
Other receivables		88	(83)	-	-	0	5
Interest bearing assets		1,470	(518)	-	-	(72)	880
Net interest bearing debt		1,545	268	-	-	109	1,922

5.8 FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

5.8 FINANCIAL ASSETS AND LIABILITIES – continued

Assets DKKm	2019						2018					
	Maturity of cash flows			Total cash flows	Fair value	Carrying amount	Maturity of cash flows			Total cash flows	Fair value	Carrying amount
	< 1 year	1-5 years	> 5 year				< 1 year	1-5 years	> 5 year			
Hedging instruments (hedge accounting)	28	1	0	29	29	29	21	1	0	22	22	22
Hedging instruments (economic hedging)	7	0	0	7	7	7	19	0	0	19	19	19
Securities and investments	0	0	44	44	44	44	0	0	42	42	42	42
Fair value through profit and loss	7	0	44	51	51	51	19	0	42	61	61	61
Trade receivables	5,068	0	0	5,068	5,068	5,068	4,586	0	0	4,586	4,586	4,586
Work in progress	2,612	0	0	2,612	2,612	2,612	2,252	0	0	2,252	2,252	2,252
Other receivables	301	0	0	301	301	301	785	0	0	785	785	785
Cash and cash equivalents	1,001	0	0	1,001	1,001	1,001	875	0	0	875	875	875
Amortised costs	8,982	0	0	8,982	8,982	8,982	8,498	0	0	8,498	8,498	8,498
Total financial assets	9,017	1	44	9,062	9,062	9,062	8,538	1	42	8,581	8,581	8,581

Liabilities DKKm	2019						2018					
	Maturity of cash flows			Total cash flows	Fair value	Carrying amount	Maturity of cash flows			Total cash flows	Fair value	Carrying amount
	< 1 year	1-5 years	> 5 year				< 1 year	1-5 years	> 5 year			
Hedging instruments (hedge accounting)	(34)	(2)	0	(36)	(36)	(36)	(41)	(3)	0	(44)	(44)	(44)
Hedging instruments (economic hedging)	(18)	0	0	(18)	(18)	(18)	(7)	0	0	(7)	(7)	(7)
Fair value through profit and loss	(18)	0	0	(18)	(18)	(18)	(7)	0	0	(7)	(7)	(7)
Lease liabilities	(118)	(187)	(33)	(338)	(318)	(318)	0	0	0	0	0	0
Mortgage debt	(16)	(65)	(203)	(284)	(274)	(273)	(16)	(66)	(221)	(303)	(290)	(288)
Bank debt	(273)	(1,012)	(1,774)	(3,059)	(2,902)	(2,902)	(160)	(2,359)	0	(2,519)	(2,519)	(2,514)
Trade payables	(4,350)	0	0	(4,350)	(4,350)	(4,350)	(3,698)	0	0	(3,698)	(3,698)	(3,698)
Other liabilities	(1,144)	(90)	0	(1,234)	(1,234)	(1,234)	(1,548)	0	0	(1,548)	(1,548)	(1,548)
Amortised cost	(5,901)	(1,354)	(2,010)	(9,265)	(9,078)	(9,077)	(5,422)	(2,425)	(221)	(8,068)	(8,055)	(8,048)
Total financial liabilities	(5,953)	(1,356)	(2,010)	(9,319)	(9,132)	(9,131)	(5,470)	(2,428)	(221)	(8,119)	(8,106)	(8,099)

6. OTHER NOTES

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New Board of Directors
in 2019

265.4

DKK
Share price
at 31 December 2019

36,640

Shares pertain to Executive
Management at the grant date

18

Number of new Group companies

6.1 MANAGEMENT REMUNERATION

The members of the FLSmidth & Co. A/S Board of Directors and Executive Management (registered with Erhvervsstyrelsen/The Danish Business Authority) have

received the following remuneration for the years 2017-2019 and have the following shareholdings at year end.

Management remuneration is an integrated part of the Remuneration Report 2019. Additional information can be found in the Corporate Governance section.

BOARD OF DIRECTORS	2019				2018				2017			
	Board of directors	Board committees	Total	Number of shares	Board of directors	Board committees	Total	Number of shares	Board of directors	Board committees	Total	Number of shares
DKK1,000												
Vagn Ove Sørensen (Chairman)	1,350	0	1,350	10,633	1,350	0	1,350	9,501	1,350	0	1,350	7,501
Tom Knutzen	900	0	900	15,000	900	0	900	12,500	788	56	844	12,500
Torkil Bentzen	-	-	-	-	-	-	-	-	225	0	225	-
Caroline Grégoire Sainte Marie	113	62	175	-	450	250	700	500	450	250	700	500
Gillian Dawn Winckler	337	94	431	0	-	-	-	-	-	-	-	-
Sten Jakobson	-	-	-	-	-	-	-	-	113	31	144	-
Mariusus Jacques Kloppers	113	94	207	-	450	375	825	-	450	250	700	-
Thrasylvoulos Moraitis	337	281	618	0	-	-	-	-	-	-	-	-
Richard Robinson Smith	450	225	675	1,000	450	225	675	1,000	450	200	650	1,000
Anne Louise Eberhard	450	125	575	1,000	450	125	575	1,000	338	94	432	-
Jens Peter Koch (employee-elected)	-	-	-	-	-	-	-	-	113	31	144	-
Mette Dobel (employee-elected)	450	0	450	864	450	0	450	864	450	0	450	864
Søren Qvistgaard Larsen (employee-elected)	450	125	575	65	450	125	575	65	450	94	544	65
Claus Østergaard (employee-elected)	450	0	450	429	450	0	450	429	338	75	413	179
Total	5,400	1,006	6,406	28,991	5,400	1,100	6,500	25,859	5,515	1,081	6,596	22,609

EXECUTIVE MANAGEMENT	2019				2018			2017		
	Thomas Schulz	Lars Vester-gaard	Annette Terndrup	Total	Thomas Schulz	Lars Vester-gaard	Total	Thomas Schulz	Lars Vester-gaard	Total
DKK1,000										
Base salary	9,378	4,340	190	13,908	8,526	4,500	13,026	7,403	4,081	11,484
Bonus	0	0	0	0	3,093	1,402	4,495	3,498	1,554	5,052
Expensed share-based payments	1,048	417	15	1,480	3,225	1,567	4,792	2,302	1,106	3,408
Benefits /car	555	176	16	747	560	192	752	615	198	813
Severance package	-	9,030	-	9,030	-	-	-	-	-	-
Total	10,981	13,963	221	25,165	15,404	7,661	23,065	13,818	6,939	20,757
Number of shares	18,323	-	1,344	19,667	6,510	2,393	8,903	4,510	1,698	6,208

6.2 SHARE-BASED PAYMENT

Specification of outstanding number of share options	Group Executive Management	Key employees	Total number
Outstanding options 1 January 2018	209,368	1,325,656	1,535,024
Change between positions	(51,389)	51,389	0
Exercised 2012 plan	(9,699)	(130,195)	(139,894)
Exercised 2013 plan	(8,998)	(43,395)	(52,393)
Exercised 2014 plan	(39,968)	(212,461)	(252,429)
Exercised 2015 plan	0	(15,950)	(15,950)
Lapsed	0	(49,805)	(49,805)
Outstanding options 31 December 2018	99,314	925,239	1,024,553
Exercised 2013 plan	0	(58,553)	(58,553)
Exercised 2014 plan	0	(5,339)	(5,339)
Exercised 2015 plan	0	(16,265)	(16,265)
Lapsed	0	(118,242)	(118,242)
Outstanding options 31 December 2019	99,314	726,840	826,154
Number of options that are exercisable at 31 December 2018	99,314	925,239	1,024,553
Number of options that are exercisable at 31 December 2019	99,314	726,840	826,154
Total fair value of outstanding options DKKm			
At 31 December 2018	5	51	56
At 31 December 2019	4	26	30

DKK	2019	2018
Average weighted fair value per option	36.66	54.68
Average weighted strike price per option	251.50	259.73
Average price per share at the time of exercising the option	265.57	287.92

Accounting policy

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

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

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

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

The fair value of the share options is estimated using an option pricing model (Black-Scholes). In determining the fair value, the terms and conditions related to the share options granted are taken into account. The fair value of the PSUs is determined based on the quoted share price.

6.2 SHARE-BASED PAYMENT – continued

Year of allocation	Strike price	Exercise period	Allocated	Lapsed	Exercised	Out-standing
2014	306.20	2017-2018	593,785	(50,778)	(330,507)	212,500
	300.20	2018-2019				
	294.20	2019-2020				
2014	259.00	2017-2018	266,950	(42,712)	(154,830)	69,408
	253.00	2018-2019				
	247.00	2019-2020				
2015	263.00	2018-2019	621,941	(45,480)	(32,215)	544,246
	257.00	2019-2020				
	251.00	2020-2021				

Share options

Executive Management and a number of key employees in the Group have been granted options to purchase 826,154 shares in the company at a set price (strike price).

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

In 2019, the recognised fair value of share options in the consolidated income statement amounts to DKK 0m (2018: DKK 10m). The calculation of average weighted fair value and strike prices per option is based on a dividend of DKK 9 (2018: DKK 8) in the exercise period.

6.2 SHARE-BASED PAYMENT – continued

	31/12/2019	31/12/2018
Conditional grant	March-19	March-18
Performance year	Jan 2019 - Dec 2021	Jan 2018 - Dec 2020
Vesting period	Mar 2019 - Feb 2021	Mar 2018 - Feb 2021
Vesting conditions, other than service conditions	EBITA, NWC	EBITA, NWC

DKK/DKK(1,000)	2019	2018
Market price per share	306.04	385.70
Total fair value of awarded performance shares at measurement date	121,348	156,053

	2019			2018		
Specification of performance shares	Group Executive Management	Key employees	Total number	Group Executive Management	Key employees	Total number
Outstanding performance shares 1 January	71,170	333,427	404,597	61,539	229,899	291,438
Vested 2016	(6,449)	(44,904)	(51,353)	0	0	0
Lapsed 2016	(13,888)	(96,689)	(110,577)	0	0	0
Awards current year	36,640	129,559	166,199	22,237	100,428	122,665
Cancelled	(4,432)	(7,924)	(12,356)	0	(9,506)	(9,506)
Change between positions	(9,520)	9,520	0	(12,606)	12,606	0
Outstanding performance shares 31 December	73,521	322,989	396,510	71,170	333,427	404,597

Performance-shares

In March 2016, the share-based programmes were revised. The share options programme was replaced by a long term incentive programme.

The long term incentive programme is based on a three year performance period and performance measurement based on key financial performance indicators as EBITA and net working capital as well as continued employment. The purpose of introducing the performance share programme is to ensure common goals for Group Executive Management, key employees and shareholders.

Fair value is based on the market price. Market price is not adjusted for dividend as participants of the programme will be compensated for any dividend pay-outs in the performance period.

For the 2019 plan, 36,640 shares (2018: 22,237 shares) pertain to Executive Management at the grant date.

In 2019, the recognised fair value of performance shares in the consolidated income statement amounted to DKK 13m (2018: DKK 35m).

6.3 RELATED PARTY TRANSACTIONS

Related parties with significant influence consist of the Group's Board of Directors and Group Executive Management as well as close relatives of these persons. Related parties also include companies on which these persons exert considerable influence.

Transactions between the consolidated Group enterprises are eliminated in the consolidated financial statements. In 2019 and 2018 there were no transactions between related parties that are not part of the Group apart from the below mentioned.

The remuneration includes Group Executive Management members, of which two are registered with Erhvervsstyrelsen (The Danish Business Authority). For further details, please refer to note 6.1 of the consolidated financial statement.

The members of the Group Executive Management have 18 months' notice in the event of dismissal and shall receive up to six months' salary on the actual termination of their employment.

Each member of the Group Executive Management may receive a yearly bonus which may not exceed 75% of the relevant member's Gross Salary, including pension, for the year in question.

DKKm	2019	2018
Board of Directors fees	6	7
Total remuneration of Board of Directors	6	7

DKKm	2019	2018
Wages and salaries	29	25
Bonus	0	7
Benefits	2	2
Severance package	9	0
Share-based payment	3	9
Total remuneration of Group Executive Management	43	43

6.4 AUDIT FEE

DKKm	2019	2018
Statutory audit	15	14
Other assurance engagement	1	0
Total audit related services	16	14
Tax and indirect taxes consultancy	1	1
Other services	0	0
Total non-audit services	1	1
Total fees to independent auditor	17	15

In addition to statutory audit, Ernst & Young Godkendt Revisionspartnerselskab, the Group auditors appointed at the Annual General Meeting, provides other assurance engagements and tax compliance services to the Group.

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

6.5 EVENTS AFTER THE BALANCE SHEET DATE

We have after the balance sheet date reduced the number of employees by approximately 500 as part of the business improvements initiatives and as a consequence of current industry caution.

On 31 January 2020, FLSmith acquired the business Mill-Ore Group, an Eastern Canadian provider of equipment and after-market services to the mining industry. The acquisition is part of our long-term commitment to increase the level of service and support to our customers in Eastern Canada. The purchase price of the business totalled DKK 41m. Due to the late timing of the acquisition, no reliable purchase price allocation data is currently available.

On 7 February 2020, FLSmith received a major order for a grinding solution in Russia. The order was valued at approximately DKK 1.7bn. The first production line will be delivered in 2022 and the supply of the subsequent lines will continue throughout 2023.

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

6.6 LIST OF GROUP COMPANIES

Company name	Country	Direct holding (pct.)
FLSmidth & Co. A/S	Denmark	100
○ FLS Real Estate A/S	Denmark	100
○ FLSmidth (Beijing) Ltd.	China	100
○ FLSmidth Finans A/S	Denmark	100
○ FLSmidth Dorr-Oliver Eimco Venezuela S.R.L.	Venezuela	100
○ FLSmidth S.A.C.	Peru	100
○ SLF Romer XV ApS	Denmark	100
○ SLF Romer GmbH	Germany	100
○ Matr. nr. 2055 A/S	Denmark	100
○ Gemena Sp. Z.o.o.	Poland	100
FLSmidth Global Field Services A/S	Denmark	100
○ NLSupervision Company Angola, LDA.	Angola	100
○ NL Supervision Company Tunisia	Tunisia	100
FLSmidth A/S	Denmark	100
○ FLS Maroc	Morocco	100
○ FLSmidth A/S (Jordan) Ltd.	Jordan	100
○ FLSmidth MAAG Gear AG	Switzerland	100
△ FLSmidth MAAG Gear Sp. z o.o.	Poland	100
○ FLSmidth Kenya Limited	Kenya	100
○ FLSmidth (Thailand) Co. Ltd.	Thailand	100
○ FLSmidth Panama Inc.	Panama	100
○ FLSmidth S.A.	Ecuador	100
○ FLSmidth Paraguay S.A.	Paraguay	100
○ The Pennies and Pounds Holding, Inc.*	Philippines	33
○ FLSmidth S.A.	Spain	100
○ FLSmidth SAS	Colombia	100
○ FLSmidth AB	Sweden	100
○ FLSmidth Mongolia	Mongolia	100
○ P.T. FLSmidth Construction Indonesia	Indonesia	67
○ FLSmidth Milano S.R.L.	Italy	100

Company name	Country	Direct holding (pct.)
○ FLSmidth (UK) Limited	United Kingdom	100
○ FLSmidth Caucasus Limited Liability Company (LLC)	Armenia	100
○ NHI-Fuller (Shenyang) Mining Co. Ltd.	China	50
○ FLSmidth Limited	Ghana	100
○ FLSmidth (Private) Ltd.	Pakistan	100
○ Pfister Holding GmbH	Germany	100
○ FLSmidth Argentina S.A.	Argentina	100
○ FLSmidth Zambia Ltd.	Zambia	100
○ FLSmidth Iranian (PJSCo)	Iran	100
○ FLSmidth Ventomatic SpA	Italy	100
△ FLSmidth MAAG Gear S.p.A	Italy	100
○ FLSmidth Ltda.	Brazil	100
○ PT FLSmidth Indonesia	Indonesia	100
○ FLSmidth Spol. s.r.o.	Czech Republic	100
○ FLSmidth GmbH	Austria	100
○ FLSmidth Co. Ltd.	Vietnam	100
○ FLSmidth Mekanik Sistemler Satis Bakim Ltd. Sti	Turkey	100
○ FLSmidth Philippines, Inc.	Philippines	100
○ FLSmidth LLP	Kazakhstan	100
○ FLSmidth Sales and Services Limited	Nigeria	100
○ FLSmidth Shanghai Ltd.	China	100
○ FLSmidth Qingdao Ltd.	China	100
○ Saudi FLSmidth Co.	Kingdom of Saudi Arabia	100
○ FLSmidth Nepal Private Limited	Nepal	100
○ FLSmidth SAS	France	100
○ FLSmidth Rusland Holding A/S	Denmark	100
△ FLSmidth Rus OOO	Russia	100

Company name	Country	Direct holding (pct.)
FLS US Holdings, Inc.	USA	100
○ FLSmidth Inc.	USA	100
△ Phillips Kiln Services (India) Pvt. Ltd.*	USA	50
△ SLS Corporation	USA	100
△ Fuller Company	USA	100
△ FLSmidth Dorr-Oliver Eimco SLC Inc.	USA	100
△ Ludowici Mineral Processing Equipment Inc.	USA	100
△ FLSmidth Dorr-Oliver Inc.	USA	100
▷ FLSmidth Dorr-Oliver International Inc.	USA	100
FLSmidth Tyskland A/S	Denmark	100
○ FLS Germany Holding GmbH	Germany	100
△ FLSmidth Hamburg GmbH	Germany	100
△ FLSmidth Wadgassen GmbH	Germany	100
▷ FLSmidth Wadgassen Ltd.	Russia	100
△ FLSmidth Pfister GmbH	Germany	100
△ FLSmidth Real Estate GmbH	Germany	100
△ FLSmidth Wiesbaden GmbH	Germany	100
FLSmidth Minerals Holding ApS	Denmark	100
○ FLSmidth Pty. Ltd.	Australia	100
△ FLSmidth ABON Pty. Ltd.	Australia	100
△ IMP Group Pty Ltd	Australia	100
▷ Intertek Robotic Laboratories Pty Ltd *	Australia	50
△ FLSmidth M.I.E. Enterprises Pty. Ltd.	Australia	100
△ Fleet Rebuild Pty. Ltd.	Australia	100
▷ Mayer Bulk Group Pty. Ltd.	Australia	100
» FLSmidth Mayer Pty. Ltd.	Australia	100
» Mayer International Machines South Africa Pty. Ltd.	South Africa	100
△ DMI Australia Pty. Ltd.	Australia	100
△ FLSmidth Krebs Australia Pty. Ltd.	Australia	100

6.6 LIST OF GROUP COMPANIES -

continued

Company name	Country	Direct holding (pct.)
△ ESSA Australia Limited	Australia	100
△ DMI Holdings Pty. Ltd.	Australia	100
△ Ludowici Pty. Limited	Australia	100
▷ Ludowici Hong Kong Investments Ltd.	Hong Kong	100
▷ Ludowici Packaging Limited	New Zealand	100
▷ Ludowici Packaging Australia Pty. Ltd.	Australia	100
▷ Ludowici Australia Pty. Ltd.	Australia	100
» Rojan Advanced Ceramics Pty. Ltd.	Australia	100
» Ludowici China Pty Limited	Australia	100
➔ Ludowici Hong Kong Limited	Hong Kong	100
• Yantai Ludowici Mineral Processing Equipment Limited	China	100
○ FLSmidth Private Limited	India	100
○ FLSmidth S.A.	Chile	100
○ FLSmidth S.A. de C.V.	Mexico	100
○ FLSmidth Ltd.	Canada	100
△ IMP Automation Canada Ltd.	Canada	100
○ FLSmidth (Pty.) Ltd.	South Africa	100
△ FLSMIDTH-SOCIEDADE UNIPESSOAL, LDA	Angola	100
△ FLSmidth Mozambique Limitada	Mozambique	100
△ Euroslot KDSS (South Africa) (Pty.) Ltd.	South Africa	100
△ FLSmidth Roymec (Pty) Ltd.	South Africa	100
▷ FLSmidth (Pty) Ltd.	Botswana	100
△ FLSmidth South Africa (Pty.) Ltd.	South Africa	75
▷ IMP Holding Company (Pty) Ltd	South Africa	75
» IMP Laboratory Management Services (Pty) Ltd	South Africa	75
» IMP Automated Laboratory Services (Pty) Ltd	South Africa	75
» IMP Laboratory Support Services (Pty) Ltd	South Africa	75

Company name	Country	Direct holding (pct.)
» Bonacryl South Africa (Pty) Ltd	South Africa	75
» Stand 30 Christopher Street Boksburg (Pty) Ltd	South Africa	75
» Petrichor Accounting Services (Pty) Ltd	South Africa	75
» Petrichor Concepts (Pty) Ltd	South Africa	75
» Petrichor Marketing (Pty) Ltd	South Africa	75
» IMP Automation (Pty) Ltd	South Africa	75
➔ IMP Automation South Africa (Pty) Ltd	South Africa	75
➔ IMP Mineral Laboratory Supplies (Pty) Ltd	South Africa	75
➔ IMP Automation Africa (Pty) Ltd	South Africa	75

* Associate
All other enterprises are Group enterprises

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



Alternative Performance Measures – Alternative additional measures to describe performance



IFRIC 23 – no significant impact on numbers in 2019 from the implementation

317

DKKm
Recognised right of use assets and lease liability at IFRS 16 implementation

7.1 INTRODUCTION

This section provides an overview of our principal accounting policies, key accounting estimates and judgements as well as new and amended IFRS standards and interpretations.

The following sections provide an overall description of the accounting policies applied to the consolidated financial statements. We provide a more detailed description of the accounting policies and key estimates and judgements in the notes.

The descriptions of accounting policies in the statements and notes form part of the overall description of accounting policies.

The annual report has been approved by the Board of Directors at its meeting 11 February 2020. The annual report will be presented to the shareholders of FLSmith & Co. A/S for approval at the Annual General Meeting.

7.2 BASIS OF PRESENTATION

The consolidated financial statements of FLSmith Group have been prepared in accordance with IFRS as adopted by the EU and further requirements in the Danish Financial Statements Act. We have prepared the consolidated financial statements in accordance with all the IFRS standards effective at 31 December 2019. The financial year for the Group is January 1 – December 31.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for derivatives and securities, which are measured at fair value. The accounting policies are unchanged from last year except from changes included in note 7.6.

7.3 DEFINING MATERIALITY

Our annual report is based on the concept of materiality, to ensure that the content is material and relevant to the readers. The consolidated financial statements consist of many transactions. These transactions are aggregated into classes according to their nature or function, and presented in classes of similar items in the financial statements and in the notes as required by IFRS. If items are individually immaterial, they are aggregated with other items of a similar nature in the statements or in the notes.

The disclosure requirements throughout IFRS are substantial, and we provide the specific disclosures required by IFRS unless the information is considered immaterial to the economic decision-making of the readers of these financial statements.

7.4 ALTERNATIVE PERFORMANCE MEASURES (APM)

We present financial measures in the consolidated financial statements which are not defined according to IFRS. We use these alternative performance measures as we believe that these financial measures provide valuable information to our stakeholders and management. The financial measures should not be considered as a replacement for performance measures as defined under IFRS, but rather as supplementary information.

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

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

Growth

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

Profit

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

Cash flow

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

Financial position

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

7.5 ACCOUNTING POLICIES

The descriptions of accounting policies in the notes form part of the overall description of accounting policies.

Consolidation

The consolidated financial statements comprise the financial statements of FLSmidth & Co. A/S (the parent company) and subsidiaries controlled by FLSmidth & Co. A/S, prepared in accordance with Group accounting policies. The consolidated financial statements are prepared by combining items of a uniform nature and subsequently eliminating intercompany transactions, internal shareholdings and balances and unrealised intercompany profits and losses.

Foreign currencies

The consolidated financial statements are presented in Danish Kroner (DKK).

Foreign currency transactions are translated into the functional currency defined for each company using the prevailing exchange rates at the transaction date. Monetary items denominated in foreign currencies are translated into the functional currency at the prevailing exchange rates at the reporting date.

Financial statements of foreign subsidiaries are translated into Danish Kroner at the prevailing exchange rates at the reporting date for assets and liabilities, and at average exchange rates for income statement items.

All exchange rate differences are recognised as financial income or financial costs, except for the following, that are recognised in other comprehensive income, translated at the prevailing exchange rates at the reporting date:

- Translation of foreign subsidiaries' net assets at the beginning of the year

- Translation of foreign subsidiaries' income statements from average exchange rates to the exchange rates prevailing at the reporting date
- Translation of long-term intercompany balances, which are considered to be an addition to net assets in subsidiaries.

Goodwill arising from the acquisition of new companies is treated as an asset belonging to the new foreign subsidiaries and translated into Danish Kroner at prevailing exchange rates at the reporting date.

Unrealised gain/loss relating to hedging of future cash flow is recognised in other comprehensive income.

7.6 IMPACT FROM NEW IFRS

We have implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2019 financial year, including:

- IFRS 16, Leases (issued 2016, effective date 1 January 2019)
- IFRIC 23, Uncertainty over income tax treatment (issued 2017, effective date 1 January 2019)

Effect from implementing IFRS 16, Leases

IFRS 16 has replaced IAS 17, Leases and IFRS 16 has introduced a changed accounting model for a lessee. Previously, lease contracts for a lessee were classified as either operating or finance leases. IFRS 16 requires the majority of operating leases to be recognised as lease assets with a related lease liability, similar to the previous accounting of finance leases. The lease payments, previously accounted for as operating expenses, have been split into an interest cost and a repayment of the lease liability. The lease assets are depreciated over the term of the lease contract.

We have implemented IFRS 16 using the modified retrospective approach, with a lease asset value equal to the lease liability value upon transition. Consequently, 2018 comparative figures are reported according to IAS 17 and have not been restated to reflect the numbers according to IFRS 16. This applies to all numbers prior to 1 January 2019 in text and tables, throughout this entire report.

Upon implementation, we have applied the following exemptions:

- Exclusion of low value assets and lease contracts with a contract term of 12 months or less.
- No reassessment of whether a contract is or contains a lease.
- A single discount rate has been applied to a portfolio of leases with reasonable similar characteristics.
- Initial direct costs have been excluded from the measurement of the lease asset.
- Use of hindsight, to determine the lease term, if a contract contains options to extend or terminate the contract.

When assessing the future lease payments, we have included the payments, which are fixed or variable dependent on an index or a rate. Service components are excluded from the lease liability.

When assessing the lease term, any extension or termination options have been included in the assessment to determine the lease term. The options are included in determining the lease term, if exercise is reasonably certain.

When determining the discount rates used to calculate the net present value of future lease payments, we have used an incremental country specific borrowing rate, based on a government bond plus the Group's credit margin.

7.6 IMPACT FROM NEW IFRS – continued

Upon implementation 1 January 2019, we have recognised a right of use asset of DKK 317m and a lease liability of DKK 317m. The implementation has no effect on equity. The right of use assets relate primarily to land and buildings with depreciation periods ranging from 1 to 9 years with a weighted average lease term of 5 years.

The weighted average discount rate applied for land and buildings is 3.66%.

DKKm	Opening balance
Rent and lease obligations, disclosed, not recognised as liabilities 31 December 2018 (IAS 17)	315
Discounting effect with alternative borrowing rate 1 January 2019	(26)
Applied implementation options:	
Short term and low value leases excluded	(7)
Included lease option terms with a highly probable extension	35
Lease liabilities recognised 1 January 2019 (IFRS 16)	317

Had the Group applied the previous accounting policy for leases according to IAS 17 during 2019, the earnings before tax (EBT) for the period would have been DKK 1,177m, an increase of DKK 6m compared to the actual numbers for 2019.

For the balance sheet effect total assets had been DKK 312m lower and total liabilities and NIBD DKK 318m lower.

DKKm	2019 IFRS 16	IFRS 16 Effect	2019 IAS 17
Gross profit	4,849	46	4,803
SG&A	(2,841)	72	(2,913)
EBITDA	2,008	118	1,890
Depreciation and impairment of property, plant and equipment	(345)	(112)	(233)
EBITA	1,663	6	1,657
EBIT	1,286	6	1,280
EBT	1,171	(6)	1,177
CFFO	948	106	842
Free cash flow	287	106	181
CFFF	(156)	(106)	(50)
Total assets	23,532	312	23,220
Total liabilities	(14,739)	(318)	(14,421)
NIBD	2,492	318	2,174

Implementation of IFRS 16 has no effect on the underlying cash flows. However, due to the lease payments being split into interest costs and a repayment of the lease liability, the presentation in the cash flow statement has changed. The change has improved the cash flow from operating activities as well as free cash flow by DKK 106m whereas the cash outflow from financing activities has been negatively impacted by DKK 106m.

Lessor accounting under IFRS 16 is mostly unchanged from previous accounting under IAS 17, where lessors continue to classify all leases as either operating or finance leases. We have no material lessor contracts and have therefore seen no material effect.

Effect from implementing IFRIC 23, Uncertainty over income tax treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

We have established the necessary processes and procedures to obtain information that is required to apply the interpretation.

The implementation has had no significant impact on the financial statements.

For additional information please refer to note 4.3 Deferred tax.

7.7 NEW IFRS NOT YET ADOPTED

Generally, we expect to implement all new or amended accounting standards and interpretations when they become mandatory and have been endorsed by the EU. IASB has issued new or amended accounting standards, which become effective after 31 December 2019. The following amendments are relevant for FLSmidth, but none of these are expected to have a significant impact on the financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards (issued 2018, effective date 1 January 2020)
- Amendments to IFRS 3, Business Combinations (issued 2018, effective date 1 January 2020)
- Amendments to IAS 1 and IAS 8, Definition of Material (issued 2018, effective date 1 January 2020)
- Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued 2019, effective date 1 January 2020)

7.8 DEFINITION OF TERMS

Acquisition development

Development as a consequence of business acquisition, disregarding development from currency. After 12 months business acquisitions are included in the development from organic growth.

Alternative performance measure

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

Book-to-bill

Order intake as a percentage of revenue.

BVPS (Book value per share)

FLSmidth & Co. A/S' share of equity excluding minorities divided by year-end number of shares.

Capital employed, average

(Capital employed, end of period + capital employed end of same period last year)/2.

Capital employed, end of period

Intangible assets (cost) + Property, plant and equipment (carrying amount) + lease assets + Net working capital.

Capital expenditure (CAPEX)

Investment in Property, plant and equipment.

Cash conversion

Free cash flow adjusted for acquisitions and disposals as a percentage of EBIT.

CFFF

Cash flow from financing activities.

CFFI

Cash flow from investing activities.

CFFO

Cash flow from operating activities.

CFFO / Revenue

CFFO as a percentage of last 12 months' revenue.

CFPS (cash flow per share), (diluted)

CFFO as a percentage of average number of shares (diluted).

Currency development

The difference between the current figure reported and the same figure had the exchange rates towards DKK been the same as in the comparison period.

DIFOT

Delivery in full on time.

Dividend yield

Dividend as percent of share price end of year.

EBIT

Earnings before interest and tax and impairments of investments in associated companies.

EBIT margin

EBIT as a percentage of revenue.

EBITA

Earnings before, interest, tax, amortisation and impairments of investments in associated companies.

EBITA margin

EBITA as a percentage of revenue.

EBITDA

Earnings before special non-recurring items, interest, tax, depreciation, amortisation and impairments of investments in associated companies.

EBITDA margin

EBITDA as a percentage of revenue.

EBT

Earnings before tax.

EBT margin

EBT as a percentage of revenue.

Effective tax rate

Income tax expenses as a percentage of EBT.

EPC projects

Engineering, procurement and construction.

EPS projects

Engineering, procurement and supervision.

EPS (earning per share)

Net profit/(loss) divided by the average number of shares outstanding (adjusted for treasury shares).

EPS (earnings per share), (diluted)

Net profit/(loss) divided by the average number of shares outstanding (adjusted for treasury shares) less share options in-the money.

Equity ratio

Equity as a percentage of total asset.

Financial gearing (NIBD/EBITDA)

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

Free cash flow

CFFO + CFFI.

7.8 DEFINITION OF TERMS - continued

Free cash flow adjusted for acquisitions and disposals of enterprises and activities

CFFO + CFFI + acquisitions of enterprises and activities - disposals of enterprises and activities.

Free cash flow adjusted for acquisitions and disposals of enterprises and activities and IFRS 16, Leases

CFFO + CFFI + acquisitions of enterprises and activities - disposals of enterprises and activities + repayment of lease liabilities.

Gross margin

Gross profit as a percentage of revenue.

Growth

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

Market capitalisation

The share price multiplied by the number of shares issued end of year.

Net interest-bearing debt (NIBD)

Interest-bearing debt less interest-bearing assets and bank balances.

Net working capital, average

(Net working capital, end of year + net working capital, end of last year)/2.

Net working capital, end

Inventories + Trade receivables + work in progress for third parties, net + prepayments, net + financial instruments, net + other receivables – other liabilities – trade payables.

Net working capital ratio, average

Net working capital, average as a percentage of last 12 months revenue.

Net working capital ratio, end

Net working capital as a percentage of last 12 months' revenue.

Number of shares outstanding

The total number of shares, excluding FLSmidth's holding of treasury shares.

NIBD/EBITDA

Net interest-bearing debt (NIBD) divided by last 12 months' EBITDA.

One-offs

Costs/income assessed by Management to be non-recurring by nature.

Operational expenditure (OPEX)

External costs, personal cost and other income and costs.

Order backlog

The value of future contracts end of year. On O&M contracts entered into after 2014, the order backlog includes the next 12 months' expected revenue.

Order backlog / Revenue

Order backlog as a percentage of last 12 months' revenue.

Order intake

Orders are included as order intake when an order becomes effective, meaning when the contract becomes binding for both parties dependent on the specific conditions of the contract. On O&M contracts entered into after 2014, the order intake includes the next 12 months' expected revenue, and subsequently order intake will be included on a monthly rolling basis.

Organic development

Development as a consequence of growth in already existing business, disregarding development from currency.

Other comprehensive income

All items recognised in equity other than those related to transactions with owners of the company.

Pay-out ratio

The total dividends for the year as a percentage of profit/(loss) excluding minority shareholder's share of profit/(loss) for the year.

Return on equity

Profit/(loss) for the last 12 months' as a percentage of equity ((Equity, end of year + equity, end of last year)/2).

ROCE (return on capital employed)

EBITA as a percentage of capital employed, average.

Sales, General & Administrative costs (SG&A costs)

Sales cost + Administrative cost ± other operating items.

Special non-recurring items

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

Total shareholder return

Share price increase and paid dividend.

TRIFR

Total recordable injury frequency rate.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS

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INCOME STATEMENT

Notes	DKKm	2019	2018
1	Dividend from Group enterprises	0	12
2	Other operating income	6	0
3	Staff costs	(14)	(6)
	Other operating costs	(7)	(20)
9	Impairment of investments in Group enterprises	(90)	(404)
8	Depreciation, amortisation and impairment	0	(1)
	EBIT	(105)	(419)
4	Financial income	776	1,204
5	Financial costs	(713)	(1,140)
	EBT	(42)	(355)
6	Tax for the year	0	(3)
	Profit for the year	(42)	(358)
7	Distribution of profit for the year:		
	Retained earnings	(42)	(358)
		(42)	(358)
	Distribution of dividend:		
	Proposed dividend	410	461
		410	461

Management review

Parent company activities include holding of shares in Group enterprises and the Group's Treasury function.

Dividend from Group enterprises to the parent company, FLSmidth & Co. A/S, was DKK 0m in 2019 (2018: DKK 12m) and the profit for the year was DKK -42m (2018: DKK -358m).

Decrease in financial income and cost is related to foreign exchange gains and losses. Net financial income is DKK 63m (2018: DKK 64m).

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

Total assets at year-end amounted to DKK 8,854m (2018: DKK 9,217m) and the equity was DKK 2,522m (2018: DKK 2,991m). Management consider the result to be lower than expected. For targets and guidance of 2020 please refer to page 9-10.

BALANCE SHEET

Notes	DKKm	2019	2018
	ASSETS		
	Land and buildings	10	10
8	Property, plant and equipment	10	10
9	Investments in Group enterprises	2,579	2,704
9	Other securities and investments	21	18
10	Deferred tax assets	32	21
	Financial assets	2,632	2,743
	Total non-current assets	2,642	2,753
	Receivables from Group enterprises	6,071	6,327
	Other receivables	130	136
11	Receivables	6,201	6,463
	Other securities and investments	0	1
	Cash and cash equivalents	11	0
	Total current assets	6,212	6,464
	Total assets	8,854	9,217

Notes	DKKm	2019	2018
	EQUITY AND LIABILITIES		
	Share capital	1,025	1,025
	Retained earnings	1,087	1,505
	Proposed dividend	410	461
	Equity	2,522	2,991
13	Provisions	7	12
	Provisions	7	12
15	Bank loans	2,633	2,350
	Total non-current liabilities	2,633	2,350
15	Bank loans	0	142
15	Debt to Group enterprises	3,605	3,607
14+15	Other liabilities	87	115
	Total current liabilities	3,692	3,864
	Total liabilities	6,332	6,226
	Total equity and liabilities	8,854	9,217

EQUITY

DKKm	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2018	1,025	2,219	410	3,654
Profit for the year		(358)		(358)
Dividend paid		13	(410)	(397)
Proposed dividend		(461)	461	0
Share-based payment		1		1
Acquisition of treasury shares		(42)		(42)
Exercise of share options		133		133
Equity at 31 December 2018	1,025	1,505	461	2,991
Profit for the year		(42)		(42)
Dividend paid		11	(461)	(450)
Proposed dividend		(410)	410	0
Share-based payment		2		2
Acquisition of treasury shares		0		0
Exercise of share options		21		21
Equity at 31 December 2019	1,025	1,087	410	2,522

Number of shares (1,000):	2019	2018	2017	2016	2015
Share capital at 1 January	51,250	51,250	51,250	51,250	51,250
Cancellation of shares	0	0	0	0	0
Share capital at 31 December	51,250	51,250	51,250	51,250	51,250

Each share entitles its holder to 20 votes, and there are no special rights attached to the shares.

Retained earnings for the year DKK -42m (2018: DKK-358m) is distributed to equity, of which DKK 410m (2018: DKK 461m) is proposed as dividend.

1. DIVIDEND FROM GROUP ENTERPRISES

DKKm	2019	2018
Dividend from Group enterprises	0	12
	0	12

2. OTHER OPERATING INCOME

DKKm	2019	2018
Rent fee, etc.	6	0
	6	0

3. STAFF COSTS

DKKm	2019	2018
Salaries and other remuneration	(4)	(4)
Bonus	0	(1)
Share-based payment	(1)	(1)
Severance package	(9)	0
	(14)	(6)
Average number of employees	7	6

Remuneration of the Board of Directors for 2019 amounts to DKK 6m (2018: DKK 7m), including DKK 1m (2018: DKK 1m), which was incurred by the parent company. The total remuneration of the parent company's Executive Management amounted to DKK 43m (2018: DKK 43m), of which DKK 14m (2018: DKK 6m) was incurred by the parent company.

4. FINANCIAL INCOME

DKKm	2019	2018
Interest income from Group enterprises	104	132
Foreign exchange gains	672	1,072
	776	1,204

5. FINANCIAL COST

DKKm	2019	2018
Interest cost	(50)	(60)
Interest cost to Group companies	(36)	(56)
Foreign exchange losses	(627)	(1,024)
	(713)	(1,140)

6. TAX FOR THE YEAR

DKKm	2019	2018
Current tax on profit/loss for the year	(11)	3
Withholding tax	0	(1)
Adjustments of deferred tax	(9)	(3)
Adjustments regarding previous years, deferred taxes	20	2
Adjustments regarding previous years, current taxes	0	(4)
Tax for the year	0	(3)

7. DISTRIBUTION OF PROFIT FOR THE YEAR

Proposed distribution of profit:

DKKm	2019	2018
Proposed dividend	410	461
Retained earnings	(452)	(819)
Profit for the year	(42)	(358)

8. PROPERTY, PLANT AND EQUIPMENT

DKKm	Land and buildings	Operating equipment, fixtures and fittings	Total
Cost at 1 January 2019	23	2	25
Cost at 31 December 2019	23	2	25
Depreciation and impairment at 1 January 2019	(13)	(2)	(15)
Depreciation	0	0	0
Depreciation and impairment at 31 December 2019	(13)	(2)	(15)
Carrying amount at 31 December 2019	10	0	10

9. FINANCIAL ASSETS

DKKm	Investments in Group enterprises	Other securities and investments	Total
Cost at 1 January 2019	3,231	37	3,268
Disposals	(62)	0	(62)
Share-based payment	(28)	0	(28)
Cost at 31 December 2019	3,141	37	3,178
Impairment at 1 January 2019	(527)	(19)	(546)
Disposals	55	3	58
Impairment	(90)	0	(90)
Impairment at 31 December 2019	(562)	(16)	(578)
Carrying amount at 31 December 2019	2,579	21	2,600

For specification of investments in Group enterprises, see note 6.6 in the consolidated financial statements.

Result of annual impairment test

As at 31 December 2019, the cost price of the investments in subsidiaries was tested for impairment. The impairment test identified impairment charges for 2019 amounting to DKK 90m (2018: DKK 404m). The impairment was related to the subsidiary FLSmidth Global Services A/S based on value in use.

Key assumptions

The impairment test has been based on a five year budget for FLSmidth Global Services A/S. The applied discount rate after tax is 7.5% and reflects the latest market assumptions for the risk free rate based on a 10-year Danish government bond, the equity risk premium and the cost of debt.

The long-term growth rate for the terminal period is based on the expected growth in the world economy as well as input from current long-term swaps. Based on these factors, a long-term annual growth rate for the terminal period of 1.5% has been applied.

10. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax relates to the following items:

DKKm	2019	2018
Tangible asset	15	16
Liabilities	17	5
Net value of deferred tax assets/(liability)	32	21

11. RECEIVABLES

Other receivables mainly include fair value of financial contracts (positive value) of DKK 77m (2018: DKK 81m), receivable from Canadian tax authorities DKK 18m (2018: DKK 0m) and tax on account for the Danish jointly taxed enterprises.

12. DERIVATIVES

Economic hedge, DKKm	2019	
Currency	Notional amount	Net fair value
AUD	(93)	13
USD	(139)	(6)
GBP	(54)	(3)
Other	-	1
Total		5

A negative notional amount represents a sale of the currency

The currency exposure is hedged according to the Financial Policy. At 31 December 2019 the fair value of our hedge agreements amounted to DKK 5m (2018: DKK -21).

13. PROVISIONS

DKKm	2019	2018
Provisions at 1 January	12	12
Reversals	(5)	0
Provisions at 31 December	7	12

14. OTHER LIABILITIES

Other liabilities include fair value of financial contracts (negative value) of DKK 72m (2018: DKK 102m).

15. MATURITY PROFILE OF CURRENT AND NON-CURRENT LIABILITIES

Maturity profile of liabilities:

DKKm	2019	2018
Bank loans	0	142
Debt to Group enterprises	3,605	3,607
Other liabilities	87	115
Within one year	3,692	3,864
Bank loans	2,633	2,350
Within one to five years	2,633	2,350
After five years	0	0
Total	6,325	6,214

16. AUDIT FEE

In addition to statutory audit, Ernst & Young Godkendt Revisionspartnerselskab, the Parent company auditors provides other assurance engagements and other consultancy services to the Parent company.

DKKm	2019	2018
Statutory audit	3	3
Total audit related services	3	3
Other services	0	1
Total non-audit services	0	1
Total fees to independent auditor	3	4

17. CONTRACTUAL AND CONTINGENT LIABILITIES

The parent company has provided guarantees primarily to financial institutions at a total amount of DKK 13,947m (2018: DKK 12,778m) of which DKK 5,670m have been utilised in 2019 (2018: DKK 6,057m).

In connection with disposal of enterprises, normal guarantees, etc. are issued to the acquiring enterprise. Provisions are made for estimated losses on such items.

The parent company is the administration company of the Danish joint taxation. According to the Danish corporate tax rules, as of 1 July 2012, the Company is obliged to withhold taxes on interest, royalty and dividend for all companies subjected to the Danish joint taxation scheme.

The parent company has issued letter of support for certain Group companies.

There are no significant contingent assets or liabilities apart from the above.

See also note 2.9 in the consolidated financial statements.

18. RELATED PARTY TRANSACTIONS

Related parties include the parent company's Board of Directors and Group Executive Management and the Group companies and associates that are part of the Group.

There has been no transactions with related parties in 2019 and 2018, apart from Group Executive Management's remuneration stated in note 3 and Treasury activities mentioned below. Nor were there any transactions with associates.

Parent company's sales of services consist of managerial services and insurance services. The parent company's purchase of services mainly consists of legal and tax assistance provided by FLSmidth A/S.

Financial income and costs are attributable to the FLSmidth Group's in-house Treasury function, which is performed by the parent company, FLSmidth & Co. A/S. Receivables and payables are mainly attributable to this activity.

These transactions are carried out on market terms and at market prices.

For guarantees provided by the parent company for related parties, please see note 17 in the parent company financial statements.

19. SHAREHOLDERS

At the end of 2019:

One shareholder has reported a participating interest above 10%:

- Lundbeckfond Invest A/S, Denmark.

Two shareholders have reported a participating interest above 5%:

- Novo Holdings A/S, Denmark.
- Bestinver Gestión S.A SGIC, Spain.

20. ACCOUNTING POLICIES (PARENT COMPANY)

Accounting policy

The financial statements of the parent company (FLSmidth & Co. A/S) are presented in conformity with the provisions of the Danish Financial Statements Act for reporting class D enterprises.

To ensure uniform presentation, the terminology used in the consolidated financial statements has as far as possible been applied in the parent company's financial statements. The parent company's accounting policies on recognition and measurement are generally consistent with those of the Group. The instances in which the parent company's accounting policies deviate from those of the Group have been described below.

The accounting policies for the parent company are unchanged from 2018.

The company's main activity, dividend income from Group enterprises, is presented first in the income statement.

Dividend from Group enterprises

Dividend from investments in subsidiaries is recognised as income in the parent company's income statement in the financial year in which the dividend is declared. This will typically be at the time of the approval by the Annual General Meeting of distribution from the company concerned. When the dividend distributed exceeds the accumulated earnings after the date of acquisition, the dividend is recognised in the income statement, however, this will trigger an impairment test of the investment.

Property, plant and equipment

Depreciation is charged on a straight line basis over the estimated useful life of the assets until they reach the estimated residual value. In the parent company's financial statements, the depreciation period and the residual value are determined at the time of acquisition and are reassessed every year.

Financial assets

Investments in Group enterprises are measured at cost less impairment. Where the cost exceeds the recoverable amount, an impairment loss is recognised to this lower value. To the extent the distributed dividend exceeds the accumulated earnings after the date of acquisition, an impairment test of the investment is triggered.

Other securities and investments

Other securities and investments consist of shares in cement plants that are acquired in connection with the signing of contracts and are measured at fair value. Value adjustments are recognised in the income statement as financial items.

Cash flow statement

As the consolidated financial statements include a cash flow statement for the whole Group, no individual statement for the parent company has been included, see the exemption provision, section 86 of the Danish Financial Statements Act.

STATEMENT BY MANAGEMENT

The Board of Directors and the Executive Board have today considered and approved the annual report for the financial year 1 January – 31 December 2019.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU. The parent company financial statements are prepared in accordance with the Danish Financial Statements Act. Further, the annual report is prepared in accordance with additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent company's financial position at 31 December 2019 as well as of the results of their operations and the consolidated cash flows for the financial year 1 January – 31 December 2019.

In our opinion, the management's review gives a fair review of the development in the Group's and the Parent company's activities and financial matters, results of operations, consolidated cash flows and financial position as well as a description of material risks and uncertainties that the Group and the Parent company face.

We recommend the annual report for adoption at the Annual General Meeting.

Valby, 11 February 2020

Executive management

Thomas Schulz
Group CEO

Annette Høi Butt Terndrup
Group Executive Vice President

Board of directors

Vagn Sørensen
Chairman

Tom Knutzen
Vice chairman

Gillian Dawn Winckler

Thrasylvoulos Moraitis

Richard Robinson Smith

Anne Louise Eberhard

Mette Dobel

Søren Dickow Quistgaard

Claus Østergaard

INDEPENDENT AUDITOR'S REPORT

To the shareholders of FLSmidth & Co. A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of FLSmidth & Co. A/S for the financial year 1 January – 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated statement of comprehensive income and a consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2019 and of the results of the Group's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Further, in our opinion the parent company financial statements give a true and fair view of the financial position of the Parent Company at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis for opinion

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

Independence

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

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

We were initially appointed as auditor of FLSmidth & Co. A/S on 30 March 2017 for the financial year 2017. We have been reappointed annually by resolution of the general meeting for a total consecutive period of 3 years including the financial year 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2019. These matters were addressed during our audit of the financial statements

as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Accounting for projects

The accounting principles and disclosures about revenue recognition related to projects are included in notes 1.4, 2.7 and 3.4 to the consolidated financial statements.

FLSmidth's Cement and Mining industries deliver long term projects as well as perform Operation & Maintenance for their customers, which typically extends over more than one financial year. Due to the nature of these projects and in accordance with the accounting principles, FLSmidth recognises and measures revenue from such long term projects over time based on the cost-to-cost method.

Accounting for projects involve significant management judgments in respect of estimating the cost to complete the projects, including risk contingencies, warranties, liquidated damages, claims and the expected time to completion. Together with the impact from executing projects in parts of the world where macro-economic and political factors may have

an adverse effect, changes in these estimates during the execution of projects can significantly impact the revenue, cost and contribution recognised. Accordingly, we considered the accounting for projects to be a key audit matter for the consolidated financial statements.

As part of our procedures, we obtained an understanding of the process for how project cost are estimated and risk evaluated. Further, we evaluated the design and tested the operating effectiveness of selected controls in this area. We evaluated the judgments made by management regarding the estimated costs to complete and the assumptions made in assessment of warranty provisions. We evaluated the changes in estimated project cost and risk contingencies, and discussed these with project accounting, project management and group management. We evaluated management's assessments regarding exposures related to claims and liquidated damages for projects and provisions to mitigate contract-specific financial risks. For those balances subject to claims, we made inquiries of external and internal legal counsel. We also assessed whether policies and processes for making these estimates have been applied consistently to all contracts of a similar nature.

Valuation of inventory

The accounting principles and disclosures about inventory are included in note 3.2 to the consolidated financial statements.

FLSmidth carries inventory in the balance sheet at the lower of cost and net realisable value. The inventory includes strategic items, which are held in inventory, even if slow moving, because they are considered key equipment for the customers that FLSmidth needs to be able to deliver with very short notice. The valuation of inventory involves significant management judgements to determine whether inventory is still technical relevant when the demand for the inventory items are expected. Accordingly, we considered this to be a key audit matter for the consolidated financial statements.

As part of our procedures, we obtained an understanding of FLSmidth's process for monitoring inventory and recording write-down for obsolete items. We analysed the inventory recorded in the balance sheet and obtained evidence regarding valuation of slow moving items. Further, we evaluated management's assessment of the expected market demand and expected sales price for significant aged items.

Valuation of trade receivables

The accounting principles and disclosures about trade receivables are included in note 3.3 to the consolidated financial statements.

FLSmidth carries trade receivables in the balance sheet at the anticipated realisable value, which is the original invoice amount less an estimated loss allowance for lifetime expected credit losses. FLSmidth has significant trade receivables from a wide range of customers across the world. Trade receivables include inherent risk of credit losses influenced by specific characteristics and circumstances of the customer, e.g. the customer's ability to pay, access to securities and payment guarantees, as well as the aging of the receivable. The current market conditions and any country specific matters are also considered. Accordingly, we considered this to be a key audit matter for the consolidated financial statements.

As part of our procedures, we obtained an understanding of FLSmidth's process for monitoring receivables and recording allowances for lifetime expected credit losses. We analysed the trade receivables recorded in the balance sheet and obtained evidence regarding the expected credit losses from items with particular risk characteristics. We evaluated management's assessment of recoverability particularly for significant aged items by corroborating them against internal and external evidence regarding the likelihood of payment and assessed FLSmidth's ability to make reliable estimates by performing retrospective analysis of past estimates.

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act.

Moreover, Management is responsible for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

priate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 11 February 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Kronborg Iversen
State Authorised
Public Accountant
mne24687

Jens Thordahl Nøhr
State Authorised
Public Accountant
mne32212

FORWARD LOOKING STATEMENTS

FLSmidth & Co. A/S' financial reports, whether in the form of annual reports or interim reports, filed with the Danish Business Authority and/or announced via the company's website and/or NASDAQ Copenhagen, as well as any presentations based on such financial reports, and any other written information released, or oral statements made, to the public based on this report or in the future on behalf of FLSmidth & Co. A/S, may contain forward looking statements.

Words such as 'believe', 'expect', 'may', 'will', 'plan', 'strategy', 'prospect', 'foresee', 'estimate', 'project', 'anticipate', 'can', 'intend', 'target' and other words and terms of similar meaning in connection with any discussion of future operating or financial performance identify forward-looking statements. Examples of such forward-looking statements include, but are not limited to:

- Statements of plans, objectives or goals for future operations, including those related to FLSmidth & Co. A/S' markets, products, product research and product development.
- Statements containing projections of or targets for revenues, profit (or loss), CAPEX, dividends, capital structure or other net financial items.
- Statements regarding future economic performance, future actions and outcome of contingencies such as legal proceedings and statements regarding the underlying assumptions or relating to such statements.
- Statements regarding potential merger & acquisition activities.

These forward-looking statements are based on current plans, estimates and projections. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which may be outside FLSmidth & Co. A/S' influence, and which could materially affect such forward-looking statements.

FLSmidth & Co. A/S cautions that a number of important factors, including those described in this report, could cause actual results to differ materially from those contemplated in any forward-looking statements.

Factors that may affect future results include, but are not limited to, global as well as local political and economic conditions, including interest rate and exchange rate fluctuations, delays or faults in project execution, fluctuations in raw material prices, delays in research and/or development of new products or service concepts, interruptions of supplies and production, unexpected breach or termination of contracts, market-driven price reductions for FLSmidth & Co. A/S' products and/or services, introduction of competing products, reliance on information technology, FLSmidth & Co. A/S' ability to successfully market current and new products, exposure to product liability and legal proceedings and investigations, changes in legislation or regulation and interpretation thereof, intellectual property protection, perceived or actual failure to adhere to ethical marketing practices, investments in and divestitures of domestic and foreign enterprises, unexpected growth in costs and expenses, failure to recruit and retain the right employees and failure to maintain a culture of compliance. Unless required by law FLSmidth & Co. A/S is under no duty and undertakes no obligation to update or revise any forward-looking statement after the distribution of this report.

Annual Report 2019
1 January - 31 December 2019

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