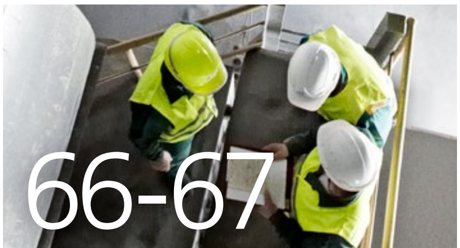
Annual report 2016

ROCE	EBITA margin	CFFO (DKKm)	Order intake (DKKm)
8.5%	7.1%	1,447	18,303
Down from 10.3%	Down from 8.0%	Up from DKK 538	Down from DKK 18,490

CONTENTS

MEET THE CHAIRMAN AND CEO
Understand what is at the top of management's agenda.

MAIN CONCLUSIONS
Quickly comprehend the takeaways from the Annual Report.



QUARTERLY KEY FIGURES
Check the past two year's quarterly developments.

FINANCIAL STATEMENTS
Dive into the numbers and the explanatory notes.

GROUP FINANCIAL HIGHLIGHTS
5-YEAR SUMMARY

DKKm	2012 [2]	2013 [2]	2014 [2]	2015	2016	2016 EUR [1]
INCOME STATEMENT						
Revenue	**24,283**	**25,027**	**20,499**	**19,682**	**18,192**	**2,443**
Gross profit	6,193	5,060	5,125	4,946	4,581	615
EBITDA	2,959	1,618	2,106	1,878	1,588	213
EBITA	2,703	1,379	1,823	1,582	1,289	173
EBIT	2,189	67	1,416	1,141	881	118
Earnings from financial items, net	(61)	(227)	(137)	(256)	(54)	(7)
EBT	2,128	(160)	1,279	885	827	111
Profit/(loss) for the year, continuing activities	**1,415**	**(472)**	**881**	**603**	**590**	**79**
Profit/(loss) for the year, discontinued activities	(112)	(312)	(68)	(178)	(68)	(9)
Profit/(loss) for the year	**1,303**	**(784)**	**813**	**425**	**522**	**70**
CASH FLOW						
CFFO	1,720	(157)	1,298	538	1,447	195
Acquisition of tangible assets	(739)	(524)	(366)	(139)	(203)	(27)
CFFI	(3,398)	(567)	(598)	750	(194)	(26)
Free cash flow	(1,678)	(724)	700	1,288	1,253	169
Free cash flow adjusted for acquisitions and disposals of enterprises and activities	830	(751)	884	415	1,253	169
Net working capital	**1,553**	**2,027**	**2,276**	**2,583**	**2,099**	**282**
Net interest-bearing debt	**(3,189)**	**(4,780)**	**(4,593)**	**(3,674)**	**(2,525)**	**(340)**
ORDERS						
Order intake, continuing activities	27,702	19,794	17,267	18,490	18,303	2,462
Order backlog, continuing activities	29,343	20,813	17,726	14,858	13,887	1,868
BALANCE SHEET						
Total assets	31,875	27,328	26,352	24,362	24,112	3,243
Equity	9,419	6,922	7,761	7,982	8,462	1,138
Proposed dividend to shareholders	479	106	461	205	307	41
FINANCIAL RATIOS						
Gross margin	25.5%	20.2%	25.0%	25.1%	25.2%	25.2%
EBITDA margin	12.2%	6.5%	10.3%	9.5%	8.7%	8.7%
EBITA margin	11.1%	5.5%	8.9%	8.0%	7.1%	7.1%
EBIT margin	9.0%	0.3%	6.9%	5.8%	4.8%	4.8%
EBT margin	8.8%	-0.6%	6.2%	4.5%	4.5%	4.5%
CFFO / Revenue	7.1%	-0.6%	6.3%	2.7%	8.0%	8.0%
Cash conversion	37.9%	n/a	62.4%	36.4%	142.2%	142.2%
Book-to-bill (order intake/revenue)	114.1%	79.1%	84.2%	93.9%	100.6%	100.6%
Order backlog / Revenue	120.8%	83.2%	86.5%	75.5%	76.3%	76.3%
Return on equity	14%	-10%	11%	5%	6%	6%
Equity ratio	30%	25%	29%	33%	35%	35%
ROCE (return on capital employed), average	17.9%	9.2%	12.1%	10.3%	8.5%	8.5%
Net working capital ratio, average	8.3%	7.1%	10.5%	12.3%	12.9%	12.9%
Financial gearing	1.2	3.0	2.2	2.0	1.6	1.6
Capital employed, average	13,205	15,070	15,040	15,162	15,157	2,039
Number of employees at 31 December, Group	**15,900**	**15,317**	**14,765**	**12,969**	**12,187**	**12,187**
SHARE RATIOS						
CFPS (cash flow per share), (diluted)	33.0	(3.1)	26.3	11.0	29.5	3.8
Free cash flow yield	4.8%	n/a	6.3%	3.4%	8.3%	8.3%
EPS (earnings per share), (diluted)	25.1	(15.3)	16.4	8.6	10.6	1.4
BVPS (Book value per share)	181	139	158	162	172	23
Dividend per share	9	2	9	4	6	0.8
Pay-out ratio	37%	n/a	57%	49%	59%	59%
FLSmidth & Co. A/S´ share price	327.2	296.1	272.3	240.0	293.0	39.4
Number of shares (1,000), 31 December	53,200	53,200	51,250	51,250	51,250	51,250
Market capitalisation	17,407	15,753	13,955	12,300	15,016	2,020

The financial ratios have been computed in accordance with the guidelines of the Danish Society of Financial Analysts from 2015. Please refer to note 7.15 for definitions of terms in the consolidated financial statements.

1) Income statement and cash flow items are translated at the average EUR exchange rate of 7.4454 and the balance sheet items are translated at the year-end EUR exchange rate of 7.4344.
2) The income statement figures have been restated as Cembrit and bulk material handling activities are presented as discontinued activities.

FINANCIAL **RESULTS 2016**

Following a slow start to the year, market activity resumed in the second half. Capital orders remained subdued throughout 2016, whereas service orders showed good momentum in the second half. Improved working capital and strong operating cash flow led to a significant debt reduction. Revenue was above and the EBITA margin was within 2016 guidance. A similar level of revenue and EBITA margin is expected in 2017.

GROWTH EFFICIENCY

After a weak first half, activity picked up and finished the year on strong note. Rising commodity prices had an increasingly positive impact on sentiment in the mining industry in 2016, but has yet to translate into higher capital investments. The cement industry is showing early signs of recovery. Order intake increased 2% organically in 2016, while revenue declined 5%. The Customer Services and Product Companies divisions have been fairly resilient, though not immune to market headwinds, as both mining and cement companies have been holding back on discretionary spend and postponing investments in inventory and refurbishments.

PROFIT EFFICIENCY

The EBITA margin was 7.1% in 2016 (2015: 8.0%), negatively impacted by lower revenue and under-absorption of costs. As a consequence, corrective actions were announced in August 2016 and the full year EBITA margin guidance was narrowed to 7-8% from originally 7-9% to account for one-off costs associated with the corrective actions. Adjusted for one-off costs, the EBITA margin was 8.0% in 2016.

KEY PERFORMANCE INDICATORS 2016

(part of management's short- and long-term incentive programmes)

	2016	2015
Financial		
Order intake	DKK 18,303m	DKK 18,490m
ROCE	8.5%	10.3%
Net Working Capital% (end)	11.5%	13.1%
EBITA margin	7.1%	8.0%
Non-financial		
Safety (LTIFR)[1]	1.5	1.8
Quality (DIFOT)[2]	84%	77%

1) LTIFR = Lost time injury frequency rate
2) DIFOT = Delivery in full on time

CAPITAL EFFICIENCY

The equity ratio increased to 35% and the financial gearing (NIBD/EBITDA) declined to 1.6, both comfortably within the targeted capital structure. Improved net working capital and positive operating cash flow led to a reduction in net interest-bearing debt of DKK 1.1bn.

GUIDANCE

DKK	Guidance[1] 2016	Realised 2016	Guidance 2017
Revenue	17-18bn (17-20bn)	18.2bn	17-19bn[2]
EBITA margin	7-8% (7-9%)	7.1%	7-9%
ROCE	8-9% (8-10%)	8.5%	8-10%

1) Updated in August 2016 (Announced in February 2016)
2) at prevailing currency rates

MAIN
CONCLUSIONS

ROCE	REVENUE (DKKm)	EBITA (DKKm)
8.5%	18,192	1,289
Down from 10.3%	Down from 19,682	Down from 1,582

EBITA MARGIN	CFFO (DKKm)	ORDER INTAKE (DKKm)
7.1%	1,447	18,303
Down from 8.0%	Up from 538	Down from 18,490

ORDER BACKLOG (DKKm)	NET INTEREST-BEARING DEBT (DKKm)	NET WORKING CAPITAL (DKKm)
13,887	2,525	2,099
Down from 14,858	Down from 3,674	Down from 2,583

FREE CASH FLOW (DKKm)	FINANCIAL GEARING (NIBD/EBITDA)	SERVICE ORDER INTAKE (DKKm)
1,253	1.6	10,029
Down from 1,288	Down from 2.0	Up from 9,660

FINANCIAL
RESULTS 2016

FLSmidth

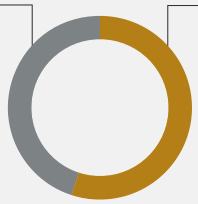
Revenue DKKm
18,192

EBITA margin
7.1%

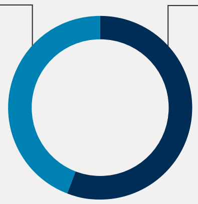
Order intake DKKm
18,303

	Customer Services	Product Companies	Minerals	Cement
Revenue DKKm	6,555	5,015	3,185	4,286
EBITA margin	12.5%	11.2%	-4.3%	0.6%
Order intake DKKm	6,599	5,326	2,679	4,576

REVENUE SPLIT BETWEEN CEMENT AND MINERALS BUSINESS



REVENUE SPLIT BETWEEN SERVICE AND CAPITAL BUSINESS



FLSMIDTH **AT A GLANCE**

LONG-TERM FINANCIAL TARGETS

Group long-term financial targets
Long-term financial targets for FLSmidth 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

Divisional long-term financial targets

	Growth	EBITA%	Net working capital
	(over the cycle)		(in pct. of revenue)
Customer Services	5-10%	>15%	15-20%
Products Companies	5-10%	12-15%	~15%
Minerals	5-6%	3-8%	Negative
Cement	3-5%	3-8%	Negative

INVESTING IN FLSMIDTH

FLSmidth & Co. A/S has been listed on NASDAQ Copenhagen since 1968. FLSmidth is often characterised as a capital goods, an engineering and industrial company. FLSmidth excels in productivity improvements and eco-efficient technological solutions for processing and handling cement and minerals. Based on 135 years of experience, FLSmidth has a proven ability to support the global mining and cement industries to lower their environmental footprint and improve productivity. FLSmidth has a sustainable business model and good growth opportunities. Minerals and cement are vital for continued global economic, societal and technological development. With two-thirds of revenue being generated in emerging markets, an investment in FLSmidth is an investment in emerging market growth. See page 58-60 for further shareholder information.

CAPITAL ALLOCATION

The Board of Directors' priority for capital structure and allocation is the following:
1. Well-capitalized (NIBD/EBITDA < 2)
2. Stable dividends (30-50% of net profit)
3. Invest in organic growth
4. Value adding M&As
5. Share buyback or special dividend

Share and dividend figures 2016:

	2016	2015
Earnings per share (diluted) DKK	10.6	8.6
Total shareholder return	24%	-9%
Proposed dividend per share DKK	6	4
Pay-out ratio	59%	49%
Dividend yield	2.0%	1.7%
Free cash flow yield	8.3%	3.4%

FLSMIDTH
AT A GLANCE

MARKET TRENDS

Following a slow start to the year, market activity resumed over the summer. Capital orders remained subdued throughout 2016, whereas service orders showed good momentum in the second half, supported by increasing commodity prices.

MINERALS MARKET

2016 was another belt-tightening year for the mining industry. Demand for equipment, especially for larger projects, remained weak, as miners continued to strengthen their balance sheets through reduced investments and targeted procurement savings. Mining capital expenditures are down more than 60% from the peak level in 2012 and now appear to be stabilising. As miners have already fixed their budgets at stable to slightly declining levels for 2017 it is, however, unlikely that any significant increase in market activity will take place until the end of 2017 at the earliest, when the 2018 budgets are fixed.

Since 2012, miners have taken steps to reduce their cash cost of production and in combination with increasing commodity prices, operating cash flows are improving. As an example, more than 90% of global copper production is running at cash costs below the current copper price. Industry productivity is, however, still far below the level of the 1990's, and provided current commodity prices and cash generation can be sustained, customers are likely to turn their focus from cost cutting to asset management, especially in copper and gold which continue to lead FLSmidth's minerals activities. Whereas miners spent the highest proportion of expansion capex on iron ore in the past, they will, according to a study by Wood Mackenzie, allocate the highest share of expansion capex to copper and gold projects in the coming years.

The market for minerals-related services saw a weakening at the beginning of the year, as customers deferred maintenance and larger purchases, reducing demand for upgrade projects and parts for inventory. Sentiment improved in the second half of the year as commodity prices continued to increase. Copper and gold prices were up by 22% and 8% respectively in 2016. Thermal coal (used for power and heat generation) increased even further, and iron ore and coking coal (used for steel production) more than doubled in price over the year. Although coal and iron ore account for a relatively low proportion of FLSmidth's minerals-related sales, the price increase of these commodities is still very important for the industry's overall cash generation and its ability to make investments in other commodities, such as copper and gold.

CEMENT MARKET

The global market for new cement capacity was largely unchanged in 2016, although tendering activity picked up slightly in the second half of the year, owing to good local or regional opportunities. Cement demand continued to grow, although not by enough to outweigh supply additions, and after several years of overcapacity and relatively few orders available in the market, competition is strong and pricing is under pressure.

Overall, the market for cement related services was stable throughout the year, although, with some changing regional dynamics as a result of economic developments and politics. North America and parts of Asia saw stronger activity, whereas South America saw a weakening. Consequently, customers in South America are primarily focused on cost savings, whereas customers in North America and Asia are more focused on debottlenecking and maximising production which is an advantage to FLSmidth as a premium provider of productivity.

See page 34-41 for additional market information by division.

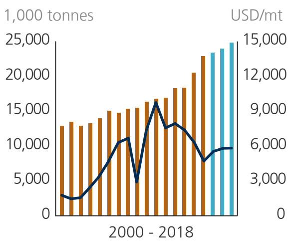
FACTS

FOCUS ON SIX KEY COMMODITIES

FLSmidth is a leading provider of productivity-enhancing technologies within six key commodities: cement, copper, gold, coal, iron ore and fertiliser minerals. Adjacent commodities and industries are targeted as well, where existing technologies can be applied. Examples of adjacent industries are power, steel, aggregate, chemical and other commodities such as alumina, bauxite, molybdenum, nickel, platinum, zinc, silver and diamonds. ■

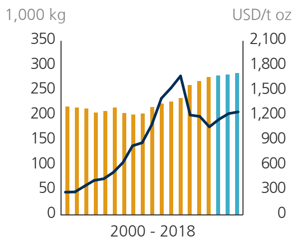
FLSMIDTH
AT A GLANCE

Copper is used for building construction, power generation, consumables, and industrial machinery.



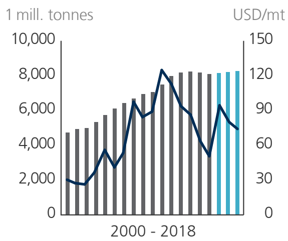
- Refined copper production – world total
- Copper price

Gold is used primarily for jewellery and investment, but also for industrial production.



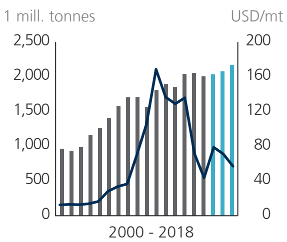
- Gold ore content production – world total
- Gold price

Coal is used for power generation, steel production, cement manufacturing, and as a fuel.



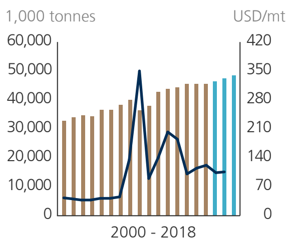
- Coal production – world total
- Thermal coal price

Iron ore is the most used metal worldwide, primarily for construction, engineering, automotive, and machinery.

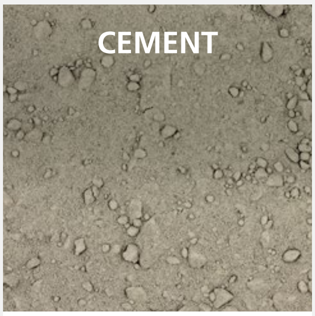


- World production of iron ore
- Iron ore price

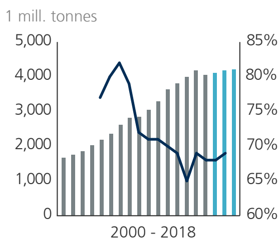
Fertiliser minerals, such as potash and phosphate, are essential for meeting the global demand for food.



- Phosphate production
- Phosphate price



Cement is one of the world's most widely used building materials.



- World cement production
- Capacity utilisation, world excluding China

Source: Bloomberg, International Cement review, FLSmidth estimates 2016.

WE DRIVE SUCCESS THROUGH **SUSTAINABLE PRODUCTIVITY IMPROVEMENTS**

2016 was another year of market headwind but also a year of strengthened customer relationships. FLSmidth is known for its strong track record of reliability and project follow-through. Nevertheless, improvements are always possible and we are extremely focused on ensuring that our customers always get *what* they expect, *when* they expect it. In 2016, we took the step to start reporting externally on the development in our quality KPI, DIFOT, which is short for **'Delivery in Full on Time'**. For some time now, the entire FLSmidth organisation has been measured on all critical internal and external deliveries. Through individual commitment to deliver on time and on promises made downstream in the value chain, we improve the timeliness and completeness of our customer deliverables. We are pleased to note that DIFOT improved from 77% in 2015 to 84% in 2016.

Accommodating individual customer requests on time and as promised is vastly important, but FLSmidth's business model stretches far beyond the borders of individual successful deliveries. Our **life-cycle approach** is about enhancing customer productivity over the life cycle of their plant or equipment. Through a constant dialogue, we ensure focus on flow sheet performance and return on investment.

With limited demand for new equipment, our **innovation** is aimed at developing better alternative technologies and optimising the performance of existing plants and equipment. FLSmidth's recent landmark innovation on Rapid Oxidative Leach® (ROL) is just about that. ROL can leach 97-99% copper directly at site, from concentrates as low as 5% copper in less than 6 hours! In other words, it can process ore that cannot be economically processed with today's available technologies and it can do it faster and with a higher recovery. The significance of this innovation was cemented in 2016, as ROL was among the winners in the global Top100 R&D awards which rarely embrace the mining industry.

Being the **number one productivity provider** for our customers requires that we always have internal productivity at the top of our agenda. Safety is key and for the fourth consecutive year in a row, our employees delivered improved safety performance. Another key priority for management in 2016 was to simplify the business even further. Whilst our offering to customers often has a high degree of complexity, our internal setup needs to be lean and simple. We have therefore continued the past few years' work of consolidating and optimising our global footprint and implementing a clear governance structure. We have strengthened our product line management and increased our focus on value engineering to offer higher quality products to our customers and to enable enforced strategic procurement. We have launched initiatives to take advantage of the evolving opportunities within automation and digitalisation, and we have established strategic partnerships where competencies outside our core are deemed valuable.

With a strengthened customer focus, and a solid framework in place, ensuring both internal and external productivity, FLSmidth stands well prepared to seize future growth opportunities.

Vagn Sørensen
Board Chairman

Thomas Schulz
Group CEO

STRATEGY AND **BUSINESS MODEL**

FLSMIDTH'S STRATEGY IN 30 SECONDS

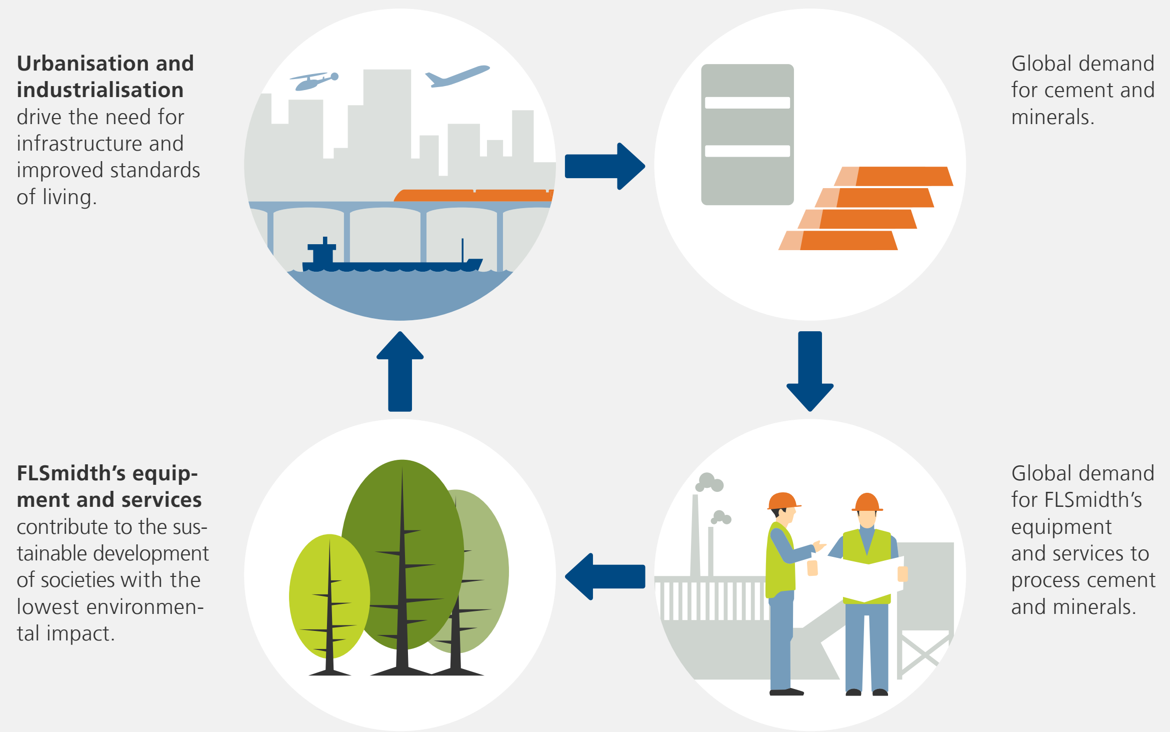
As a leading supplier of sustainable productivity enhancing solutions to the global cement, mining and adjacent industries, FLSmidth constantly seeks to increase customer output and reduce their total cost of ownership. A full flow-sheet of premium technologies, embedded in a unique combination of leading products, process know-how and services, enables FLSmidth to understand performance data and optimise customers' operations, while minimising environmental impact. The ability to offer performance guarantees, and operate customer plants, underlines that FLSmidth does not 'just' sell equipment, plants or services – we sell productivity.

A LEADING SUPPLIER OF SUSTAINABLE PRODUCTIVITY

The growth and economic development of societies all over the world is driving urbanisation, industrialisation and a need for infrastructure, which in turn is driving demand for cement and minerals. FLSmidth has a sustainable business model which makes it well positioned to benefit from the mid- and long-term structural growth opportunities.

Customers in the mining and cement industries are increasingly focused on sustainability and their responsibilities towards the environment and society. They are faced with ever-stricter governmental regulations related in particular to the environment, including natural resources such as water and energy, and the environmental footprint associated with pollution and emissions. Greater scarcity of raw materials, water and energy is leading to more complex and costly operations. Successfully managing these responsibilities, as well as the obligations towards employing and developing a local workforce and providing a safe working environment, is vital to gaining local support to operate, and FLSmidth has both the experience and the technologies to help customers address that challenge.

SUSTAINABLE BUSINESS MODEL



STRATEGY AND **BUSINESS MODEL**

CUSTOMER BASE

FLSmidth has a diversified customer base composed primarily of global and regional cement and mining companies that invest in new capacity or in expanding, upgrading, maintaining and servicing existing production capacity. FLSmidth has vast experience of working with a broad range of customers in almost any country in the world.

Mining customers consist of both major and mid-tier miners, the latter accounting for a relatively large amount of minerals-related project sales, whereas the former account for a considerable share of FLSmidth's minerals-related 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 cement-related project sales, whereas global cement majors account for a considerable share of FLSmidth's cement-related aftermarket business.

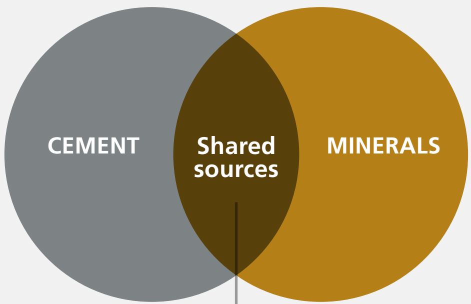
CEMENT AND MINERALS SYNERGIES

Though cement and mining are distinct industries, there are considerable commonalities and synergies between the two, and FLSmidth has the unique advantage of being able to share resources and best practices across its cement and minerals business.

Scale benefits and shared services

In addition to the traditional scale benefits such as shared global infrastructure and supply chain, FLSmidth has a large shared services set-up in Chennai, India with more than 1,400 employees serving the global organisation with respect to Engineering, IT, HR and Finance. India, together with China, is also the location for the Group's shared assembly and production facilities.

CEMENT & MINERALS – SYNERGIES EXTRACTED THROUGH SHARED SOURCES OF COMPETITIVE ADVANTAGE



Scale benefits
- Shared global infrastructure
- Shared global supply chain

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

Shared services
- Engineering
- IT
- Finance
- HR

STRATEGY AND **BUSINESS MODEL**

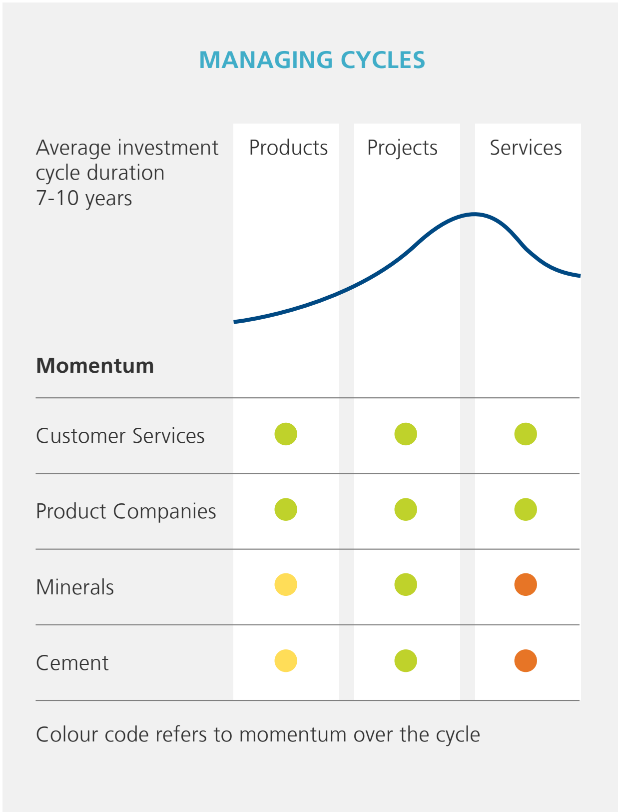
Shared know-how

In both cement and minerals, FLSmidth operates in cyclical industries and supplies premium equipment which is exposed to significant wear and tear. In both industries, FLSmidth has built up strong competencies within products, projects and services. As an example, the project management skills needed in minerals and cement business (process know-how, risk management, project execution, etc.) are largely the same. To a great extent that is also true for the engineering capabilities needed for projects. The main part of a typical project is relatively standardised engineering where resources can be shared between the two businesses and only a relatively small part of a typical project requires specialist engineers. Similarly, FLSmidth's advanced automation and air pollution control systems are applied in both mining and cement, as well as adjacent industries.

A significant advantage of having cement and minerals business under the same roof is the technology overlap. Several of the products used in each of the industries are either identical or very similar, for example crushing, grinding and material handling equipment. This allows for co-innovation and shared strategic procurement.

When it comes to aftermarket services, FLSmidth's minerals and cement businesses can benefit from one another's experiences as customers in both industries increasingly look for productivity enhancing services. In some cases, the two businesses share footprint, for example local offices, workshops and warehouses. In other cases, they share similar business models, for example in connection with maintaining and operating a customer's plants or equipment.

The similarity of being a supplier to the cement and the mining industry, is also an advantage when it comes to managing the somewhat similar business cycles.



MANAGING CYCLES

FLSmidth is well positioned to benefit from mid- and long-term structural growth opportunities in the cement and mining industry. However, both industries are cyclical by nature – particularly with regard to investments in new capacity – although they don't follow exactly the same cycle. Having a dynamic business model with outsourced manufacturing and a flexible cost structure, resulting in a high cash conversion, allows FLSmidth to manoeuvre safely through the cycles. Furthermore, a growing service business (55% of today's business) reduces the cyclicality of the entire Group as the service business is more resilient and stable by nature.

The business model and organisational structure enables FLSmidth to manage and leverage the full potential of the cycle. Each part of the cycle has a prime time for product business, project business or service business, and FLSmidth has a strong offering in each subpart of the cycle.

STRATEGY AND **BUSINESS MODEL**

A BUSINESS-MODEL-DRIVEN ORGANISATION

FLSmidth's business activities are managed in four divisions to ensure operational efficiency through homogeneous business models within each division and a segmented customer approach. The Cement Division embraces cement projects, large customised cement equipment as well as cement operation and maintenance. The Minerals Division comprises mining projects and large engineered mineral processing and handling equipment. The Customer Services Division services the installed base mainly delivered by the Cement and Minerals divisions, and finally, the Product Companies Division offers more standardised market-leading products sold directly to end customers, peers and into FLSmidth Cement and Minerals projects. The Product Companies Division provides parts and other aftermarket services to its own installed base.

Customer Services

The Customer Services Division provides a full suite of parts, services, and maintenance solutions to the global cement and mining industries. The go-to-market model is mainly local direct sales on the basis of more than 100 warehouses and service and support centres worldwide. With most of the 4,002 employees in direct customer contact, customer

DIVISIONS WITH HOMOGENEOUS BUSINESS MODELS




<table>
<tr><th></th><th>Customer Services</th><th>Product Companies</th><th>Minerals</th><th>Cement</th></tr>
<tr><td>Type of business</td><td>Spare parts ~75%
Services ~15%
Maintenance ~10%</td><td>Relatively standardised and market-leading product range
~50% aftermarket</td><td colspan="2">• Engineered, customised single products
• EP(S) projects
• EPC projects
• Operation & Maintenance</td></tr>
<tr><td>Business characteristics</td><td>Small orders, high, stable margins, growth</td><td>High, stable margins, original equipment & spare parts</td><td colspan="2">Cyclical business, minimum to large orders, negative NWC, low margins</td></tr>
<tr><td>Our excellence</td><td>• Inventory
• Logistics
• Speed
• Field service team</td><td>• Product leadership
• Market coverage
• Assembly/Manufac.
• Inventory
• Speed</td><td colspan="2">• Process expertise and project execution
• Procurement
• Full flow-sheet offering
• Engineered products</td></tr>
<tr><td>Business model</td><td>Local direct sales, warehouses, service & support centres, mostly outsourced manufacturing</td><td>Mostly local direct sales, integrated value chain, in-house assembly / manufacturing</td><td colspan="2">• Global direct sales
• OEM supplier / technology provider
• In-house R&D and engineering
• Outsourced manufacturing</td></tr>
</table>

STRATEGY AND **BUSINESS MODEL**

intimacy is a clearly a top priority. A global set up allows FLSmidth to target and address different geographies and customer needs with specific skills and best practices.

FLSmidth offers a full array of services before, during and after delivery of new plants and equipment. The composition of the business is roughly 75% parts, 15% services and 10% maintenance – with most manufacturing outsourced. The parts business consists mainly of customised spare parts but with an increasing focus on developing and growing the wear parts segment to more than 10% of division revenue. Although wear parts by nature are more exposed to competition, they have an attractive market potential as they can help improve customer productivity while at the same time providing an opportunity for more frequent customer interaction.

The service business is characterised mainly by relatively small orders but the significance of the aftermarket is obvious, considering the fact that it accounts for more than 80% of the total cost of ownership.

It is also a more resilient business with relatively stable high margins over the cycle, as orders are tied primarily to customer production volumes and less to new investment.

An important task in Customer Services is to run at an optimised level of net working capital. The net working capital must be low enough to ensure that the division supports the group target for return on capital employed but high enough to ensure quick delivery of critical parts and services. FLSmidth will continue to develop its excellence in logistics, inventory management and specialist support to maintain a strong competitive position versus other large suppliers and local workshops. The latter makes up around 80% of aftermarket competition whereas other original equipment manufactures account for around 20%.

Product Companies
The Product Companies Division hosts a diverse portfolio of relatively standardised market-leading product brands, applied in the cement, mining and adjacent industries, each of which represents roughly one-third of sales. The division consists of nine product companies with individually integrated business models and products spanning from pumps, cyclones, feeders and sizers to heavy-duty gears and drives, weighing and dosing solutions, bagging, palletizing & dispatching equipment as well as automation systems, air pollution control systems and pneumatic conveying.

Of the division's 2,774 employees worldwide, most are located in Australia, Denmark, Germany, Italy, South Africa, Poland, India and the USA. Most assembly and part of the manufacturing activities take place in-house with primary production sites located in China, India and Poland. The ambition is to expand the geographical footprint of all product companies and to expand into adjacent industries for those product companies that are already market leading.

Most of the product companies' business consists of original equipment, spare parts and related services, making it less cyclical than the project division and with higher, more stable margins. The ambition is to have service account for more than 50% of revenue throughout the cycle and to have a market leading position in all targeted segments.

Product Companies sell mostly locally and directly to external customers and peers (~80% external sales in 2014-2016), whereas the remainder of the business is made up of internal sales to cement and mining projects. A few product companies have been developed organically while most have been acquired.

Although the nine product companies are diverse in some aspects, they share important characteristics, which make it ideal to host them in the same division. They have agile individually integrated business models with niche market leadership, integrated R&D and short time-to-market. They have high service content and generate most sales outside of FLSmidth. That said, they all possess key equipment for the flow-sheets in FLSmidth's two core industries, cement and mining. Finally, they share the same ambition and potential to grow in their core markets as well as adjacent industries where existing technologies can be applied.

Minerals
The Minerals Division is a leading provider of mineral processing and material handling technology and systems to the global mining industry. The division's 1,081 employees are based predominantly at technology and project centres in USA, India, South Africa, Chile and Australia.

The Minerals Division delivers premium engineered and customised single products, processing island solutions, EPS (engineering, procurement, and supervision) projects, and EPC (engineering, procurement and construction) projects to the global mining industry. As an original equipment manufacturer focused on large scale engineered

STRATEGY AND **BUSINESS MODEL**

products and projects, the business model is structured around regional sales and execution hubs, and centralised product engineering, with most manufacturing being outsourced.

Projects are by nature a cyclical and low margin business, but with the potential for operating leverage when new projects are predominant in the business cycle. The ambition is to run the division with negative net working capital supporting a healthy return on capital employed. The Minerals Division should not be seen as a stand-alone business as it generates business for the Product Companies Division and provides an installed base for the Customer Services Division.

For the mining industry, recovery of usable ore is becoming increasingly difficult as the quality of ore grade is decreasing. Especially for commodities such as copper, miners are faced with more complex extraction activities, often in remote locations and in challenging climates, all of which complicates operations. To facilitate our customers' productivity and sustainability needs, and to help them recover ore otherwise deemed unusable, the Minerals Division increasingly focuses on process expertise, increased water recovery, dry stacked tailings and waste handling systems, as well as innovations related to energy efficient comminution and flotation technologies.

Cement

The Cement Division is the market leader of premium technology and process solutions to the global cement industry, and FLSmidth has delivered more cement plants in the world than anyone else. The division's 2,642 employees excel in sublime project execution and our customers also benefit from the most complete product offering in the market and high reliability.

Backed by the strongest brand in the industry, Cement sells everything from single engineered and customised equipment to complete plants on an EP (engineering, procurement) or EPC (engineering, procurement and construction) basis. Further, the Cement Division hosts the Operation & Maintenance business which, combined with EPC projects, constitute a key differentiator for the industry, referred to as the 'Design-Build-Operate'- model (see the 'Full-service provider' section on page 18 for additional information).

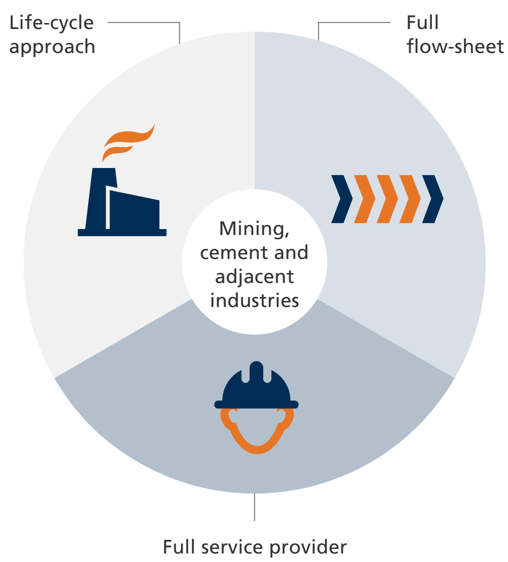
Cement is predominantly a local or regional business with customers scattered around the globe, but also a big project business which is reflected in the divisional setup with global direct sales, local support teams, and regional technology centres, predominantly in Denmark, USA and India. Engineering and R&D takes place in-house while most manufacturing is outsourced.

Large engineered cement projects are a cyclical and low margin business by nature, however with the ability to generate high returns as a result of negative net working capital. Additionally, the Cement Division generates business for the Product Companies Division and provides an installed base for the Customer Services Division.

STRATEGIC FOCUS

FLSmidth's business is founded on three fundamental values; cooperation, competence and responsibility, and is being developed around three strategic pillars: Life-cycle approach, full service provider, and full flow-sheet.

FLSMIDTH STRATEGY AT A GLANCE



STRATEGY AND **BUSINESS MODEL**

LIFE-CYCLE APPROACH

Based on a unique combination of projects, products, and a broad service offering, FLSmidth is ideally positioned to help customers enhance all dimensions of productivity.

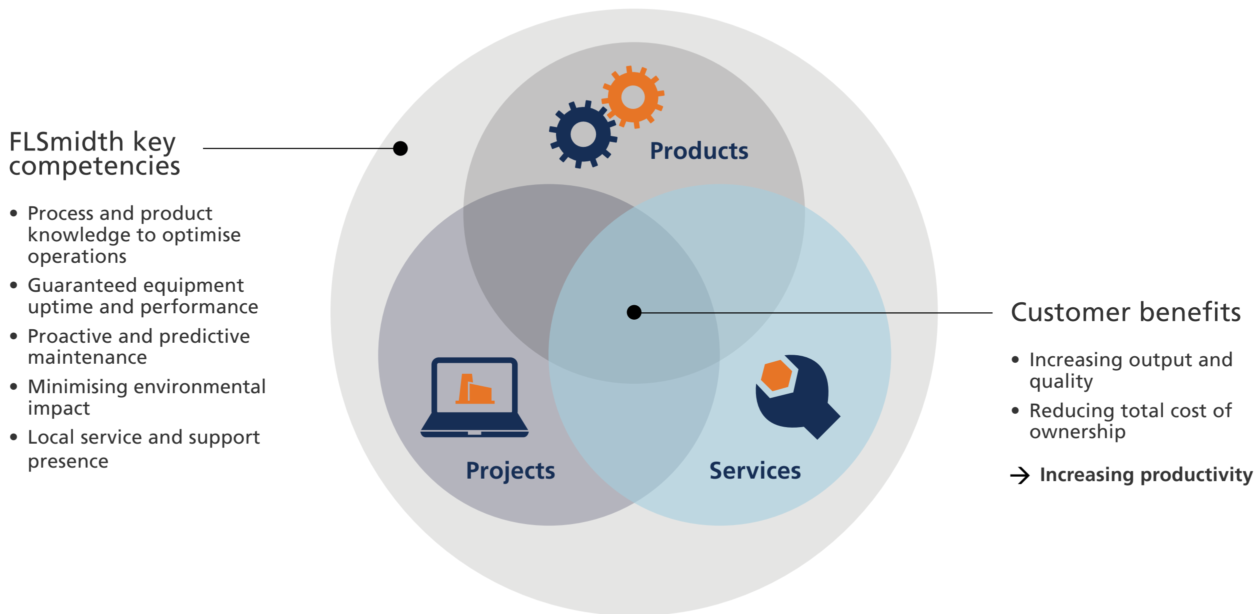
FLSmidth's 'life-cycle approach' is twofold. For the customer, it means that the focus is not just on the initial investment but also on the continued plant or equipment performance and the total cost of ownership. The model is to maximise productivity per dollar spent.

FLSmidth helps customers increase their output, lower their operating costs and reduce their environmental impact.

A full flow-sheet of premium products and technologies combined with a strong engineering heritage and wide-ranging service solutions, all combined by state-of-the-art automation & control systems, positions FLSmidth as a market leader in analysing and understanding performance data. The benefits for the customer are more reliable and optimised operations, proactive and predictive maintenance, as well as increased uptime and guaranteed performance. In addition to offering a warranty on a single piece of equipment, FLSmidth bundles equipment to offer performance guarantees on solutions or even complete plants. To the customer, this equals a guaranteed return on investment, and FLSmidth has an excellent track record of reliability and project follow-through.

PRODUCTIVITY PROVIDER #1

A unique combination of projects, products and services



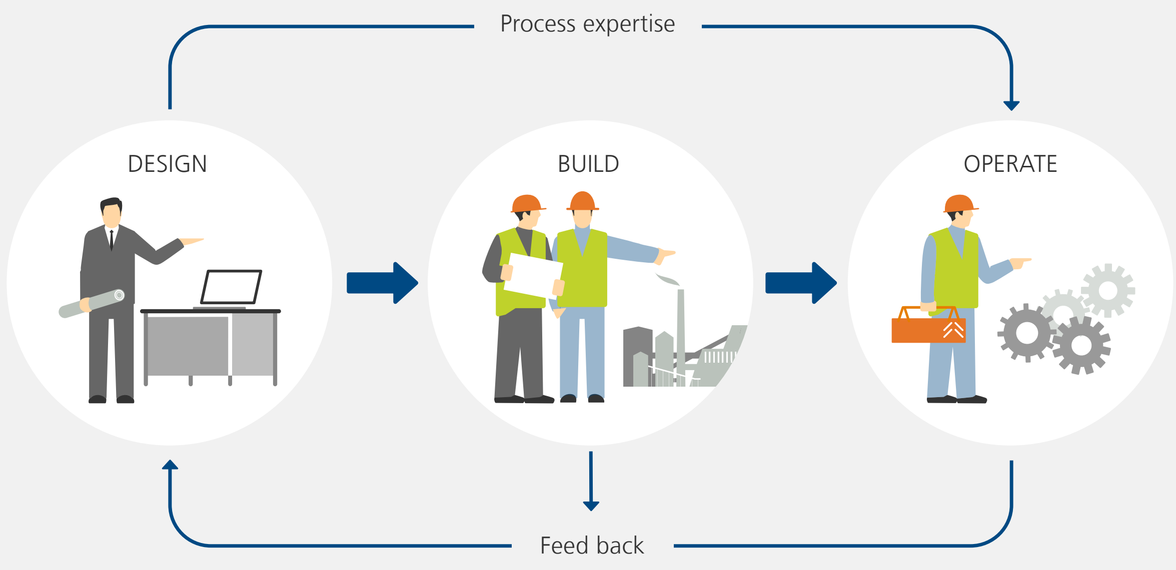
STRATEGY AND **BUSINESS MODEL**

FULL SERVICE PROVIDER

Being a 'full-service provider' means supplying everything from single products and services to complete plants or production lines and full operation & maintenance solutions. This comes to life in the 'Design-Build-Operate'-model, where FLSmidth offers to design, build and operate customers' plants. In essence, the customer is responsible for obtaining permits, access to raw materials, power supply and sales, whereas FLSmidth builds, operates and guarantees an agreed level of production and performance.

The process know-how from designing a vast number of plants is applied to ensure the most efficient plant operations, and the practical experiences from running the plants are fed straight back into FLSmidth's product innovation which helps shorten time-to-market and in turn optimise operations further.

'FULL-SERVICE PROVIDER' EXEMPLIFIED BY FLSMIDTH'S DESIGN-BUILD-OPERATE MODEL (DBO)



STRATEGY AND **BUSINESS MODEL**

FULL FLOW-SHEET

FLSmidth's 'full flow-sheet' offering to the mining and cement industries is based on 135 years of engineering and technology leadership coupled with strategic acquisitions of key products and innovations.

In cement, FLSmidth supplies the most complete array of products, systems and services, ranging from single engineered and customised equipment, such as vertical mills, kiln systems and clinker coolers, to a complete cement plant coupled with a full-scale operation and maintenance contract. In mining, FLSmidth likewise supplies a complete array of products, systems and services, ranging from single engineered and customised equipment, such as ball mills, gravity concentrators, thickeners or flotation cells, to bundled equipment solutions, full production plants, and maintenance solutions. Within the mining value chain, FLSmidth is primarily active in material handling, comminution (crushing, grinding & sizing) and separation, supplemented by 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 the material hardness and the minerals concentration, which is used to determine the optimal grinding and separation process for the specific material.

FLSmidth is recognised as a supplier of premium technology to the global cement and mining industries. In mining, the Group has decided also to enter the mid-market segment through an FLSmidth-controlled joint venture with the Chinese mining equipment supplier, Northern Heavy Industries. Initially, the focus will be on design and supply of crushing equipment, specifically targeting the mid-market which is expected to outgrow the premium segment over the next 5-10 years. The products will be sold under the name NHI-Fuller.

FLSMIDTH IN THE CEMENT VALUE CHAIN

Crushing	Material handling	Raw meal grinding	Pyro processing	Clinker cooling	Clinker grinding	Cement handling & packing
• Limestone, shale and clay crushing • Hammer crushers • Impact crushers • Roller crushers	• Stackers/ Reclaimers • Bucket elevators • Pan conveyors	• Raw meal grinding • Coal grinding • Vertical mills • Ball mills • Roller presses	• Preheaters • Kilns	• Clinker coolers • Grate coolers • Other coolers	• Clinker grinding • Roller presses • Cement mills	• Truck loaders • Palletisers • Silo equipment

FLSmidth

FLSMIDTH IN THE MINING VALUE CHAIN

Exploration	Development	Extraction	Minerals material handling	Comminution	Beneficiation & Recovery	Refining & Smelting
Exploration for mineral resources • Remote sensing • Geophysical / geochemical tests • Samples Feasibility studies	Drilling and modeling of the ore body Selection of appropriate mining technique Capital investment in mining infrastructure	Mining of the ore body Rock breaking Surface mining Underground mining	Mined ore minerals transported to and within processing site Use of loaders, trucks, crushing stations and mobile conveyors	Mined ore materials are crushed, screened and ground to achieve finer particles Particles sized for optimum recovery of mineral species	Flotation, leaching, sedimentation, dewatering and filtration are used to increase the minerals content to an economic level	Refining to increase concentration of minerals/ metals further. Key techniques: • Pyro – metallurgy • Electro – winning

FLSmidth FLSmidth

FINANCIAL **PERFORMANCE**

Following a slow start to the year, market activity resumed over the summer. Capital orders remained subdued throughout 2016, whereas service orders showed good momentum in the second half. Improved working capital and strong operating cash flow led to a significant debt reduction. Revenue was above and the EBITA margin was within 2016 guidance. A similar level of revenue and EBITA margin is expected in 2017.

FINANCIAL DEVELOPMENTS IN Q4 2016

The fourth quarter saw the highest quarterly revenue in two years. Earnings were impacted by one-off costs of DKK -110m related to corrective actions. Strong free cash flow led to a further reduction in net interest bearing debt.

Quarterly order intake and order backlog

Order intake in Q4 2016 amounted to DKK 4,544m, representing an increase of 23% (Q4 2015: DKK 3,691m). The increase was predominantly driven by the Cement division due to receipt of a large DKK 525m order won from Bolivia. Order intake growth was also positive in the Product Companies and Minerals divisions.

Order intake growth

Growth vs. Q4 2015	Customer Services	Product Companies	Minerals	Cement	Group
Organic	-2%	13%	11%	175%	24%
Currency	0%	2%	-2%	-16%	-1%
Total	**-2%**	**15%**	**9%**	**159%**	**23%**

The order backlog for the Group amounted to DKK 13,887m, down 7% compared to the same period last year (end of 2015: DKK 14,858m), and 8% lower than in the previous quarter (end of Q3 2016: DKK 15,174m). The decline in Q4 was primarily explained by high conversion of backlog to revenue, and by adjustments to the backlog.

Quarterly revenue and earnings

Revenue increased by 4% to DKK 5,525m in Q4 2016 (Q4 2015: DKK 5,297m) as a result of a very high level of execution and revenue recognition in Minerals and Cement. Organic growth was 6%, particularly related to the Cement Division.

GROUP (continuing activities)

DKKm	2016	2015	Change (%)	Q4 2016	Q4 2015	Change (%)
Order intake	**18,303**	**18,490**	-1%	**4,544**	**3,691**	23%
Order backlog	**13,887**	**14,858**	-7%	**13,887**	**14,858**	-7%
Revenue	**18,192**	**19,682**	-8%	**5,525**	**5,297**	4%
Gross profit	**4,581**	**4,946**	-7%	**1,301**	**1,255**	4%
Gross margin	*25.2%*	*25.1%*		*23.5%*	*23.7%*	
SG&A costs	**(2,993)**	**(3,068)**	-2%	**(786)**	**(792)**	-1%
SG&A ratio	*16.5%*	*15.6%*		*14.2%*	*15.0%*	
EBITDA	**1,588**	**1,878**	-15%	**515**	**463**	11%
EBITDA margin	*8.7%*	*9.5%*		*9.3%*	*8.7%*	
EBITA	**1,289**	**1,582**	-19%	**426**	**384**	11%
EBITA margin	*7.1%*	*8.0%*		*7.7%*	*7.2%*	
EBITA margin adjusted for one-off costs	*8.0%*	*9.7%*		*9.7%*	*8.9%*	
EBIT	**881**	**1,141**	-23%	**308**	**279**	10%
EBIT margin	*4.8%*	*5.8%*		*5.6%*	*5.3%*	
Number of employees	12,032	12,730	-5%	12,032	12,730	-5%

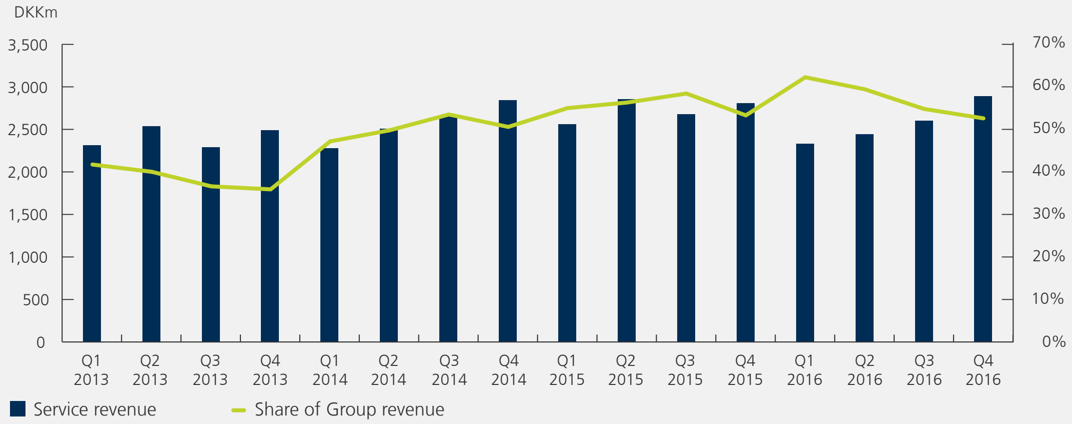
FINANCIAL
PERFORMANCE

FACTS

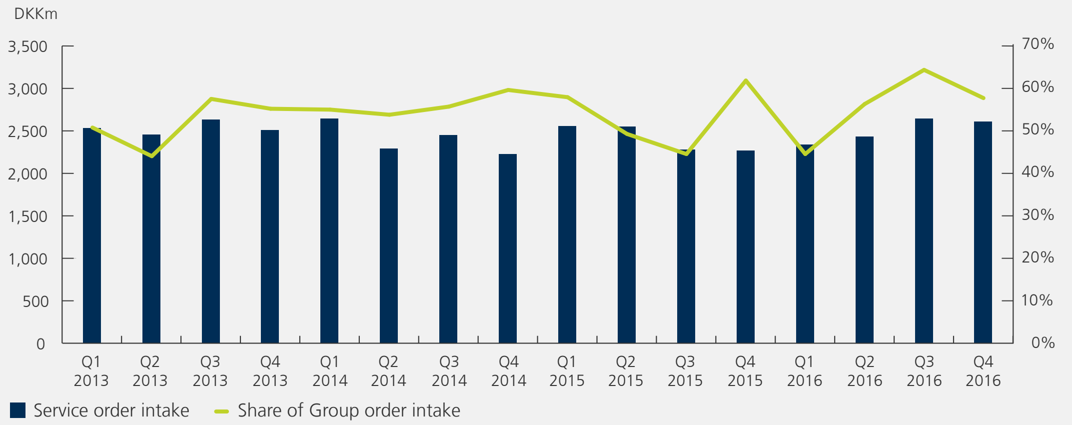
Developments in total service activities
FLSmidth's total service activities embrace the entire Customer Services Division, Operation & Maintenance contracts (part of the Cement Division), and the entire service and aftermarket part of the Product Companies Division. Order intake related to total service activities increased 15% in Q4, accounting for 57% of the order intake (Q4 2015: 62%). Revenue related to total service activities increased 3% in Q4, accounting for 52% of Group revenue (Q4 2015: 53%).

Service related revenue and order intake have been re-markably stable over the past three years, defying the cyclical downturn in the mining and cement industries. The quarterly run-rate has been around DKK 2.5bn plus/minus 10%.

REVENUE FROM TOTAL SERVICE ACTIVITIES



ORDER INTAKE FROM TOTAL SERVICE ACTIVITIES



FINANCIAL **PERFORMANCE** (Q4 2016)

Revenue growth

Growth vs. Q4 2015	**Customer Services**	**Product Companies**	**Minerals**	**Cement**	**Group**
Organic	-7%	-11%	0%	63%	6%
Currency	0%	0%	-4%	-7%	-2%
Total	**-7%**	**-11%**	**-4%**	**56%**	**4%**

Impact from one-off costs in Q4

	Q4'16	**Q4'15**
One-off costs impacting production costs	(38)	(64)
One-off costs impacting SG&A costs	(72)	(25)
Total one-off costs	**(110)**	**(89)**
One-off costs by division		
Customer Services	(59)	(21)
Product Companies	(22)	7
Minerals	(24)	(33)
Cement	(5)	(42)
Gross margin reported	**23.5%**	**23.7%**
Gross margin adjusted for one-off costs	24.2%	24.9%
SG&A ratio	**14.2%**	**15.0%**
SG&A ratio adjusted for one-off costs	12.9%	14.5%
EBITA margin reported	**7.7%**	**7.2%**
EBITA margin adjusted for one-off costs	9.7%	8.9%

The gross profit amounted to DKK 1,301m (Q4 2015: DKK 1,255m), corresponding to a gross margin of 23.5% (Q4 2015: 23.7%). The Q4 gross profit was impacted by one-off costs of DKK -38m related to corrective actions (Q4 2015: DKK -64m). Adjusted for one-off costs, the gross margin was 24.2% (Q4 2015: 24.9%). The decline from last year was attributable to the Cement and the Minerals divisions due to lower margin orders in the backlog.

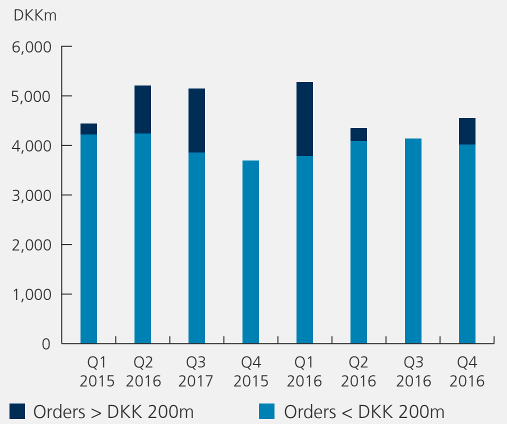
Q4 2016 saw total research and development expenditures of DKK 47m (Q4 2015: DKK 75m), representing 0.9% of revenue (Q4 2015: 1.4%), of which DKK 17m was capitalized (Q4 2015: DKK 7m), and the balance reported as production costs. In addition, project financed developments are taking place in cooperation with customers and reported as regular production costs.

Sales, general and administrative costs (SG&A) amounted to DKK -786m (Q4 2015: DKK -792m) equivalent to 14.2% of revenue (Q4 2015: 15.0%). Adjusted for one-off costs, SG&A costs fell by 7% vs. the same quarter of last year.

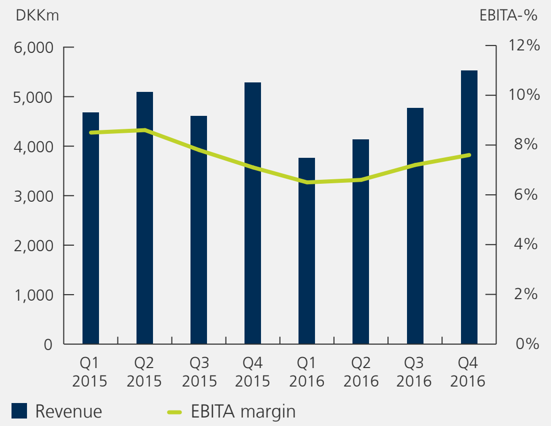
EBITDA increased 11% to DKK 515m (Q4 2015: DKK 463m), corresponding to an EBITDA margin of 9.3% (Q4 2015: 8.7%).

Depreciation of tangible assets decreased to DKK -68m (Q4 2015: DKK -73m).

QUARTERLY ORDER INTAKE



QUARTERLY REVENUE AND EBITA MARGIN



FINANCIAL **PERFORMANCE** (Q4 2016)

EBITA amounted to DKK 426m (Q4 2015: DKK 384m), corresponding to an EBITA margin of 7.7% (Q4 2015: 7.2%). EBITA in Q4 2016 was impacted by one-off costs of DKK -110m. Adjusted for one-off costs, EBITA was DKK 536m, equivalent to an EBITA margin of 9.7% (Q4 2015: 8.9%).

Amortisation of intangible assets amounted to DKK -118m (Q4 2015: DKK -105m) of which the effect of purchase price allocations related to acquisitions accounted for DKK -60m (Q4 2015: DKK -71m).

EBIT increased 10% to DKK 308m (Q4 2015: DKK 279m), corresponding to an EBIT margin of 5.6% (Q4 2015: 5.3%).

Financial costs net amounted to DKK 2m in Q4 2016 (Q4 2015: DKK -175m). This amount includes net interest costs of DKK -24m, financial income of DKK 53m related to fair value adjustment of financial assets (shares in listed cement companies), as well as other foreign exchange and fair value adjustments of DKK -31m (Q4 2015: DKK -153m), including a DKK -79m negative impact from the devaluation of the Eqyptian Pound, which was partly off-set by multiple positive adjustments.

EBT increased to DKK 310m (Q4 2015: DKK 104m), and tax for the period amounted to DKK -86m (Q4 2015: DKK -40m).

Profit from discontinued activities amounted to DKK -42m (Q4 2015: DKK -41m), and profit for the period increased to DKK 182m (Q4 2015: DKK 23m).

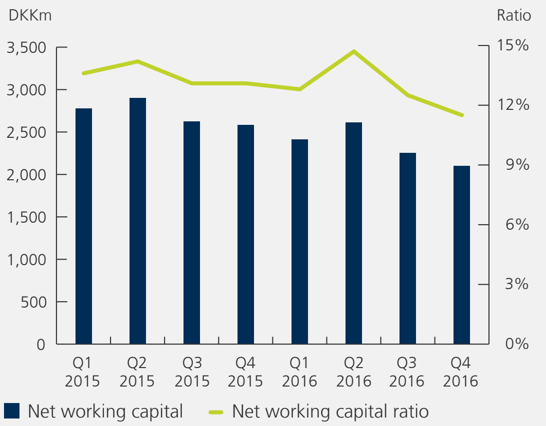
Quarterly cash flow developments and net working capital

Cash flow from operating activities amounted to DKK 608m in Q4 2016 (Q4 2015: DKK 148m), of which DKK 451m were related to continuing activities (Q4 2015: DKK 333m).

The improved cash flow compared to last year was explained by higher operational earnings, and a positive cash impact from working capital, which was partly off-set by higher taxes paid and cash outflow from provisions.

Cash flow from investing activities amounted to DKK -44m in Q4 2016 (Q4 2015: DKK 20m of which DKK 52m was related to the disposal of property). The free cash flow (cash flow from operating activities less cash flow from investing activities) amounted to DKK 564m in Q4 (Q4 2015: DKK 168m).

QUARTERLY NET WORKING CAPITAL



FINANCIAL **PERFORMANCE** (FULL YEAR 2016)

FINANCIAL RESULTS FOR 2016

GROWTH EFFICIENCY

After a weak first half, activity picked up and finished the year on strong note. Rising commodity prices had an increasingly positive impact on sentiment in the mining industry in 2016, but has yet to translate into higher capital investments. The cement industry is showing early signs of recovery. Order intake increased 2% organically in 2016, while revenue declined 5%. The Customer Services and Product Companies divisions have been fairly resilient, though not immune to market headwinds, as both mining and cement companies have been holding back on discretionary spend and postponing investments in parts for inventory and refurbishments.

Developments in total service activities

Total service activities in FLSmidth embrace the entire Customer Services Division, Operation & Maintenance contracts (part of the Cement Division) and the entire service and aftermarket part of the Product Companies Division. Order intake related to total service activities increased 4%, accounting for 55% of Group order intake (2015: 52%). Revenue related to total service activities decreased 6% in 2016, accounting for 55% of Group revenue (2015: 55%). Momentum in service-related order intake picked up in the second half of the year.

Order intake and order backlog

The *order intake* edged down by 1% to DKK 18,303m (2015: DKK 18,490m) due to the negative impact of currency translation of -3%. Organic growth was 2%, explained by a significant increase in the Cement Division's order intake due to three large orders won in Algeria, Vietnam and Colombia, respectively.

Order intake growth

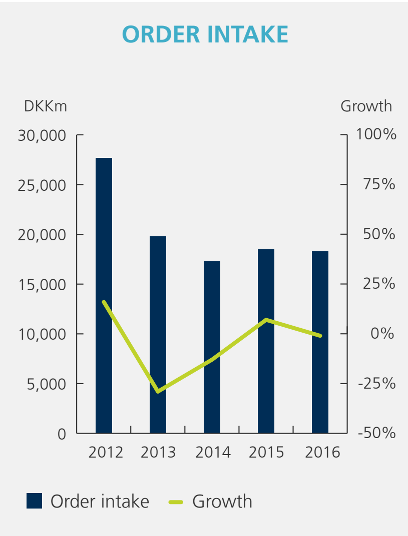
Growth vs. 2015	Customer Services	Product Companies	Minerals	Cement	FLSmidth Group
Organic	2%	-5%	-32%	68%	2%
Currency	-4%	-2%	-3%	-5%	-3%
Total	**-2%**	**-7%**	**-35%**	**63%**	**-1%**

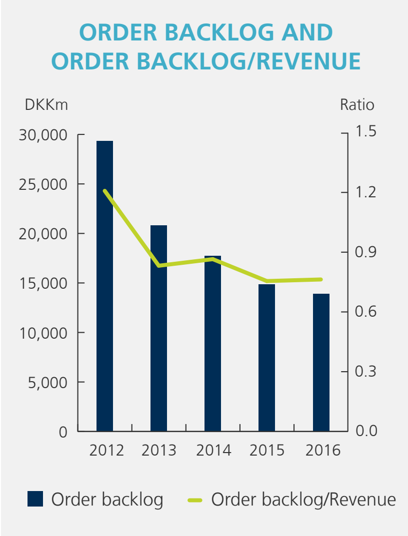
The value of orders below DKK 200m has been hovering around DKK 4bn per quarter during the last couple of years, mirroring the stability provided by the service activities.

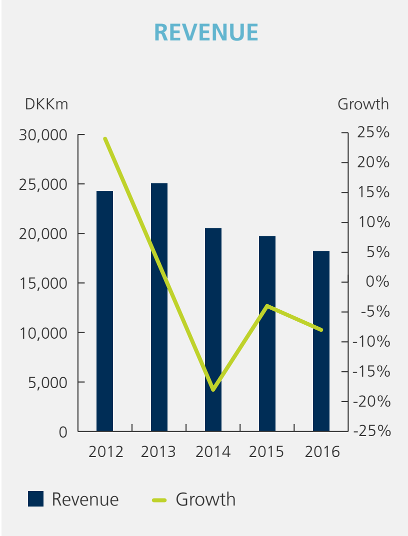
The organic growth rate was -32% in Minerals in 2016, as no large orders were received in 2016, as opposed to about DKK 1bn in large orders in 2015.

Cement is still the most important industry for FLSmidth, accounting for 44% of Group order intake in 2016. Copper is the most important mineral, accounting for 15% of order intake. 25% of order intake came from adjacent industries, such as other base metals, power and steel.

The order backlog for the Group decreased 7% in 2016 to DKK 13,887m (end of 2015: DKK 14,858m). Based on







FINANCIAL **PERFORMANCE** (FULL YEAR 2016)

the anticipated maturity profile of the order backlog, 69% of the backlog is expected to convert to revenue in 2017, 17% in 2018, and 14% in 2019 and beyond. The conversion time from order intake to revenue is 12-18 months on average – ranging from over-the-counter sales of wear parts to capital projects with 2-3 years' execution time. As an increasing share of orders come from service and single equipment business, the conversion time from order intake to revenue is becoming shorter.

Revenue

Revenue decreased 8% to DKK 18,192m in 2016 (2015: DKK 19,682m), as a consequence of a lower order backlog at the beginning of the year. Cement was the only division to show positive revenue growth in 2016. In 2016, revenue was generated in 157 different countries around the globe, of which 68% was related to emerging markets. Most revenue was generated in USA, Chile, India and Australia.

Revenue growth

Growth vs. 2015	**Customer Services**	**Product Companies**	**Minerals**	**Cement**	**FLSmidth Group**
Organic	-7%	-10%	-6%	14%	-5%
Currency	-3%	-2%	-5%	-4%	-3%
Total	**-10%**	**-12%**	**-11%**	**10%**	**-8%**

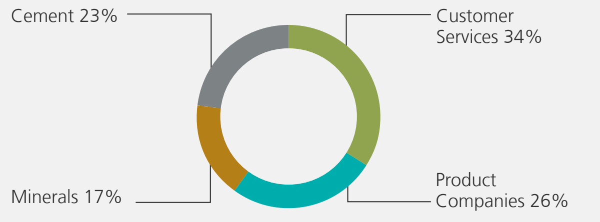
PROFIT EFFICIENCY

The EBITA margin was 7.1% in 2016 (2015: 8.0%), negatively impacted by lower revenue and under-absorption of costs. As a consequence, corrective actions were announced in August 2016 and the full year EBITA margin guidance was narrowed to 7-8% from originally 7-9% to account for one-off costs associated with the corrective actions. Adjusted for one-off costs, the EBITA margin was 8.0% in 2016.

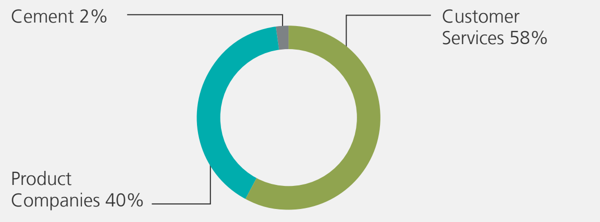
Gross profit amounted to DKK 4,581m (2015: DKK 4,946m), corresponding to a gross margin of 25.2%, which is on a par with last year (2015: 25.1%). The gross margin was negatively impacted by one-off costs of DKK -73m related to corrective actions (2015: DKK -201m). Adjusted for one-off costs, the gross margin was 25.6% (2015: 26.1%).

Total research and development expenses amounted to DKK 202m in 2016 (2015: DKK 263m), representing 1.1% of revenue (2015: 1.3%), of which DKK 20m was

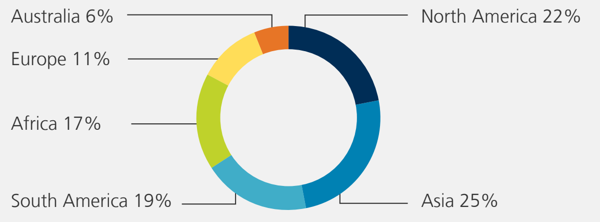
REVENUE 2016 – BY DIVISION



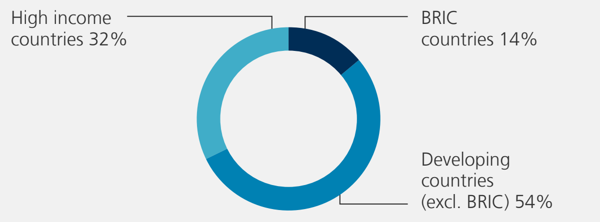
EBITA – BY DIVISION



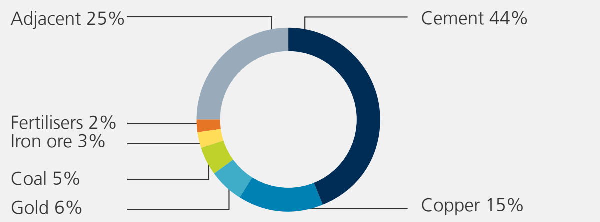
REVENUE 2016 – BY GEOGRAPHY



REVENUE 2016 – BY COUNTRY CATEGORY



ORDER INTAKE 2016 – BY INDUSTRY



FINANCIAL **PERFORMANCE** (FULL YEAR 2016)

capitalised (2015: DKK 46m) and the balance reported as production costs.

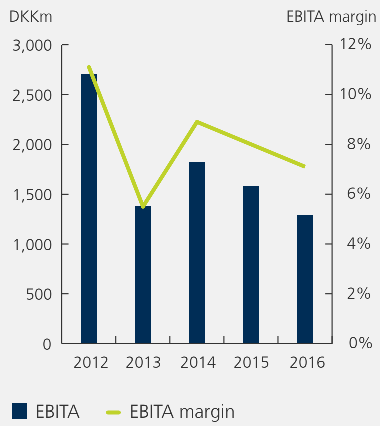
In addition, project financed developments take place in cooperation with customers.

Sales, general and administrative costs amounted to DKK -2,993m, which represents a cost percentage of 16.5% of revenue (2015: 15.6%) and a 2% decrease on 2015 (2015: DKK -3,068m).

Specification of one-off costs

	2016	2015
One-off costs impacting production costs	(73)	(201)
One-off costs impacting SG&A costs	(99)	(120)
Total one-off costs	**(172)**	**(321)**
One-off costs by division		
Customer Services	(75)	(99)
Product Companies	(37)	8
Minerals	(38)	(185)
Cement	(22)	(44)
Gross margin reported	**25.2%**	**25.1%**
Gross margin adjusted for one-off costs	25.6%	26.1%
SG&A ratio	**16.5%**	**15.6%**
SG&A ratio adjusted for one-off costs	15.9%	15.0%
EBITA margin reported	**7.1%**	**8.0%**
EBITA Margin adjusted for one-off costs	8.0%	9.7%

EBITA AND EBITA MARGIN



EBITDA was down by 15% to DKK 1,588m (2015: DKK 1,878m) corresponding to an EBITDA margin of 8.7% (2015: 9.5%).

EBITA fell by 19% to DKK 1,289 (2015: DKK 1,582m), corresponding to an EBITA margin of 7.1% (2015: 8.0%). Adjusted for one-off costs of DKK -172m, the EBITA margin was 8.0% in 2016 (2015: 9.7%).

Amortisation of intangible assets amounted to DKK -408m (2015: DKK -441m). The effect of purchase price allocations amounted to DKK -240m (2015: DKK -284m) and other amortisations to DKK -168m (2015: DKK -157m).

EBIT amounted to DKK 881m (2015: DKK 1,141m) corresponding to an EBIT margin of 4.8% (2015: 5.8%).

Net financial costs amounted to DKK -54m (2015: DKK -256m), of which foreign exchange and fair value adjustments amounted to DKK -36m (2015: DKK -194m). Net interest costs amounted to DKK -71m (2015: DKK -62m). Net financial costs also included financial income of DKK 53m related to fair value adjustment of financial assets (shares in listed cement companies).

EBT decreased to DKK 827m (2015: DKK 885m).

Tax for the year amounted to DKK -237m (2015: DKK -282m), including impairment of tax assets of DKK -100m corresponding to an effective tax rate of 29% (2015: 32%).

Profit/loss from discontinued activities amounted to DKK -68m (2015: DKK -178m) mainly related to the bulk material handling activities that were announced for sale in connection with the third quarter interim report in 2015. The sales process and dialogue with potential acquirers is currently ongoing.

Profit/loss for the year increased to DKK 522m (2015: DKK 425m).

FINANCIAL **PERFORMANCE** (FULL YEAR 2016)

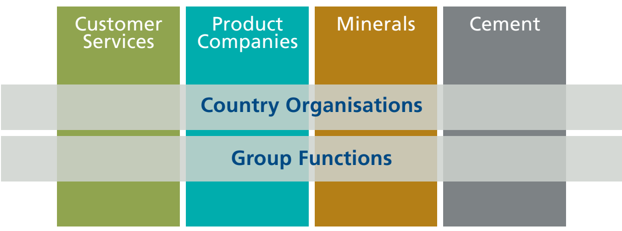
MANAGING CAPACITY COSTS

Over the last couple of years, the structure, governance and management of costs at FLSmidth have undergone several structural changes.

"Following years of very high market activity and many acquisitions, we have been working hard to consolidate and optimise our global footprint. A lot of costs have been taken out, and we have implemented a clear governance structure defining how capacity costs are managed across the Group", comments CFO Lars Vestergaard.

The Group operates in a matrix of three major dimensions; divisions, countries and group. Over the last couple of years, more functions and resources have been consolidated at group or country level. As a consequence, more costs are now centrally controlled and allocated to divisions based on assessed usage.

GOVERNANCE STRUCTURE



Over the past three years, the Group's global footprint has been streamlined and simplified through consolidation and closure of sites and offices. At the same time, support functions, such as HR, IT and Finance have been consolidated at country level, allowing for economies of scale and enhancement of specialist competencies as well as off-shoring of standardised tasks to the Group's shared services center in India. In general, an increasing share of engineering has been off-shored to Chennai, India and more work has been moved to the Group's own workshops in Qingdao, China and Bawal, India.

Simultaneously, the local country organisations have been strengthened via the appointment of country CEOs and CFOs with reinforced mandates and a clear responsibility for optimising and managing local shared costs and resources.

As a consequence, an increasing share of the Group's capacity costs, also referred to as Sales, General and Administrative Costs (SG&A costs), are managed at country level by the country managers and centrally by the heads of group functions.

Divisional SG&A costs

Divisional SG&A costs are directly managed and controlled by the divisions and include sales, marketing, management and administration, etc. In 2016, divisional SG&A costs amounted to DKK 1,696m (2015: DKK 1,698m).

Shared SG&A costs

Country SG&A costs comprise facility management, HR, Finance general and administrative costs that are shared by the local operating entities.

Group SG&A costs relate to shared services such as IT, Finance and HR as well as group functions such as Legal, Business development, IR, Communications, Treasury, Tax, Group Finance, etc.

Apart from the types of cost mentioned above, SG&A costs also include potential bad debt provisions and restructuring costs, impacting either divisional and/or shared SG&A costs.

In 2016, shared country and group SG&A costs amounted to DKK 1,304m (2015: DKK 1,396m).

In 2016, total SG&A costs amounted to DKK 2,993m (2015: DKK 3,068m), equivalent to an SG&A ratio of 16.5% (2015: 15.6%).

Implementation of corrective actions

The corrective actions that were implemented in the autumn of 2016 targeted all three levels of cost; divisions, local and group. Cost reductions in the divisions were mainly related to the two project divisions, Cement and Minerals, where both revenue and margins have been under pressure. Additionally, SG&A costs in all four divisions were scrutinized, and complete management levels were taken out to eliminate duplication of functions in divisions and countries.

Group costs were also heavily impacted by the corrective actions, as the cost structure was adjusted to a lower level of activity than anticipated at the beginning of the year.

As a consequence of the corrective actions, country and group costs allocated to divisions will be reduced with full year effect in 2017.

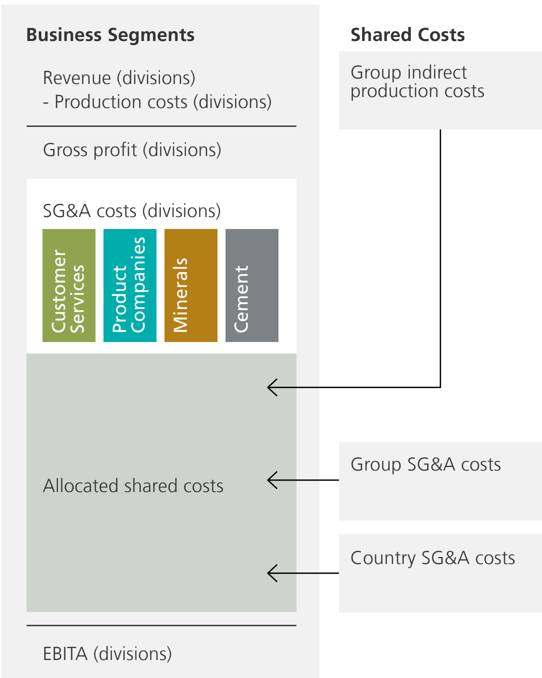
FINANCIAL **PERFORMANCE** (FULL YEAR 2016)

The purpose of the corrective actions is to strengthen the entire cost base, consisting of both production costs and SG&A costs, by DKK 500m in 2017. The associated one-off costs are expected to amount to approximately DKK -350m, of which DKK -147m has been booked in 2016, and the remaining approximately DKK 200m is expected to be booked in 2017.

Segment note adjusted to reflect how costs are managed
To align the external reporting with how cost is managed internally, the segment note in this Annual Report has been adjusted to show costs that are directly related to the divisions and allocated costs that are managed at country or group level and subsequently allocated to the divisions. Please see the segment note on page 83.

Certain indirect production costs are also managed centrally, including R&D, supply chain and procurement. These costs are allocated to divisions based on assessed usage and benefit.

SEGMENT NOTE



CAPITAL EFFICIENCY

With capital employed of around DKK 15bn, reaching the long-term target of more than 20% return on capital employed (ROCE) requires an increase in EBITA to around DKK 3bn through a combination of top-line growth and margin expansion. The equity ratio increased to 35% and the financial gearing (NIBD/EBITDA) declined to 1.6, both comfortably within the targeted capital structure. Improved working capital and positive operating cash flow led to a reduction in net interest-bearing debt of DKK 1.1bn.

Capital employed and ROCE
Average capital employed was unchanged at DKK 15.2bn in 2016 (2015: DKK 15.2bn), while EBITA fell to DKK 1,289m (2015: DKK 1,582m). As a result, ROCE decreased to 8.5% (2015: 10.3%).

Capital employed consists primarily of intangible assets amounting to DKK 10.2bn (average) which is mostly historical goodwill as well as patents and rights, and customer relations. Tangible assets account for DKK 2.6bn and net working capital for DKK 2.4bn, leaving little room for significant reductions in capital employed.

Cash flow developments and net working capital
Cash flow from operating activities amounted to DKK 1,447m in 2016 (2015: DKK 538m), of which DKK 1,332m was related to continuing activities (2015: DKK 991m). The increase on last year is predominantly explained by a positive cash effect from change in net working capital.

Net working capital (continuing activities) amounted to DKK 2,099m at the end of 2016, which represents an improvement of DKK 0.5bn over 2015 (end of 2015: DKK 2,583m). The improvement is primarily explained by a decline in trade receivables, an increase in prepayments from customers and higher trade payables. The average net working capital ratio amounted to 12.9% in 2016 (2015: 12.3%). At the end of the year, the net working capital ratio was 11.5%.

Overdue trade receivables continue to be a key focus area and after further progress was made in 2016, overdue receivables declined from 46% to 35% of total receivables. Long overdue receivables (more than 60 days) decreased to DKK 1bn (end of 2015: DKK 1.1bn), representing 20% of total receivables (end of 2015: 23%).

/ BACK TO CONTENTS

FINANCIAL
PERFORMANCE (FULL YEAR 2016)

Investing in the business
After years on an acquisitive trajectory, investments have been held at a low level in the past four years as a response to changing market conditions. It is management's belief that in a cyclical downturn, the level of cash flow from investments (excluding acquisitions and divestments) should be below the level of depreciation and amortisation (excluding amortisations charges related to purchase price allocations), amounting to roughly DKK 0.4bn in 2016. Investments in safety are always given priority.

Cash flow from investing activities amounted to DKK -194m in 2016 (2015: DKK 750m), including cash flow related to the acquisition and disposal of enterprises and activities of DKK 0m (2015: DKK 873m related to the divestment of Cembrit). Investments excluding acquisitions and divestments amounted to DKK -194m, which is less than the guidance for 2016 of DKK -0.3bn.

The free cash flow (cash flow from operating activities less cash flow from investing activities) amounted to DKK 1,253m in 2016 (2015: DKK 1,288m).

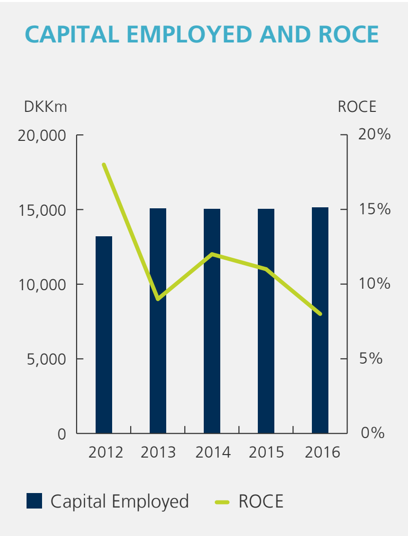
Balance sheet, capital structure and dividend
The balance sheet total amounted to DKK 24,112m at the end of 2016 (end of 2015: DKK 24,362m).

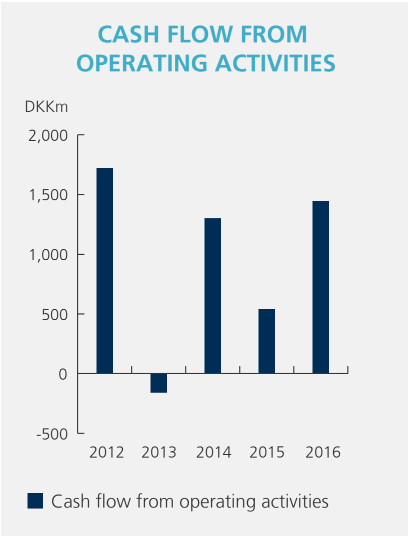
Equity at the end of 2016 increased to DKK 8,462m (2015: DKK 7,982), and the equity ratio increased to 35% at the end of 2016 (2015: 33%). Dividend distributed to shareholders in 2016 amounted to DKK 195m.

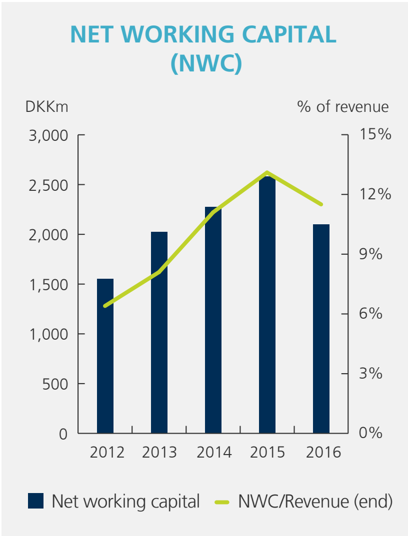
Net interest-bearing debt by the end of 2016 amounted to DKK 2,525m (end of 2015: DKK 3,674m) and the financial gearing was 1.6 at the end of 2016 (end of 2015: 2.0). The gearing is now well within the targeted capital structure of NIBD less than two times EBITDA.

The available capital resources consist of committed credit facilities at a total of DKK 8.5bn (end of 2015: DKK 8.3bn) with a weighted average maturity of 3.8 years (end of 2015: 4.5 years).

It is FLSmidth's policy to pay out 30-50% of the year's profit as dividend, and the Board of Directors proposes to the Annual General Meeting that a dividend of DKK 6 per share (2015: DKK 4) be distributed, corresponding to a total cash distribution of DKK 307m, a pay-out ratio of 59% (2015: 49%) and a dividend yield of 2.0% (2015: 1.7%). The dividend pay-out is higher than the targeted pay-out ratio because of the strong free cashflow generated in 2016.







FINANCIAL **PERFORMANCE**

CORPORATE GOVERNANCE AND ORGANISATION

The following information is provided pursuant to Section 107a of the Danish Financial Statements Act:

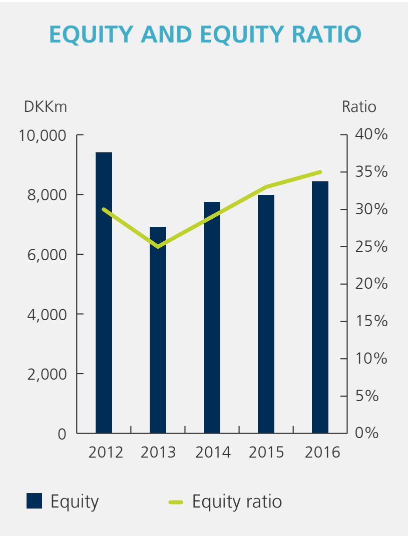
- The share capital amounts to DKK 1,025,000,000 consisting of 51,250,000 issued shares at DKK 20 each. Each share entitles the holder to 20 votes. No special rights are attached to any share and there are no restrictions on the transferability of the shares
- The members of the Board elected at the 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
- The Board of Directors is authorised until 1 April 2018 to increase the share capital by issuing new shares in one or more tranches at a total nominal value of DKK 100,000,000 – with or without pre-emption rights for the company's existing shareholders
- 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
- The Executive Management and a number of key employees of the Group have been granted options to purchase a total of 2,587,005 shares in the Company at a set price (strike price). 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 an acquisition
- 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

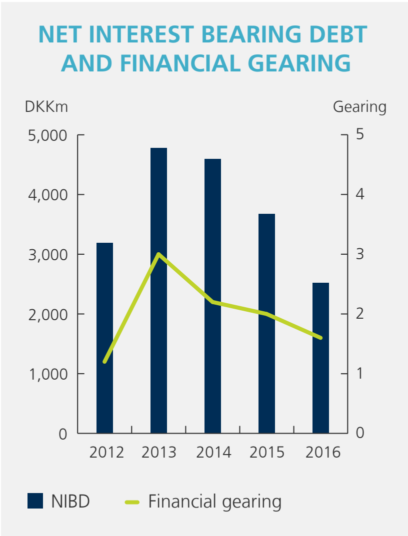
FLSmidth shares held by Board and Management

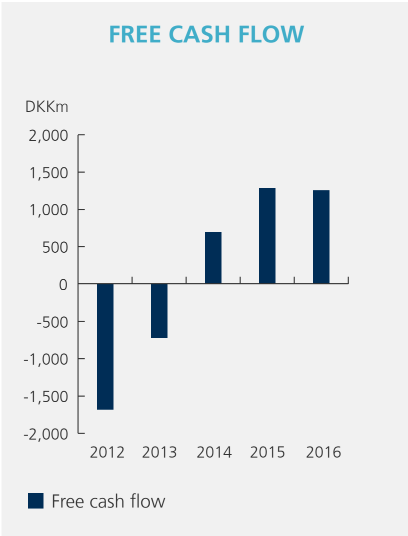
At the end of 2016, the registered Group Executive Management (CEO and CFO) held a total of 5,851 shares which was unchanged from the year before (end of 2015: 5,851 shares). The members of the FLSmidth & Co. A/S Board of Directors held a total of 29,670 shares (end of 2015: 27,520 shares).

Treasury shares

FLSmidth's treasury share capital amounted to 2,276,278 shares at the end of 2016 (end of 2015: 2,327,928 shares) representing 4.4% of the total share capital (end of 2015: 4.5%). The holding of treasury shares is adjusted continuously to match FLSmidth's long-term incentive plans.







FINANCIAL **PERFORMANCE**

EMPLOYEES

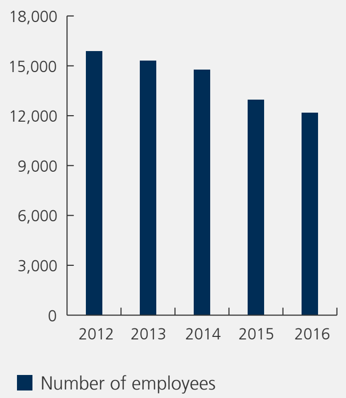
FLSmidth is a learning organisation, and our people are our most valuable resource. In 2016, we continued to invest extensively in people development and leadership training with a strong emphasis on selecting, attracting, developing and retaining the right people to support value creation in the Group.

At the same time, the global organisation has been significantly impacted by the cyclical downturn and the changes in market conditions over the last four years. In 2016, this called for further efficiency improvements and business right-sizing activities in the entire global organization.

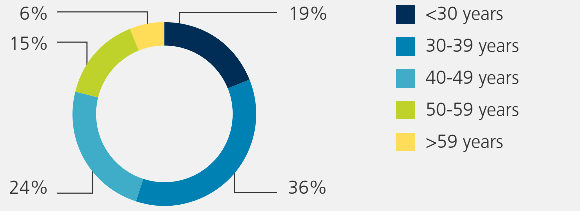
The number of employees amounted to 12,187 at the end of 2016, representing a decrease of 6% compared to last year (end 2015: 12,969). The decline is primarily explained by business right-sizing, as mentioned above.

The composition of the global workforce was more or less unchanged at the end of 2016. 55% of FLSmidth's employees were below the age of 40 at the end of 2016 (end of 2015: 56%). 80% of the employees have more than 2 years' seniority (end of 2015: 78%). 14% of FLSmidth's permanently employed staff is female (end of 2015: 13%). The relatively low proportion of female employees is explained by the fact that males continue to be overrepresented in the engineering profession and among engineering students.

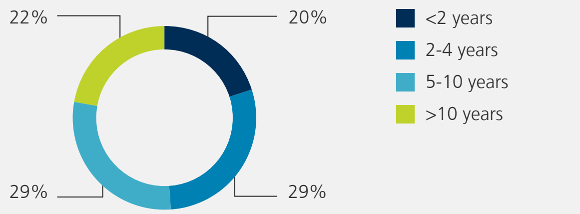
NUMBER OF EMPLOYEES



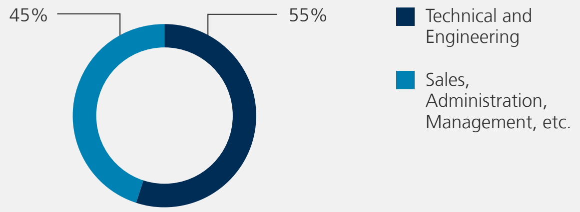
AGE DISTRIBUTION



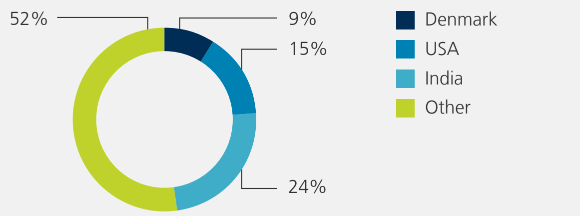
LENGTH OF SERVICE



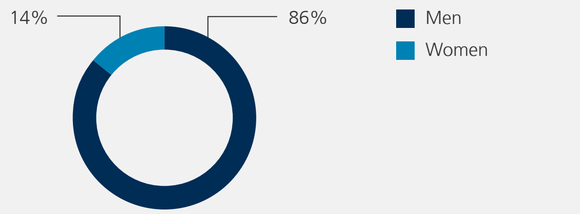
JOB FUNCTION



GEOGRAPHICAL DISTRIBUTION



GENDER



FINANCIAL
PERFORMANCE

RISK MANAGEMENT

Reference is made to pages 48-50 of this Annual Report for a more detailed description of the company's commercial risks and risk management, which is part of the Management's Review.

GUIDANCE FOR 2017

DKK	Realised 2016	Guidance 2017
Revenue	18.2bn	17-19bn[1)]
EBITA margin	7.1%	7-9%
ROCE	8.5%	8-10%

1) at prevailing currency rates

The Group guidance for 2017 reflects the low order backlog at the beginning of the year combined with an assumption of stable market activity in 2017. The EBITA margin guidance includes expected one-off costs of around DKK -200m related to corrective actions.

With respect to the divisional performance, it is clear that 2017 will be another challenging year for the two project divisions, Minerals and Cement, considering the low volumes and margins contained in their order backlogs at the beginning of the year. As a consequence, the EBITA margins both the Cement and Minerals Divisions are expected to be below their long-term financial target of 3-8% in 2017.

The Product Companies and the Customer Services Divisions are expected to show a similar level of activity in 2017, depending on market and currency developments during the year.

Cash flow from investment activities (excluding acqvisitions and divestment of enterprises and activities) is expected to be around the level of depreciations and amortisations (excluding effect of purchase price allocations), which amounted to DKK 437m in 2016.

LONG-TERM FINANCIAL TARGETS

The long-term financial targets for the FLSmidth Group remain unchanged:

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

The long-term financial targets by division remain unchanged:

	Growth (over the cycle)	EBITA%	Net working capital (as pct. of revenue)
Customer Services	5-10%	>15%	15-20%
Products Companies	5-10%	12-15%	~15%
Minerals	5-6%	3-8%	Negative
Cement	3-5%	3-8%	Negative

Please see pages 34-41 for more information about the divisional long-term targets.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As announced on 27 January 2017, FLSmidth has been informed that Novo A/S, on behalf of the Novo Nordisk Foundation, has reduced its holding of FLSmidth & Co. A/S shares to 14.9%.

FINANCIAL **PERFORMANCE**

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 annual 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), capital expenditures, 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 annual report.

CUSTOMER **SERVICES**

MARKET DEVELOPMENTS

Overall, the market for Customer Services in 2016 was unchanged compared to the previous year.

The market for cement-related services was largely stable throughout the year, but with varying regional dynamics. North America and parts of Asia saw stronger activity, whereas South America saw a weakening. Customers focused on parts, smaller retrofits such as mill and cooler upgrades, and preventive maintenance such as kiln inspections.

The market for minerals-related services saw some weakening at the beginning of the year as customers deferred maintenance and larger purchases, reducing demand for upgrade projects and parts for inventory. Sentiment improved slightly in the second half of the year, as miners in countries like Chile, Kazakhstan, Russia and Peru increased discretionary spending, possibly as a result of higher commodity prices and an increased risk of equipment breakdown. All in all, miners remain guarded on operational expenditures, although there are signs that focus could turn more from cost cutting to asset management, especially within copper and gold.

In addition to market sentiment, FLSmidth's strategic focus on wear parts supported customer activity in the second half of 2016 with growing sales of mill liners and FerroCer among other products. FerroCer was launched in 2015 and is a composite tile of steel and ceramic components which increases wear resistance by around 40% compared to traditional wear solutions.

FINANCIAL PERFORMANCE IN Q4 2016

Order intake in Q4 2016 decreased 2% to DKK 1,616m (Q4 2015: DKK 1,655m) both organically and adjusted for currency effects.

Revenue amounted to DKK 1,786m and decreased 7% in Q4 2016 (Q4 2015: DKK 1,920m) which, nevertheless, represented the strongest quarter of the year. Currency effects had no impact on revenue in Q4.

Gross profit, before allocation of shared cost amounted to DKK 557m (Q4 2015: DKK 611m), and the corresponding gross margin was 31.2% (Q4 2015: 31.8%).

EBITA decreased 20% to DKK 223m (Q4 2015: DKK 279m) and the EBITA margin decreased to 12.5% (Q4 2015: 14.5%). EBITA in Q4 2016 was impacted by DKK -59m in one-off costs related to corrective actions (Q4 2015: DKK -21m). The EBITA margin adjusted for one-off costs was 15.8% (Q4 2015: 15.6%).

CUSTOMER SERVICES

DKKm	2016	2015	Change (%)	Q4 2016	Q4 2015	Change (%)
Order intake	**6,599**	**6,710**	-2%	**1,616**	**1,655**	-2%
Order backlog	**2,388**	**2,469**	-3%	**2,388**	**2,469**	-3%
Revenue	**6,555**	**7,294**	-10%	**1,786**	**1,920**	-7%
Gross profit before allocation of shared costs	**2,070**	**2,204**	-6%	**557**	**611**	-9%
Gross margin before allocation of shared costs	*31.6%*	*30.2%*		*31.2%*	*31.8%*	
EBITA before allocation of shared costs	**1,375**	**1,602**	-14%	**354**	**445**	-20%
EBITA margin before allocation of shared costs	*21.0%*	*20.8%*		*19.8%*	*23.2%*	
EBITA	**816**	**951**	-14%	**223**	**279**	-20%
EBITA margin	*12.5%*	*13.0%*		*12.5%*	*14.5%*	
EBITA margin adjusted for one-off costs	*13.6%*	*14.4%*		*15.8%*	*15.6%*	
EBIT	**647**	**790**	-18%	**167**	**240**	-30%
EBIT margin	*9.9%*	*10.8%*		*9.4%*	*12.5%*	
Number of employees	4,002	4,047	-1%	4,002	4,047	-1%

CUSTOMER **SERVICES**

FINANCIAL PERFORMANCE IN 2016

Order intake decreased 2% in 2016 to DKK 6,599m (2015: DKK 6,710m) but increased 2% when adjusted for currency effects, reflecting slightly weaker demand in the first half of the year and somewhat improved demand for minerals-related services in the second half of the year.

Revenue decreased 10% to DKK 6,555m (2015: DKK 7,294m) and declined 7% when adjusted for currency effects. The lower revenue was mainly a result of the lower backlog going into 2016 vs. the backlog entering 2015 but also explained by smaller cement service projects that generated revenue in 2015 but no revenue in 2016.

Gross profit, before allocation of shared cost amounted to DKK 2,070m in 2016 (2015: DKK 2,204m), and the corresponding gross margin was 31.6% (2015: 30.2%).

EBITA decreased 14% to DKK 816m (2015: DKK 951m) and the EBITA margin declined to 12.5% (2015: 13.0%). EBITA was impacted by DKK -75m in one-off costs related to corrective actions (2015: DKK -99m). The EBITA margin adjusted for one-off costs was 13.6% (2015: 14.4%). The decline is explained mainly by the lower revenue and operating leverage. Sales people have by and large been exempt from business right-sizing to ensure customer presence.

LONG-TERM FINANCIAL TARGETS

5-10% annual revenue growth (over the cycle)
EBITA margin **>15%**
NWC **15-20%**

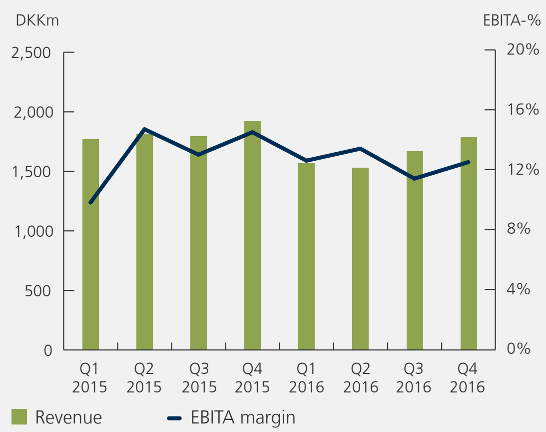
LONG-TERM FINANCIAL TARGETS

The Customer Services Division is targeting an annual revenue growth of 5-10% over the cycle (2016: -10%) and an EBITA margin above 15% (2016: 12.4%). Revenue growth in 2016 was impacted by the past years' strong cost focus, in particular in the mining industry. However, activity stabilised in the year and growth is expected to find support in improving markets and organic growth initiatives such as globalisation of service offerings, a stronger focus on wear parts, and concentration of product line management on productivity-focused solutions.

The margin target is expected to be achieved through better operating leverage and a better product mix, with the focus on activities that will maximise customers' installed base availability and return on assets. For information about the divisional offerings and business model, see Strategy and business model, page 14-15.

QUARTERLY ORDER INTAKE

QUARTERLY REVENUE AND EBITA MARGIN



PRODUCT **COMPANIES**

MARKET DEVELOPMENTS

The market for Product Companies weakened slightly in 2016, primarily as a result of continued weak demand for equipment in general and for large project related activities in cement and adjacent industries, but also supported by solid demand for parts and services in minerals, driven by higher commodity prices.

Recent activity and customer inquiries suggest that the aftermarket will remain the driver for minerals-related business in the short-term, whereas cement and adjacent industries, such as power and steel, are showing positive signs from a new project perspective, although decision-making takes time. In general, customers focus on replacements, modernisations and products related to productivity improvements, with a particular focus on longer wear life, environmental solutions, and investment pay-back time.

FINANCIAL PERFORMANCE IN Q4 2016

Order intake in Q4 2016 increased 15% to DKK 1,438 (Q4 2015: DKK 1,252m) and increased 13% when adjusted for currency effects, driven by higher demand for air pollution control systems and minerals parts and services.

Revenue decreased 11% to DKK 1,315m (Q4 2015: DKK 1,473m), reflecting the level of order intake in the past few quarters.

Gross profit, before allocation of shared cost amounted to DKK 440m (Q4 2015: DKK 451m), and the corresponding gross margin was 33.4% (Q4 2015: 30.6%).

EBITA in Q4 2016 decreased 18% to DKK 151m (Q4 2015: DKK 184m), explained partly by the lower level of revenue compared to Q4 last year and partly by the difference in one-off costs. The Q4 EBITA margin decreased to 11.5% (Q4 2015: 12.5%). EBITA included one-off costs of DKK -22m (Q4 2015: 7m). The EBITA margin adjusted for one-off costs was 13.2% (Q4 2015: 12.0%).

FINANCIAL PERFORMANCE IN 2016

Order intake decreased 7% to DKK 5,326m in 2016 (2015: DKK 5,742m) and decreased 5% when adjusted for currency effects. The decrease was primarily a result of a few larger air pollution control and automation orders received in 2015 which did not repeat in 2016, but also due to weak demand for mining equipment at the beginning of the year.

Revenue decreased 12% to DKK 5,015m (2015: DKK 5,711m and declined 10% when adjusted for currency effects, due to lower activity related to air pollution control systems and new cement projects. Minerals-related activities held up overall, as a strong aftermarket compensated for weak activity with respect to new equipment.

PRODUCT COMPANIES

DKKm	2016	2015	Change (%)	Q4 2016	Q4 2015	Change (%)
Order intake	**5,326**	**5,742**	-7%	**1,438**	**1,252**	15%
Order backlog	**2,807**	**2,536**	11%	**2,807**	**2,536**	11%
Revenue	**5,015**	**5,711**	-12%	**1,315**	**1,473**	-11%
Gross profit before allocation of shared costs	**1,608**	**1,759**	-9%	**440**	**451**	-2%
Gross margin before allocation of shared costs	*32.1%*	*30.8%*		*33.4%*	*30.6%*	
EBITA before allocation of shared costs	**1,027**	**1,323**	-22%	**286**	**322**	-11%
EBITA margin before allocation of shared costs	*20.5%*	*23.2%*		*21.8%*	*21.9%*	
EBITA	**560**	**756**	-26%	**151**	**184**	-18%
EBITA margin	*11.2%*	*13.2%*		*11.5%*	*12.5%*	
EBITA margin adjusted for one-off costs	*11.9%*	*13.1%*		*13.2%*	*12.0%*	
EBIT	**460**	**689**	-33%	**125**	**166**	-25%
EBIT margin	*9.2%*	*12.1%*		*9.5%*	*11.3%*	
Number of employees	2,774	2,754	1%	2,774	2,754	1%

PRODUCT **COMPANIES**

Gross profit, before allocation of shared cost amounted to DKK 1,608m in 2016 (2015: DKK 1,759m), and the corresponding gross margin was 32.1% (2015: 30.8%).

EBITA was down 26% to DKK 560m (2015: DKK 756m) and the EBITA margin decreased to 11.2% (2015: 13.2%). EBITA in 2016 included one-off costs of DKK -37m (2015: DKK 8m). The EBITA margin adjusted for one-off costs was 11.9% (2015: 13.1%). The decline was a result of lower operating leverage which impacted the Product Companies division more than the other divisions due to its greater content of in-house manufacturing and assembly.

LONG-TERM FINANCIAL TARGETS

The Product Companies Division targets an annual revenue growth of 5-10% over the cycle (2016: -12%) and an EBITA margin of 12-15% (2016: 11.2%). Organic growth initiatives initiated in 2016 were unable to compensate for market headwinds and lower project-related activities across industries. Nevertheless, growth is the key divisional focus area, and all product companies share the same ambition and potential to grow in their core markets as well as close adjacent industries where existing technologies can be applied.

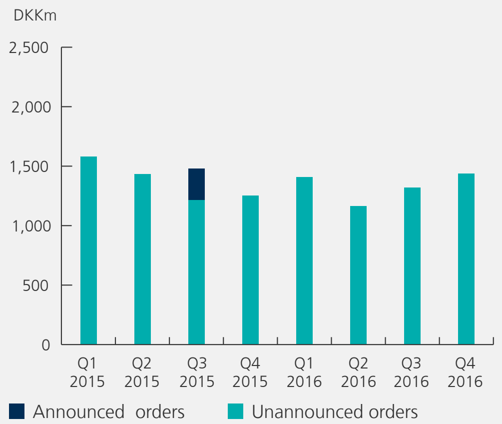
LONG-TERM FINANCIAL TARGETS

5-10% annual revenue growth (over the cycle)
EBITA margin **12-15%**
NWC **~15%**

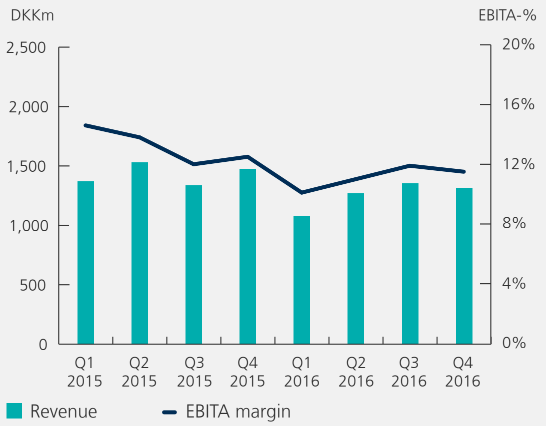
As a result of lower operating leverage and one-off costs related to corrective actions, Product Companies was slightly below its targeted EBITA margin range in 2016. A stabilising business environment should be sufficient to get back within the targeted range.

For information about the divisional offerings and business model, see Strategy and business model, page 15.

QUARTERLY ORDER INTAKE



QUARTERLY REVENUE AND EBITA MARGIN



MINERALS

MARKET DEVELOPMENTS

While commodity prices increased across the board in 2016, miners remained committed to strengthening their balance sheets through lower investments and targeted procurement savings. This led to weak demand for projects and systems, whereas single equipment sales, enhancing customer productivity, was more stable. South America, South East Asia, North America and Australia showed most activity, especially in copper and gold.

The number of inquiries remained weak in the period despite increased customer dialogue. The most active commodity markets in Q4 were gold, copper and lithium, followed by modest activity in alumina, potash, steel, iron ore and coal.

FINANCIAL PERFORMANCE IN Q4 2016

Order intake in Q4 2016 increased 9% to DKK 685m (Q4 2015: DKK 630m) and increased 11% adjusted for currency effects.

Revenue decreased 4% to DKK 1,080m (Q4 2015: DKK 1,126m) but was unchanged over last year when adjusted for currency. Following slow progress on projects in the first 9 months of the year, activity picked up in the fourth quarter. Nevertheless, about one third of the Minerals Division's backlog remains very slow moving on customer request.

Gross profit, before allocation of shared cost amounted to DKK 179m (Q4 2015: DKK 184m), and the corresponding gross margin was 16.7% (Q4 2015: 16.4%).

EBITA showed a positive quarterly result for the first time in two years and amounted to DKK 29m (Q4 2015: DKK -32m). As a consequence, the EBITA margin increased to 2.7% (Q4 2015: -2.8%). EBITA was impacted by one-off costs of DKK -24m (Q4 2015: -33m), and the EBITA margin adjusted for one-off costs was 5.0% (Q4 2015: 0.1%). Q4 saw the strongest quarterly revenue in 2016 (although lower than Q4 last year) which improved the operating leverage versus the prior nine months. The leverage effect, combined with the positive impact from continued corrective actions and reversal of provisions resulting from good project execution, led to the significant margin improvement.

FINANCIAL PERFORMANCE IN 2016

Order intake in 2016 decreased 35% to DKK 2,679m (2015: DKK 4,112m). Though disappointing, it should be seen in the context of the 31% order intake increase last year in a deteriorating market. As no large orders were received in 2016 (2015: DKK 1bn of orders above DKK 200m), the order intake represents a fairly solid base of small orders.

Revenue decreased 11% to DKK 3,185m (2015: DKK 3,576m) and declined 6% adjusted for currency effects which was below expectations at the beginning of the year. As described above, conversion of the backlog was challenged by one third of the order backlog which turned very slow moving during the year.

MINERALS

DKKm	2016	2015	Change (%)	Q4 2016	Q4 2015	Change (%)
Order intake	**2,679**	**4,112**	-35%	**685**	**630**	9%
Order backlog	**3,988**	**4,614**	-14%	**3,988**	**4,614**	-14%
Revenue	**3,185**	**3,576**	-11%	**1,080**	**1,126**	-4%
Gross profit before allocation of shared costs	**530**	**627**	-15%	**179**	**184**	-3%
Gross margin before allocation of shared costs	*16.6%*	*17.5%*		*16.6%*	*16.4%*	
EBITA before allocation of shared costs	**195**	**146**	34%	**114**	**59**	93%
EBITA margin before allocation of shared costs	*6.1%*	*4.1%*		*10.5%*	*5.2%*	
EBITA	**(135)**	**(258)**	n/a	**29**	**(32)**	n/a
EBITA margin	*-4.3%*	*-7.2%*		*2.7%*	*-2.8%*	
EBITA margin adjusted for one-off costs	*-3.0%*	*-2.0%*		*4.9%*	*0.1%*	
EBIT	**(243)**	**(424)**	n/a	**2**	**(70)**	n/a
EBIT margin	*-7.6%*	*-11.9%*		*0.2%*	*-6.3%*	
Number of employees	1,081	1,279	-15%	1,081	1,279	-15%

MINERALS

Gross profit, before allocation of shared cost amounted to DKK 530m in 2016 (2015: DKK 627m), and the corresponding gross margin was 16.6% (2015: 17.5%). The decrease in gross margin reflects a somewhat intensified pricing pressure, as communicated in the 2016 interim results.

Like the revenue, EBITA in 2016 was impacted by slow conversion of the backlog and low operating leverage. Unanticipated project delays challenged the planning of resources and caused considerable under-absorption. Consequently, EBITA amounted to DKK -135m, which nevertheless was an improvement on last year (2015: DKK -258m) owing to ongoing business right-sizing, satisfactory project execution, and not least a lower level of one-off costs compared to the previous year. Accordingly, the EBITA margin was -4.3% (2015: -7.2%). EBITA in 2016 was impacted by DKK -38m in one-off costs (2015: DKK -185m), and the adjusted EBITA margin was -3.0% (2015: -2.0%).

LONG-TERM FINANCIAL TARGETS

The Minerals Division targets annual revenue growth of 5-6% over the cycle (2016: -11%) and an EBITA margin of 3-8% (2016: -4.3%). With the end-of-2016 order backlog at 14% below the level 12 months ago, and about one-third of the backlog moving very slowly, revenue will remain under pressure in 2017. The Minerals Division, however, is exposed to the very cyclical behaviour of mining capital expenditures, and more importantly is to look at the average growth over a number of years. In the coming years, growth is expected to be supported by a cyclical rebound in the mining industry coupled with strengthened product line management and new offerings related to ongoing R&D projects focused on enhancing customers' productivity.

The Minerals Division has been implementing significant efficiency and business right-sizing measures in the past few years to adjust the business to a market for mining capital expenditures that has declined more than 60% from the peak. The benefits of additional corrective actions currently being implemented and the prospects of a stabilising business environment, coupled with improved operational excellence, should support margins in the coming years.

For information about the divisional offerings and business model, see Strategy and business model, page 15-16.

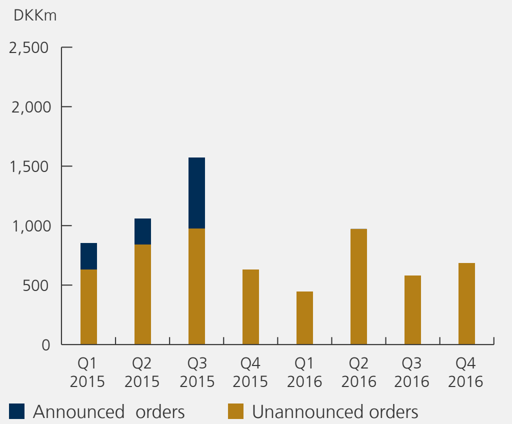
LONG-TERM FINANCIAL TARGETS

5-6% annual revenue growth (over the cycle)

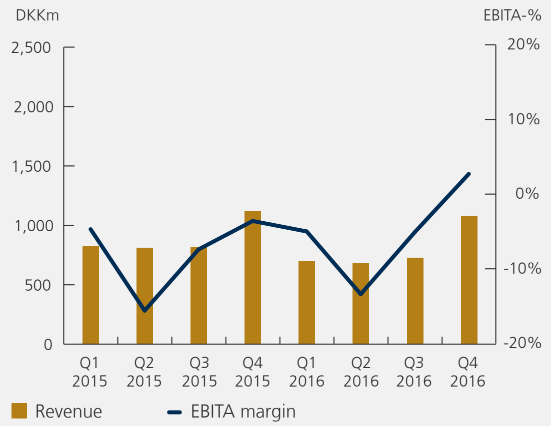
EBITA margin 3-8% (over the cycle)

Negative NWC

QUARTERLY ORDER INTAKE



QUARTERLY REVENUE AND EBITA MARGIN



CEMENT

MARKET DEVELOPMENTS

Although tendering activity picked up slightly in the second half of 2016, the market for new cement capacity remains largely unchanged, and on a global level, supply continues to outweigh demand. Cement is, however, a local or regional business and opportunities persist in regions like Asia (mostly South Asia), parts of North Africa and parts of Latin America. Some activity is seen as well in North America, parts of the Middle East and other parts of Africa. Several years of overcapacity and relatively few orders available in the market has led to tough competition and continued pricing pressure.

Parts of the market for Operation & Maintenance was challenged by economic instability in 2016 but the O&M business continues to offer a good growth potential. The year saw customers renewing and extending the scope of existing contracts which underlines the strong value proposition.

FINANCIAL PERFORMANCE IN Q4 2016

Order intake in Q4 2016 increased 159% to DKK 1,026m (Q4 2015: DKK 396m), supported by a large order of approximately DKK 525m received in Bolivia (no large orders in the comparison quarter). The order intake in a project business is lumpy per se and one quarter alone is insufficient to show a trend.

Timing of milestones on a few larger projects, and solid project execution, resulted in a strong quarterly revenue of DKK 1,539m, representing an increase of 56% (Q4 2015: DKK 985m). As a consequence of the strong backlog conversion in Q4 and adjustments to the backlog, the backlog declined 8% year-on-year and 16% sequentially.

Gross profit, before allocation of shared cost amounted to DKK 175m (Q4 2015: DKK 106m), and the corresponding gross margin was 11.4% (Q4 2015: 10.8%).

EBITA amounted to DKK 7m which was an improvement on last year (Q4 2015: DKK -29m) but the lowest level seen in 2016, despite the leverage effect from a strong quarterly revenue. The development reflects increased execution of lower margin orders in the backlog which continues to constitute headwind going into 2017.

The EBITA margin increased to 0.4% (Q4 2015: -2.9%). The comparison quarter was impacted by DKK -42m in one-off costs while Q4 2016 saw only minor one-off costs of DKK -5m. Adjusted for one-off costs, the EBITA margin was 0.7% (Q4 2015: 1.2%).

FINANCIAL PERFORMANCE IN 2016

Order intake in 2016 increased 63% to DKK 4,576m (2015: DKK 2,803m), mainly driven by a large order of more than DKK 1,500m won in Algeria early in the year.

Revenue increased 10% in 2016 to DKK 4,286m (2015: DKK 3,911m) and increased 14% when adjusted for currency effects. As 2016 started with a backlog that

CEMENT

DKKm	2016	2015	Change (%)	Q4 2016	Q4 2015	Change (%)
Order intake	**4,576**	**2,803**	63%	**1,026**	**396**	159%
Order backlog	**5,349**	**5,852**	-9%	**5,349**	**5,852**	-9%
Revenue	**4,286**	**3,911**	10%	**1,539**	**985**	56%
Gross profit before allocation of shared costs	**590**	**631**	-6%	**175**	**106**	65%
Gross margin before allocation of shared costs	*13.8%*	*16.1%*		*11.4%*	*10.8%*	
EBITA before allocation of shared costs	**296**	**409**	-28%	**77**	**29**	166%
EBITA margin before allocation of shared costs	*6.9%*	*10.5%*		*5.0%*	*2.9%*	
EBITA	**28**	**99**	-72%	**7**	**(29)**	n/a
EBITA margin	*0.6%*	*2.5%*		*0.4%*	*-2.9%*	
EBITA margin adjusted for one-off costs	*1.2%*	*3.7%*		*0.7%*	*1.3%*	
EBIT	**(3)**	**52**	-106%	**(2)**	**(39)**	n/a
EBIT margin	*-0.1%*	*1.3%*		*-0.2%*	*-3.9%*	
Number of employees	2,642	2,622	1%	2,642	2,622	1%

CEMENT

was considerably lower than the backlog at the beginning of 2015, the revenue result is evidence of very solid project execution.

Gross profit, before allocation of shared cost amounted to DKK 590m in 2016 (2015: DKK 631m), and the corresponding gross margin was 13.8% (2015: 16.1%). As communicated in the 2016 interim results, the Cement division is increasingly executing on a lower margin backlog due to increased pricing pressure in the past couple of years.

Despite higher revenue, EBITA decreased 72% to DKK 28m (2015: DKK 99m) and the EBITA margin decreased to 0.6% (2015: 2.5%). EBITA included one-off costs of DKK -22m related to corrective actions (2015: DKK -44m), and the adjusted EBITA margin was 1.2% (2015: 3.7%). As mentioned above, the lower EBITA margin is a result of execution of orders in the backlog with lower margin.

LONG-TERM FINANCIAL TARGETS

The Cement Division targets an annual revenue growth of 3-5% over the cycle (2016: 10%) and an EBITA margin of 3-8% (2016: 0.6%). Despite a continued subdued market, FLSmidth achieved an increased order intake and showed solid project execution in 2016. As a result revenue grew above the targeted range over the cycle. Looking ahead, growth is expected to be supported by a cyclical rebound in the cement industry, coupled with leveraging the 'Design, Build, Operate' business model and the continued strengthening of productivity-enhancing products and solutions.

Seven years into a cyclical downturn, the extended period of global overcapacity has resulted in intensified competition and margin pressure. Despite a series of cost management initiatives to help combat the ongoing market headwind, the Cement Division was outside the targeted margin range in 2016, and the margin pressure is expected to continue into 2017. Thus, cost-reducing initiatives will remain a top priority, but FLSmidth will also work to adapt and differentiate its offering and business mix to improve margins and get back within the long-term target.

For information about the divisional offerings and business model, see Strategy and business model, page 16.

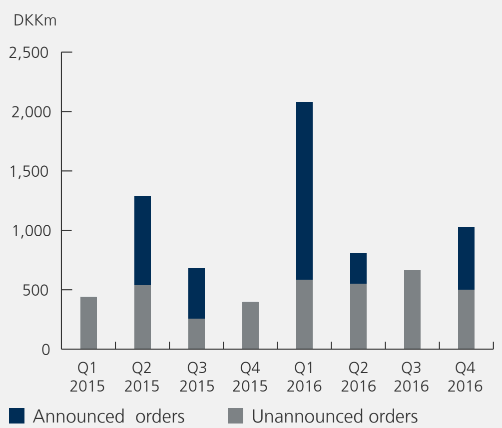
LONG-TERM FINANCIAL TARGETS

3-5% annual revenue growth (over the cycle)

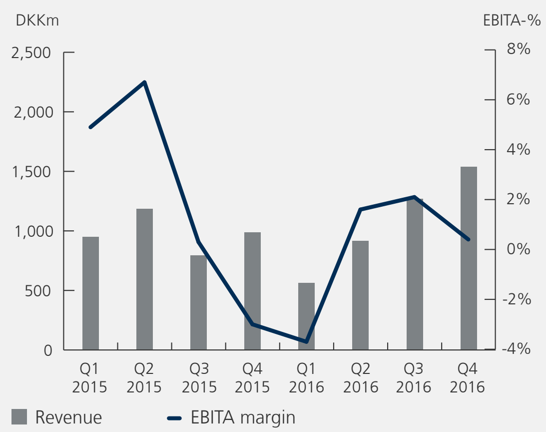
EBITA margin **3-8%** (over the cycle)

Negative NWC

QUARTERLY ORDER INTAKE



QUARTERLY REVENUE AND EBITA MARGIN



FOCUSED INNOVATION
RAPID COMMERCIALISATION

FLSmidth's future economic results are not dependent on the success of single innovations but on the continued stream of new developments to enhance our existing strong offering. In 2016, FLSmidth spent DKK 202m on in-house R&D to ensure productivity enhancing solutions that turn our customers' everyday challenges into opportunities. In addition, project-financed developments are undertaken in cooperation with customers.

IN-HOUSE INNOVATION

FLSmidth's global technology centers are the backbone of in-house R&D. However, product development takes place locally in the product companies as well. Sophisticated laboratories and testing facilities in the USA, India and Denmark make it possible to carry out 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 for FLSmidth.

ON-SITE INNOVATION

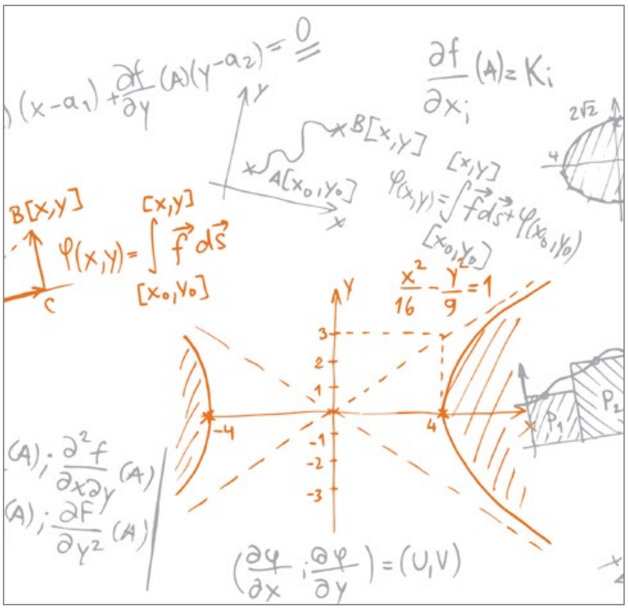
On a frequent basis, product development takes place directly at customer sites. When specific customer requirements and the need for real-live testing go hand in hand, it is most logical to conduct feasibility studies or install pilot plants directly at a cement plant or minerals processing plant. As an example, FLSmidth is currently developing dry tailings technology (to confine tailings dams) in collaboration with copper and gold miners, just as a new cyclone technology is being developed in cooperation with a cement customer.

INNOVATION THROUGH PARTNERSHIPS

FLSmidth has a strategy to focus on its core business and that applies to R&D too.

However, in the continuous pursuit of staying one step ahead of the competition, product development sometimes calls for innovation within non-core technologies and in those cases, FLSmidth will look to partner up with technology experts rather than attempt to 'reinvent the wheel'. As an example, FLSmidth and Haldor Topsoe are seeing mutual benefits in co-developing a catalytic filter bag technology. Other examples are the joint development with BASF to overcome the arsenic challenge in the mining industry, and the cooperation with GE to create enhanced digital solutions to increase productivity in the cement and mining industries.

FLSmidth also partners up with universities and firms to accelerate research. The MiCeTech (Minerals and Cement Technologies) programme is a joint research project between FLSmidth, Hempel and DTU (the Technical University of Denmark) with the support of The Danish Advanced Technology Foundation and with a clear aim to generate tangible outcomes. The programme is now half-way completed and, among other achievements, it has resulted in important contributions to the recent development of the JETFLEX® Burner.



FOCUSED INNOVATION
RAPID COMMERCIALISATION

ENERGY

INDUSTRY CHALLENGE: Reducing the high operational and environmental cost of energy

Energy often makes up the highest cost of operating a cement plant or a minerals processing plant. The high energy consumption weigh on both the environment and the plant owners' wallet. One way to lower energy consumption is by improving equipment efficiency. In both mining and cement, grinding is one of the most energy-intense processes, and consequently improving the grinding efficiency has a huge impact. Another way to save energy is by managing overall plant consumption and optimising processes through collection and analysis of performance data.

SOLUTION 1: Introducing the world's largest and most energy efficient vertical roller mill

FLSmidth's OK™ mill is the world's most energy-efficient vertical roller mill for cement grinding, and the development of the OK™ 62-6 cement mill also makes it the world's largest by physical dimension and with the highest capacity. Large size OK mills offer the best product quality for the lowest energy consumption – and potentially a much lower initial investment. In addition, with the latest design update the OK mill will now be used both for cement and raw grinding applications, optimising maintenance and spare parts inventory for customers.

KEY FACTS:

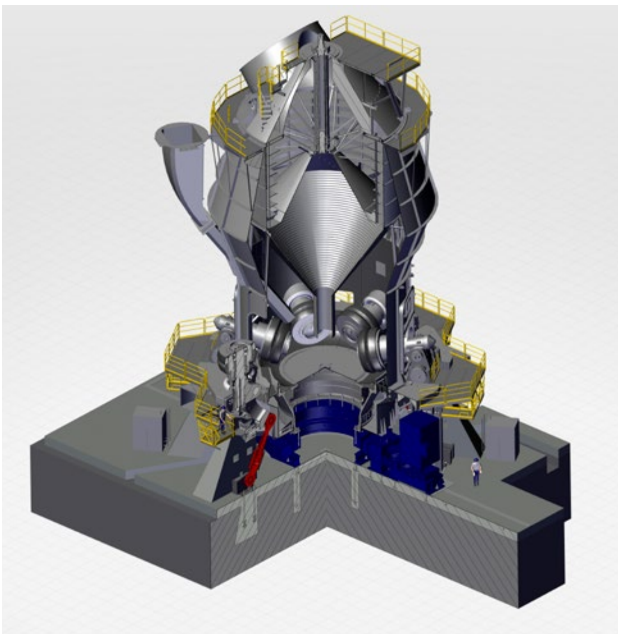
- Up to 40% saving in capital expenditures by installing a single OK™ 62-6 cement mill compared to installing multiple smaller mills – and lower total operating cost by maintaining only one mill
- 10-15% more energy efficient than competing vertical roller mills
- The most flexible mill on the market for making multiple types of cement in a single machine
- Adding to the over 150 OK mill units already sold, the first OK 62-6 size mill has been sold and engineered and is being delivered in the first half of 2017
- Additional system components supplied by FLSmidth include Max Drive from FLSmidth MAAG Gear and automation control system from FLSmidth Automation

SOLUTION 2: ECS/EnerSentry™ Energy Management Solution for the mining and cement industries

FLSmidth's newly-launched advanced Energy Management System is an automation software that utilises the power of real-time, and historic, process and energy data and analytics to save energy, and increase utilisation and availability, of a complete cement or minerals processing plant. It can be easily integrated with existing plant process control systems which is a key purchase criterion for customers. Contrary to competing 'monitoring solutions', FLSmidth makes use of its comprehensive equipment and process knowledge to take its offering one step further.

KEY FACTS:

- 1-2% reduction in energy consumption and costs
- Reduces 30-40% energy audit efforts
- Short return on investment – down to 6 months
- Real time visibility and insights on key energy parameters such as consumption, patterns, abnormalities, costs, losses, etc.



OK™ 62-6 cement mill

FOCUSED INNOVATION
RAPID COMMERCIALISATION

ORE QUALITY

INDUSTRY CHALLENGE: Getting the most out of your raw materials and equipment

Access to high quality raw materials is one of the major everyday concerns for mining and cement plant operators across the globe. Although raw materials for cement production are widely accessible, the quality differs, and once a plant is built, the utilisation of raw materials is key to producers' profit. For some minerals like copper and gold, the quality of ore grades is constantly declining, making it more important than ever to increase recovery. Other minerals are more abundant, but the quality of deposits varies a lot, and combined with the costly handling of material, it remains crucial to get more out of less.

SOLUTION 1: Rapid Oxidative Leach® (update)

Background:
80-90% of all copper mines in the world are open pit (inverted cone shaped) mines. The top of the mine consist of oxide bound ore that is processed via heap leaching, followed by SX-EW to extract and produce copper cathode. As the mine develops, sulfide ore is exposed. Once sulfide ore is available, the mine will install a concentrator to produce copper concentrate of at least 25% Cu (copper) that will be shipped to a smelter (for 98% Cu concentration) and then refining (for 99.9% Cu).

The quality of the copper ore globally is decreasing and a lot of the remaining and existing mines have lost the ability to make copper concentrates of a sufficient concentration for smelting, as smelters require concentrates of more than 25% Cu. When the quality is not suitable for smelting the miners pay an additional treatment cost to blend their concentrates with other higher copper content concentrates. This treatment cost for low quality ore comes on top of the refining cost and the significant cost in transport as smelters are few and far between. For many miners, especially small to medium sized mines (15,000-100,000 tonnes/year), the cost of smelting can easily make up 25% of the end price of the copper, meaning that their ore is not economically viable to process. With this as an industry condition, the copper mining industry faces two significant challenges:

SUB-CHALLENGE 1: Economic stress in the transition from oxide to sulfide ore
When miners transit from leaching oxide ore to processing sulfide ore, they are facing a period of declining utilisation of existing assets (solvent extraction/electrowinning equipment and staff), while they need to make additional investment in a concentrator for the processing of the sulfide ore. This economically stressful period can last several years and threaten operations.

SUB-CHALLENGE 2: Smelters rejecting arsenic polluted ore
Globally, the availability of high quality copper ore deposits is decreasing, and an increasing share of the remaining deposits contains high levels of arsenic. In Chile, where more than 20% of the global copper deposits are based, already half of the mines are arsenic polluted, a number that is projected to significantly increase in the coming years.

Many smelters reject to treat concentrates containing arsenic. Others impose significant treatment cost penalties for ore containing more than 0.1% arsenic, and for concentrates containing more than 0.5% arsenic, it is very difficult to even find a solution. 30% of the world's copper concentrate output contains more than 0.1% arsenic. Since 2014, the volume of copper concentrate with high levels of arsenic has exceeded treatment capacity in smelters, where currently only one in the world is willing to treat concentrates containing more than 1% arsenic.

The Rapid Oxidative Leach® (ROL) solution:
The copper industry has repeatedly attempted to leach primary copper sulfides just like the oxide ore, but without success: When the sulfide ore starts to leach, the sulfur creates a layer of passivation on the surface of each copper particle, inhibiting the chemical reaction that dissolves copper.

FLSmidth's Rapid Oxidative Leach® (ROL) mechano-chemical process is an alternative route to smelting, as ROL economically dissolves copper from low to mid-grade primary sulfide copper concentrates – even arsenic polluted – so it becomes feasible to produce cathode copper from concentrate directly at site rather than to sell the concentrate to a smelter. ROL can leach 97-99% copper from concentrates as low as 5% copper in less than 6 hours. The operating conditions of 80 degrees Celsius and atmospheric pressure makes it possible to leach directly at the mine and hence

FOCUSED INNOVATION
RAPID COMMERCIALISATION

ORE QUALITY

allows for a seamless transition from oxide bound ore to sulfide bound concentration, and the on-site SX-EW operation can be kept fully active for years getting more out of existing assets and avoiding costly smelting.

A high level of arsenic binds a high amount of gold that is potentially an additional source of revenue for the copper producers. While valuable by-product minerals such as zinc, lead, gold, silver, manganese, etc. are difficult to recover in smelting, they are easily recoverable from a ROL process.

In 2016, FLSmidth did pilot testing of ROL on various copper ore types with success and will in 2017 enter the phase of pilot-plant testing and feasibility studies with customers. FLSmidth's partnership with BASF for the arsenic track is progressing successfully and will also enter the pilot-plant phase in 2017.

SOLUTION 2: **Down Draft Cyclone (DDX)**

FLSmidth's newly launched patent-pending Down Draft cyclone (mixing raw material and preheater gas in a cement plant) has been installed and proven with a customer in Ukraine. The installation together with other kiln modifications resulted in 19% increased production (from 2,600 tonnes/day to 3,100 tonnes/day) and reduced power consumption, with stable and reliable operation. The ultra-light design with roughly half the weight of traditional cyclones makes it ideal for upgrade projects as a cyclone with up to 20% larger diameter can be installed without increasing the load of the existing preheater structure. Alternative, much heavier, cyclones require expensive reinforcement of the pre-heater tower which often makes an upgrade project economically unviable.

Rapid Oxidative Leach® pilot testing

Down Draft Cyclone

FOCUSED INNOVATION
RAPID COMMERCIALISATION

SERVICE

INDUSTRY CHALLENGE: Avoiding expensive downtime – or complete plant closure!

Three crushers, each weighing as much as an Airbus 380, are the heart of the world's largest copper mine, in the world's driest desert, the Atacama Desert in Chile. Every hour, they crunch 20 times their own weight of giant rocks. 24 hours a day, the three crushers chew more than 400,000 tonnes of rock, of which less than 1% is turned into pure copper a few kilometres further down the process.

This daily chewing where several hundred tonnes of rock is thrown around on reinforced steel lines translates into a continuous cost in wear parts and DKK 500,000 in lost earnings for every hour spent replacing them. Maintenance is more than a third of the operating cost for miners and wear is a key part.

In the past years, sensor technologies have undergone major advancements and with internet of things (IoT), control systems can be integrated with maintenance systems, enabling access to real time data for assets. This in turn enables maintenance to develop from reactive through proactive to a condition-based operation, where the greatest returns are created by operating the plant while taking a calculated risk into account. Better knowledge of the correlation between wear and process due to embedded sensors in the equipment means that some repair jobs can be postponed to the next relining given the risk of continuing operation.

SOLUTION 1: Smart Parts program – improving maintenance planning

In 2016, FLSmidth initiated a Smart Parts Program embedding sensors and transducers in equipment critical for the process flow. The sensor technology has been tweaked, and the first piece of equipment ready to be wired is the Gyratory Crusher. When the test results have proven successful, the model will be standardized and rolled out on other pieces of equipment. Alternative technologies are already used in FLSmidth's SmartCyclone TM which is a cyclone management system that offers increased process uptime, improved recovery, and predictable circuit maintenance through built-in wear detection and roping sensor technology, combined with FLSmidth's SmartwearTM automation control system. The SmartCyclone TM was lauched in 2016.

FLSmidth KREBS cyclone

FOCUSED INNOVATION
RAPID COMMERCIALISATION

SERVICE

Different types of sensor technologies are being implemented for different purposes. The commonality is that advances in cost, availability and ease of programming within sensor technologies have created a space of opportunity for innovations related to asset management. Some of the most important technologies are related to hyperspectral sensing, laser scanning, ultrasonic material characterization, magnetic and electric probing, but also classical vibration monitoring and strain measuring remain important.

During the summer of 2016, FLSmidth formed a partnership with General Electric on integrating data from the equipment on GE's cloud-based IoT-platform, Predix. By collecting all equipment data from vibrations to temperature and flow on the Predix platform, FLSmidth's software can recognize significant patterns, diagnose their exact condition and get the machines to act in response to those patterns. This will enable the customer to constantly optimize operations.

SOLUTION 2: Environmentally safe tailings management through continuous co-mingled tailings for large scale mines

Background:
Tailings is the material left over after the valuable mineral has been seperated from an ore body. As much as 99.5% of the 100,000-400,000 tonnes per day of copper ore that a mine processes will become tailings, and as mines tend to operate for decades, tailing ponds are some of the biggest man-made structures on earth. Along with the tailings, huge waste rock disposal areas are required. For the local communities and governments, tailings and waste rock dumps are a target for much disapproval due to the potential environmental risks of contaminating the groundwater. As a consequence, governments increasingly require detailed tailings management plans from miners in order to issue new permits.

For existing mines, the challenge is that their tailings storage facilities risk constraining their remaining mine life as they are pushed to unplanned heights to accommodate additional production that was not anticipated when the mines and tailings dams were originally designed or permits issued.

Tailings management and the (social) license to operate is on top of the agenda of the global mining industry, and increasingly tighter regulations are forcing miners to rethink traditional tailings storage solutions.

One of the world's biggest gold producers and FLSmidth have partnered up to develop a method of co-mingling tailings with mine waste in a continuous process to produce an environmentally safe alternative for tailings and waste rock storage.

The customer requests an environmentally safe solution that is also economically competitive with traditional tailings disposal methods.

The solution being developed by the gold miner and FLSmidth is continuous co-mingling:

- A sustainable waste product is produced by continuously mixing filtered concentrator tailings with crushed waste rock.
- The filtered tailings cost is minimized by using "fast filtering" and using waste rock to provide additional strength to the blended material.
- The acid rock drainage risk of the waste rock is reduced by filter cake filling the voids of the waste rock matrix, eliminating oxygen to flow through.
- The resulting co-mingled waste is both geochemically and geotechnically stable.
- Fast filtering of the concentrator tailings allows for significant water recovery and reuse.

Co-mingled waste disposal has been used successfully at small scale mine sites before but requires dozers, trucks, high cost liquid-solid separation, and significant manpower to produce a suitable mixture, having made co-mingling too costly for large ore bodies. FLSmidth's solution is able to economically process the significant amount of ore continuously using less energy than traditional solutions. ■

RISK MANAGEMENT

Risk is an inherent part of FLSmidth's business and the Group proactively manages these risks through a standard-ised risk management practice.

Risk taking is an intrinsic, necessary part of FLSmidth's business, and managing risk is a main priority in the Group's business model. Through simple and standardised enterprise risk management practice designed to ensure that FLSmidth achieves its strategic, business and governance objectives, the Group continuously strives to protect its corporate reputation, values and integrity.

FLSMIDTH'S RISK MANAGEMENT FRAMEWORK AND PROCESS

FLSmidth's approach to risk management is based on a combined top-down/bottom-up approach with the underlying premise that all divisions, business units and group functions exist to provide value for the Group's stakeholders.

The risk management framework is set out in the Group's Risk Management Policy, which describes the purpose and scope of managing risk. The Board of Directors is ultimately responsible for this policy, including for defining the Group's overall risk appetite and risk tolerance.

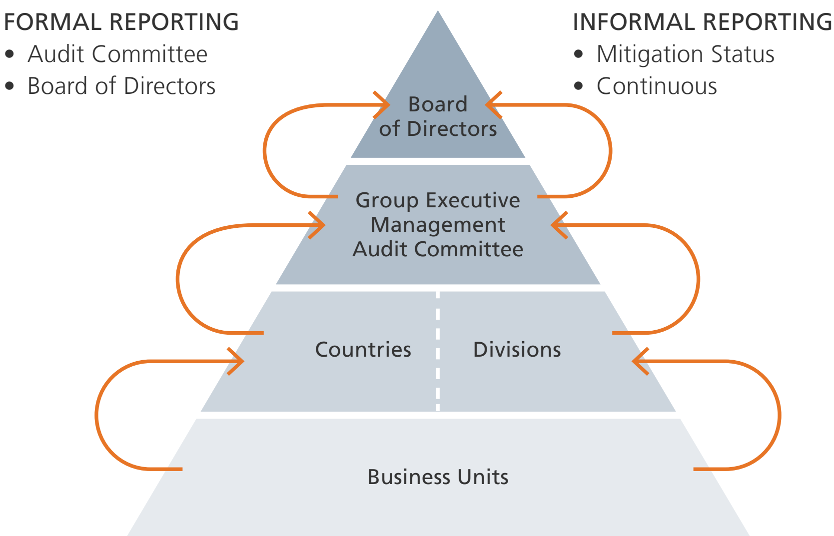
It is the responsibility of each division, country organisation, business unit and group function to identify, assess and activily manage key risks. This fundamental principle of the Group's risk management philosophy is executed at the following levels:

- **Group Executive Management:** covering all group level risks, including major external risks that may impact the Group's ability to achieve its strategic objectives on a sustainable basis;
- **Division:** covering general risks related to the respective focus industries, as well as risks related to the interaction between the Business Units and Group Functions;
- **Country:** with the overall responsibility and ownership for mitigating identified risks in their country;
- **Business units:** covering specific risks related to their specific business activities, e.g. projects, products, services, own manufacturing, operations and management, and;
- **Group Functions:** such as Compliance, Group Finance, Health & Safety, HR, IPR, IT, Legal, Risk Management, Procurement, Tax, Travel Security and Treasury covering all global risk areas functioning across the Divisions.

RISK REPORTING

The Group's Risk Management Department is responsible for facilitating annual assessments and biannual reporting to the Audit Committee and the Board of Directors including the Group Executive Management.

RISK REPORTING



RISK
MANAGEMENT

2016 KEY RISKS

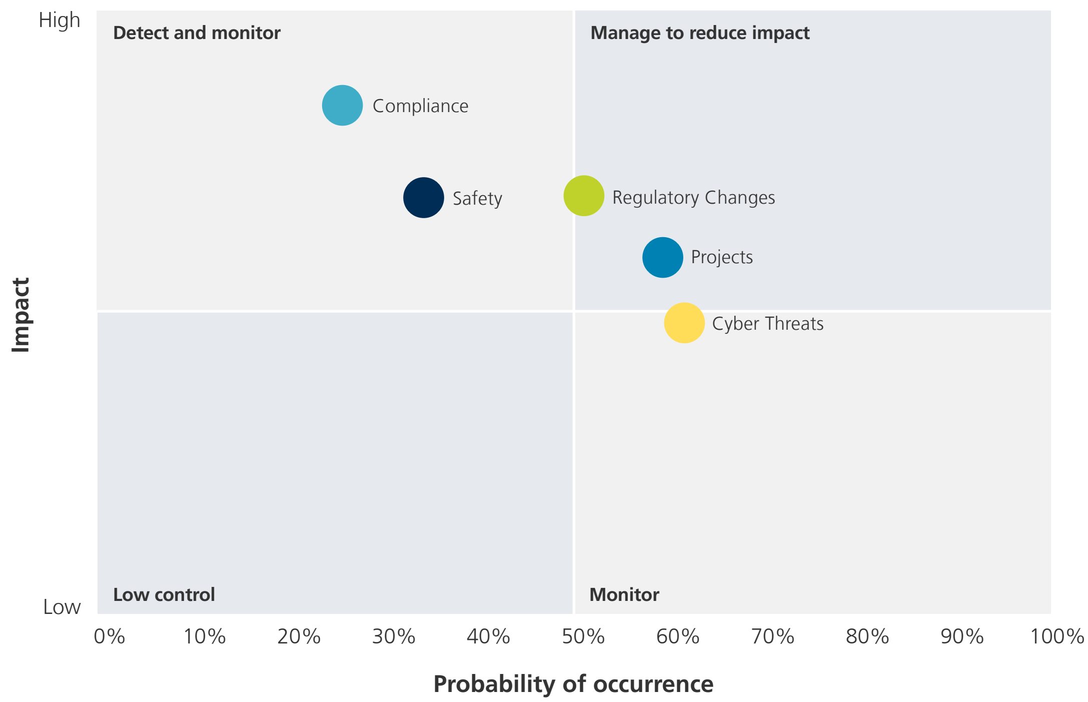
FLSmidth is exposed to a myriad of strategic, operational, financial and political risks that are managed on an ongoing basis. While FLSmidth has a low risk appetite for certain types of risk such as: safety, currency, theft of intellectual property rights, business integration, IT, legal, compliance and tax, the Group is prepared to accept considerable risks in areas where the Group has the expertise to manage such risks.

Acting in cyclical industries, volatile market conditions represent a constant risk and opportunity for FLSmidth. Thus, managing the cycle and adjusting to ever-changing market conditions is a permanent top priority for management, as described in the sections on strategy, business model, market trends and management review elsewhere in this report.

Notwithstanding market risks, a top-down risk analysis has identified the following top-five key risks for FLSmidth in 2016 (in random order of priority):

- Safety
- Projects
- Compliance
- Regulatory Changes
- Cyber Threats

RISK MITIGATION



RISK
MANAGEMENT

RISK MITIGATION

RISK	CONTEXT	MITIGATION
Safety	In general, the mining industry has high safety standards whereas the standards in the cement industry may vary.	Safety is a high priority with continuous focus on improving LTIFR, Safety Audits by top management and continuous training and awareness programmes.
Projects	A large part of FLSmidth's business consists of supplying equipment and supervisory services for very large, complex processing plants.	The Group focuses on projects that lie within its core competencies and match its strategic goals. Rigorous contract and project management play important roles in managing project-related risks. Both project divisions have formal sign-off processes in order to support the sales phase. Large EPC projects must be reviewed and pre-approved by the Group's EPC Board, which consists of members from the divisions, business units, Legal and individuals with core EPC competencies.
	FLSmidth's projects are often located in remote locations with poor infrastructure, and in countries with challenging political, administrative and judicial structures in place.	The Group conducts monthly project reviews of all large projects which include risk assessments. The Group has also established project task forces with participants from selected areas of expertise, including Divisional CEOs/CFOs and relevant specialists to create a uniform platform for sparring on projects that are complex due to size, scope and/or geographical location.
Compliance	Compliance takes top-priority at FLSmidth with a robust tone from the top and Compliance Chairman at Board level.	The Group's Compliance Department is responsible for ensuring that the company lives up to ethical standards and employs a range of policies including the global Code of Business Conduct, Anti-Bribery Policy, Whistleblower Hotline and screening of third parties.
Regulatory Changes	Regulatory requirements are becoming increasingly complex.	The Group has a dedicated Export Control Department with clear procedures and sign-off protocols.
Cyber Threats	The continuously evolving threat of cyber security, data leakage and data security is becoming a key area of focus.	The Group is focused on IT security and awareness; conducting regular audits and ongoing analysis of current controls.

SUSTAINABILITY **PERFORMANCE**

FLSmidth has published its annual Sustainability Report, covering non-financial performance related to the environmental and social impacts, alongside this report.

The 2016 Sustainability Report is in full compliance with Section 99a of the Danish Financial Statements Act, and also serves as the Communication on Progress to the United Nations Global Compact.

The report is available at:
http://www.flsmidth.com/SustainabilityReport2016

SUSTAINABILITY REPORTING AT A GLANCE

Material Topic	Indicator	2016	2015
Safety	LTIFR (Lost time injury frequency rate)	1.5	1.8
	Training hours on safety (1,000)	187	166
Compliance	Admissible whistle-blower cases	23	34
	Numbers of in-depth due diligence screenings conducted	226	55
People	% female employees	14%	13%
	% employees with performance development reviews (PDR)	86%	85%
Supply Chain	Suppliers assessed for environmental and social performance	161	0
	% local spend	61%	61%
Environment	Absolute Emissions, scope 1 & 2 (in tCO_2)	44,195	46,910
	CO_2 intensity metric (in tCO_2/Cost of Production)	3.25	3.18

CORPORATE **GOVERNANCE**

The statutory statement on corporate governance pursuant to Section 99b and 107b of the Danish Financial Statements Act is available at the company's website

The Corporate Governance statement includes a remuneration report and FLSmidth's position on each recommendation issued by the Danish Committee on Corporate Goverance. In the Board's opinion, FLSmidth complies with all recommendations.

The report is available at:
http://www.flsmidth.com/governance_statement

CORPORATE GOVERNANCE STATEMENT AT A GLANCE

	2016	2015
Number of registered shareholders	~ 39,000	~ 44,000
Treasury shares (1,000)	2,276 (4.4%)	2,327 (4.5%)
Number of shares held by Board and Management (1,000)	36	33
Total Board Remuneration	DKK 5.9m	DKK 5.3m
Total Executive Management remuneration	DKK 14.5m	DKK 13.5m
Number of Board Members (elected at the AGM)	7	6
Female representation on Board of Directors (elected at the AGM)	14%	17%
Independent directors	89%	88%
Number of Board Committees	4	4
Number of Board Meetings held	9	9

/ BACK TO CONTENTS

BOARD OF **DIRECTORS**

				
Name	Vagn Ove Sørensen Chairman	Torkil Bentzen Vice Chairman	Sten Jakobsson	Marius Jacques Kloppers
Age	57	70	68	54
Nationality	Danish	Danish	Swedish	Australian/South African
Gender	Male	Male	Male	Male
Member of the Board since	2009, Chairman since 2011 (elected at the AGM). Chairman of the Nomination and Compensation Committees. Member of the Audit Committee.	2002, Vice Chairman since 2012 (elected at the AGM). Chairman of the Technology Committee. Member of the Nomination and Compensation Committees.	2011 (elected at the AGM). Member of the Audit Committee.	2016 (elected at the AGM). Member of the Nomination and Compensation Committees.
Number of shares in FLSmidth	7,501	5,000	2,000	0
Executive and non-executive positions in Denmark	Chairman of the boards of directors of TDC A/S (until 9 March 2017), TIA Technology A/S, Zebra A/S, and Thor Denmark Holding ApS. Member of the Board of Directors of CP Dyvig & Co. A/S and JP/Politikens Hus A/S. Senior Advisor to EQT Partners.	Chairman of the Board of Directors of Burmeister & Wain Scandinavian Contractor A/S, and State of Green. Member of the boards of directors of Mesco Danmark A/S and Siemens A/S Danmark.	None	None
Executive and non-executive positions outside Denmark	Chairman of the boards of directors of Scandic Hotels AB (Sweden) and Select Service Partner Plc (UK). Vice Chairman of the Board of Directors of Nordic Aviation Capital (Ireland). Member of the boards of directors of Air Canada (Canada), Braganza AS (Norway), CHEP Aerospace (Switzerland), Royal Caribbean Cruises Ltd. (USA), and VFS Global (Switzerland). Senior Advisor to Morgan Stanley.	Chairman of MESG GmbH (Germany). Senior Advisor to the Board of Mitsui Engineering & Shipbuilding Ltd. (Japan).	Chairman of the boards of directors of Power Wind Partners AB (Sweden) and LKAB (Sweden). Vice Chairman of the Board of Directors of SAAB (Sweden). Member of the boards of directors of Stena Metall (Sweden) and Xylem Inc (USA).	None
Experience				
CEO	●	●	●	●
M&A	●	●	●	●
Financing & stock markets	●		●	●
International contracts	●	●	●	●
Accounting	●		●	
Technology management		●		●
Minerals and process industry				●
Building contracting			●	
Cement industry				

BOARD OF **DIRECTORS**

			
Name	Tom Knutzen	Caroline Grégoire Sainte Marie	Richard Robinson Smith
Age	54	59	51
Nationality	Danish	French	German/American
Gender	Male	Female	Male
Member of the Board since	2012 (elected at the AGM). Chairman of the Audit Committee.	2012 (elected at the AGM). Member of the Audit and the Technology Committees.	2016 (elected at the AGM). Member of the Technology Committee.
Number of shares in FLSmidth	12,500	500	1,000
Executive and non-executive positions in Denmark	None	None	None
Executive and non-executive positions outside Denmark	CEO of Jungbunzlauer Suisse AG (Switzerland). Member of the Board of Directors and Chairman of the Audit Committee for Nordea Bank AB (publ) (Sweden).	Member of the boards of directors of Groupama SA (France), Eramet (France), Wienerberger AG (Austria), Look&Fin (Belgium) and CALYOS (Belgium). Founding President of DefInnov (France).	Senior Vice President & General Manager at AGCO Corporation (USA).
Experience			
CEO	●	●	
M&A	●	●	●
Financing & stock markets	●	●	
International contracts	●	●	●
Accounting	●	●	
Technology management	●		●
Minerals and process industry			
Building contracting			
Cement industry		●	

BOARD OF **DIRECTORS**



Name	Mette Dobel	Søren Quistgaard Larsen	Jens Peter Koch
Age	49	38	34
Nationality	Danish	Danish	Danish
Gender	Female	Male	Male
Member of the Board since	2009 (elected by the employees).	2003 (elected by the employees).	2013 (elected by the employees). Member of the Technology Committee.
Number of shares in FLSmidth	864	65	240
Non-executive positions in Denmark	None	None	None
Non-executive positions outside Denmark	None	None	None

GROUP EXECUTIVE **MANAGEMENT**

				
Name	Thomas Schulz	Lars Vestergaard	Bjarne Moltke Hansen	Per Mejnert Kristensen
Title	Group Chief Executive Officer. Employed by FLSmidth since 2013.*)	Group Executive Vice President and CFO. Employed by FLSmidth since 2014.*)	Group Executive Vice President, Product Company Division. Employed by FLSmidth since 1984.	Group Executive Vice President, Cement Division. Employed by FLSmidth since 1992.
Age	51	42	55	49
Nationality	German	Danish	Danish	Danish
Gender	Male	Male	Male	Male
Education	MSc (Engineering), PhD (Mining Engineering with dissertation in Mineral Mining and Quarrying).	MSc (Economics and Management).	BSc (Engineering)	MSc (Mechanical Engineering), BSc (Commerce & International Trade), Graduate Diploma (Bus. Admin.), International Trade and General Management Programme CEDEP (INSEAD).
Number of shares in FLSmidth	4,510	1,341	177	1,705
Past experience	Various managerial positions with Sandvik: Member of Group Executive Management (2011-2013), Chairman of SJL Shan 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).	Various managerial positions with Carlsberg: Vice President and Chief Information Officer (2013-2014), Chief Financial Officer Carlsberg UK (2009-2013), Vice President, Treasury (2005-2009) and Director, Treasury (2004-2005). Various positions with ISS: Vice President, Treasury (2004) and Assistant Treasurer (2000-2003). Fixed Income Analyst, Jyske Bank (1997-2000).	Various managerial positions with FLSmidth: Group Executive Vice President, Customer Services Division, FLSmidth (2002-2015). CEO, Aalborg Portland Holding A/S (2000-2002). CEO, Cembrit Holding A/S (1992-2000). Various managerial positions in Unicon A/S (1984-1995).	Various managerial positions with FLSmidth: Vice President, Head of Project Division EMEA/APAC, FLSmidth (2009-2012), Vice President, Head of Project Division 1, FLSmidth (2005-2008), General Manager, FLSmidth China (2000-2005), Chief Representative, Thailand, FLSmidth (1996-1999).
Non-executive positions	Member of the board of directors of Norsk Hydro ASA (Norway).	None	Member of the board of directors of RMIG A/S (Denmark), Burmeister & Wain Scandinavian Contractor A/S (Denmark) and LKAB (Sweden).	None

*) *Registered with Erhvervsstyrelsen (The Danish Business Authority)*

GROUP EXECUTIVE **MANAGEMENT**



Name	**Brian Day**	**Manfred Schaffer**	**Virve Elisabeth Meesak**
Title	Group Executive Vice President, Customer Services Division. Employed by FLSmidth since 1980.	Group Executive Vice President, Minerals Division. Employed by FLSmidth since 2014.	Group Executive Vice President, Human Resources. Employed by FLSmidth since 2013.
Age	60	58	56
Nationality	American	Austrian	Swedish
Gender	Male	Male	Female
Education	BSc, Sales recruiting and training, Leadership and Business Management.	Mechanical engineering degree, IFL Executive Education, People Development and Business Strategy (IMD).	BSc (Psychology and Behaviourism).
Number of shares in FLSmidth	0	0	500
Past experience	Various managerial positions with FLSmidth: Senior Vice President, Global Customer Services, Minerals (2012-2015), Vice President, Global Customer Services, Minerals (2007-2012). GL&V-Dorr Oliver Eimco, Vice President Aftermarket (2002-2007). Baker Hughes Inc., Aftermarket Manager (1991-2002). EIMCO Process Equipment Company, Product Engineer / Process Engineer (1980-1991).	Group Executive Vice President, Mineral Processing Division, FLSmidth (2014-2015). Various managerial positions with Sandvik: President, Mining Systems (2012-2013) and President, Surface Mining (2006-2012). Voest-Alpine, various managerial positions (1979-2003).	Independent Human Resource consultant (2010-2013). Human Resource Director, Alstom Power Services, North East Europe (2008-2010), Vice President, Human Resources Sandvik Mining and Construction AB (2005-2008). Prior to 2005, held various positions Sales, Marketing, and HR with Ericsson, Nokia, Electrolux, Philips, Perstorp.
Non-executive positions	None	None	None

SHAREHOLDER **INFORMATION**

FLSmidth has a sustainable business model and good growth opportunities. With roughly two-thirds of revenue being generated in emerging markets, an investment in FLSmidth is an investment in the emerging market growth story.

CAPITAL AND SHARE STRUCTURE

FLSmidth & Co. A/S is listed on NASDAQ Copenhagen. The share capital is DKK 1,025m (end of 2015: DKK 1,025m) and the total number of issued shares is 51,250,000 (end of 2015: 51,250,000). Each share entitles the holder to 20 votes. No special rights are attached to any share and there are no restrictions on the transferability of the shares. The FLSmidth & Co. A/S share is included in some 134 Danish, Nordic, European and global share indices.

The company had approximately 39,000 shareholders at the end of 2016 (end of 2015: approximately 44,000). In addition, some 1,500 present and former employees hold shares in the company (end of 2015: some 2,000). The FLSmidth & Co. A/S share has a free-float of around 70%. At the end of 2016, three shareholders had flagged major shareholdings in FLSmidth & Co. A/S. Novo A/S' investment exceeded 15%, Lundbeckfond Invest A/S' investment exceeded 10% and Franklin Resources Inc.'s investment exceeded 5% of the shares in FLSmidth & Co. A/S. FLSmidth's holding of treasury shares at the end of 2016 accounted for 4.4% of the shares.

2016 saw a decrease in the share of foreign investors to approximately 32% (2015: 39%), including Franklin Mutual Advisors, USA, as well as a decrease in the percentage of shares held by Danish institutional investors to 29%, including Lundbeckfond Invest A/S and Novo A/S (2015: 32%). In 2015, FLSmidth's holding of treasury shares was roughly unchanged 4.4% (2015: 4.5%).

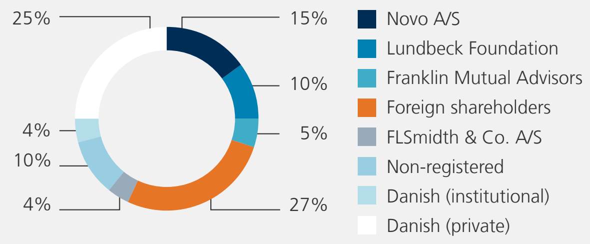
SHARES AND SHARE OPTIONS HELD BY THE BOARD AND MANAGEMENT

The Board of Directors holds a total of 29,670 FLSmidth shares (2015: 27,520 shares). The holdings of the individual members appear the pages 53-57. The registered Group Executive Management holds a total of 5,851 FLSmidth shares (2015: 5,851 shares) and 109,831 share options (2015: 315,667 share options). In total, management and other key staff (309 persons) have been granted 2,587,005 share options (2015: 2,955,571 share options).

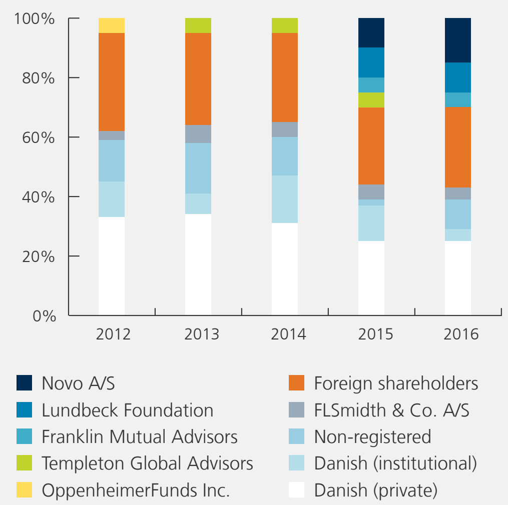
RETURN ON THE FLSMIDTH SHARE IN 2016

The total return on the FLSmidth & Co. A/S share in 2016 was 24% (2015: -9%). By comparison, the leading Danish stock index "OMXC20 CAP" was unchanged and "Dow Jones STOXX 600 Basic Resource" index gained 66% in 2016. The share price started the year at 240 and ended at 293, having ranged between 214 and 297 during the year.

SHAREHOLDER STRUCTURE



HISTORICAL DEVELOPMENT IN SHAREHOLDER STRUCTURE



SHAREHOLDER **INFORMATION**

CAPITAL STRUCTURE AND DIVIDEND FOR 2016

FLSmidth Management takes a conservative approach to capital structure due to the cyclical nature of the business, with the emphasis on relatively low debt, gearing and financial risk.

The Board of Directors' priority for capital structure and capital allocation is the following:
1. Well-capitalized (NIBD/EBITDA < 2)
2. Stable dividends (30-50% of net profit)
3. Invest in organic growth
4. Value-adding M&As
5. Share buyback or special dividend

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 6 per share (2015: DKK 4) corresponding to a dividend yield of 2.0% (2015: 1.7%) and a pay-out ratio of 59% (2015: 49%) be distributed for 2016.

The available capital resources consist of committed credit facilities at a total of DKK 8.3bn (end of 2015: DKK 8.3bn) with a weighted average maturity of 4.0 years (end of 2015: 4.5 years).

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 the FLSmidth & Co. A/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; and
- the shareholder structure is appropriately diversified in terms of geography, investment profile and time horizon.

Share and dividend figures	2012	2013	2014	2015	2016
CFPS (Cash Flow per share), DKK (diluted)	33.0	(3.1)	26.3	11.0	29.5
EPS (earnings per share), DKK (diluted)	25.1	(15.3)	16.4	8.6	10.6
BVPS (Book value per per share), DKK	181	139	158	162	172
DPS (Dividend per share), DKK	9	2	9	4	6
Pay-out ratio (%)	37	n/a	57	49	59
Dividend yield (dividend in pct. of share price, end of year)	2.8	0.7	3.3	1.7	2.0
FLSmidth & Co. A/S share price, end of year, DKK	327.2	296.1	272.3	240.0	293.0
Listed number of shares (1,000), end of year	53,200	53,200	51,250	51,250	51,250
Number of shares excl. own shares (1,000), end of year	51,840	49,460	49,443	48,922	48,974
Average number of shares (1,000) (diluted)	52,233	50,707	49,518	48,996	48,977
Market capitalisation, DKKm	17,407	15,753	13,955	12,300	15,016

SHAREHOLDER **INFORMATION**

To achieve these goals, FLSmidth maintains an open and active dialogue with the stock market both through its corporate website and electronic communication service and via investor presentations, investor meetings, webcasts, teleconferences, roadshows, the Annual General Meeting and capital markets days.

Management and Investor Relations attended some 300 investor meetings and presentations in 2016 (2015: ~350), held in cities including Amsterdam, Boston, Brussels, Copenhagen, Frankfurt, Geneva, Helsinki, London, New York, Oslo, Paris, Stockholm and Zurich.

FLSmidth & Co. A/S is generally categorised as a capital goods, engineering or industrial company and is currently being covered by 15 stockbrokers, of which seven are international.

For further details regarding analyst coverage, see the company website (http://www.FLSmidth.com/analysts).

All investor relations materials are available from the company website (http://www.FLSmidth.com/investor).

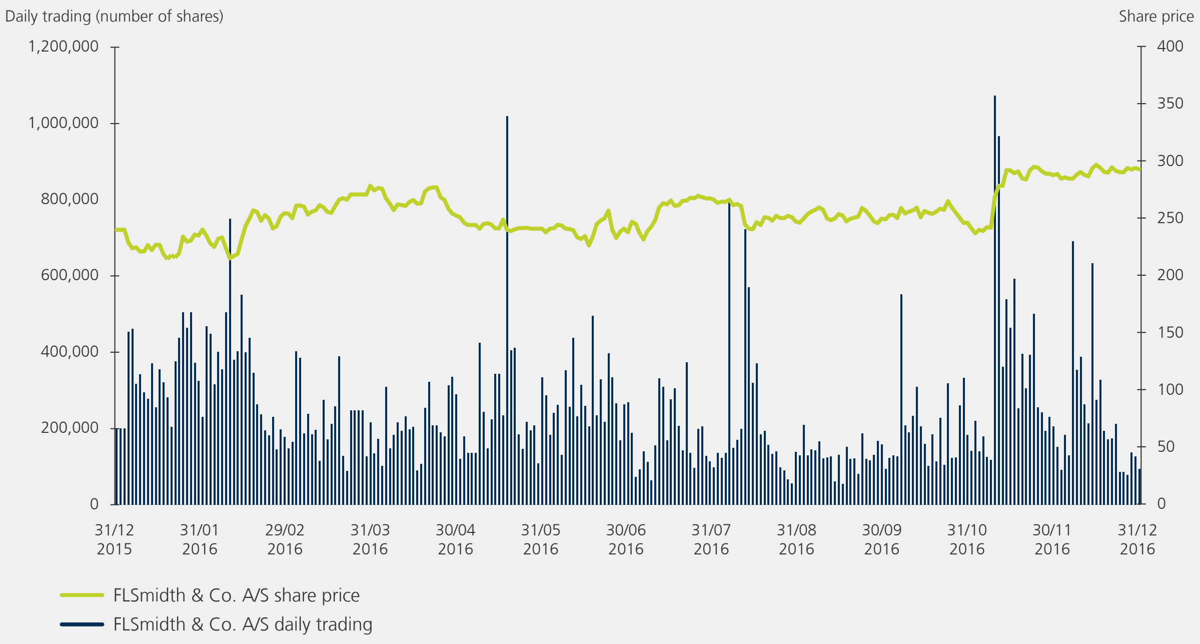
To contact the company's Investor Relations department, please see the company website (http://www.FLSmidth.com/IR_contacts).

FINANCIAL CALENDAR 2017

30 March	Annual General Meeting
9 May	Q1 interim report
21 June	Capital markets day
9 August	Q2 interim report
9 November	Q3 interim report

The Annual General Meeting will be held on 30 March 2017 at 16.00 hours at the Tivoli Congress Center, Arni Magnussons gade 2, DK-1577 Copenhagen.

SHARE PRICE PERFORMANCE AND TRADING IN 2016



COMPANY
ANNOUNCEMENTS 2016

DATE	DESCRIPTION	NO.
21-Jan	**Large shareholder announcement** Novo A/S holds 15.02% of nominal share capital	**1/2016**
31-Jan	**FLSmidth receives 5-year O&M contract** Third contract from Egyptian cement producer	**2/2016**
2-Feb	**Large shareholder announcement** Morgan Stanley controls 6.43% of voting rights	**3/2016**
5-Feb	**Large shareholder announcement** Morgan Stanley controls less than 5% of voting rights	**4/2016**
8-Feb	**FLSmidth receives large cement order in Algeria** EPC contract worth more than EUR 200m	**5/2016**
11-Feb	**Annual Report for FLSmidth & Co. A/S** Annual Report 2015	**6/2016**
1-Mar	**Long-term incentive programme and structural change to Executive Management** Allocation of performance shares and management change	**7/2016**
8-Mar	**Notice of Annual General Meeting of FLSmidth & Co. A/S** Notice of Annual General Meeting 2016	**8/2016**
5-Apr	**Summary of FLSmidth & Co. A/S Annual General Meeting** Summary of Annual General Meeting 2016	**9/2016**
18-May	**Interim Report for the period 1 January – 31 March 2016** Q1 2016 Interim Report	**10/2016**
18-May	**FLSmidth to supply material handling equipment to Russian port** EPS contract worth more than EUR 160m	**11/2016**
16-Jun	**FLSmidth receives cement order in Vietnam** DKK 255m cement order in Vietnam	**12/2016**
7-Jul	**Change in communication policy regarding new orders** No monetary threshold for disclosing orders in future	**13/2016**
28-Jul	**Large shareholder announcement** Templeton Global advisers holds less than 5% of shares	**14/2016**
11-Aug	**Interim Report for the period 1 January – 30 June 2016** Q2 2016 Interim Report	**15/2016**
5-Oct	**Large shareholder announcement** Transfer of shares between Lundbeckfonden and Lundbeckfond Invest A/S	**16/2016**
2-Nov	**FLSmidth has signed a large cement contract in Iraq** Contract is subject to receipt of down-payment, etc.	**17/2016**
9-Nov	**Interim Report for the period 1 January – 30 September 2016** Q3 2016 Interim Report	**18/2016**
9-Nov	**Financial Calendar 2017** Financial calendar 2017	**19/2016**

STATEMENT BY MANAGEMENT **ON THE ANNUAL REPORT**

The Board of Directors and the Executive Board have today considered and approved the annual report for the financial year 1 January – 31 December 2016.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU. The parent financial statements are presented in accordance with the Danish Financial Statements Act. Further, the annual report is prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2016 as well as of the results of their operations and the consolidated cash flows for the financial year 1 January – 31 December 2016.

In our opinion, the management's review contains a fair review of the development of the Group's and the Parent's business and financial matters, the results for the year and of the Parent's financial position and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the Parent face.

We recommend the annual report for adoption at the Annual General Meeting. ■

Copenhagen 9 February 2017

EXECUTIVE MANAGEMENT

Thomas Schulz
Group Chief Executive Officer

Lars Vestergaard
Group Executive Vice President and CFO

BOARD OF DIRECTORS

Vagn Sørensen
Chairman

Torkil Bentzen
Vice chairman

Marius Jacques Kloppers

Sten Jakobsson

Tom Knutzen

Caroline Grégoire Sainte Marie

Richard Robinson Smith

Mette Dobel

Søren Quistgaard Larsen

Jens Peter Koch

INDEPENDENT **AUDITOR'S REPORTS**

TO THE SHAREHOLDERS OF FLSMIDTH & CO. A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of FLSmidth & Co. A/S for the financial year 1 January – 31 December 2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting estimates and policies, for the Group as well as the Parent, and the consolidated cash flow statement and the consolidated statement of other comprehensive income. 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 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 Group's financial position at 31 December 2016 and of its financial performance and cash flows for the financial year 1 January - 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Also, in our opinion, the parent financial statements give a true and fair view of the financial position of the Parent at 31 December 2016 and of its financial performance for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing 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 financial statements section of this auditor's report. We are independent of the Group in accordance with the IESBA Code of Ethics for Professional Accountants and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January - 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

VALUATION AND RECOGNITION OF WORK IN PROGRESS

Refer to chapter 1 and notes 2.1, 2.4 and 4.2 to the consolidated financial statements

Significant judgements are required by Management in determining stage of completion and estimation of profit on each project, including assessment of specific project risks. Specific project risks include disputes with customers and contingencies relating to e.g. technical, operational and country issues, especially relating to contracts classified by Management as risky, such as certain operation and maintenance contracts and contracts in oil producing countries. Minor changes in the stage of completion and specific project risks can have a significant impact on the valuation and recognition of work in progress and income for the year.

Accordingly, valuation and recognition of work in progress is considered to be a key audit matter.

How the matter was addressed in the audit

Based on our risk assessment, we have assessed the relevant internal controls for work in progress primarily relating to contract acceptance, change orders, monitoring of project development, costs incurred and estimation of costs to complete and assessment of specific project risks.

We obtained from Management overviews of the Group's contracts in progress at 31 December 2016. Based on assessed project risk and materiality, we selected a sample of contracts where we obtained the underlying contracts, including change orders, original budgets and any changes made to original budgets, including estimates of costs to complete, project reports and overview of identified specific project risks and contingencies, where deemed relevant by us.

For the selected contracts, we assessed and challenged Management's assumptions for determining stage of completion with due consideration to its assessment of project risks and contingencies and estimated profit through interviews with project controllers, project management, legal department and management representatives as well as our understanding and assessment of the contract terms, associated project risks, including valuation of change orders under discussion with customers and final acceptance. Additionally, we attended project meetings where the project performance, cost to complete and project risks, including likelihood of the risks materialising, were discussed and assessed in details. Furthermore, we performed retrospective reviews of completed contracts, including assessment of outcome of project risks and contingencies to assess the completeness and accuracy of Management's assumptions applied throughout the contract period.

INDEPENDENT **AUDITOR'S REPORTS**

VALUATION OF TRADE RECEIVABLES

Refer to chapter 1 and note 4.4 to the consolidated financial statements

The determination of the recoverable amount from trade receivables is based on an assessment of ageing of the receivables as well as specific characteristics and circumstances of the customer, e.g. ability to pay, access to securities and payment guarantees provided on behalf of the customer by third parties, possibility to offset assets against claims, as well as country-specific matters. Significant judgement is required by Management in determining the recoverable amount, including assessment of customer credit worthiness, customer payment patterns and plans and current economic trends especially relating to trade receivables from customers in challenged financial situations and markets with liquidity limitations, e.g. parts of Africa and the Middle East.

Accordingly, valuation of trade receivables is considered to be a key audit matter.

How the matter was addressed in the audit

Based on our risk assessment, we have assessed the relevant internal controls for determining the recoverable amount for trade receivables, primarily relating to dunning, monitoring of ageing and credit risk management procedures. In addition, we performed detailed substantive testing on a sample of trade receivables at 31 December 2016, assessing the valuation through the ageing compared to time of invoicing, subsequent payments and customer-specific circumstances as well as our understanding of the project management, invoicing and collection processes.

We assessed and challenged Management's ageing and recoverability analyses of trade receivables and the underlying process by which they were prepared, including the mathematical accuracy and assumptions of the recoverability model, including, interviews with local managements, who are the most knowledgeable of the customers. We evaluated the appropriateness of the recoverability model in the light of historical accuracy and retrospective review of such model and the current trend of payment patterns by business division.

We further assessed the reasonableness of Management's customer-specific analyses based on customer circumstances as well as current economic trends, especially in parts of Africa and the Middle East. We assessed and challenged Management's assumptions for expecting future payments from customers, including its assessment of customer credit worthiness with due consideration to security received or guarantees provided by third parties, agreed payment plans and adherence hereto.

PROVISIONS FOR WARRANTIES, LOSS-MAKING CONTRACTS, LEGAL CASES AND TAX RISKS

Refer to chapter 1 and note 4.8 to the consolidated financial statements

Provisions for warranties, loss-making contracts and legal cases are – among other things – measured on the basis of empirical information covering several years, legal opinions for legal cases and expected future warranties etc., which by nature are uncertain. Significant judgement is required by Management in determining provisions.

Tax provisions in respect of a number of uncertain tax positions are measured on the basis of Management's assessment. Significant judgement is required by Management in assessing the risks relating to these tax positions.

Accordingly, provisions for warranties, loss-making contracts, legal cases and tax risks are considered to be a key audit matter.

How the matter was addressed in the audit

Based on our risk assessment, we have assessed the relevant internal controls and procedures for provisions relating to warranties in respect of projects, goods or services delivered. In addition, we selected a sample of provisions at 31 December 2016 where we obtained the underlying empirical information and assessments of the related provisions. For the selected provisions, we assessed and challenged Management's assessment of the underlying empirical information, ageing of warranty period and internal and external assessments through interviews with group functions, project management and legal department as well as our understanding and assessment of the contract terms, associated project risks and external legal confirmations.

We assessed the relevant internal controls for Management's assessment of uncertain tax positions and we obtained and evaluated Management's overview and assessment of uncertain tax positions. We have utilised international tax specialists to assist us in the evaluation and challenge of the assumptions and estimates in relation to the level of provision recognised for uncertain tax positions. We have corroborated the movements in these provisions during the year, and the closing balances against our expectations.

Furthermore, we obtained from Management an overview of the Group's risky projects and ongoing legal cases supplemented by our understanding of ongoing projects and cases, which we compared to the recognised provisions for warranties and legal cases evaluating the completeness hereof.

INDEPENDENT **AUDITOR'S REPORTS**

CARRYING VALUE OF GOODWILL AND OTHER INTANGIBLE ASSETS

Refer to chapter 1 and notes 4.5 and 4.7 to the consolidated financial statements

The current trough in the macroeconomics related to minerals has prolonged the cyclical downturn of the industry and postponed the expected increased growth. The determination of recoverable amount for the Cash-generating units was based on the value-in-use derived from future free net cash flow based on budgets and the strategy for the coming six years and cash flows from the terminal period. Significant judgement is required by Management in determining value-in-use, including free cash flow projections based on financial budgets for 2017 and financial forecasts for 2018-2022, discount rate and growth rate in the terminal period.

Accordingly, the carrying value of goodwill and other intangible assets considered to have indefinite useful life relating to Cash-generating units is considered to be a key audit matter.

How the matter was addressed in the audit

Based on our risk assessment, we have obtained and evaluated Management's determination of future cash flow forecasts for the Cash-generating units, and the underlying process by which they were drawn up, including the mathematical accuracy of the cash flow model and agreeing future growth, investment and margin assumptions to the latest Board approved budget and financial forecasts. We used our valuation specialist to assist us in evaluating the appropriateness of key market-related assumptions in Management's valuation model, including discount rates and terminal growth rates. We assessed the reasonableness of Management's future forecasts of growth, investment and margin included in the cash flow forecasts in the light of the historical accuracy of such forecasts and the current operational results.

In assessing the level of headroom in the value-in-use calculations for the Cash-generating units, we performed a downside sensitivity analysis around the key assumptions, using a range of higher discount rates and lower terminal growth rates.

VALUATION OF DEFERRED TAX ASSETS

Refer to chapter 1 and note 2.5 to the consolidated financial statements

The valuation of deferred tax asset is determined based on the recoverable value of the part of deductible temporary tax differences expected to be utilised within a foreseeable future as well as the expected release of the timing-related differences. Significant judgement is required by Management in determining the recoverable value, including projections of future taxable income, based on financial budgets for 2017 and financial forecasts, especially for the US where future operating results are subject to high uncertainty.

Accordingly, the valuation of deferred tax assets is considered to be a key audit matter.

How the matter was addressed in the audit

Based on our risk assessment, in assessing the valuation of deferred tax assets, we have obtained and evaluated Management's expectations of generating future taxable profits in the foreseeable future, and the underlying process by which they were drawn up, including the mathematical accuracy of the models and agreeing future growth and margin assumptions to the latest Group Executive Management approved budget and financial forecasts as well as the expected related utilisation of deductible temporary tax differences. We assessed the reasonableness of Management's determination of expected future taxable profits in the light of the historical accuracy of such forecasts and the current operational results in the US.

In assessing the level of headroom, we performed a downside sensitivity analysis around the key assumptions, by using a range of lower growth rates and margin.

INDEPENDENT **AUDITOR'S REPORTS**

STATEMENT ON THE MANAGEMENT'S REVIEW

Management is responsible for the management's review

Our opinion on the consolidated financial statements and the parent 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 consolidated financial statements and the parent 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 consolidated financial statements and the parent financial statements or our knowledge obtained in 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 consolidated financial statements and the parent 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 consolidated financial statements and the parent 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 financial statements that give a true and fair view in accordance with the Danish Financial Statements Act.

Management is also responsible for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 International Standards on Auditing and the additional requirements applicable in Denmark will always detect a material misstatement when it exits. 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 these consolidated financial statements and these parent financial statements.

As part of an audit conducted in accordance with International Standards on Auditing and the 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 consolidated financial statements and the parent 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

INDEPENDENT **AUDITOR'S REPORTS**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent'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 the preparation of the consolidated financial statements and the parent 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'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 consolidated financial statements and the parent 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 to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent 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 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, 9 February 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Anders Vad Dons
State-Authorised
Public Accountant

Lars Siggaard Hansen
State-Authorised
Public Accountant

QUARTERLY
KEY FIGURES (UNAUDITED)

DKKm	2014	2015				2016			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
INCOME STATEMENT									
Revenue	**5,627**	**4,683**	**5,093**	**4,609**	**5,297**	**3,758**	**4,135**	**4,774**	**5,525**
Gross profit	1,265	1,190	1,327	1,174	1,255	1,038	1,078	1,164	1,301
SG&A	(772)	(718)	(815)	(743)	(792)	(726)	(738)	(743)	(786)
EBITDA	493	472	512	431	463	312	340	421	515
Special non-recurring items	2	0	2	(1)	(6)	0	0	(9)	(21)
Depreciation and impairment of tangible assets	(76)	(72)	(74)	(72)	(73)	(66)	(67)	(68)	(68)
EBITA	419	400	440	358	384	246	273	344	426
Amortisation and impairment of intangible assets	(145)	(104)	(119)	(113)	(105)	(93)	(96)	(101)	(118)
EBIT	274	296	321	245	279	153	177	243	308
Financial income/costs, net	67	(18)	30	(93)	(175)	(38)	(32)	14	2
EBT	341	278	351	152	104	115	145	257	310
Tax for the period	(155)	(82)	(113)	(47)	(40)	(36)	(45)	(70)	(86)
Profit/(loss) on continuing activities for the period	**186**	**196**	**238**	**105**	**64**	**79**	**100**	**187**	**224**
Profit/loss on discontinued activities for the period	60	76	(24)	(189)	(41)	(6)	(3)	(17)	(42)
Profit/(loss) for the period	246	272	214	(84)	23	73	97	170	182
Effect of purchase price allocations	(76)	(71)	(71)	(71)	(71)	(60)	(60)	(60)	(60)
Gross margin	*22.5%*	*25.4%*	*26.1%*	*25.5%*	*23.7%*	*27.6%*	*26.1%*	*24.4%*	*23.5%*
EBITDA margin	*8.8%*	*10.1%*	*10.1%*	*9.4%*	*8.7%*	*8.3%*	*8.2%*	*8.8%*	*9.3%*
EBITA margin	*7.4%*	*8.5%*	*8.6%*	*7.8%*	*7.2%*	*6.5%*	*6.6%*	*7.2%*	*7.7%*
EBIT margin	*4.9%*	*6.3%*	*6.3%*	*5.3%*	*5.3%*	*4.1%*	*4.3%*	*5.1%*	*5.6%*
Cash flow									
CFFO	739	(45)	(61)	496	148	(60)	155	744	608
CFFI	(217)	760	(44)	14	20	(12)	(95)	(43)	(44)
Orders									
Order intake, continuing activities	3,734	4,440	5,208	5,151	3,691	5,281	4,345	4,133	4,544
Order backlog, continuing activities	17,726	17,562	16,932	16,666	14,858	15,792	15,914	15,174	13,887
SEGMENT REPORTING									
Customer Services									
Revenue	1,938	1,768	1,813	1,793	1,920	1,568	1,531	1,670	1,786
Gross profit before allocation of shared cost	456	472	582	539	611	507	506	500	557
EBITA before allocation of shared cost	381	310	407	356	445	343	343	335	354
EBITA	197	173	266	233	279	197	205	191	223
EBIT	150	135	223	192	240	161	169	150	167
Gross margin before allocation of shared cost	*23.5%*	*26.7%*	*32.1%*	*30.1%*	*31.8%*	*32.3%*	*33.1%*	*29.9%*	*31.2%*
EBITA margin before allocation of shared cost	*19.7%*	*17.5%*	*22.4%*	*19.9%*	*23.1%*	*21.9%*	*22.4%*	*20.1%*	*19.8%*
EBITA margin	*10.2%*	*9.8%*	*14.7%*	*13.0%*	*14.5%*	*12.6%*	*13.4%*	*11.4%*	*12.5%*
EBIT margin	*7.7%*	*7.6%*	*12.3%*	*10.7%*	*12.5%*	*10.3%*	*11.0%*	*9.0%*	*9.4%*
Order intake (gross)	1,580	1,796	1,733	1,526	1,655	1,566	1,597	1,820	1,616
Order backlog	3,575	2,783	3,003	2,725	2,469	2,399	2,405	2,483	2,388
Product Companies									
Revenue	1,451	1,371	1,531	1,336	1,473	1,078	1,268	1,354	1,315
Gross profit before allocation of shared cost	394	440	461	407	451	356	395	417	440
EBITA before allocation of shared cost	293	313	331	278	322	228	252	261	286
EBITA	138	200	211	161	184	109	139	161	151
EBIT	119	182	198	143	166	86	103	146	125
Gross margin before allocation of shared cost	*27.1%*	*32.1%*	*30.1%*	*30.5%*	*30.6%*	*33.0%*	*31.1%*	*30.8%*	*33.4%*
EBITA margin before allocation of shared cost	*20.2%*	*22.8%*	*21.6%*	*20.8%*	*21.9%*	*21.2%*	*19.9%*	*19.3%*	*21.8%*
EBITA margin	*9.5%*	*14.6%*	*13.8%*	*12.0%*	*12.5%*	*10.1%*	*11.0%*	*11.9%*	*11.5%*
EBIT margin	*8.2%*	*13.3%*	*12.9%*	*10.7%*	*11.3%*	*7.9%*	*8.1%*	*10.7%*	*9.5%*
Order intake (gross)	1,194	1,580	1,431	1,479	1,252	1,406	1,165	1,317	1,438
Order backlog	2,667	3,291	2,887	2,864	2,536	2,823	2,729	2,681	2,807

QUARTERLY **KEY FIGURES** (UNAUDITED)

DKKm	2014	2015				2016			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Minerals									
Revenue	1,407	822	812	816	1,126	698	680	727	1,080
Gross profit before allocation of shared cost	308	151	144	148	184	132	91	128	179
EBITA before allocation of shared cost	123	62	(19)	44	59	48	(9)	42	114
EBITA	17	(39)	(127)	(60)	(32)	(35)	(92)	(37)	29
EBIT	(50)	(78)	(174)	(102)	(70)	(62)	(108)	(75)	2
Gross margin before allocation of shared cost	*21.9%*	*18.4%*	*17.7%*	*18.2%*	*16.4%*	*18.9%*	*13.5%*	*17.6%*	*16.6%*
EBITA margin before allocation of shared cost	*8.8%*	*7.5%*	*-2.3%*	*5.4%*	*5.2%*	*6.9%*	*-1.3%*	*5.8%*	*10.5%*
EBITA margin	*1.2%*	*-4.7%*	*-15.6%*	*-7.4%*	*-2.8%*	*-5.0%*	*-13.4%*	*-5.3%*	*2.7%*
EBIT margin	*-3.6%*	*-9.5%*	*-21.4%*	*-12.5%*	*-6.3%*	*-8.8%*	*-15.8%*	*-10.4%*	*0.2%*
Order intake (gross)	604	851	1,057	1,574	630	443	972	579	685
Order backlog	4,298	4,746	4,806	5,138	4,614	4,229	4,478	4,244	3,988
Cement									
Revenue	1,098	951	1,183	792	985	562	916	1,269	1,539
Gross profit before allocation of shared cost	230	181	209	135	106	104	142	169	175
EBITA before allocation of shared cost	148	132	165	83	29	45	81	93	77
EBITA	64	47	79	2	(29)	(21)	15	27	7
EBIT	52	38	63	(10)	(39)	(28)	7	20	(2)
Gross margin before allocation of shared cost	*20.9%*	*19.0%*	*17.7%*	*17.1%*	*10.7%*	*18.5%*	*15.5%*	*13.3%*	*11.4%*
EBITA margin before allocation of shared cost	*13.5%*	*13.9%*	*13.9%*	*10.5%*	*2.8%*	*7.9%*	*8.8%*	*7.2%*	*5.0%*
EBITA margin	*5.8%*	*4.9%*	*6.7%*	*0.3%*	*-3.0%*	*-3.7%*	*1.5%*	*2.1%*	*0.4%*
EBIT margin	*4.7%*	*4.0%*	*5.3%*	*-1.3%*	*-3.9%*	*-5.0%*	*0.7%*	*1.6%*	*-0.2%*
Order intake (gross)	547	438	1,289	680	396	2,082	805	663	1,026
Order backlog	7,768	7,331	6,883	6,529	5,852	7,016	6,962	6,382	5,349

Calculations of margins are based on non-rounded figures.

FLSMIDTH
ANNUAL REPORT 2016

Consolidated **Financial statements**

CONTENTS

PRIMARY STATEMENTS

LIST OF NOTES

CONSOLIDATED FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS

CONSOLIDATED
INCOME STATEMENT

Notes	DKKm	2016	2015
2.1+2.4	Revenue	18,192	19,682
	Production costs	(13,611)	(14,736)
	Gross profit	**4,581**	**4,946**
	Sales costs	(1,463)	(1,480)
	Administrative costs	(1,560)	(1,654)
	Other operating items	30	66
	EBITDA	**1,588**	**1,878**
7.2	Special non-recurring items	(30)	(5)
4.6	Depreciations of tangible assets	(269)	(291)
	EBITA	**1,289**	**1,582**
4.5	Amortisations of intangible assets	(408)	(441)
	EBIT	**881**	**1,141**
5.2	Financial income	1,203	1,652
5.2	Financial costs	(1,257)	(1,908)
	EBT	**827**	**885**
2.5	Tax for the year	(237)	(282)
	Profit/(loss) for the year, continuing activities	**590**	**603**
7.6	Profit/(loss) for the year, discontinued activities	(68)	(178)
	Profit/(loss) for the year	**522**	**425**
	To be distributed as follows:		
	FLSmidth & Co. A/S' shareholders' share of profit/(loss) for the year	518	421
	Minority shareholders' share of profit/(loss) for the year	4	4
		522	**425**
7.1	Earnings per share (EPS):		
	Continuing and discontinued activities per share	10.6	8.6
	Continuing and discontinued activities, diluted, per share	10.6	8.6
	Continuing activities per share	12.0	12.3
	Continuing activities, diluted, per share	12.0	12.3

CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME

Notes	DKKm	2016	2015
	Profit/(loss) for the year	522	425
	Other comprehensive income for the year		
	Items that will not be reclassified to profit or loss		
	Actuarial gains/(losses) on defined benefit plans	(28)	(16)
2.5	Tax on items that will not be reclassified to profit or loss	(15)	3
	Items that are or may be reclassified subsequently to profit or loss		
	Foreign exchange adjustments regarding enterprises abroad	166	73
	Foreign exchange adjustments of loans classified as equity in enterprises abroad	0	206
	Value adjustments of hedging instruments:		
	Value adjustments for the year	84	(85)
	Value adjustments transferred to work-in-progress	(89)	4
	Value adjustments transferred to production costs	0	86
	Value adjustments transferred to financial income and costs	(1)	(48)
	Value adjustments transferred to other operating items	0	0
2.5	Tax on items that are or may be reclassified subsequently to profit or loss	(14)	(35)
	Other comprehensive income for the year after tax	**103**	**188**
	Comprehensive income for the year	**625**	**613**
	Comprehensive income for the year attributable to:		
	FLSmidth & Co. A/S' shareholders' share of comprehensive income for the year	617	612
	Minority shareholders' share of comprehensive income for the year	8	1
		625	**613**

CONSOLIDATED
CASH FLOW STATEMENT

DKKm		2016	2015
Notes			
	EBITDA, continuing activities	1,588	1,878
	EBITDA, discontinued activities	(63)	(289)
	EBITDA	**1,525**	**1,589**
	Adjustment for gain/(losses) on sale of tangible and intangible assets and special non-recurring items etc.	16	2
	Adjusted EBITDA	**1,541**	**1,591**
3.2	Change in provisions	(109)	68
3.1	Change in net working capital	526	(733)
	Cash flow from operating activities before financial items and tax	**1,958**	**926**
3.3	Financial items received and paid	(70)	(50)
2.5	Taxes paid	(441)	(338)
	Cash flow from operating activities	**1,447**	**538**
4.5	Acquisition of intangible assets	(59)	(72)
4.6	Acquisition of tangible assets	(203)	(139)
	Acquisition of financial assets	(1)	(2)
7.5	Disposal of enterprises and activities	0	873
	Disposal of intangible assets	0	7
	Disposal of tangible assets	60	82
	Disposal of financial assets	9	1
	Cash flow from investing activities	**(194)**	**750**
	Dividend paid	(197)	(446)
	Acquisition of treasury shares	(1)	(6)
	Disposal of treasury shares	14	23
3.4	Change in net interest-bearing debt	(689)	(707)
	Cash flow from financing activities	**(873)**	**(1,136)**
	Change in cash and cash equivalents	**380**	**152**
5.4	Cash and cash equivalents at 1 January	1,157	1,021
	Foreign exchange adjustment, cash and cash equivalents	(24)	(16)
	Cash and cash equivalents at 31 December	**1,513**	**1,157**
7.7	Cash and cash equivalents included in assets held for sale	65	34
5.4	Cash and cash equivalents	1,448	1,123
	Cash and cash equivalents at 31 December	**1,513**	**1,157**

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

CONSOLIDATED
BALANCE SHEET

Assets

Notes	DKKm	2016	2015
	Goodwill	4,493	4,362
	Patents and rights	1,226	1,335
	Customer relations	1,007	1,102
	Other intangible assets	63	53
	Completed development projects	201	281
	Intangible assets under development	325	345
4.5	**Intangible assets**	**7,315**	**7,478**
	Land and buildings	1,823	1,723
	Plant and machinery	566	678
	Operating equipment, fixtures and fittings	133	169
	Tangible assets in course of construction	29	52
4.6	**Tangible assets**	**2,551**	**2,622**
5.7	Other securities and investments	170	125
2.5	Deferred tax assets	1,117	1,096
	Financial assets	**1,287**	**1,221**
	Total non-current assets	**11,153**	**11,321**
4.3	**Inventories**	**2,355**	**2,445**
4.4	Trade receivables	4,533	4,884
4.2	Work-in-progress for third parties	2,426	2,526
	Prepayments to subcontractors	544	347
4.4	Other receivables	1,191	1,076
	Receivables	**8,694**	**8,833**
5.4	**Cash and cash equivalents**	**1,448**	**1,123**
7.7	**Assets classified as held for sale**	**462**	**640**
	Total current assets	**12,959**	**13,041**
	TOTAL ASSETS	**24,112**	**24,362**

CONSOLIDATED **BALANCE SHEET**

Equity and liabilities

Notes	DKKm	2016	2015
	Share capital	1,025	1,025
	Foreign exchange adjustments	112	(50)
	Value adjustments of hedging transactions	(112)	(106)
	Retained earnings	7,089	6,873
	Proposed dividend	307	205
	FLSmidth & Co. A/S' shareholders' share of equity	**8,421**	**7,947**
	Minority shareholders' share of equity	41	35
	Total equity	**8,462**	**7,982**
2.5+5.1	Deferred tax liabilities	379	380
5.1+7.4	Pension liabilities	296	278
4.8+5.1	Other provisions	349	509
5.1+5.4	Bank loans and mortgage debt	3,930	4,791
5.1	Prepayments from customers	90	120
5.1	Other liabilities	140	150
	Long-term liabilities	**5,184**	**6,228**
7.4	Pension liabilities	9	5
4.8	Other provisions	1,101	1,047
5.4	Bank loans	20	87
	Prepayments from customers	1,424	1,147
4.2	Work-in-progress for third parties	2,093	2,453
	Trade payables	3,037	2,546
	Current tax liabilities	351	411
	Other liabilities	1,828	1,915
	Short-term liabilities	**9,863**	**9,611**
7.7	**Liabilities directly associated with assets classified as held for sale**	**603**	**541**
	Total liabilities	**15,650**	**16,380**
	TOTAL EQUITY AND LIABILITIES	**24,112**	**24,362**

CONSOLIDATED **EQUITY 2016**

DKKm	Share capital	Foreign exchange adjustments	Value adjustments of hedging transactions	Retained earnings	Proposed dividend	FLSmidth & Co. A/S' shareholders' share of equity	Minority shareholders' share of equity	Total
Equity at 1 January 2016	**1,025**	**(50)**	**(106)**	**6,873**	**205**	**7,947**	**35**	**7,982**
Comprehensive income for the year								
Profit/(loss) for the year				518		518	4	522
Other comprehensive income								
Actuarial gains/losses on defined benefit plans				(28)		(28)		(28)
Foreign exchange adjustments regarding enterprises abroad		162				162	4	166
Value adjustments of hedging instruments:								
Value adjustments for the year			84			84		84
Value adjustments transfer-red to work- in-progress			(89)			(89)		(89)
Value adjustments transferred to financial income and costs			(1)			(1)		(1)
Tax on other comprehensive income				(29)		(29)		(29)
Other comprehensive income total	**0**	**162**	**(6)**	**(57)**	**0**	**99**	**4**	**103**
Comprehensive income for the year	**0**	**162**	**(6)**	**461**	**0**	**617**	**8**	**625**
Dividend distributed					(195)	(195)	(2)	(197)
Dividend treasury shares				10	(10)	0		0
Proposed dividend				(307)	307	0		0
Share-based payment, share options				39		39		39
Disposal treasury shares				14		14		14
Acquisition treasury shares				(1)		(1)		(1)
Equity at 31 December 2016	**1,025**	**112**	**(112)**	**7,089**	**307**	**8,421**	**41**	**8,462**

Dividend distributed in 2016 equalled to DKK 4 per share (2015: DKK 9).
Proposed dividend for 2016 amounts to DKK 6 per share (2015: DKK 4).

CONSOLIDATED
EQUITY 2015

DKKm	Share capital	Foreign exchange adjustments	Value adjustments of hedging transactions	Retained earnings	Proposed dividend	FLSmidth & Co. A/S' shareholders' share of equity	Minority shareholders' share of equity	Total
Equity at 1 January 2015	**1,025**	**(332)**	**(63)**	**6,629**	**461**	**7,720**	**41**	**7,761**
Comprehensive income for the year								
Profit/(loss) for the year				421		421	4	425
Other comprehensive income								
Actuarial gains/losses on defined benefit plans				(16)		(16)		(16)
Foreign exchange adjustments regarding enterprises abroad		76				76	(3)	73
Foreign exchange adjustments of loans classified as equity in enterprises abroad		206				206		206
Value adjustments of hedging instruments:								
Value adjustments for the year			(85)			(85)		(85)
Value adjustments transferred to work- in-progress			4			4		4
Value adjustments transferred to production costs			86			86		86
Value adjustments transferred to financial income and costs			(48)			(48)		(48)
Tax on other comprehensive income				(32)		(32)		(32)
Other comprehensive income total	**0**	**282**	**(43)**	**(48)**	**0**	**191**	**(3)**	**188**
Comprehensive income for the year	**0**	**282**	**(43)**	**373**	**0**	**612**	**1**	**613**
Dividend distributed					(439)	(439)	(7)	(446)
Dividend treasury shares				22	(22)	0		0
Share-based payment, share options				37		37		37
Proposed dividend				(205)	205	0		0
Disposal treasury shares				23		23		23
Acquisition treasury shares				(6)		(6)		(6)
Equity at 31 December 2015	**1,025**	**(50)**	**(106)**	**6,873**	**205**	**7,947**	**35**	**7,982**

Dividend distributed in 2015 equalled to DKK 9 per share (2014: DKK 2).
Proposed dividend for 2015 amounted to DKK 4 per share (2014: DKK 9).

CHAPTER 1
SIGNIFICANT ACCOUNTING ESTIMATES

Significant accounting estimates and assessments by Management

The preparation of the Annual Report requires that Management makes accounting estimates, assumptions and judgments to complex areas of accounting that can have a significant effect on the amounts recognized in the consolidated financial statements when applying the Group´s accounting policies. As a consequence of the complex nature and the significant effect to the report, these areas have high attention of the Management through-out the year.

		Certainty of the estimates and assessments
Revenue in work-in-progress for third parties	Estimates regarding revenue when applying the percentage of completion method are associated with a high degree of uncertainty due to the complex nature of the project and the parameters that are part of the assessment. Total expected costs related to work-in-progress for third parties are partly based on estimates, as they include provisions for unforeseen cost deviation and future warranty claims. Furthermore, major projects are executed in parts of the world where macro-economic and political factors could materially impact the estimates and subsequently the recognition of revenue. **Mitigation:** Management and highly skilled key personnel are performing continues evaluation of estimates based on direct supervision of each project. The evaluation is done taking all contractual obligations into account combined with cross-functional support from the entire group.	
Trade receivables	Estimates are applied when management determines the level of receivables recoverbility. **Mitigation:** Management analyses trade receivables individually on an ongoing basis including: • Evaluation of the customer´s ability to pay • Ageing of the receivable • Possibility to offset assets against accounts receivables • Access to other securities	
Provisions	Estimates are applied determining the need of provisions including assessment of project related risks, warranty claims and legal cases. **Mitigation:** Provisions for warranty claims are estimated on a project-by-project basis based on historical realised cost related to claims in the past. The provision covers estimated own costs of completion, subsequent warranty supplies and unsettled claims from customers or subcontractors. 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. The cost of loss-making projects covering projects expected to result in a loss, are assessed by Management and highly skilled key personnel.	
Inventories	Estimates are applied in assessing net realisable values of inventories. **Mitigation:** Management assessment of net reliable value of inventories is performed items by item including: • Test for slow moving inventory • Test for aging of inventory • Assessment of expected market (pricing and market potential) • Assessment of strategic inventory items	

	Very limited impact from management assumptions and judgements
	Limited impact from management assumptions and judgements
	Impact from management assumptions and judgements
	High impact from management assumptions and judgements

CHAPTER 1
SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

		Certainty of the estimates and assessments
Deferred tax assets and liabilities	Estimates are applied in valuation of deferred tax assets and liabilities. **Mitigation:** Management assess whether it is likely that there will be taxable income in the future against which timing differences or tax losses carry forwards may be used. For this purpose, management estimates the coming year´s earnings based on budgets.	
Tangible assets	Estimates are applied in assessing the value in use of tangible assets. **Mitigation:** Management estimates useful life and residual value of individual assets. Management continuously monitors whether any write downs should be recognised due to the carrying amount being higher than the recoverable amount.	
Intangible assets/ impairment test	Estimates are applied in assessing the value in use of intangible assets. **Mitigation:** Intangible assets with an indefinite useful life and intangible assets not yet available for use are not subject to amortisation but are tested annually for impairment, irrespective of whether there is any indication that they may be impaired. Development projects are also tested for impairment at least once a year. Assets that are subject to amortisation, such as intangible assets in use or 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 considered material 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	
Pension assets	Estimates are applied in assessing the Group´s pension assets and liabilities. **Mitigation:** The actuarial assessments are based on several assumptions made by Management regarding the benefit plan: • Discount rate • Inflation • Mortality	

For further description regarding mitigation of descripted risks, please refer to notes regarding the individual items.
The above items are deemed significantly affected by management estimates. All other items in the annual report are not significantly affected by management estimates.

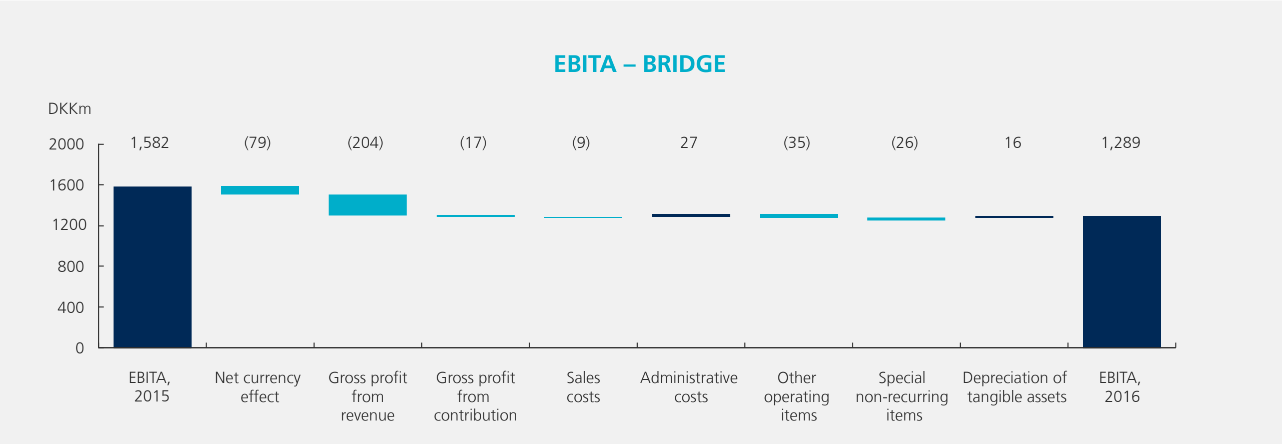
 Very limited impact from management assumptions and judgements

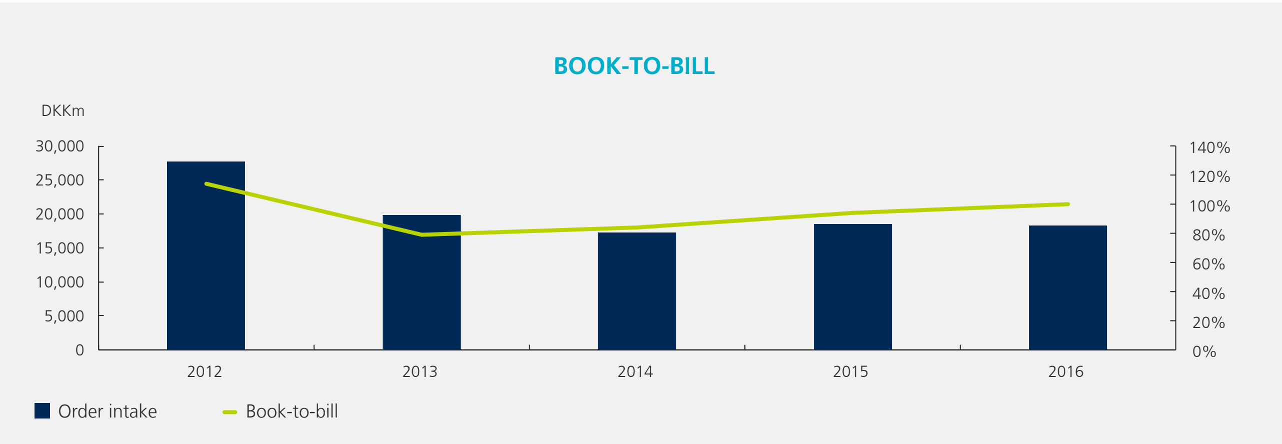
 Limited impact from management assumptions and judgements

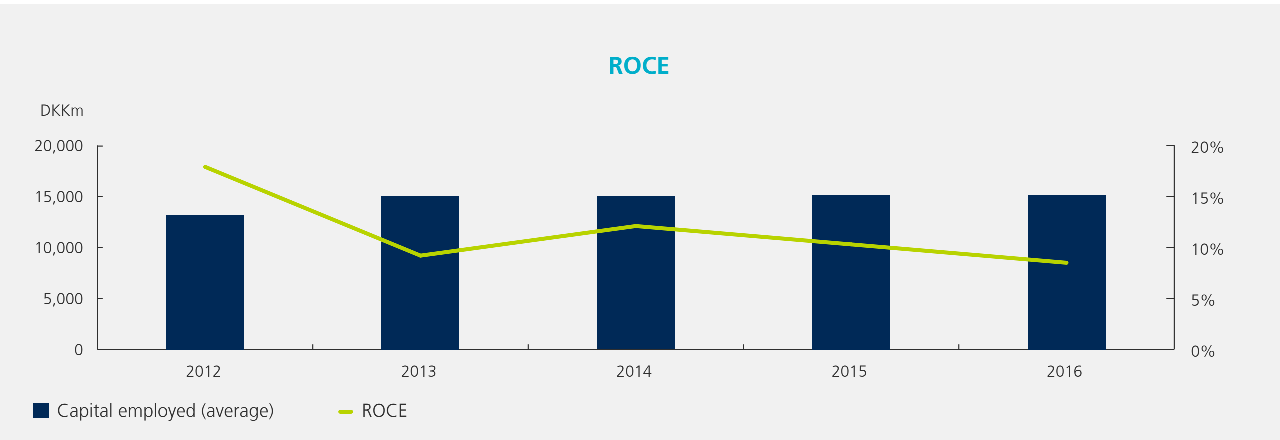
 Impact from management assumptions and judgements

 High impact from management assumptions and judgements

AT A GLANCE
CHAPTER 2 – RESULTS FOR THE YEAR







CHAPTER 2
RESULTS FOR THE YEAR

2.1 Segment information

Accounting policy

FLSmidth operates in the following divisions: Customer Services, Product Companies, Minerals and Cement which forms the basis for Management's day-to-day control of the business.

Customer Services include service, spare and wear part sales, as well as upgrades carried out before, during and after FLSmidth has installed a plant and commissioned it.

Product Companies include nine diverse product companies. Some offer primarily systems while the majority offers products with in house on assembly or manufacturing. All product companies are characterised by a high service content.

Minerals encompasses all the technologies, products, processes and systems used to separate commercially viable minerals from their ores. The Minerals division delivers engineered and customised single products, EPS projects and EPC projects to the global mining industry.

Cement includes design/engineering and building of complete cement plants, production lines, single machinery, knowhow, services and maintenance to the global cement industry.

Operation and maintenance (O&M contracts) of cement plants are included in the Cement division.

Administrative functions such as Finance, HR, IT and Legal are shared by the divisions. The administrative functions are based in the individual countries, but supported by Shared Services Centres located in Chennai, India and Group Functions mainly located in Denmark. Additionally, the divisions are supported by Group functions related to for example Procurement, Logistics and Marketing. Research and development not originating from work performed for customers are part of a Group function.

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

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

Revenue, assets, non-current assets and employees are presented by geographical region. Segment income and costs include transactions between divisions. Such transactions are determined on market terms. The transactions are eliminated in connection with the consolidation.

Revenue is recognised in the income statement on delivery and passing of the risk to the buyer, and when the revenue can be measured reliably. Revenue consists of the following products and services:

- Project sales
- Product sales
- Services, spare parts, wear parts sales, etc.

Please see note 7.14 regarding the use of percentage of completion method and invoicing principle.

Work-in-progress for third parties is recognised in revenue based on the value of the work completed at the balance sheet date, whereby the revenue corresponds to the sales value of the year's completed work based on costs incurred as percentage of the total estimated costs (percentage of completion method).

Revenue from the supply of services, spare parts and wear parts are recognised as revenue in line with the services agreed being supplied, so that the revenue corresponds to the sales value of the work completed in the financial year.

Production costs include raw materials, consumables, direct labour costs and production overheads such as administration and factory management.

Research and development costs are charged to production costs in the income statement for the financial year in which they are incurred. Development costs related to certain products or processes are recognised as intangible assets to the extent that such costs are likely to generate future earnings. See note 4.5 in the consolidated financial statements for further specification.

Sales costs comprise direct marketing costs, salaries for the sales and marketing functions as well as other indirect costs related to sales activities.

Administrative costs comprise the costs of administrative staff and management as well as other indirect administrative costs.

All intercompany transactions are made on market terms.

2.1 Segment information (continued)

Breakdown of the Group by segments for 2016

DKKm	Customer Services	Product Companies	Minerals	Cement	Shared costs[1]	Other companies etc.	Continuing activities	Dis-continued	FLSmidth Group
External revenue	6,461	4,281	3,172	4,278		0	18,192	719	18,911
Internal revenue	94	734	13	8		(849)			
Total revenue	**6,555**	**5,015**	**3,185**	**4,286**		**(849)**	**18,192**	**719**	**18,911**
Production costs	(4,485)	(3,407)	(2,655)	(3,696)	(228)	860	(13,611)	(732)	(14,343)
Gross profit	**2,070**	**1,608**	**530**	**590**	**(228)**	**11**	**4,581**	**(13)**	**4,568**
SG&A costs	(591)	(506)	(311)	(288)	(1,304)	7	(2,993)	(50)	(3,043)
EBITDA	**1,479**	**1,102**	**219**	**302**	**(1,532)**	**18**	**1,588**	**(63)**	**1,525**
Special non-recurring items	(15)	(7)	(8)	0		0	(30)	6	(24)
Depreciations of tangible assets	(89)	(68)	(16)	(6)	(87)	(3)	(269)	0	(269)
EBITA before allocation of shared costs	**1,375**	**1,027**	**195**	**296**	**(1,619)**	**15**			
Allocation of shared costs	(559)	(467)	(330)	(268)	1,619	5			
EBITA	**816**	**560**	**(135)**	**28**	**0**	**20**	**1,289**	**(57)**	**1,232**
Amortisations of intangible assets	(169)	(100)	(108)	(31)		0	(408)	0	(408)
EBIT	**647**	**460**	**(243)**	**(3)**		**20**	**881**	**(57)**	**824**
Order intake (gross)	6,599	5,326	2,679	4,576		(877)	18,303	1,322	19,625
Order backlog	2,388	2,807	3,988	5,349		(645)	13,887	1,490	15,377
Gross margin	*31.6%*	*32.1%*	*16.6%*	*13.8%*		*n/a*	*25.2%*	*n/a*	*24.2%*
EBITDA margin	*22.6%*	*22.0%*	*6.9%*	*7.0%*		*n/a*	*8.7%*	*n/a*	*8.1%*
EBITA margin before allocation of shared costs	*21.0%*	*20.5%*	*6.1%*	*6.9%*		*n/a*	*n/a*	*n/a*	*n/a*
EBITA margin	*12.5%*	*11.2%*	*-4.3%*	*0.6%*		*n/a*	*7.1%*	*n/a*	*6.5%*
EBIT margin	*9.9%*	*9.2%*	*-7.6%*	*-0.1%*		*n/a*	*4.8%*	*n/a*	*4.4%*
Numbers of employees	**4,002**	**2,774**	**1,081**	**2,642**	**1,533**	**0**	**12,032**	**155**	**12,187**

[1] Please refer to page 27-28 in the Management´s review for further description of shared cost.

Reconciliation of Profit/(loss) for the year

	Continuing activities	Dis-continued
Segment earnings before interest and tax (EBIT) of reportable segments	881	(57)
Financial income	1,203	2
Financial costs	(1,257)	(9)
EBT	**827**	**(64)**
Tax for the year	(237)	(4)
Profit/(loss) for the year	**590**	**(68)**

2.1 Segment information (continued)

Breakdown of the Group by segments for 2015

DKKm	Customer Services	Product Companies	Minerals	Cement	Shared costs[1]	Other companies etc.	Continuing activities	Dis-continued	FLSmidth Group
External revenue	7,240	4,969	3,562	3,911		0	19,682	1,113	20,795
Internal revenue	54	742	14	0		(810)			
Total revenue	**7,294**	**5,711**	**3,576**	**3,911**		**(810)**	**19,682**	**1,113**	**20,795**
Production costs	(5,090)	(3,952)	(2,949)	(3,280)	(275)	810	(14,736)	(1,206)	(15,942)
Gross profit	**2,204**	**1,759**	**627**	**631**	**(275)**	**0**	**4,946**	**(93)**	**4,853**
SG&A costs	(602)	(436)	(448)	(212)	(1,396)	26	(3,068)	(196)	(3,264)
EBITDA	**1,602**	**1,323**	**179**	**419**	**(1,671)**	**26**	**1,878**	**(289)**	**1,589**
Special non-recurring items	(3)	0	(9)	0	0	7	(5)	127	122
Depreciations of tangible assets	(81)	(79)	(24)	(10)	(91)	(6)	(291)	(7)	(298)
EBITA before allocation of shared costs	**1,518**	**1,244**	**146**	**409**	**(1,762)**	**27**			
Allocation of shared costs	(567)	(488)	(404)	(310)	1,762	7			
EBITA	**951**	**756**	**(258)**	**99**	**0**	**34**	**1,582**	**(169)**	**1,413**
Amortisations of intangible assets	(161)	(67)	(166)	(47)		0	(441)	(80)	(521)
EBIT	**790**	**689**	**(424)**	**52**		**34**	**1,141**	**(249)**	**892**
Order intake (gross)	6,710	5,742	4,112	2,803		(877)	18,490	332	18,822
Order backlog	2,469	2,536	4,614	5,852		(613)	14,858	868	15,726
Gross margin	*30.2%*	*30.8%*	*17.6%*	*16.1%*		*n/a*	*25.1%*	*n/a*	*23.3%*
EBITDA margin	*22.0%*	*23.2%*	*5.0%*	*10.7%*		*n/a*	*9.5%*	*n/a*	*7.6%*
EBITA margin before allocation of shared costs	*20.8%*	*21.8%*	*4.1%*	*10.4%*		*n/a*	*n/a*	*n/a*	*n/a*
EBITA margin	*13.0%*	*13.2%*	*-7.2%*	*2.5%*		*n/a*	*8.0%*	*n/a*	*6.8%*
EBIT margin	*10.8%*	*12.1%*	*-11.9%*	*1.3%*		*n/a*	*5.8%*	*n/a*	*4.3%*
Numbers of employees	**4,047**	**2,754**	**1,279**	**2,622**	**2,028**	**0**	**12,730**	**239**	**12,969**

[1] Please refer to page 27-28 in the Management´s review for further description of shared cost.

Reconciliation of Profit/(loss) for the year

Segment earnings before interest and tax (EBIT) of reportable segments	1,141	(249)
Financial income	1,652	40
Financial costs	(1,908)	(59)
EBT	**885**	**(268)**
Tax for the year	(282)	90
Profit/(loss) for the year	**603**	**(178)**

2.2 Geographical information

NORTH AMERICA
Revenue: **3,907** (2015: 5,046)
Assets: **6,235** (2015: 8,583)
Employees: **1,935** (2015: 2,300)

USA
Revenue: **2,492** (2015: 3,412)
Non-current assets: **3,738** (2015: 3,685)

Canada
Non-current assets: **672** (2015: 662)

EUROPE
Revenue: **2,059** (2015: 1,931)
Assets: **9,916** (2015: 7,618)
Employees: **2,259** (2015: 2,625)

Denmark
Revenue: **132** (2015: 86)
Non-current assets: **1,808** (2015: 2,040)

SOUTH AMERICA
Revenue: **3,400** (2015: 3,776)
Assets: **1,882** (2015: 2,554)
Employees: **1,537** (2015: 1,568)

Chile
Revenue: **1,766** (2015: 1,723)
Non-current assets: **455** (2015: 457)

ASIA
Revenue: **4,539** (2015: 4,171)
Assets: **2,844** (2015: 2,731)
Employees: **3,453** (2015: 3,663)

India
Revenue: **1,101** (2015: 1,191)

AFRICA
Revenue: **3,156** (2015: 3,557)
Assets: **1,927** (2015: 1,068)
Employees: **2,309** (2015: 2,253)

OCEANIA
Revenue: **1,131** (2015: 1,201)
Assets: **1,308** (2015: 1,808)
Employees: **539** (2015: 560)

Australia
Revenue: **1,114** (2015: 1,179)
Non-current assets: **922** (2015: 969)

2.3 Income statement classified by function

The Group presents the Income Statement for continuing business based on a classification of the costs by function in order to show the earnings before special non-recurring items, depreciation and amortisation (EBITDA). Depreciation, amortisation and impairment of tangible and intangible assets are therefore separated from the individual functions, presented on separate lines.

DKKm	2016	2015
Revenue	18,192	19,682
Production costs, including depreciations and amortisations	(13,900)	(14,998)
Gross profit	**4,292**	**4,684**
Sales costs, including depreciations and amortisations	(1,519)	(1,537)
Administrative costs, including depreciations and amortisations	(1,892)	(2,067)
Other operating items	30	66
Special non-recurring items	(30)	(5)
EBIT	**881**	**1,141**
Depreciation and amortisation consist of:		
Amortisations of intangible assets	(408)	(441)
Depreciations of tangible assets	(269)	(291)
	(677)	**(732)**
Depreciation and amortisation are divided into:		
Production costs	(289)	(262)
Sales costs	(56)	(57)
Administrative costs	(332)	(413)
	(677)	**(732)**

2.4 Revenue

Significant estimates and assessments by Management

Total expected costs related to work-in-progress for third parties are partly based on an estimate, as they include provisions for unforeseen cost deviations in future supplies of raw materials, subcontractor products and services plus construction and handing over. Provisions for warranties on work-in-progress for third parties are based on Management estimates for each project, while taking underlying contracts as well as collected historical provision and warranty data into account.

The contract value of services in the form of operation & maintenance contracts is in some cases dependent upon the productivity of the plant serviced. In such cases, revenue recognition of the contracts includes Management´s estimate of the productivity of the plant.

Major projects are often sold to companies located in politically unstable countries and therefore entail enhanced risks and uncertainties related to project execution,

DKKm	2016	2015
Project sales	5,943	5,982
Product sales	2,011	2,780
Service activities	10,238	10,920
	18,192	**19,682**
Income recognition criteria		
Income recognised in accordance with invoicing principle	8,351	8,950
Income recognised in accordance with the percentage-of-completion method	9,841	10,732
	18,192	**19,682**

Sales of spare parts and services include services and spare parts sales in product companies that are included in the segment reporting for the Product companies.

2.5 Tax

Accounting policy

Tax for the year comprises current tax and changes in deferred tax and is recognised in the Income Statement with the share attributable to the profit/(loss) of the year, and in the 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 of deferred tax.

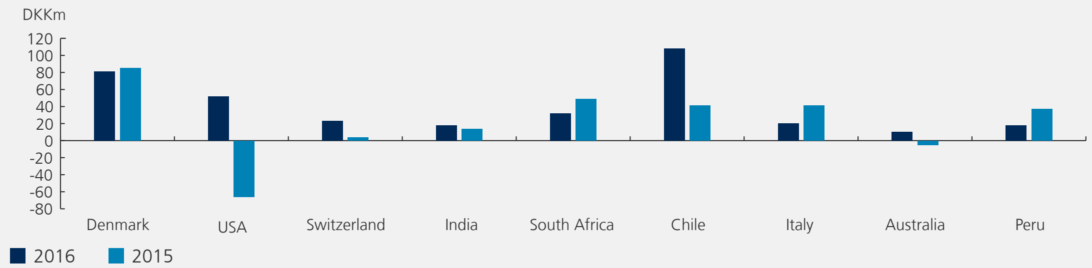
Current tax comprises tax calculated on the basis of the expected taxable income for the year, using the applicable tax rates for the financial year, and any adjustments of taxes for previous years.

DKKm	2016	Effective tax rate	2015	Effective tax rate
Current tax on the profit/(loss) for the year	**(304)**		**(415)**	
Withholding tax	(12)		(9)	
Change in deferred tax	35		219	
Change in tax rate on deferred tax	14		3	
Adjustments regarding previous years, deferred taxes	(14)		14	
Adjustments regarding previous years, current taxes	(3)		(130)	
Other adjustments	47		36	
Tax for the period, continuing activities	**(237)**	**28.7%**	**(282)**	**31.9%**
Earnings before tax on continuing activities	827		885	
Earnings before tax on discontinued activities	(64)		(268)	
	763		**617**	
Reconciliation of tax				
Tax according to Danish tax rate	(182)	22.0%	(208)	23.5%
Differences in the tax rates in foreign subsidiaries relative to 22% (2015: 23.5%)	(16)	2.0%	3	-0.3%
Non-taxable income and non-deductible costs	29	-3.5%	(37)	4.2%
Deductible loss on shares	0	0.0%	18	-2.1%
Differences in tax assets valued at nil	(100)	12.1%	28	-3.2%
Differences due to adjustment of tax rate	14	-1.7%	3	-0.3%
Adjustments regarding previous years, deferred taxes	(14)	1.7%	14	-1.6%
Adjustments regarding previous years, current taxes	(3)	0.4%	(130)	14.7%
Withholding taxes	(12)	1.4%	(9)	1.0%
Other adjustments	47	-5.7%	36	-4.0%
Effective tax rate	**(237)**	**28.7%**	**(282)**	**31.9%**

Differences in tax assets valued at nil is primarily affected by a revaluation of the US tax assets based on Managements estimates.

2.5 Tax (continued)

Corporate income tax paid in 2016 amounts to DKK 441m (2015: DKK 338m) of which the main part is attributable to Group companies in the following countries:



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

DKKm	**2016**			**2015**		
Tax on other comprehensive income	**Deferred tax**	**Current tax**	**Tax income/ cost**	**Deferred tax**	**Current tax**	**Tax income/ cost**
Foreign exchange adjustment of loans classified as equity in enterprises abroad	0	0	0	0	(48)	(48)
Value adjustments of hedging instruments	(5)	(9)	(14)	9	4	13
Actuarial gains/losses on defined benefit plans	5	0	5	3	0	3
Tax assets valued at nil - actuarial gains/losses	(20)	0	(20)	0	0	0
	(20)*	**(9)**	**(29)**	**12**	**(44)**	**(32)**

*DKK -20m (2015: DKK 12m) contains assets held for sale of DKK -6m (2015: DKK 0m).

Deferred tax assets and liabilities

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 are stated in the income statement unless they are items previously entered in the statement of other comprehensive income.

A deferred tax liability is made 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 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.

The tax value of losses that are expected with adequate certainty 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.

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.

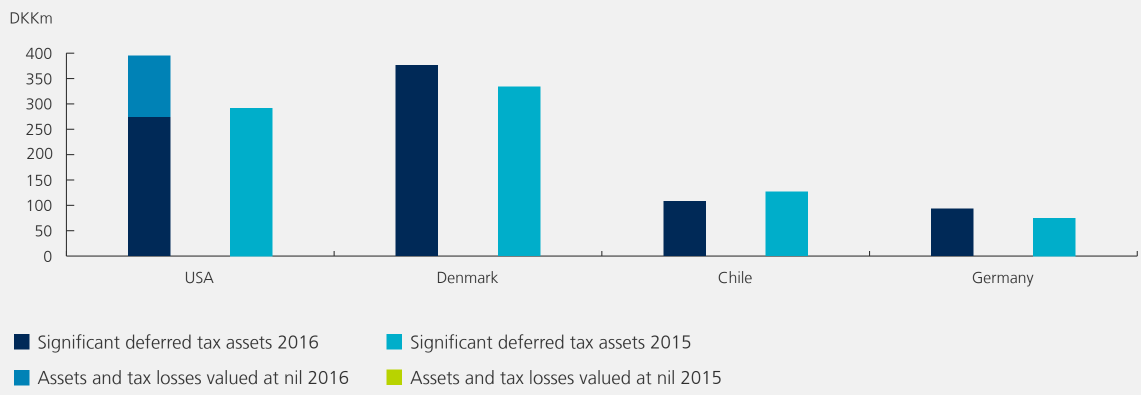
If companies in the Group have deferred tax liabilities, they are valued independently of the time when the tax, if any, becomes payable.

2.5 Tax (continued)

Significant estimates and assessments by Management

Deferred tax assets are recognised if it is likely that there will be taxable income in the future against which timing differences or tax losses carry forwards may be used. For this purpose, Management estimates the coming year´s earnings based on budgets.

As a result of the financial performance in US the US deferred tax assets of DKK 395m (2015: DKK 292m) has only been partly recognised with an amount of DKK 274m (2015: DKK 292m). The recognition has considered future cost savings and the recovery of the market. Other assets valued at nil with an amounts of DKK 96m (2015: DKK 69m) relates to tax losses mainly in discontinued and dormant entities.



DKKm	2016							
	Balance sheet 1 January	Assets held for sale	Foreign exchange translation	Adjustment to previous years, etc.	Changed tax rate	Included in other comprehensive income	Included in the profit/ (loss)	Balance sheet 31 December
Deferred tax consists of								
Intangible assets	(107)	0	(19)	(51)	0	0	(12)	(189)
Tangible assets	199	0	(16)	15	0	0	2	200
Current assets	307	0	19	0	(3)	0	(4)	319
Liabilities	182	0	28	2	17	6	135	370
Tax loss carry-forwards, etc.	204	0	(5)	45	0	0	11	255
Share of tax assets valued at nil	(69)	0	(6)	(25)	0	(20)	(97)	(217)
Net deferred tax assets/(liabilities)	**716**	**0**	**1**	**(14)**	**14**	**(14)**	**35**	**738**

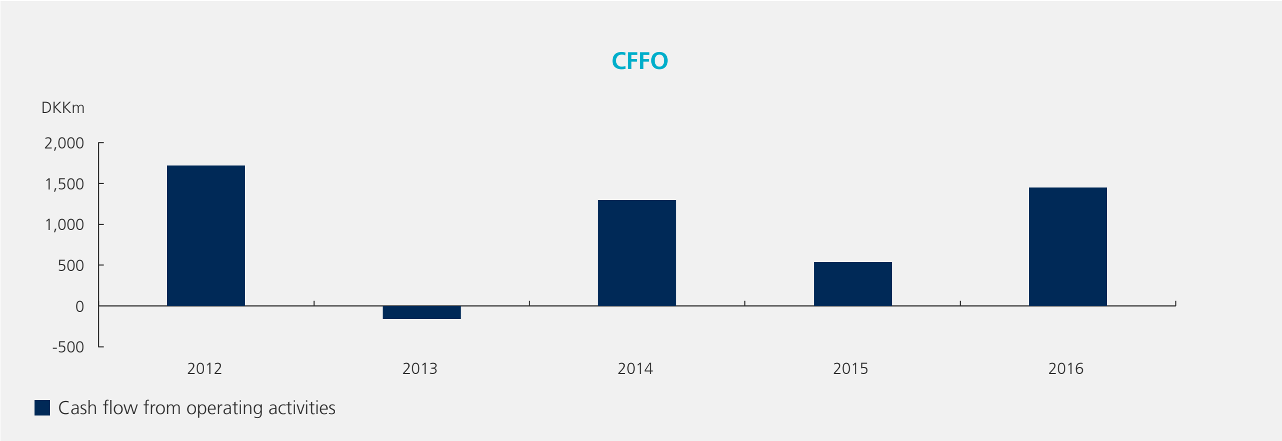
2.5 Tax (continued)

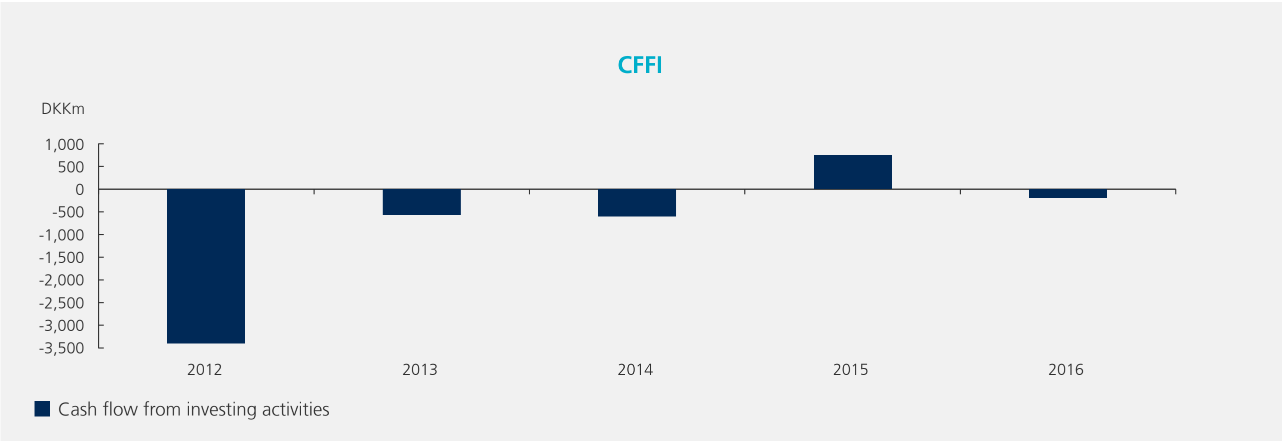
DKKm	2015							
	Balance sheet 1 January	Assets held for sale	Foreign exchange transla-tion	Adjust-ment to previous years, etc.	Changed tax rate	Included in other compre-hensive income	Included in the profit/(loss)	Balance sheet 31 December
Deferred tax consists of								
Intangible assets	(10)	0	(7)	(66)	(8)	0	(16)	(107)
Tangible assets	27	0	(16)	146	(8)	15	35	199
Current assets	619	(240)	25	(157)	2	0	58	307
Liabilities	(322)	265	22	76	18	(3)	126	182
Tax loss carry-forwards, etc.	199	0	(4)	26	(5)	0	(12)	204
Share of tax assets valued at nil	(86)	0	(4)	(11)	4	0	28	(69)
Net deferred tax assets/(liabilities)	**427**	**25**	**16**	**14**	**3**	**12**	**219**	**716**

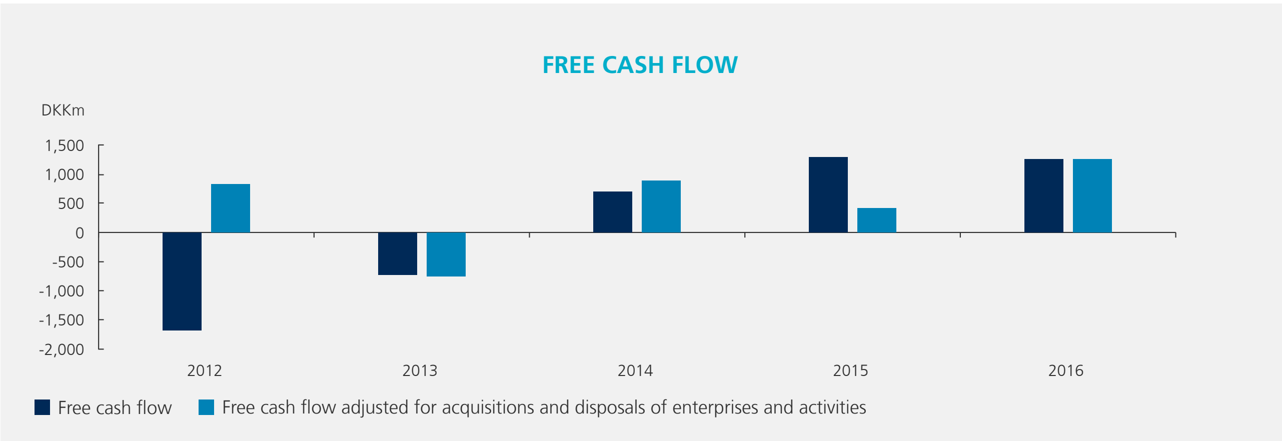
DKKm	2016	2015
Deferred tax assets	1,117	1,096
Deferred tax liabilities	(379)	(380)
	738	**716**
Maturity profile of tax assets valued at nil:		
Within one year	76	81
Between one and five years	130	129
After five years	505	80
	711	**290**
Tax value	**217**	**69**
Deferred tax assets not recognised in the balance sheet consist of:		
Temporary differences	382	0
Tax losses	329	290
	711	**290**

Temporary differences regarding investments in Group enterprises are estimated as a tax liability of DKK 350-400m in 2016 (2015: DKK 300-350m). The liability is not recognised because the Group is able to control whether the liability is released and it is considered likely that the liability will not be released in the foreseeable future.

AT A GLANCE
CHAPTER 3 – CASH FLOW STATEMENT







CHAPTER 3
CASH FLOW STATEMENT

Accounting policy

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

The cash flow statement is based on earnings before special non-recurring items, depreciation, amortisation and impairment (EBITDA).

In net working capital and net interest-bearing debt distinction is made between interest-bearing and non-interest-bearing items, and cash and cash equivalents:
- Cash and cash equivalents consist of cash and bank deposits
- Interest-bearing debt items are less interest-bearing receivables
- All other non-interest-bearing receivables and debt items are regarded as working capital

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 net working capital and provisions, taxes paid and financial items.

Cash flow from investing activities comprises payments made in connection with the acquisition and disposal of enterprises and activities, the acquisition and disposal of assets and prepayments of assets.

Cash flow from financing activities comprises changes in the size of the share capital and related costs as well as acquisitions and disposal of non-controlling interests, treasury shares and payment of dividends to shareholders. The Group's cash and cash equivalents mainly consist of cash deposited with banks.

3.1 Change in net working capital

DKKm	2016	2015
Inventories	112	305
Trade receivables	289	325
Trade payables	443	(262)
Work-in-progress for third parties	(13)	(236)
Prepayments from customers	230	(599)
Prepayments to subcontractors	(185)	(120)
Other receivables and other liabilities	(273)	43
Foreign exchange adjustment	(77)	(189)
	526	**(733)**

The change in net working capital is largely impacted by trade payable, main reason being extended payment terms from suppliers partly achieved through a supply chain financing program. The improvement from, the collection of accounts receivable is offset by negative impact from other liabilities and other receivables.

3.2 Change in provisions

DKKm	2016	2015
Pensions and similar obligations	17	(15)
Other provisions	(126)	83
	(109)	**68**

The change in provisions consist of changes in defined benefit pensions, long-term employee liabilities, guarantees and other provisions.

3.3 Financial items received and paid

DKKm	2016	2015
Interest received	39	42
Interest paid	(109)	(92)
	(70)	**(50)**

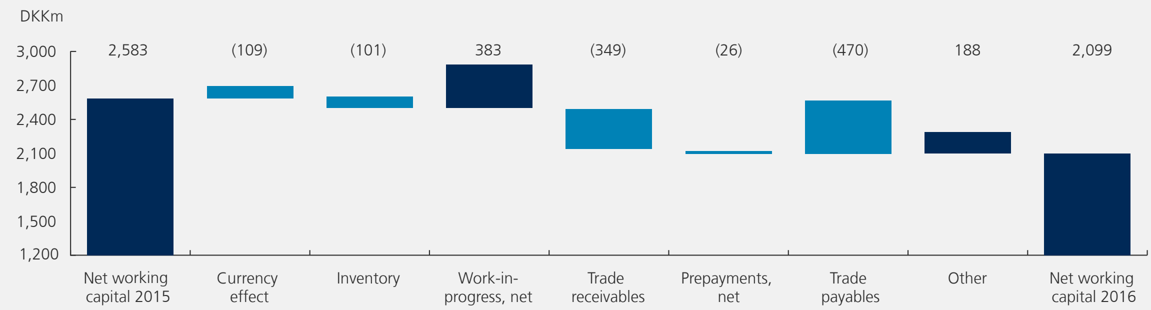
3.4 Change in net interest-bearing debt

DKKm	2016	2015
Bank loans, gross	(766)	(562)
Other liabilities	203	(105)
Foreign exchange adjustments	(126)	(40)
	(689)	**(707)**

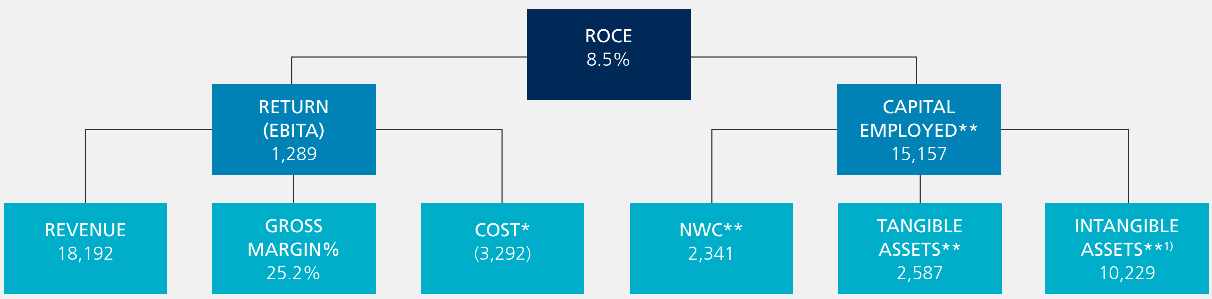
AT A GLANCE
CHAPTER 4 – CAPITAL EMPLOYED AND PROVISIONS

NET WORKING CAPITAL – BRIDGE

Development from 2015 to 2016

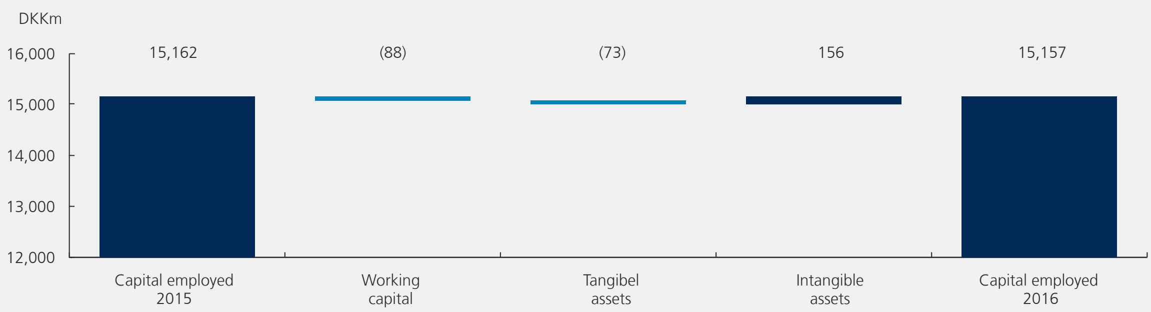


ROCE BREAKDOWN



CAPITAL EMPLOYED** – BRIDGE

Development from 2015 to 2016



* Cost consist of SG&A, depreciations and special non-recurring items.

** Average values, please refer to definitions of terms, see note 7.15 in the consolidated financial statements.

[1)] Measured at cost value

CHAPTER 4
CAPITAL EMPLOYED AND PROVISIONS

4.1 Specification of net working capital

Notes 4.2, 4.3 and 4.4 show additional specification of selected net working capital items. The Group's net working capital is specified as follows:

DKKm	2016	2015
Inventories	2,355	2,445
Trade receivables	4,533	4,884
Work-in-progress for third parties, asset	2,426	2,526
Prepayments to subcontractors	544	347
Other receivables	521	409
Financial instruments	103	128
	10,482	**10,739**
Prepayments from customers	1,514	1,267
Trade payables	3,037	2,546
Work-in-progress for third parties, liability	2,093	2,453
Other liabilities	1,604	1,616
Financial instruments	135	274
	8,383	**8,156**
Net working capital	**2,099**	**2,583**
Net assets held for sale	(135)	133
Net working capital of the Group	**1,964**	**2,716**

Other liabilities mainly consist of vendor progress related to projects, and accrued employee items.

Other receivables mainly consist of indirect tax receivables, and receivables from employees.

4.2 Work-in-progress for third parties

Accounting policy

Work-in-progress for third parties is recognised in revenue based on the value of the work completed at the balance sheet date.The revenue corresponds to the sales value of the year´s completed work based on costs incurred as a percentage of the total estimate costs (percentage of completion method).

The stage of completion for the individual project is calculated as the ratio between the cost incurred at the balance sheet date and the total estimated cost to complete the project. In some projects, where cost estimates cannot be used as a basis, the ratio between completed subactivities and the total project is used instead. All direct and indirect costs that relates to the completion of the contract are included in the calculation. Costs deriving from sales work and winning of contracts are not included in the calculation, but are instead recognised in the income statement as revenue in the financial year during which they are incurred.

When invoicing on account exceeds the value of the work completed, the liability is recognised as work-in-progress for third parties under short-term liabilities. Prepayments are recognised as prepayment received from customers split between long-term and short-term liabilities based on when they are expected to become effective.

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

If projects are expected to be loss-making, the loss is recognised immediately in the income statement. Costs not yet incurred are provided for as other provisions. Provisions are based on individual assessment of the estimated loss until the projects is completed.

Significant estimates and assessments by Management

Total expected costs related to work-in-progress for third parties are partly based on estimates, as they include provisions for unforeseen cost deviations in future supplies of raw materials, subcontractor products and services plus construction and handing over. Provisions for warranties on work-in-progress for third parties are based on Management estimates for each project, while taking contract obligations into account.

DKKm	2016	2015
Total costs incurred	34,116	38,056
Profit recognised as income, net	5,447	6,441
Work-in-progress for third parties	39,563	44,497
Invoicing on account to customers	(39,230)	(44,424)
Net work-in-progress for third parties	**333**	**73**
of which work-in-progress for third parties is stated under assets	2,426	2,526
and under liabilities	(2,093)	(2,453)
Net work-in-progress for third parties	**333**	**73**

Work-in-progress for third parties consist of all open projects at 31 December, including cost and profit recognised in prior years.

4.3 Inventories

Accounting policy

Inventories are measured at cost based on weighted average 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 inventory
- Test for aging of inventory
- Assessment of expected market (pricing and market potential)
- Assessment of strategic inventory items

Obsolete items are written down to zero and disposed of. 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 FLSmidth need to be able to deliver with very short notice.

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 and as well as administration and factory management directly related to manufacturing.

Significant estimates and assessments by Management

Assessing net realisable value of inventories requires Management estimates taking into account marketability, obsolescence and development in expected selling prices. Following the economic downturn in the market, special attention from Management has been paid to inventory turnover, when determining net realisable value.

DKKm	2016	2015
Raw materials and consumables	306	304
Work-in-progress	307	244
Finished goods and goods for resale	1,708	1,876
Prepayments for goods	34	21
Inventories net of write downs at 31 December	**2,355**	**2,445**
Strategic inventories	505	455
Write down of inventories		
Write down at 1 January	(339)	(325)
Reclassification to/from assets classified as held for sale	0	3
Foreign exchange adjustments	(4)	(13)
Additions	(94)	(53)
Disposals	60	42
Reversals	17	7
Other adjustments	94	0
Write down at 31 December	**(266)**	**(339)**

Inventories valued at net realisable value amount to DKK 412m.

4.4 Trade and other receivables

Accounting policy

Receivables comprise trade receivables, receivables from construction contracts and other receivables.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. A write down cost is recognised when there is an indication that an individual receivable cannot be collected. Assessment of bad debt is carried out for individual receivables and includes:
- Evaluation of the customer´s ability to pay
- Ageing of the receivable
- Possibility to offset assets against claims
- Access to other securities

The write down is deducted from the carrying amount of trade receivables and the cost is recognised in the income statement as administrative costs.

Significant estimates and assessments by Management

Estimates are used in determining the level of receivables that cannot, in the opinion of Management, be collected. When evaluating the adequacy of the allowance for doubtful receivables, Management analyses trade receivables and examines changes in customer creditworthiness, customer payment patterns and current economic trends.

Trade receivables

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

DKKm	2016	2015
Ageing:		
Not due for payment	2,966	2,625
Overdue up to one month	511	798
Overdue between one and two months	136	315
Overdue between two and three months	197	154
Overdue between three and six months	165	252
Overdue more than six months	558	740
Trade receivables at 31 December	**4,533**	**4,884**

Trade receivables include retentions on contractual terms of DKK 412m (2015: DKK 366m) not due for payment.

4.4 Trade and other receivables (continued)

Specification of changes in write down of trade receivables

DKKm	2016	2015
Write down at 1 January	(337)	(244)
Reclassification to/from assets classified as held for sale	0	10
Foreign exchange adjustment	(21)	7
Additions	(316)	(229)
Reversals	98	76
Realised	35	43
Write down, trade receivables at 31 December	**(541)**	**(337)**

Other receivables

In 2016, other receivables amounted to DKK 1,191m (2015: DKK 1,076m), including fair value of derivates of DKK 103m (2015: DKK 128m), corporate tax receivables of DKK 485m (2015: DKK 380m) and VAT of DKK 194m (2015: DKK 141m).

4.5 Intangible assets

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. When recognising goodwill, it 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 control and reporting in the Group. Goodwill is tested for impairment at least once a year.

Other intangible assets
Other intangible assets than goodwill with a finite useful life are measured at cost less accumulated amortisation and impairment losses. Other intangible assets with indefinite useful life are not amortised, but are tested for impairment at least once a year.

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 the development costs. Other development costs are recognised in the income statement when the costs are incurred. Development costs consist of salaries and other costs that are directly attributable to development activities.

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

The amortisation profile is systematically based on the expected useful life of the assets, taking into account the remaining patent and agreement period and consumption (unit for production method) at the time of implementation. The basis of amortisation is reduced by impairment, if any.

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

Significant estimates and assessments by Management

Management estimates the useful life of software systems and future development projects. The asset is then depreciated and amortised systematically over the expected future useful life.

In connection with restructuring, Management reassesses the useful life and residual values of non-current assets after the restructuring.

4.5 Intangible assets (continued)

DKKm	Goodwill	Patents and rights	Customer relations	Other intangible assets	Completed development projects	Intangible assets under development	Total
Cost at 1 January 2016	4,362	2,088	1,986	610	696	345	10,087
Foreign exchange adjustments	131	10	77	11	1	0	230
Acquisitions	0	5	0	1	0	49	55
Disposals	0	(4)	0	(11)	0	0	(15)
Transferred between categories	0	0	0	40	44	(84)	0
Transferred from tangible assets	0	0	0	0	0	15	15
Cost at 31 December 2016	**4,493**	**2,099**	**2,063**	**651**	**741**	**325**	**10,372**
Amortisation and impairment at 1 January 2016	0	(753)	(884)	(557)	(415)	0	(2,609)
Foreign exchange adjustment	0	(6)	(39)	(10)	0	0	(55)
Disposals	0	4	0	11	0	0	15
Amortisations	0	(118)	(133)	(32)	(125)	0	(408)
Amortisation and impairment at 31 December 2016	**0**	**(873)**	**(1,056)**	**(588)**	**(540)**	**0**	**(3,057)**
Carrying amount at 31 December 2016	**4,493**	**1,226**	**1,007**	**63**	**201**	**325**	**7,315**

Intangible assets under development consist of R&D projects and software. The majority of the carrying amount at 31 December relates to one single R&D project which will be finalised and ready for use from June 2017.

DKKm	Goodwill	Patents and rights	Customer relations	Other intangible assets	Completed development projects	Intangible assets under development	Total
Cost at 1 January 2015	4,305	2,124	1,922	752	507	480	10,090
Reclassification to assets held for sale	(37)	(32)	(14)	(11)	(3)	0	(97)
Foreign exchange adjustments	129	18	78	15	0	0	240
Disposals of enterprises	0	(12)	0	0	0	0	(12)
Acquisitions	0	0	0	6	0	78	84
Disposals	(35)	(10)	0	(26)	(2)	(145)	(218)
Transferred between categories	0	0	0	(126)	194	(68)	0
Cost at 31 December 2015	**4,362**	**2,088**	**1,986**	**610**	**696**	**345**	**10,087**
Amortisation and impairment at 1 January 2015	(30)	(634)	(715)	(643)	(171)	(144)	(2,337)
Reclassification to assets held for sale	5	7	0	1	0	0	13
Foreign exchange adjustments	(1)	(7)	(28)	(11)	0	0	(47)
Disposals	26	6	0	26	1	144	203
Amortisations	0	(125)	(141)	(30)	(145)	0	(441)
Transferred between categories	0	0	0	100	(100)	0	0
Amortisation and impairment at 31 December 2015	**0**	**(753)**	**(884)**	**(557)**	**(415)**	**0**	**(2,609)**
Carrying amount at 31 December 2015	**4,362**	**1,335**	**1,102**	**53**	**281**	**345**	**7,478**

4.5 Intangible assets (continued)

Much of the knowledge generated in the Group originates from work performed for customers. In 2016, the Group´s research and development costs totalled DKK 202m (2015: DKK 263m). The total addition of intangible assets includes internal capitalisation of DKK 49m (2015: DKK 77m), where capitalised research and development accounts for DKK 20m (2015: DKK 46m). Research and development costs not capitalised are included in production costs.

For 30% of patents and rights acquired, the estimated useful life is between 10-20 years and for 75% of customers´ relations, the estimated useful life is between 0-10 years.

Goodwill and 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 indefinite useful life

DKKm	Customer Services	Product Companies	Minerals	Cement	2016
Goodwill	2,229	1,807	457	0	4,493
Trademarks	147	231	518	16	912
Carrying amount at 31 December	**2,376**	**2,038**	**975**	**16**	**5,405**

Intangible assets considered to have indefinite useful life

DKKm	Customer Services	Product Companies	Minerals	Cement	2015
Goodwill	2,159	1,772	431	0	4,362
Trademarks	182	231	518	16	947
Carrying amount at 31 December	**2,341**	**2,003**	**949**	**16**	**5,309**

4.6 Tangible assets

Accounting policy

Land and buildings, plant and machinery and other facilities, operating equipment and tools 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 other tools and equipment, 3 – 15 years
- Lease hold improvements, up to 5 years
- Land is not depreciated

Assets with an acquisition value of less than DKK 50,000 or expected life of less than one year are expensed in the Income Statement at acquisition.

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 pulling down or 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.

Assets held under a finance lease are measured in the balance sheet at fair value or the present value of future lease payments at the time of entering the contract, if lower. In calculating the present value, the internal interest rate of the lease agreement is used as a discounting factor or as the Group's alternative borrowing rate are depreciated like other tangible assets of the Group.

The capitalised residual lease commitment is recognised in the balance sheet as debt whilst the interest component of the lease payment is recognised in the income statement as a financial item.

For operating leases, the lease payments are recognised in the income statement on a straight line basis over the lease period.

Significant estimates and assessments by Management

Management makes an estimate of the useful life and residual values. The asset is then depreciated and amortised systematically over the expected future useful life.

In connection with restructuring, Management reassesses the useful life and residual values for non-current assets used after the restructuring.

4.6 Tangible assets (continued)

DKKm	Land and buildings	Plant and machinery	Operating equipment, fixtures and fittings	Tangible assets in course of construction	Total
Cost at 1 January 2016	2,391	1,745	844	60	5,040
Foreign exchange adjustments	60	35	9	0	104
Acquisitions	118	26	24	46	214
Disposals	(34)	(114)	(69)	(8)	(225)
Transferred between categories	21	18	15	(54)	0
Transferred to intangible assets	0	0	0	(15)	(15)
Cost at 31 December 2016	**2,556**	**1,710**	**823**	**29**	**5,118**
Depreciation and impairment at 1 January 2016	(669)	(1,067)	(675)	(8)	(2,419)
Foreign exchange adjustments	(11)	(31)	(13)	1	(54)
Disposals	15	90	63	7	175
Depreciations	(62)	(137)	(70)	0	(269)
Transferred between categories	(6)	1	5	0	0
Depreciation and impairment at 31 December 2016	**(733)**	**(1,144)**	**(690)**	**0**	**(2,567)**
Carrying amount at 31 December 2016	**1,823**	**566**	**133**	**29**	**2,551**

DKKm	Land and buildings	Plant and machinery	Operating equipment, fixtures and fittings	Tangible assets in course of construction	Total
Cost at 1 January 2015	2,374	1,600	826	117	4,917
Reclassification to assets held for sale	0	(5)	(12)	0	(17)
Foreign exchange adjustments	119	105	28	3	255
Disposals of enterprises	(26)	(3)	0	0	(29)
Acquisitions	14	41	35	46	136
Disposals	(123)	(45)	(65)	(1)	(234)
Transfer from other assets	0	14	0	0	14
Transferred between categories	35	38	32	(105)	0
Cost at 31 December 2015	**2,393**	**1,745**	**844**	**60**	**5,042**
Depreciation and impairment at 1 January 2015	(667)	(907)	(635)	(6)	(2,215)
Reclassification to assets held for sale	0	3	9	0	12
Foreign exchange adjustments	(25)	(65)	(23)	(2)	(115)
Disposals	88	41	60	0	189
Depreciations	(66)	(139)	(86)	0	(291)
Depreciation and impairment at 31 December 2015	**(670)**	**(1,067)**	**(675)**	**(8)**	**(2,420)**
Carrying amount at 31 December 2015	**1,723**	**678**	**169**	**52**	**2,622**

4.7 Impairment test

Accounting policy

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

Assets that are subject to amortisation, such as intangible assets in use or 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 considered material 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

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.

Significant estimates and assessments by Management

Intangible assets are primarily related to acquisition of enterprises and activities, software, and research and development projects.

In performing the annual impairment test of assets, an assessment is made as to whether the individual units of the Group (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 unit concerned.

Management defines the cash-generating units based on the smallest group of identifiable 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.

An estimate is made of the future free net cash flow based on budgets and strategy for the coming six years as well as projections for the subsequent years (the terminal value). From 2023 and onwards Management expects the growth rate to remain in line with the expected long term growth rate for the industries. Significant parameters in this estimate are discount rate, revenue development, EBITA margin, expected investments and growth expectations for the terminal period.

The recoverable amount of a cash-generating unit is based on value in use calculations and is calculated by discounting the expected future cash flow.

Result of annual impairment test
As at 31 December 2016, the carrying amount of goodwill and other intangible assets of indefinite useful life were tested for impairment. The impairment test showed no indication of impairment for 2016 (2015: DKK 0). Management is currently of the belief that no changes in the key assumptions are reasonably likely to reduce the headroom in any of the cash-generating units to zero.

The annual impairment test of goodwill and other intangible assets of indefinite useful life, was based on the reporting segments: Customer Services, Product Companies, Minerals and Cement, these being the lowest level of cash-generating units as defined by Management. The definition of cash-generating units is based on the certainty by which the carrying amount of the intangible assets can reasonably be allocated and monitored. The level of allocating and monitoring the Group's intangible assets among cash-generating units should also be seen in conjunction with the Group´s strategy. The impairment test is based on the divisional structure implemented in 2015 which are the cash-generating units that are expected to benefit from the intangible assets going forward. Carrying amounts of goodwill and other intangible assets included in the cash-generating units for impairment test of those assets are specified on the following page:

4.7 Impairment test (continued)

	Carrying amount 2016				
DKKm	**Goodwill**	**Patents and rights acquired**	**Customer relations**	**Development projects and software**	**Other intangible assets**
Customer Services	2,228	365	606	132	19
Product Companies	1,807	423	314	132	2
Minerals	458	437	86	123	0
Cement	0	2	0	132	5

Key assumptions
The key assumptions in assessing the recoverable amount are annual growth rate in the budget period, discount rate, long-term growth in the terminal period and investments.

	Key assumptions					
Cash-generating unit	**Investments**	**Annually average growth rate in budget period**	**Growth rate in the terminal period**	**Discount rate after tax**	**Discount rate before tax**	**EBITA margin***
Customer Services	2.0%	4%	1.5%	7.25%	10.25%	14%
Product Companies	2.5%	5%	1.5%	7.25%	10.25%	13%
Minerals	1.0%	7%	1.5%	7.25%	10.25%	3%
Cement	1.0%	1%	1.5%	7.25%	10.25%	2%

* Average

The Group expects an EBITA margin of 7-9% in 2017 and in the long-term on EBITA margin of 10-13%.

The discount rate has been revised for each cash-generating unit to reflect 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. Due to the current low 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 growth rate for the terminal period of 1.5% has been applied.

Investments reflect both maintenance and expectations of organic growth.

Management determines the expected annual growth rate in the budget period and the expected margins based on historical experience and assumptions about expected market developments:

Customer Services
Growth is based on servicing the existing installed base as well as the additional installed base generated from new Cement and Minerals project business. Revenue in 2016 was impacted by the past years' strong cost focus, in particular in the mining industry, however activity resumed in the second half of year, supported by significant commodity price increases. Production levels are the key driver for market-driven growth in Customer Services, and despite several years of a subdued cement market and a mining capex downturn, global production for cement as well as most minerals have showed stable or increasing trends.

Future growth is expected to be backed by a recovery in the cement and mining industries, and by organic growth initiatives such as globalisation of service offerings, increased focus on wear parts, expansion of maintenance business, and concentration of product line management on productivity focused solutions.

4.7 Impairment test (continued)

Product Companies
The market headwind, and lower project related activities across industries, could not be compensated for by organic growth initiatives in 2016. However increased aftermarket activity compensated for most of the decline in new equipment sales. Growth is the key divisional focus area, and all product companies share the same ambition and potential to grow in their core markets as well as close adjacent industries where existing technologies can be applied. In addition, future growth is expected to be supported by a recovery in the cement and mining industries which will generate increased project activities and consequently increased product deliveries into FLSmidth Cement and Minerals projects as well as projects outside FLSmidth.

Minerals
With an order backlog end of 2016 which is below the level 12 months ago, and about one-third of the backlog currently moving slowly, revenue will remain under pressure in 2017. The Minerals Division, however, is exposed to the very cyclical behaviour of mining capital expenditures, and more importantly is to look at the average growth over a number of years. In the coming years, growth is expected to be supported by a cyclical rebound in the mining industry coupled with strengthened product line management and new offerings related to ongoing R&D projects focused on enhancing customers' productivity. Further, FLSmidth plans to enter the mining mid-market through a recently established FLSmidth controlled joint-venture.

The market for mining capital expenditures is expected to be flattish in 2017 and showing growth in the subsequent years. Except fertilizer minerals, the prices of FLSmidth's key commodities have increased between 8% and more than 100% during 2016 which is significantly improving customers' cash flow and ability to make new investments. As a big potential for improving productivity in the industry remains, miners are expected to turn focus from cost cutting to asset management, especially in copper and gold which continues to lead FLSmidth's minerals activities. According to a study by Wood Mackenzie, miners will allocate the highest share of expansion capex to copper and gold projects in the coming years.

Cement
Despite a continued subdued market, FLSmidth achieved an increased order intake and showed solid project execution in 2016, and consequently revenue grew above the targeted range over the cycle. Looking ahead, growth is expected to be supported by a cyclical rebound in the cement industry, coupled with leveraging the 'Design, Build, Operate' business model and a continued strengthening of productivity enhancing products and solutions. Market-driven growth is based on a rising world population, increasing urbanisation, growing wealth and increasing demand for energy and infrastructure.

Sensitivity analysis
A sensitivity analysis has been performed of the main assumptions in the impairment test to identify the lowest and/or the highest discount rate and the lowest growth rate in the budget period for each cash-generating unit without resulting in any impairment losses. A summary of the sensitivity analysis is shown below:

DKKm	Average growth rate in the budget period	Minimum growth rate in the budget period*	Discount rate after tax applied	Maximum discount rate after tax
Customer Services	4%	n/a*	7.25%	16%
Product Companies	5%	n/a*	7.25%	15%
Minerals	7%	1%	7.25%	10%
Cement	1%	n/a*	7.25%	n/a

* With a growth of zero there are no indications of impairment.

4.8 Provisions

Accounting policy

Provisions are recognised when the Group, due to an event occurring before or at the balance sheet date, has a legal or constructive obligation and it is probable that financial benefits must be waived to settle the obligation. Provisions are measured according to Management's best estimate of the amount whereby the obligation is expected to be settled.

Provisions for warranty claims are estimated on a project-by-project basis based on historical realised cost related to claims in the past. The provision covers estimated own costs of completion, subsequent warranty supplies and unsettled claims from customers or subcontractors.

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.

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 for restructuring costs are based on Management's best estimate. Provisions are only made for liabilities deriving from restructuring that 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.

Provisions consist of:
- Estimated warranty claims in respect of goods or services already delivered
- Guarantees and liabilities resulting from disposal of enterprises and activities (included in other provisions)
- Provisions for loss-making contracts (included in other provisions)
- Provisions for losses resulting from disputes and lawsuits (included in other provisions)
- Provisions for tax risks (included in other provisions)
- Provisions for cost related to restructuring

When assessing work-in-progress for third parties, a number of project-related risks have been taken into account, including performance guarantees and operation and maintenance contracts for which allowances are made based on Management estimates. A few cases are pending before the court in connection with previously supplied projects. Provisions have been made to counter any losses that are estimated to occur in settling the cases.

Significant estimates and assessments by Management

Management assesses provisions and the likely outcome of pending and probable lawsuits, ect. on an ongoing basis. The outcome depends on future events, which are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes, Management bases its assessment on internal and external legal assistance and established precedents. Tax provisions are made to cover expected additional future tax liabilities related to the financial year or previous years.

Warranties and other provisions are measured on the basis of empirically information covering several years as well as legal opinions. Together with estimates by Management of future trends, this forms the basis for warranty provisions and other provisions. Long-term warranties and other provisions, discounting to net present value takes place based on the future cash flow and discount rate expected by Management.

4.8 Provisions (continued)

DKKm	2016			
	Warranties	Restructuring	Other	Total
Provisions at 1 January	782	14	760	1,556
Foreign exchange adjustments	2	1	10	13
Additions	433	43	324	800
Used	(175)	(16)	(165)	(356)
Reversals	(303)	(1)	(207)	(511)
Reclassification to/from other liabilities	(36)	0	(16)	(52)
Provisions at 31 December	**703**	**41**	**706**	**1,450**
The maturity of provisions is specified as follows:				
Short-term liabilities				1,101
Long-term liabilities				349
				1,450

DKKm	2015			
	Warranties	Restructuring	Other	Total
Provisions at 1 January	737	49	812	1,598
Transfer to assets held for sale	(14)	(17)	(46)	(77)
Foreign exchange adjustments	31	(4)	8	35
Disposal of Group enterprises	0	0	9	9
Additions	389	3	494	886
Used	(159)	(17)	(237)	(413)
Reversals	(234)	0	(243)	(477)
Discounting of provisions	1	0	0	1
Reclassification to/from other liabilities	31	0	(37)	(6)
Provisions at 31 December	**782**	**14**	**760**	**1,556**
The maturity of provisions is specified as follows:				
Short-term liabilities				1,047
Long-term liabilities				509
				1,556

FLSmidth is involved in a number of ongoing legal disputes and provision is made for the estimated cost.

FLSmidth is a defendant in a number of pending lawsuits in the US that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and/or distributed by FLSmidth in the past. Part of the Group's insurance for asbestos-related claims expired in 2014. The strategy for managing the ongoing exposure includes a potential pool-sharing agreement which FLSmidth expects to enter into in 2017. Management's present belief is that the risk caused by the pending asbestos litigation cases in the US is not material in the context of FLSmidth's total business operations.

CHAPTER 5
CAPITAL STRUCTURE AND FINANCING

5.1 Long-term liabilities

The maturity structure of long-term liabilities divided into liabilities between one and five years and liabilities where time to maturity is more than five years.

DKKm	2016	2015
Maturity structure of long-term liabilities:		
Deferred tax liability	49	47
Other provisions	341	407
Pension liabilities	20	21
Bank loans and mortgage debt	1,941	2,907
Prepayments from customers	90	120
Other liabilities	108	128
Between one and five years	**2,549**	**3,630**
Deferred tax liability	330	333
Other provisions	8	102
Pension liabilities	276	257
Bank loans and mortgage debt	1,989	1,884
Other liabilities	32	22
After five years	**2,635**	**2,598**
	5,184	**6,228**

Other long-term liabilities consist of employee bonds and other employee liabilities such as service liabilities and bonuses.

Other short-term liabilities include due holiday pay, public taxes, interest payable, bonuses and negative fair value of derivatives.

5.2 Financial income and costs

Accounting policy

Financial income and costs comprise interest income and costs, the interest portion of finance leases, realised and unrealised exchange gains and losses on securities, liabilities and transactions in foreign currency, amortisation related to mortgage debt, etc.

Interest income and costs are accrued on the basis of the principal amount and the effective interest rate. The effective interest rate is the discount rate used to discount the anticipated future payments which are related to the financial asset or the financial liability so that the present value of the payments corresponds to the carrying amount of the asset and the liability, respectively.

DKKm	2016	2015
Financial income		
Interest income from financial assets that are not measured at fair value in the income statement	39	36
Fair value adjustment of derivatives	186	386
Foreign exchange gains	925	1,198
Fair value adjustment of shares	53	32
	1,203	**1,652**
Financial costs		
Interest costs from financial liabilities that are not measured at fair value in the income statement	(110)	(98)
Fair value adjustment of derivative financial instruments	(298)	(463)
Foreign exchange losses	(849)	(1,347)
	(1,257)	**(1,908)**

Financial income in 2016 was positively impacted by fair value adjustments of shares in cement companies.

5.3 Maturity structure of financial liabilities

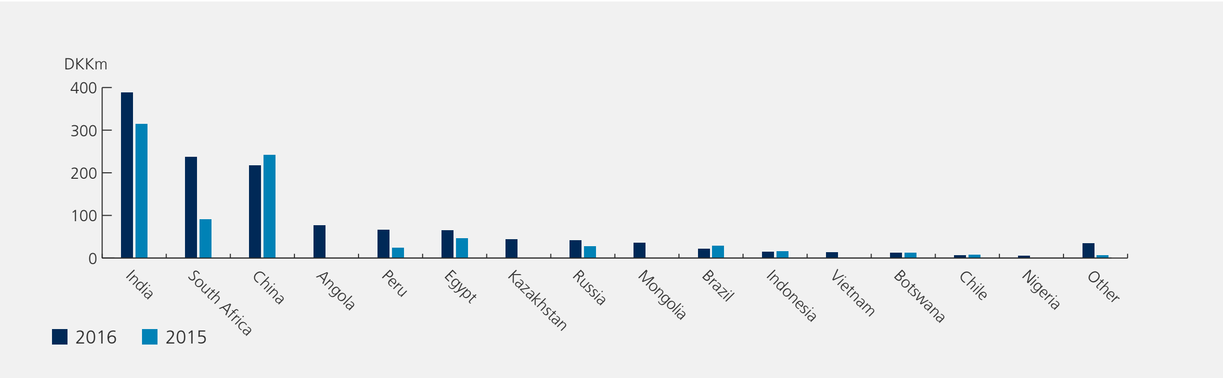
DKKm	2016	2015
Time to maturity:		
Within one year	4,680	4,369
Between one and five years	2,002	3,001
After five years	2,022	1,905
Total	**8,704**	**9,275**

Financial liabilities include bank loans and mortgage debt of DKK 3,950m (2015: DKK 4,878m) and trade payables of DKK 3,037m (2015: DKK 2,546m).

5.4 Specification of net interest-bearing debt

	Currency	2016 DKKm	Effective interest rate	Interest period			2015 DKKm	Effective interest rate
				< 1 year	1-5 years	> 5 years		
Mortgage debt	EUR	(307)	0.5%	100%	0%	0%	(307)	0.5%
Bank loans	USD	(599)	0.1%	100%	0%	0%	(1,605)	1.0%
Bank loans	EUR	(3,044)	0.1%	100%	0%	0%	(2,966)	1.1%
Other liabilities		(23)	0.0%	100%	0%	0%	0	0.0%
Total debt		**(3,973)**		**100%**	**0%**	**0%**	**(4,878)**	
Total cash and cash equivalents, excl. net assets held for sale		1,448					1,123	
Other assets		0					80	
Total securities		0					1	
Net interest-bearing debt		**(2,525)**					**(3,674)**	

Bank deposits with currency restrictions total DKK 1,278m (2015: DKK 819m) and are attributable to the following countries:

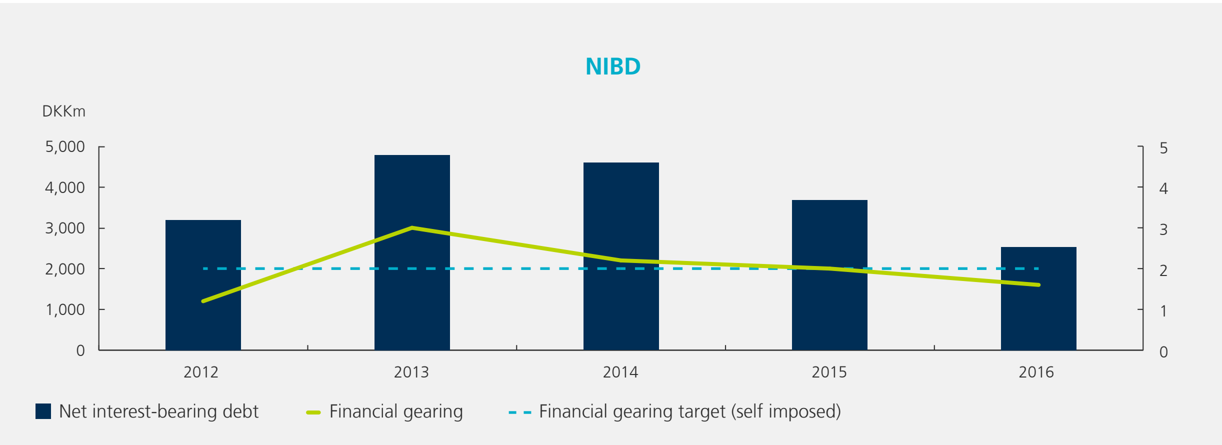


Bank deposits which are placed in countries with currency restrictions, or are difficult to repatriate to Denmark are mainly used to cover local operating costs.

5.4 Specification of net interest-bearing debt (continued)

Development in net interest-bearing debt:

DKKm	2016	2015
Net interest-bearing debt at 1 January	(3,674)	(4,557)
Cash flow from operating activities	1,447	538
Net investments in intangible, tangible and financial assets	(195)	750
Paid dividend	(197)	(446)
Acquisition/disposal of treasury shares	13	17
Other items	5	20
Earn-out value adjustment	(1)	(17)
Currency adjustments, etc.	142	55
Interest-bearing debt at 31 December, Group	**(2,460)**	**(3,640)**
Net assets/liabilities held for sale	(65)	(34)
Net interest-bearing debt, excluding assets and liabilities held for sale	**(2,525)**	**(3,674)**



5.5 Financial risks

Introduction
FLSmidth is exposed to multiple financial risks due to its international operations. The financial risks include currency, credit, interest, and liquidity risks. The overall framework for managing financial risks is contained in the Groups' Financial Policy, which is approved by the Board of Directors. Most of the FLSmidth Group's financial transactions are carried out centrally from Group Treasury, located in Denmark.

By centralising, the Group achieve economies of scale and ensures cost effective management of financial facilities, daily loans / deposits, currency and interest exposure, and cash management optimization. Group Treasury identifies, evaluates and hedges financial risks in close coordination with the divisions. Both global and local credit and guarantee facilities, are negotiated centrally. Additionally, Group Treasury acts as financial advisor to divisions on financial risks, and wording of export letters of credit, bank and corporate guarantees, and financial packages for customers.

Financial risk	Impact (Low, Medium or High)	Policy	Mitigation
Currency risk	Medium	Limit set out in Group Financial Policy and managed by VaR (Value at Risk) at Group level The primary purpose of hedging currency exposures is to reduce cash flow and earnings volatility. The Financial Policy sets out various hedging thresholds	• Use of derivative financial instruments to hedge risk exposures • Exposures are hedged no later than when purchase orders or sales contracts become effective
Credit risk	Medium	Credit risks on customers and partner / suppliers are mainly managed by the divisions The Board of Directors has approved a framework for managing counterparty risks on banks	• Continuous credit assessment of customers and trading partners / suppliers. • Credit risks is reduced by receiving prepayments and export letters of credits • Usage of financial institutions with acceptable credit ratings
Interest Risk	Low	The Financial Policy sets out various thresholds to manage interest risk Modified duration of the debt portfolio and exposures threshold per currency are the main parameters	• Usage of derivative financial instruments to hedge risk exposures
Liquidity Risk	Low	The Financial Policy sets out various thresholds to manage liquidity risk Diversity in debt sources, debt maturities and liquidity buffers are the key parameters managed in accordance with the Financial Policy	• FLSmidth has various long term committed financial facilities with multilateral banks and core commercial banks • FLSmidth also has various short term facilities with its core commercial banks • Cash management is optimised by operating a cash pool system • Cash is centralised in the cash pool where possible.

Currency risk
The Group's currency risks derive from the impact of exchange rates on future commercial and financial payments. A large portion of the Group's revenue is order based with long time to completion. This creates currency exposures, for instance between the revenue currency of the contract (typically EUR and USD) and the costs associated with the project, which might be in local currencies.

5.5 Financial risks (continued)

The main purpose of hedging the Group's currency risk is to reduce cash flow and earnings volatility by hedging exposures back to local (functional) currencies. Various financial derivatives is used to hedge these risks. The main aspects of currency hedging policy are:
• Hedge FX exposures on large projects and other large transactional exposures
• Hedge debt and cash back to the functional currency of the entity holding the exposures

The Group´s overall currency position is managed by means of Value at Risk (VaR) which must not exceed DKK 20m per day. VaR as of December 31 2016 was DKK 2m for the risks known by the Group. A 5% increase in a given exchange rate against the Danish Kroner would have had the following impact on the consolidated profit and equity for 2016:

Impact: DKKm	EUR	USD	INR	AUD	ZAR	CAD	CLP
EBITA	(8)	(32)	(193)	5	(152)	(3)	0
Equity	48	173	(131)	43	(127)	47	27

Credit risk
The use of financial instruments entails the risk that the financial counterparties might not honor their obligations. This financial counterparty risk is minimised by using various financial counterparties, all with an acceptable credit rating.

FLSmidth is also exposed to commercial credit risks, in case customers are not paying outstandings, or suppliers are not delivering goods as agreed. FLSmidth has no particular concentration of suppliers or customers. For instance, in 2015 and 2016, no single customer accounted for more than 5% of the revenue. Moreover, the credit risk related to trade receivables is generally managed by continuous risk assessment and credit evaluation of major customers and trading partners. Credit risks on counterparties - other than banks - are minimised to the extent possible through the use of export letters of credit and guarantees, or by securing positive cash flow throughout the project execution.

Interest rate risks
Interest rate risks concern the interest bearing assets and liabilities of the Group. The interest bearing financial assets consist primarily of cash in financial institutions and the interest bearing liabilities mainly consist of bank and mortgage debt. The main funding currencies of the Group are DKK, EUR, USD and AUD. The hedging of interest rates is governed by a duration range and is managed by using derivatives such as interest rates swaps.

As of December 31 2016, a majority of the Group's interest bearing debt carried a floating rate. Other things being equal, a 1% increase in the interest rate will have a DKK 25m negative impact on the Group's interest earnings (2015 DKK 37m).

Liquidity Risk
The purpose of the Group's cash management is to ensure that the Group, at all times, has sufficient and flexible financial resources at its disposal to assure continuous operations and honour obligations when due. The Group manages its short term liquidity risks through a cash pool system in various currencies, and by having short term overdraft facilities in place with various financial institutions. Long term liquidity risk is managed through committed financial facilities.

At the end of 2016, FLSmidth & Co A/S had entered into the following committed financial facilities:

DKKm

Commitment expiry	0 - 12 months	12 - 60 months	> 60 months
Multilateral banks:			
European Investment Bank (EUR) (fully drawn)	0	930	
Nordic Investment Bank (EUR) (fully drawn)	0	967	
Commercial banks:			
Core relationship banks	0	1,325	5,305

The weighted average maturity is 3.8 years (2015: 4.5 years) which is within the limits of the Group's Financial Policy.
The committed facilities contain standard clauses such as pari passu, negative pledge, change of control and a leverage financial covenant.
The Group did not default or fail to fulfil any of its financial facilities, in neither 2015 nor 2016.

The Group continuously monitors its liquidity buffer which is targeted not to be lower than DKK 2bn at any point of time, at present and based on 12 months- forecasts. Liquidity buffers are monitored on a daily basis. As of December 31 2016, the liquidity buffer of the Group is well above the threshold.

Please see note 5.3 in the consolidated financial statements for maturity structure of financial liabilities.

5.6 Derivatives

Accounting policy

Derivatives are initially recognised in the balance sheet at fair value and subsequently measured according to fair value at the balance sheet date. The fair value of derivatives is included in other receivables (positive fair value) or other liabilities (negative fair value) as the case may be. Positive fair values are only offset against negative fair values if the Company is entitled to and intends to make a net settlement of several financial instruments (cash settlement). The fair values of derivatives are measured on the basis of market data and recognised valuation methods.

Hedge accounting consists of positive and negative fair values of derivatives, which are recognised in the balance sheet under Other financial assets and Other financial liabilities respectively.

Derivatives used for cash flow hedges are measured at fair value on the reporting date, and value adjustments are recognised in Other comprehensive income.

Income and costs relating to cash flow hedges are transferred from Other comprehensive income on realisation of the hedged item.

Derivatives are recognised on the transaction date.

Derivatives that do not fulfil the criteria for hedge accounting are regarded as trading portfolio and recognised in the balance sheet at fair value at the balance sheet date. Value adjustments 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, unless the contract concerned as a whole is recognised and measured at fair value.

Fair value of hedge instruments not qualifying for hedge accounting (economic hedge)
Fair value adjustments recognised in financial items in the Income Statement amounted to DKK -111m in 2016 (2015: DKK -156m).
At 31 December 2016, the fair value of the Group's hedge agreements that are not recognised as hedge accounting amounted to DKK 5m (2015: DKK -135m).

Fair value hedge
To minimise the foreign currency exposure arising from trade receivables, financial liabilities and firm commitments, the Group uses forward exchange contracts. The change in the fair value is specified below:

DKKm	2016	2015
Fair value recognised in hedged items	0	0
Included in the income statement	0	(1)

At 31 December 2016, the fair value of the Group's fair value hedge instruments amounted to DKK 0m (2015: DKK 0m).

Hedging of forecast transactions (cash flow hedge)
The Group uses 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 the income statement. In addition, unrealised fair value of derivatives is recognised in other receivables and other liabilities.

DKKm	2016	2015
Cash flow hedge reserve recognised in other comprehensive income	84	(85)
Reclassified from other comprehensive income to income statement	90	43
Hedge ineffectiveness on cash flow hedges	(6)	(45)

At 31 December 2016, the fair value of the Group's cash flow hedge instruments amounted to DKK -33m (2015: DKK -40m).

5.7 Categories of financial instruments and fair value hierarchy of financial instruments

The carrying amount of financial instruments for each category is specified in the table below:

DKKm	2016	2015
Financial assets available for sale	163	116
Receivables measured at amortised cost including cash and cash equivalents	9,364	9,415
Financial assets measured at fair value through the income statement	103	128
Financial liabilities measured at amortised cost	8,675	9,079
Financial liabilities measured at fair value through the income statement	135	274

The fair value of financial assets and financial liabilities measured at amortised cost is approximately equal to the carrying amount.

Receivables measured at amortised cost including cash and cash equivalents include trade receivables of DKK 4,533m (2015: 4,884m) work-in-progress for third parties of DKK 2,426m (2015: DKK 2,526m) and cash and cash equivalents of DKK 1,448m (2015: DKK 1,123m).

Financial liabilities measured at amortised cost include bank loans and mortgage debt of DKK 3,950m (2015: DKK 4,878m) and trade payables of DKK 3,037m (2015: DKK 2,546m).

Financial assets and liabilities measured at fair value through the Income Statement are measured at quoted prices in an active market for similar assets or liabilities or other valuation methods, where all significant inputs are based on observable market data (level 2).

Of financial assets available for sale, DKK 140m (2015: DKK 91m) are measured at quoted prices in an active market for the same type of instruments (level 1). The remaining financial assets available for sale are measured using valuation methods, where all significant inputs are based on observable market data (level 2).

There have been no significant transfers between level 1 and level 2 in 2016 or 2015.

The carrying amount is equal to the fair value except for the financial liabilities measured at amortised cost.

CHAPTER 6
GOVERNANCE

6.1 Management remuneration

Board of directors remuneration

The members of the FLSmidth & Co. A/S´ Board and Executive Management hold shares per 31 December in FLSmidth & Co. A/S and other executive positions in Danish and foreign commercial enterprises as specified below:

	2016				2015			
	Board of Directors	Board Committees	Total**)	Nominal shareholding	Board of Directors	Board Committees	Total**)	Nominal shareholding
Board of Directors	DKK (1,000)	DKK (1,000)	DKK (1,000)	31 Dec. Number of shares	DKK (1,000)	DKK (1,000)	DKK (1,000)	31 Dec. Number of shares
Vagn Ove Sørensen (Chairman)	1,200	0	1,200	7,501	1,200	0	1,200	6,301
Torkil Bentzen	800	0	800	5,000	800	0	800	5,000
Caroline Grégoire Sainte Marie	400	175	575	500	400	100	500	250
Martin Ivert	100	25	125	0	400	100	500	300
Sten Jakobson	400	100	500	2,000	400	100	500	2,000
Tom Knutzen	400	200	600	12,500	400	200	600	12,500
Marius Jacques Kloppers*)	300	150	450	0	0	0	0	0
Richard Robinson Smith*)	300	75	375	1,000	0	0	0	0
Jens Peter Koch (employee-elected)	400	75	475	240	400	0	400	240
Mette Dobel (employee-elected)	400	0	400	864	400	0	400	864
Søren Qvistgaard Larsen (employee-elected)	400	0	400	65	400	0	400	65
Total	5,100	800	5,900	29,670	4,800	500	5,300	27,520

*) Joined on 30 March 2016
**) The Directors' remuneration does not include mandatory social security contributions paid by FLSmidth

Executive positions in other enterprises*

Vagn Ove Sørensen (Chairman): Chairman of the boards of directors TDC A/S (Denmark), TIA Technology A/S (Denmark), Zebra A/S, Scandic Hotels AB (Sweden), Select Service Partner Plc (UK), and Thor Denmark Holding ApS (Denmark). Vice Chairman of the Boards of Directors of Nordic Aviation Capital (Ireland). Member of the Boards of Director of CP Dyvig & Co. A/S (Denmark), JP/Politikens Hus A/S (Denmark), Lufthansa Cargo (Germany), Air Canada (Canada), Royal Caribbean Cruises Ltd. (USA), CHEP Aerospace (Switzerland), VFS Global (Switzerland), and Braganza AS (Norway). Senior Advisor to EQT Partners and Morgan Stanley.

Torkil Bentzen: Chairman of the Boards of Directors of Burmeister & Wain Scandinavian Contractor A/S (Denmark), State of Green (Denmark) and MESG GmbH (Germany). Member of the Boards of Directors of Mesco Danmark A/S (Denmark) and Siemens A/S Danmark (Denmark). Senior Advisor to the Board of Mitsui Engineering & Shipbuilding Ltd. (Japan).

Caroline Grégoire Sainte Marie: Member of the Boards of Directors of Groupama SA (France), Eramet (France), and Wienerberger AG (Austria), CALYOS (Belgium), and Founding President of Definnow (France).

Sten Jakobson: Chairman of the Boards of Directors of Power Wind Partners AB (Sweden) and LKAB (Sweden). Vice Chairman of the Board of Directors of SAAB (Sweden). Member of the Boards of Directors of Stena Metall (Sweden) and Xylem Inc (USA)

Tom Knutzen: CEO of Jungbunzlauer Suisse AG (Switzerland). Member of the Board of Directors and Chairman of the Board Audit Committee for Nordea Bank AB (publ) (Sweden)

Richard Robinson Smith: Senior Vice President & General Manager at AGCO Corporation (USA)

* Apart from 100% owned FLSmidth & Co. A/S' subsidiaries.

6.1 Management remuneration (continued)

Executive Management 2016 – registered with Erhvervsstyrelsen (The Danish Business Authority)

	Gross salary	Cash Bonus	Expensed long-term incentive program	Total	Nominal shareholding at 31 Dec.
	(incl. pension)	(up to 50% of gross salary)	(up to 35% of gross salary)		
	DKK (1,000)	DKK (1,000)	DKK (1,000)	DKK (1,000)	Number of shares
Thomas Schulz	7,282	848	1,468	9,598	4,510
Lars Vestergaard	3,939	427	533	4,899	1,341
Total	**11,221**	**1,275**	**2,001**	**14,497**	**5,851**

Executive Management 2015 – registered with Erhvervsstyrelsen (The Danish Business Authority)

	Gross salary	Cash Bonus	Expensed long-term incentive program	Total	Nominal shareholding at 31 Dec.
	(incl. pension)	(up to 50% of gross salary)	(up to 35% of gross salary)		
	DKK (1,000)	DKK (1,000)	DKK (1,000)	DKK (1,000)	Number of shares
Thomas Schulz	6,974	1,056	1,159	9,189	4,510
Lars Vestergaard	3,595	420	258	4,273	1,341
Total	**10,569**	**1,476**	**1,417**	**13,462**	**5,851**

6.2 Staff costs

Accounting policy

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

DKKm	2016	2015
Wages, salaries and other remuneration	3,961	4,201
Contribution plans and other social security costs, etc.	463	493
Defined benefit plans	14	17
Share-based payment, option plans	39	38
Other staff costs	369	303
	4,846	**5,052**
The amounts are included in the items:		
Production costs	2,990	3,139
Sales and distribution costs	974	977
Administrative costs	882	936
	4,846	**5,052**

The average number of employees in the continuing activities was 12,432 (2015: 13,070).

Decrease in staff costs related to exchange rates amounts to DKK 141m and redundancy costs incurred in 2016 amount to DKK 121m (2015: DKK 41m).

For further details concerning the remuneration of the Group Executive Management and Board of Directors, see note 6.3 in the consolidated financial statements regarding related parties.

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 2016 and 2015 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 50% of the relevant member´s Gross Salary, including pension, for the year in question.

DKKm	2016	2015
Remuneration of Board of Directors		
Board of Directors fees	5	5
Total remuneration of Board of Directors	**5**	**5**
Remuneration of the Group Executive Management		
Wages and salaries	30	28
Bonus	6	5
Termination benefit	1	0
Share-based payment	4	4
Total remuneration of the Group Executive Management	**41**	**37**

The remuneration includes seven Group Executive Management members, of which two are registered with Erhvervsstyrelsen (The Danish Business Authority).

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 50% of the relevant member´s Gross Salary, including pension, for the year in question.

6.4 Share-based payment, option plans

Accounting policy

Plans classified as equity-settled share options are measured at fair value at grant date of allocation and are recognised in the income statement as staff costs in the period in which the final entitlement to the options is attained. The counter item is recognised directly in the equity.

In connection with initial recognition of share options, an estimate is made of the number of options to which Group Executive Management and key staff are expected to become entitled. Subsequent adjustment is made for changes in the estimate of the number of option entitlements so the total recognition is based on the actual number of option entitlements.

The fair value of the options allocated is estimated by means of the Black & Scholes model. The calculation takes into account the terms and conditions under which the share options are allocated.

6.4 Share-based payment, option plans (continued)

The Group Executive Management and a number of key employees in the Group have been granted options to purchase 2,587,005 shares in the company at a set price (strike price).

The fair value of the options allocated is estimated by means of the Black Scholes model. The calculation takes into account the terms and conditions under which the share options are allocated.

Performance-based plans (2016 plan)
In 2016 a performance-based plan was adopted.

The total value of the performance-based plan at the time of allotment is DKK 44m corresponding up to 35% of the relevant member's base salary or 179.147 shares at a listed price of DKK 247,30 of which 33.541 shares pertain Executive Management at the grant date. Exercise is depending on certain KPI-goals and employment during the period 2016-2019.

The performance-based plan is subsequently remeasured on each balance sheet date and at the time of final payout.

As of 31 December 2016 the value of the performance-based plan is DKK 8m which will be applied to the payout of shares when the program is completed in 2019.

Share-based plans (2008-2015 plan)

Specification of outstanding numbers: Number of shares	**Group Executive Management**	**Key employees**	**Total number**
Outstanding options 1 January 2015	217,162	2,268,299	2,485,461
Terminations, member of Executive Management	(37,131)	37,131	0
Additions, member of Executive Management	23,895	(23,895)	0
Exercised 2009 plan	(8,025)	(59,525)	(67,550)
Exercised 2011 plan	0	(35,679)	(35,679)
Lapsed	0	(48,602)	(48,602)
Allocated in 2015 (issued 22 November 2015)	119,766	502,175	621,941
Outstanding options 31 December 2015	**315,667**	**2,639,904**	**2,955,571**
Terminations, member of Executive Management	(14,097)	14,097	0
Exercised 2011 plan	(8,772)	(43,320)	(52,092)
Exercised 2012 plan	0	(2,338)	(2,338)
Lapsed	(12,300)	(301,836)	(314,136)
Outstanding options 31 December 2016	**280,498**	**2,306,507**	**2,587,005**
Number of options that are exercisable at 31 December 2016	76,651	1,112,182	1,188,833
Number of options that are exercisable at 31 December 2015	49,845	862,282	912,127
Total fair value of outstanding options DKKm			
At 31 December 2016	15	114	129
At 31 December 2015	10	78	88

	2016	**2015**
Average weighted fair value per option	49.79	29.75
Average weighted strike price per option	277.81	276.71
Average price per share at the time of exercising the option	288.65	304.49

In 2016, the recognised fair value of share options in the consolidated income statement amounts to DKK 31m (2015: DKK 37m).

The calculation of average weighted fair value and strike prices per option is based on a dividend of DKK 6 (2015: DKK 9) in the exercise period.

6.4 Share-based payment, option plans (continued)

Year of allocation, strike price and exercise period for the individual allocations are as follows:

Year of allocation	Strike price	Exercise period	Allocated	Lapsed	Exercised	Outstanding
2010 allocated in August	200.00	2014-2016	170,700	(170,700)	0	0
2011 allocated in August	245.00	2016-2017	340,390	(24,122)	(109,948)	206,320
2011 allocated in November	322.00	2016-2017	80,050	(12,808)	0	67,242
2012 allocated in August	332.00	2016-2017	311,732	(24,093)	0	287,639
	326.00	2017-2018				
	320.00	2018-2019				
2012 allocated in November	287.00	2016-2017	114,562	(16,366)	(2,338)	95,858
	281.00	2017-2018				
	275.00	2018-2019				
2013 allocated in August	298.00	2016-2017	440,448	(31,674)	0	408,774
	292.00	2017-2018				
	286.00	2018-2019				
2013 allocated in November	264.00	2016-2017	135,000	(12,000)	0	123,000
	258.00	2017-2018				
	252.00	2018-2019				
2014 allocated in August	306,20	2017-2018	593,785	(31,971)	0	561,814
	300,20	2018-2019				
	294.20	2019-2020				
2014 allocated in November	259.00	2017-2018	266,950	(37,373)	0	229,577
	253.00	2018-2019				
	249.00	2019-2020				
2015 allocated in November	263.00	2018-2019	621,941	(15,160)	0	606,781
	257.00	2019-2020				
	251.00	2020-2021				

The calculated fair values in connection with allocation are based on the Black & Scholes model for valuation of options.
The calculation of the fair value of share options at the time of allocation is based on the following assumptions:

	Allocated in November 2015
Average price per share	279.00
Strike price per share	279.00
Expected volatility	33.26%
Expected life	4 1/2 years
Expected dividend per share	DKK 9
Risk-free interest	0.0-0.6%
Number of share options allocated	621,941
Fair value per option, DKK	55.79
Total fair value, DKKm	35

The expected volatility is based on the historical volatility in the preceding 12 months.
The expected life is the weighted average residual life of the share options allocated.

CHAPTER 7
OTHER DISCLOSURE REQUIREMENTS

7.1 Shareholders

Accounting policy

Earnings per share (EPS) and diluted earnings per share (EPS, diluted) are measured according to IAS 33. Non-diluted earnings per share are calculated as the earnings for the year after tax from continuing and discontinued activities allocated to the shareholders of FLSmidth & Co A/S divided by the total average number of shares outstanding during the year, (shares issued adjusted for treasury shares minus share options in-the-money).

Diluted earnings per share is calculated as net profit attributable to shareholders divided by the average number of shares in circulation, including the dilutive effect of stock options in-the-money.

Earnings per share (EPS)

DKKm	2016	2015
Earnings		
FLSmidth & Co. A/S´ shareholders' share of profit/(loss) for the year	518	421
FLSmidth & Co. A/S´ profit/(loss) from discontinued activities	(68)	(178)
Number of shares, average (1,000)		
Number of shares issued	51,250	51,250
Adjustment for treasury shares	(2,331)	(2,360)
Share options in-the-money	54	106
Average number of shares	**48,973**	**48,996**
Earnings per share (1,000)		
Continuing and discontinued activities per share	10.6	8.6
Continuing and discontinued activities, diluted, per share	10.6	8.6
Continuing activities per share	12.0	12.3
Continuing activities, diluted, per share	12.0	12.3

Non-diluted earnings per share in respect of discontinued activities amount to DKK -1.4 (2015: DKK -3.6) and diluted earnings per share in respect of discontinued activities amount to DKK -1.4 (2015: DKK -3.6).

As of 31 December 2016 number of share options in-the-money amounted to 1,707,962 (2015: 584,036).

Shareholders

At the end of 2016:
One shareholder has reported a participating interest above 15%: Novo A/S on behalf of Novo Nordisk Fonden

One shareholder has reported a participating interest above 10%: Lundbeck Foundation and Lundbeckfond Invest A/S

One shareholder has reported a participating interest above 5%: Franklin Resources Inc.

7.1 Shareholders (continued)

Treasury shares

Accounting policy

Treasury shares
Treasury shares are recognised in the balance sheet at zero value. When buying or selling treasury shares, the purchase or selling amount plus any dividend is recognised directly in equity among retained earnings. Treasury shares are used to hedge share in incentive programmes.

The year's movements in holding of treasury shares (1,000):	2016	2015
Treasury shares at 1 January	2,328	2,412
Acquisition of treasury shares	2	19
Share options exercised	(54)	(103)
Treasury shares at 31 December	**2,276**	**2,328**

The holding of treasury shares represents 4.4% (2015: 4.5%) of the share capital.

7.2 Special non-recurring items

Accounting policy

Special non-recurring items consist of costs and income of a special nature in relation to the main activities of the continued activities, including gains and losses on disposal of enterprises and run-off on purchase price allocations to inventories in connection with acquisitions. In order to give a true and fair view of the Group's operational activities, which are considered part of continued activities, Cembrit and bulk material handling activities are reported as discontinued activities.

DKKm	2016	2015
Closedown of production facilities	(30)	0
Gain/(loss) on disposal of enterprises and activities	0	(5)
	(30)	**(5)**

Costs relate to closedown of production facilities in Canada and Australia.

7.3 Contractual liabilities and contingent liabilities

The Group leases properties and operating equipment under operating leases. The lease period is primarily one to five years with an option for extension after the period expires.

DKKm	2016	2015
Minimum rent and operating lease commitments, time to maturity:		
Within one year	32	31
Between one and five years	126	122
After five years	2	4
	160	**157**
Guarantees	20	53
Other contractual obligations	266	260
	286	**313**

Rent commitments are mainly related to commercial leases and equipment.

In connection with the disposal of Group enterprises, guarantees, etc. are issued to the acquiring enterprise. Provisions are made for estimated losses on such items.

When assessing work-in-progress for third parties, a number of project-related risks such as performance, quality and delay of projects are taken into consideration, and estimates and allowances are made based on Management estimates. The financial partners of the Group provide usual security in the form of performance guarantees, etc. for contracts and supplies. At the end of 2016, the total value of performance and payment guarantees issued amounted to DKK 6.2bn (2015: DKK 5.6bn). In cases where a guarantee is expected to materialise, a provision for this amount is made under the heading of other provisions. The Group has non-committed guarantee facilities in financial institutions exceeding DKK 9.5bn (2015: DKK 11.3bn).

In addition, the Group is from time-to-time involved in disputes that are normal for its business. The outcome of ongoing disputes is not expected to have any significant impact on the Group's financial position.

7.4 Pension assets and liabilities

Accounting policy

The Group has signed post-employment benefit plans or similar arrangements with a large part of the Group's employees.

Under defined contribution plans, the employer is required to contribute a certain amount (for example a fixed sum or a fixed percentage of their pay). Under a defined contribution plan, the employees usually bear the risk with regard to future developments in the rates of interest, inflation, mortality and disability. Payments by an enterprise into defined contribution plans are recognised in the income statement for the period to which they apply and any outstanding payments are recognised in the balance sheet under other payables.

Under defined benefit plans, the employer is required to contribute a certain amount (for example a retirement pension as a fixed sum or a fixed percentage of the final pay). Under a defined benefit plan, the enterprise usually bears the risk with regard to future developments in the rates of interest, inflation, mortality and disability. Changes in the computation basis result in a change in the actuarial net present value of the benefits which the enterprise is to pay in the future under this plan. Fair value is only calculated for benefits to which the employees have become entitled through their employment with the enterprise to date. The actuarial net present value less the fair value of any assets related to the plan is stated in the balance sheet among pension assets and liabilities.

Differences between the expected development of pension assets and liabilities and the realised values are described as actuarial gains or losses. Actuarial gains and losses are recognised in other comprehensive income.

Changes in benefits concerning the employees' former employment in the enterprise result in a change in the actuarial net present value, which is considered a historical cost. Historical costs are charged immediately to the income statement if the employees have already acquired a right to the changed benefit. Otherwise, the historical costs are recognised in other comprehensive income.

Significant estimates and assessments by Management

In stating the value of the Group's defined benefit plans, the statement is based on external actuarial assessments and assumptions such as discount rate, expected return on the plan assets, expected increases in salaries and pension, inflation and mortality.

The pension liabilities incumbent on the Danish Group enterprises are funded through insurance plans. The pension liabilities of certain foreign Group enterprises are also funded through insurance plans. Foreign enterprises, primarily in USA, Switzerland and Germany, whose pension liabilities are not - or only partially - funded through insurance plans (defined benefit plans) state the unfunded liabilities on an actuarial basis at the present value at the balance sheet date. These pension plans are partly covered by assets in pension funds. The Group's defined benefit plans were DKK 305m underfunded at 31 December 2016 (2015: DKK 283m) for which a provision has been made as pension liabilities.

In the consolidated income statement, DKK 463m (2015: DKK 493m) has been recognised as contribution plans funded through insurance (defined contribution plans) and other security costs etc. In the case of plans not funded through insurance (defined benefit plans), DKK 7m is recognised (2015: DKK -5m) in the consolidated Income Statement.

The actuarial result for the year at DKK -28m (2015: DKK -16m) is recognised in the statement of other comprehensive income.

7.4 Pension assets and liabilities (continued)

DKKm	2016	2015	2014	2013	2012
Present value of defined benefit plans	(1,091)	(1,044)	(974)	(786)	(893)
Fair value of the plan assets	786	761	708	626	600
Over-/(underfunded)	**(305)**	**(283)**	**(266)**	**(160)**	**(293)**
Actuarial gains/losses, liabilities	(35)	18	(123)	71	(119)
Actuarial gains/losses, assets	7	(34)	0	43	17
Actuarial gains/losses, total	**(28)**	**(16)**	**(123)**	**114**	**(102)**

In 2017, the Group expects to pay a contribution of DKK 68m into its defined benefit plans.

DKKm	2016	2015
Present value of defined benefit plans	(1,091)	(1,044)
Fair value of the plan assets	786	761
Total	**(305)**	**(283)**
Change in recognised liability		
Net liability at 1 January	(283)	(266)
Other adjustments including foreign exchange adjustments	(2)	(12)
Net amount recognised in the income statement	7	(5)
Actuarial gains and losses recognised in other comprehensive income	(28)	(16)
Contributions	(7)	1
Paid-out benefits	8	15
Net liability at 31 December	**(305)**	**(283)**
Presented as assets	**0**	**0**
Presented as liabilities	**(305)**	**(283)**
	(305)	**(283)**
Recognised in the income statement		
Pension costs	(14)	(17)
Calculated interest on liabilities	(20)	(36)
Calculated return on the plan assets	41	48
Recognised in the income statement regarding defined benefit plans	**7**	**(5)**
The amounts are included in production costs, sales and distribution costs and administrative costs.		
Adjustments for the year of defined benefit plans based on experience (pension liabilities), gains/losses	**(35)**	**18**
Return on plan assets		
Calculated return on the plan assets	(41)	(48)
Actual return on the plan assets	48	14
Actuarial gains/losses for the year on the plan assets	**7**	**(34)**
The expected return is fixed on the basis of the weighted return on the plan assets.		
The assumptions on which the actuarial computations at the balance sheet date are based are as follows on average (weighted):		
Average discounting rate applied	1.6%	2.5%
Expected return on tied-up assets	0.2%	0.1%
Expected future pay increase rate	1.2%	1.4%

7.4 Pension assets and liabilities (continued)

DKKm	2016	2015
Present value of defined benefit plans		
Present value at 1 January	(1,044)	(974)
Foreign exchange adjustments	(22)	(86)
Pension costs	(14)	(17)
Calculated interest on liabilities	(20)	(36)
Paid-out benefits	55	56
Actuarial gains and losses*	(35)	18
Membership contributions	(11)	(5)
Present value at 31 December	**(1,091)**	**(1,044)**
Fair value of the plan assets		
Fair value of the plan assets at 1 January	761	708
Foreign exchange adjustment	19	74
Calculated return on the plan assets	41	48
Payment	4	3
Paid-out benefits	(50)	(44)
Actuarial gains and losses*	7	(34)
Membership contribution	4	6
Fair value of the plan assets at 31 December	**786**	**761**
Specification of the fair value of the plan assets		
Equity instruments	354	344
Debt instruments	245	240
Other assets	187	177
Total fair value of the plan assets	**786**	**761**
Specification of the fair value of the plan assets in per cent		
Equity instruments	45%	45%
Debt instruments	31%	32%
Other assets	24%	23%
Defined benefit plan liabilities specified by country		
USA	57%	56%
Switzerland	21%	22%
Germany	14%	14%
India	4%	4%
Canada	2%	1%
Italy	1%	2%
Mexico	1%	1%

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

Sensitivity analysis defined benefit plans:
Below is shown a sensitivity analysis based on possible changes in the assumptions defined at the balance sheet date, all other things being equal.

Change in defined benefit obligation:

DKKm	2016	2015
Discount rate - 1%	(154)	(104)
Discount rate + 1%	133	127

7.5 Disposal of enterprises and activities

Accounting policy

On disposal of enterprises and activities the difference between the selling price and the carrying amount of the net assets at the date of disposal including remaining goodwill less expected costs of disposals is recognised in the income statement among special non-recurring items. If the activities prior to the sale were classified as discontinued activities, the difference is recognised as profit/(loss) for the year, discontinued activities.

If the final consideration is dependent on future events (contingent consideration), it is stated at fair value at the time of sale, and classified as financial assets and adjusted directly in the income statement.

Enterprises and activities sold are included in the consolidated financial statements until the date of disposal.

DKKm	2016	2015
Intangible assets	0	66
Tangible assets	0	640
Inventories	0	290
Trade receivables	0	184
Work-in-progress for third parties	0	0
Other assets	0	167
Cash and cash equivalents	0	82
Liabilities	0	(1,035)
Carrying amount of net assets disposed	**0**	**394**
Net interest-bearing debt	**0**	455
Enterprise value	**0**	**849**
Selling price	0	1,078
Enterprise value	0	(849)
Transaction costs	0	(115)
Profit/loss on disposal of enterprises and activities	**0**	**114**
Cash received	**0**	**999**
Deferred payment	0	71
Total selling price	**0**	**1,070**
Transaction costs	**0**	(115)
Cash and cash equivalents disposed of, see above	**0**	(82)
Net cash effect	**0**	**873**

There has been no disposals of enterprises and activities in 2016.

Disposal of enterprises and activities in 2015 consists of Cembrit and disposal of non-core activities in USA and Canada.

7.6 Discontinued activities

Accounting policy

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 are likewise presented as discontinued activities.

Please refer to note 2.1 in the consolidated financial statements regarding shared cost allocation.

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.

The financial highlights and key ratios of discontinued activities are as follows:

DKKm	2016	2015
Revenue	719	1,113
Costs	(783)	(1,381)
EBT	(64)	(268)
Tax for the year	(4)	90
Profit/(loss) for the year, discontinued activities	**(68)**	**(178)**
Cash flow statement		
Cash flow from operating activities	116	(453)
Cash flow from investing activities	(2)	(82)
Cash flow from financing activities	240	(73)
Earnings per share		
Discontinued activities per share	-1.4	-3.6
Discontinued activities, diluted, per share	-1.4	-3.6

In 2015 it was decided to ring-fence and restructure the bulk material handling activities with a view to divest the activities. Consequently, the impacted activities were reclassified as discontinued activities. The sales process is ongoing and expected to be completed in 2017.

7.7 Specification of assets and liabilities classified as held for sale

Accounting policy

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

Assets or disposal groups held for sale are measured at the lower of the carrying value and the fair value less costs to sell. Assets are not depreciated from the time they are reclassified as held for sale.

DKKm	2016	2015
Intangible assets	5	1
Tangible assets	2	5
Deferred tax assets	27	52
Inventories	10	11
Trade receivables	99	18
Work-in-progress for third parties	192	388
Cash and cash equivalents	65	34
Other assets	62	131
Assets classified as held for sale	**462**	**640**
Provisions	92	139
Trade payables	67	84
Work-in-progress for third parties	350	195
Other liabilities	94	123
Liabilities directly associated with assets classified as held for sale	**603**	**541**
Net assets held for sale	**(141)**	**99**

In 2015 it was decided to ring-fence and restructure the bulk material handling activities with a view to divest the activities. Consequently, the impacted activities were reclassified as discontinued activities. The sales process is ongoing and expected to be completed in 2017.

7.8 Charged assets

DKKm	2016		2015	
	Carrying amount of charged assets	**Charge**	**Carrying amount of charged assets**	**Charge**
Land and buildings	51	307	53	307

7.9 Events occurring after the balance sheet date

As announced on 27 January 2017, FLSmidth has been informed that Novo A/S, on behalf of Novo Nordisk Fonden A/S has reduced its holding of FLSmidth shares to 14.9%.

7.10 Fee to parent company auditors appointed at the Annual General Meeting

In addition to statutory audit, Deloitte, the Group auditors appointed at the Annual General Meeting, provides other assurance engagements and other consultancy services to the Group.

DKKm	2016	2015
Statutory audit	17	19
Other assurance engagements	1	0
Tax and indirect taxes consultancy	4	4
Other services	3	6
	25	**29**

7.11 Approval of the Annual Report for publication

At its meeting on 9 February 2017 the Board of Directors has approved this Annual Report for publication.
The Annual Report will be presented to the shareholders of FLSmidth & Co. A/S for approval at the Annual General Meeting on 30 March 2017.

7.12 List of Group companies

Company name	Country	Direct Group holding (pct.)
FLSmidth & Co. A/S	Denmark	100
DEF 1994 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
Cembrit Roof S.r.l.	Italy	100
Gemena Sp. Z.o.o.	Poland	100
Interfer S.A.S.	France	100
NASS B.V.	Netherlands	100
FLSmidth Operation & Maintenance A/S	Denmark	100
NLSupervision Company Angola, LDA.	Angola	100
NL Supervision Company Nigeria LLC	Nigeria	100
NL Supervision Company Tunisia	Tunisia	100
NL Supervision DRC Sarl	Democratic Republic of Congo	100
FLSmidth A/S	Denmark	100
FLS Maroc	Morocco	100
FLSmidth A/S (Jordan) Ltd.	Jordan	100
FLSmidth AB	Sweden	100
FLSmidth Argentina S.A.	Argentina	100
FLSmidth Caucasus Limited Liability Company (LLC)	Armenia	100
FLSmidth Co. Ltd.	Vietnam	100
FLSmidth S.A.	Spain	100
FLSmidth SAS	Colombia	100
FLSmidth (Private) Ltd.	Pakistan	100
FLSmidth Global Field Services ApS	Danmark	100
FLSmidth Milano S.R.L.	Italy	100
FLSmidth (UK) Limited	United Kingdom	100
FLSmidth (Jersey) Limited	Jersey	100
FLSmidth Philippines, Inc.	Philippines	100
FLSmidth Iranian (PJSCo)	Iran	100
FLSmidth Ltd.	United Kingdom	100
FLSmidth Ltda.	Brazil	100
FLSmidth MAAG Gear AG	Switzerland	100
FLSmidth MAAG Gear Sp. z o.o.	Poland	100
Reset Holding AG	Switzerland	100
Teutrine GmbH	Switzerland	100
FLSmidth Kenya Limited	Kenya	100
FLSmidth Krebs GmbH	Austria	100
FLSmidth Mongolia	Mongolia	100
FLSmidth Qingdao Ltd.	China	100
FLSmidth Rusland Holding A/S	Denmark	100
FLSmidth Rus OOO	Russia	100
FLSmidth Bel	Belarus	100
FLSmidth Sales and Services Limited	Nigeria	100
FLSmidth Sales and Services Limited	Turkey	100
FLSmidth SAS	France	100
FLSmidth Shanghai Ltd.	China	100
FLSmidth Spol. s.r.o.	Czech Republic	100
FLSmidth (Thailand) Co. Ltd.	Thailand	100
FLSmidth Ventomatic SpA	Italy	100
FLSmidth MAAG Gear S.p.A	Italy	100
FLSmidth Zambia Ltd.	Zambia	100
MAAG Gear Systems AG	Switzerland	100
Phillips Kiln Services International F.Z.E.	UAE	100
Pfister Holding GmbH	Germany	100
PT FLSmidth Indonesia	Indonesia	100
P.T. FLSmidth Construction Indonesia	Indonesia	67
The Pennies and Pounds Holding, Inc.*	Philippines	33
FLSmidth LLP	Kazakhstan	100
FLSmidth Tyskland A/S	Denmark	100
FLS Germany Holding GmbH	Germany	100
FLSmidth Real Estate GmbH	Germany	100
FLSmidth Pfister GmbH	Germany	100
FLSmidth Hamburg GmbH	Germany	100
Möller Materials Handling GmbH	Germany	100
FLSmidth Wiesbaden GmbH	Germany	100
FLSmidth Wadgassen GmbH	Germany	100
FLSmidth Wuppertal GmbH	Germany	100
FLSmidth Oelde GmbH	Germany	100
Fuller Offshore Finance Corp. B.V.	Netherlands	100
FLSmidth Kovako B.V.	Netherlands	100
FLSmidth Minerals Holding ApS	Denmark	100
FLSmidth Ltd.	Canada	100
9189-6175 Quebec Inc.	Canada	100
4437845 Canada Inc.	Canada	100
FLSmidth Pty. Ltd.	Australia	100
DMI Holdings Pty. Ltd.	Australia	100
DMI Australia Pty. Ltd.	Australia	100
ESSA Australia Limited	Australia	100
ESSA International 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
FLSmidth ABON Pty. Ltd.	Australia	100
FLSmidth Krebs Australia Pty. Ltd.	Australia	100
FLSmidth M.I.E. Enterprises Pty. Ltd.	Australia	100
Ludowici Pty. Limited	Australia	100
Hicom Technologies Pty. Ltd.	Australia	100
Ludowici Australia Pty. Ltd.	Australia	100
Ludowici China Pty Limited	Australia	100
Ludowici Beijing Ltd.	China	100
Ludowici Hong Kong Limited	Hong Kong	100
Yantai Ludowici Mineral Processing Equipment Limited	China	100
Rojan Advanced Ceramics Pty. Ltd.	Australia	100
Ludowici Hong Kong Investments Ltd.	Hong Kong	100
J.C. Ludowici & Son Pty. Limited	Australia	100
Ludowici Packaging Australia Pty. Ltd.	Australia	100
Ludowici Technologies Pty. Ltd.	Australia	100
Ludowici Plastics Limited	New Zealand	100
Ludowici Packaging Limited	New Zealand	100
FLSmidth S.A.	Chile	100
FLSmidth S.A. de C.V.	Mexico	100
FLSmidth Private Limited	India	100
FLSmidth (Pty.) Ltd.	South Africa	100
FLSmidth Buffalo (Pty.) Ltd.	South Africa	100

7.12 List of Group companies (continued)

Company name	Country	Direct Group holding (pct.)
FLSmidth Mozambique Limitada	Mozambique	100
FLSmidth South Africa (Pty.) Ltd.	South Africa	75
FLSmidth Roymec (Pty) Ltd.	South Africa	74
FLSmidth (Pty) Ltd.	Botswana	74
Euroslot KDSS (South Africa) (Pty.) Ltd.**	South Africa	50
FLS US Holdings, Inc.	United States	100
FLSmidth USA, Inc.	United States	100
FLSmidth Dorr-Oliver Eimco SLC Inc.	United States	100
FLSmidth Dorr-Oliver Inc.	United States	100
FLSmidth Dorr-Oliver International Inc.	United States	100
FLSmidth Krebs (Beijing) Ltd.	China	100
Ludowici Mineral Processing Equipment Inc.	USA	100
Phillips Kiln Services (India) Pvt. Ltd.**	India	50
Phillips Kiln Services Europe Ltd.**	United Kingdom	50
SLS Corporation	United States	100
FLSmidth Inc.	United States	100
Fuller Company	United States	100

* Associate
** Joint Venture
All other enterprises are Group enterprises

7.13 Accounting policies

This note sets out the Group´s accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one financial statement item, the policy is described in the note to which it relates.

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The Annual Report is also presented in accordance with Danish disclosure requirements for annual reports published by listed companies as well as the IFRS executive order issued in compliance with the Danish Financial Statements Act.

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. The instances in which the parent company's accounting policies deviate from those of the Group have been separately described in note 18 of the financial statement of the parent company.

The Annual Report is presented in Danish kroner (DKK) which is the presentation currency of the activities of the Group and the functional currency of the parent company.

The accounting policies for the consolidated financial statements and for the parent company are unchanged from 2015. However, a few reclassifications have taken place in the comparative figures for 2015.

In 2015 it was decided to ring-fence and put the bulk material handling activities up for sale. As a consequence, this activity has been separated from the continuing business and reported as discontinued activity.

Furthermore, as a consequence of Cembrit being sold 30 January 2015, Cembrit was reported as discontinued activity in 2015.

The assets and related liabilities of the bulk material handling activities are presented in the separate lines "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" in the balance sheet.

Implementation of new and changed standards and interpretations
The Annual Report for 2016 is presented in conformity with the new and revised standards (IFRS/IAS) and new interpretations (IFRIC) approved by the EU, which apply to financial years beginning 1 January 2016 or later.

The implementation of new and revised standards and interpretations has not had material impact on the financial reporting for 2016.

General principles for recognition and measurement
Assets are recognised in the balance sheet when it is likely that future economic benefits will flow to the Group and the value of the asset can be measured reliably. Liabilities are recognised in the balance sheet when it is likely that future economic benefits will depart from the Group and the value of the liability can be measured reliably. In case of initial recognition, assets and liabilities are measured at cost. Subsequent measurements are based on value adjustments as described in the notes.

Consolidated financial statements
The consolidated financial statements comprise the parent company, FLSmidth & Co. A/S´ and all enterprises in which the Group holds the majority of the voting rights or in which the Group in some other way holds control. Enterprises, in which the Group holds between 20% and 50% of the voting rights or in some other way holds significant influence, but not control, are regarded as associates. Investments in jointly controlled entities are recognised as joint ventures by using the pro-rata method.

7.13 Accounting policies (continued)

The consolidated financial statements are based on the financial statements of the parent company and the individual subsidiaries which are recognised in accordance with the Group accounting policies. All items of a uniform nature are added together, while intercompany income, costs, balances and shareholdings are eliminated. Unrealised gains and losses on transactions between consolidated enterprises are also eliminated.

The items in the financial statements of subsidiaries are fully included in the consolidated financial statements. The proportionate share of the earnings attributable to minority interests is included in the Group's profit/loss for the year and as a separate share of the Group's equity.

Materiality
Transactions and information in the Annual Report are presented in classes of similar items. If a line item is not individually material, it is aggregated with other items of a similar nature in the consolidated financial statements in the Annual Report.

There are specific disclosure requirements to the annual report according to IFRS. Management provides specific disclosures required by IFRS unless the information is considered irrelevant or immaterial to the users of the Annual Report.

Translation of foreign currency
The functional currency is determined for each of the reporting enterprises. The functional currency is the currency primarily used by the individual reporting enterprises in connection with day-to-day operations.

Transactions in another currency than the functional currency are transactions in foreign currency. Transactions in another currency than the Group's functional currency are translated at the exchange rate of the day of transaction. Financial assets and liabilities in foreign currency are translated at the exchange rates prevailing at the balance sheet date. Any foreign exchange differences between the rates prevailing at the date of the transaction and the payment date or the balance sheet date, as the case may be, are recognised in the income statement as financial items.

Non-monetary assets and liabilities in foreign currency are recognised at the rate of exchange prevailing at the date of the transaction. Non-monetary items that are measured at fair value are translated at the exchange rate prevailing at the date of the latest fair value adjustment.

The income statements of foreign subsidiaries with a functional currency that differs from Danish kroner and of foreign associates and pro-rata consolidated joint ventures are translated at average exchange rates while their balance sheet items are translated at the exchange rates quoted at the balance sheet date. The differences deriving from the translation of the income statements of foreign business units at average exchange rates and of their balance sheet items at the rate of exchange at the balance sheet date are adjusted in the equity.

The foreign exchange adjustment of receivables from or debt to subsidiaries, that are considered part of the parent company's total investment in the subsidiary concerned, is recognised in the statement of comprehensive income in the consolidated financial statements.

If the financial statements of a foreign business unit are presented in a currency in which the accumulated rate of inflation over the past three years exceeds 100 per cent, adjustments for inflation are made. The adjusted financial statements are translated at the exchange rate quoted on the balance sheet date.

Equity/Dividend
Dividend is allocated in the financial statements at the time when it is decided at the Annual General Meeting, and the company thereby incurs a liability. The dividend, which is proposed for distribution, is stated separately in the equity.

Foreign exchange adjustments
Reserve for foreign exchange adjustments comprises exchange rate differences arising during the translation of the financial statements for entities with a functional currency other than Danish kroner, foreign exchange adjustments regarding assets and liabilities which account for a portion of the Group's net investment in such entities, and foreign exchange adjustments regarding hedging transactions which hedge the Group's net investment in such entities. On full or partial realisation of the net investment, the foreign exchange adjustments are recognised in the income statement in the same item as the gain/loss.

Value adjustments regarding hedging transactions
Fair value adjustments comprise changes in the fair value of hedging transactions that qualify for recognition as cash flow hedges and where the hedged transaction has not yet been realised.

7.14 Implementation of standards and interpretations

Impact from new accounting standards
The following amendments, interpretations and improvement projects have been adopted from 1 January 2016:
- Amendments to IFRS 11 – Accounting for Acquisitions of Interest in Joint Operations was issued May 2014
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation was issued May 2014
- Annual Improvements 2012-2014 was issued September 2014
  - IFRS 5 – Changes in methods of disposal
  - IFRS 7 – Minor changes
  - IAS 19 – Discount rate: Regional market issue
  - IAS 34 – Disclosure of information (elsewhere in the interim financial report)
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidated Exception was issued December 2014
- Amendments to IAS 1 – Disclosure Initiative was issued December 2014

The implementation of the amendments, interpretations and improvement projects has not had a significant impact on recognition or measurement in the Annual Report 2016 and is not expected to have material impact on the financial reporting for the coming financial years.

New standards and interpretations not yet adopted
At the time of releasing this Annual Report, the IASB has issued a number of new standards and interpretations that are not mandatory for the Annual Report 2016, some of which have not yet been endorsed by the EU.

The standards and interpretations will be adopted when they are endorsed and mandatory. Furthermore they are not expected to have significant impact on recognition and measurement, but may result in further disclosure in the notes:
- IFRS 15 - Revenue from contracts with Customers was issued May 2014. The standard requires extensive disclosures and is effective from 1 January 2018. The implementation is expected to have impact on the revenue recognition and disclosures in the Group financial reporting.

  IFRS 15 will not impact the business model, but may lead to changes in the pattern of the revenue and profit recognition. Long-term contracts will primarily be affected in terms of the recognition of the revenue and profit. IFRS 15 will impact the preparation of long-term contracts, which may be split into smaller contracts due to the performance obligations where recognition may differ with regards to product and services in the overall contract. In accordance to the divisions the following highlights the impact:
  Customer Service
  - Spare parts and components will most likely apply invoicing criteria
  - Services will apply invoicing criteria due to short contract periods
  - Basic orders will most likely apply invoicing criteria
  - Maintenance will be split into more than one performance obligation

  Product Companies
  - Sales will be split into more than one performance obligation

  Minerals
  - Engineering, Equipment and Supervision (EES) will be split into more than one performance obligation

  Cement
  - The POC method will be applied to major projects to the same extent going forward
  - EES will be split into more than one performance obligation

  One of the main changes is to apply a more general use of the invoicing principle depending on the recognized performance obligation.

- IFRS 9 – Financial instruments: Classification and Measurement and Hedge Accounting was issued July 2014. The standard is effective from 1 January 2018 and contains requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and general hedge accounting. An analysis of the effect of the implementation is ongoing but it is not expected to have material impact on the financial reporting.
- IFRS 16 – Leases was issued January 2016. The standard is effective from 1 January 2019 and contains a single accounting approach to all leases with a few exceptions. All leases are to be treated and recognized in the balance sheet as assets with a related liability and costs are recognized as depreciation and interests. The current assessment on the implementation of the standard is that it will not have a significant effect on the financial reporting, due to limited use of leases.
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date has been postponed)
- Amendments to IAS 12 - Recognition for Deferred Tax Assets for Unrealised Losses (effective 1 January 2017)
- Amendments to IAS 7 – Disclosure Initiative (effective 1 January 2017)
- Annual Improvements 2014-2016:
  - IFRS 12 – Clarification of the scope of the Standard (effective 1 January 2017)
  - IFRS 1 – Deletion of short-term exemptions for first-time adopters (effective 1 January 2018)
  - IAS 28 – Measuring an associate or joint venture at fair value (effective 1 January 2018)
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018)
- IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)
- Amendments to IAS 40 – Transfer of Investment Property (effective 1 January 2018)
- Annual Improvements 2015-2017 (comment period ends April 2017)

The amendments, interpretations and improvement projects are not expected to have material impact on the financial reporting for the coming financial years, except for implementation of IFRS 15.

7.15 Definitions of terms

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

BVPS
Book value per share.

Capital employed, average
(Capital employed, end of period + capital employed end of period last year)/2.

Capital employed, end of period
Intangible assets (cost) + Tangible assets (carrying amount) + Net working capital.

Capital expenditure (CAPEX)
Investment in tangible assets.

Cash conversion
Free cash flow adjusted for acquisitions and disposals as a percentage of EBIT.

CFFI
Cash flow from investing activities.

CFFO
Cash flow from operating activities.

CFPS (cash flow per share), (diluted)
CFFO as a percentage of average number of shares (diluted).

DIFOT
Delivery in full on time.

EBITDA
Earnings before special non-recurring items, interest, tax, depreciation and amortisation.

EBITDA margin
EBITDA as a percentage of revenue.

EBIT
Earnings before interest and tax.

EBIT margin
EBIT as a percentage of revenue.

EBITA
Earnings before, interest, tax and amortisation.

EBITA margin
EBITA as a percentage of revenue.

EBT
Earnings before tax.

EBT margin
EBT as a percentage of revenue.

Effective tax rate
Income taxes 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.

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
Net interest-bearing debt (NIBD) divided by last 12 months' EBITDA.

Free cash flow
CFFO + CFFI.

Free cash flow adjusted for acquisition and disposals of enterprises
CFFO + CFFI ± acquisition and disposals of enterprises.

Free cash flow yield
(Free cash flow adjusted for acquisitions and disposals of enterprises/per share)/share price).

Gross margin
Gross profit as a percentage of revenue.

LITFR
Lost time injury frequency rate.

Market capitalisation
The share price multiplied by the number of shares outstanding end of period.

Net interest-bearing debt
Interest-bearing debt less interest-bearing assets and bank balances.

Net working capital, average
(Net workin gcapital, end of period + net working capital, end of the period 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.

Operational expenditure (OPEX)
External costs, personal cost and other income and costs.

Order backlog
The value of future contracts end of period. On O&M contracts, 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.

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 period as a percentage of equity (average).

ROCE (return on capital employed)
EBITA as a percentage of capital employed.

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

FLSMIDTH
ANNUAL REPORT 2016

FLSmidth & Co. A/S
Financial statements

INCOME **STATEMENT**

Notes	DKKm	2016	2015
1	Dividend from Group enterprises	40	500
2	Other operating income	24	33
3	Staff costs	(6)	(6)
	Other operating costs	(14)	(15)
7	Depreciation, amortisation and impairment	(8)	(9)
	EBIT	**36**	**503**
4	Financial income	1,812	2,814
5	Financial costs	(1,529)	(2,334)
	EBT	**319**	**983**
6	Tax for the year	(3)	(57)
	Profit/(loss) for the year	**316**	**926**
	Distribution of profit for the year:		
	Retained earnings	316	926
		316	**926**
	Distribution of dividend:		
	Proposed dividend	307	205
		307	**205**

The Board of Directors recommends that the Annual General Meeting approves a dividend of DKK 6 per share (2015: DKK 4 per share).

BALANCE **SHEET**

Assets

DKKm		2016	2015
Notes			
	Land and buildings	49	57
	Operating equipment, fixtures and fittings	0	0
7	**Tangible assets**	**49**	**57**
8	Investments in Group enterprises	2,659	2,658
8	Other securities and investments	19	22
9	Deferred tax assets	34	29
	Financial assets	**2,712**	**2,709**
	Total non-current assets	**2,761**	**2,766**
	Receivables from Group enterprises	8,815	10,041
	Other receivables	301	425
10	**Receivables**	**9,116**	**10,466**
	Other securities and investments	**1**	**1**
10	**Cash and cash equivalents**	**4**	**4**
	Total current assets	**9,121**	**10,471**
	TOTAL ASSETS	**11,882**	**13,237**

Equity and liabilities

DKKm		2016	2015
Notes			
	Share capital	1,025	1,025
	Retained earnings	1,807	1,772
	Proposed dividend	307	205
	Equity	**3,139**	**3,002**
11	Provisions	13	20
	Provisions	**13**	**20**
12	Mortgage debt	305	307
12	Other liabilities	67	106
12	Bank loans	3,619	4,477
	Long-term liabilities	**3,991**	**4,890**
12	Mortgage debt	2	
12	Bank loans	3,620	37
12	Debt to Group enterprises	887	5,042
12+13	Other liabilities	230	246
	Short-term liabilities	**4,739**	**5,325**
	Total liabilities	**8,730**	**10,235**
	TOTAL EQUITY AND LIABILITIES	**11,882**	**13,237**

EQUITY

DKKm	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2015	**1,025**	**1,005**	**461**	**2,491**
Profit for the year	-	926	-	926
Dividend paid	-	22	(461)	(439)
Proposed dividend	-	(205)	205	0
Share-based payment, share options	-	1	-	1
Disposal of treasury shares	-	29	-	29
Acquisition of treasury shares	-	(6)	-	(6)
Equity at 31 December 2015	**1,025**	**1,772**	**205**	**3,002**
Profit for the year	-	316	-	316
Dividend paid	-	10	(205)	(195)
Proposed dividend	-	(307)	307	0
Share-based payment, share options	-	2	-	2
Disposal of treasury shares	-	15	-	15
Acquisition of treasury shares	-	(1)	-	(1)
Equity at 31 December 2016	**1,025**	**1,807**	**307**	**3,139**

Number of shares (1,000)	2016	2015	2014	2013	2012
Movements in share capital					
Share capital at 1 January	51,250	51,250	53,200	53,200	53,200
Cancellation of shares			(1,950)		
Share capital at 31 December	**51,250**	**51,250**	**51,250**	**53,200**	**53,200**

Each share entitles its holder to twenty votes, and there are no special rights attached to the shares.

The year's movements in holding of treasury shares (1,000):	2016	2015
Treasury shares at 1 January	2,328	2,412
Acquisition of treasury shares, others	3	19
Share options settled	(55)	(103)
Treasury shares at 31 December	**2,276**	**2,328**

Representing 4.4% (2015: 4.5%) of the share capital.

The holding of treasury shares is adjusted continuously to match FLSmidth´s incentive plans.

INCOME **STATEMENT**

1. Dividend from Group enterprises

DKKm	2016	2015
Dividend from Group enterprises	40	500
	40	**500**

2. Other operating income

DKKm	2016	2015
Profit from disposal of land and buildings	0	1
Management fee, etc.	24	32
	24	**33**

3. Staff costs

DKKm	2016	2015
Salaries and other remuneration	(4)	(5)
Share-based payment	(2)	(1)
	(6)	**(6)**
Average number of employees	**8**	**8**

Remuneration of the Board of Directors for 2016 amounts to DKK 5m (2015: DKK 5m), including DKK 1m (2015: DKK 1m), which was incurred by the parent company. The total remuneration of the parent company´s Executive Management amounted to DKK 41m (2015: DKK 37m), of which DKK 5m (2015: 5m) was incurred by the parent company.

4. Financial income

DKKm	2016	2015
Profit from disposal of enterprises and activities	2	62
Interest receivable and other financial income from financial assets not measured at fair value	1	6
Interest received from Group enterprises	287	302
Adjustment to previous years disposal of enterprises	7	0
Foreign exchange gains	1,515	2,444
	1,812	**2,814**

5. Financial costs

DKKm	2016	2015
Write-down of investments in Group enterprises	(3)	(7)
Interest receivable and other financial costs from financial liabilities not measured at fair value	(70)	(68)
Interest to Group companies	(16)	(17)
Foreign exchange losses	(1,440)	(2,242)
	(1,529)	**(2,334)**

6. Tax for the year

DKKm	2016	2015
Tax for the year		
Current tax on the profit/loss for the year	2	(51)
Withholding tax	(3)	(4)
Adjustments of deferred tax	(7)	(11)
Adjustments of tax rate on deferred tax	0	(3)
Adjustments regarding previous years, deferred taxes	12	12
Adjustments regarding previous years, current taxes	(7)	0
Tax for the year	**(3)**	**(57)**

Tax paid in 2016 amounts to DKK 53m (2015: DKK 24m).

BALANCE **SHEET**

7. Tangible assets

DKKm	Land and buildings	Operating equipment, fixtures and fittings	Total
Cost at 1 January 2016			
Additions	262	2	264
Cost at 31 December 2016	**262**	**2**	**264**
Depreciation and impairment at 1 January 2016	(205)	(2)	(207)
Depreciation	(8)	0	(8)
Depreciation and impairment at 31 December 2016	**(213)**	**(2)**	**(215)**
Carrying amount at 31 December 2016	**49**	**0**	**49**

8. Financial assets

DKKm	Investments in Group enterprises	Other securities and investments	Total
Cost at 1 January 2016	2,805	37	2,842
Disposals	(23)	0	(23)
Additions	0	0	0
Cost at 31 December 2016	**2,782**	**37**	**2,819**
Impairment at 1 January 2016	(146)	(15)	(161)
Disposals	23	0	23
Write-downs	0	(3)	(3)
Impairment at 31 December 2016	**(123)**	**(18)**	**(141)**
Carrying amount at 31 December 2016	**2,659**	**19**	**2,678**

The Group expects an EBITA margin of 7-8% in 2017 and in the long-term margin target is 10-13%.

The discount rate has been revised for each cash-generating unit to reflect 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 inflation swaps. Due to the current low 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 growth rate for the terminal period of 1.5% has been applied.

9. Deferred tax assets and liabilities

DKKm	2016	2015
Deferred tax consists of the following items:		
Tangible assets	25	26
Liabilities	9	3
Net value of deferred tax assets/(liability)	**34**	**29**

10. Receivables, cash and cash equivalents

Receivables falling due after more than one year amount to DKK 5,057m (2015: DKK 4,835m). Other receivables include fair value of financial contracts (positive value) and tax on account for the Danish jointly taxed enterprises. Cash and cash equivalents consist of bank deposits.

11. Provisions

DKKm	2016	2015
Provisions at 1 January	20	0
Additions	0	35
Reversals	(7)	0
Used during the year	0	(15)
Provisions at 31 December	**13**	**20**

12. Maturity structure of liabilities

DKKm	2016	2015
Maturity structure of liabilities:		
Bank loans	3,620	37
Debt to Group enterprises	887	5,042
Mortgage debt	2	0
Other liabilities	230	246
Within one year	**4,739**	**5,325**
Bank loans	1,900	2,907
Mortgage debt	40	0
Other liabilities	67	106
Within one to five years	**2,007**	**3,013**
Bank loans	1,719	1,570
Mortgage debt	265	307
After five years	**1,984**	**1,877**
Total	**8,730**	**10,215**

13. Other liabilities

Other liabilities include provisions for insurance and fair value of financial contracts (negative value) and tax on account for Danish enterprises participating in joint taxation.

OTHERS

14. Charged assets

DKKm	2016		2015	
	Carrying amount of charged assets	Charge	Carrying amount of charged assets	Charge
Land and buildings	37	307	45	307

15. Contractual liabilities and contingent liabilities

The Company has provided guarantees to financial institutions at an amount of DKK 5,788m (2015: DKK 4,792m).

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 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.

There are no significant contingent assets or liabilities apart from the above.

See also note 7.3 in the consolidated financial statements.

16. 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.

In 2016 and 2015, there were no transactions with related parties, apart from Group Executive Management´s remuneration stated in note 3. Nor were there any transactions with associates.

Parent company 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 & Co. A/S. Group's in-house Treasury function, which is performed by the parent company, FLSmidth & Co. A/S. Receivables and payables are mainly attributable to the 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 15 in the parent company financial statements.

17. Shareholders

At the end of 2016:
One shareholder has reported a participating interest above 15%: Novo A/S on behalf of Novo Nordisk Fonden

One shareholder has reported a participating interest above 10%: Lundbeckfond Invest A/S

One shareholder has reported a participating interest above 5%: Franklin Resources Inc.

18. 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 2015.

The company's main activity, dividend from Group enterprises, is presented first in the income statement.

Description of accounting policies
Translation of foreign currency
The foreign exchange adjustment of receivables from subsidiaries that are considered to be part of the parent company's total investment in the said subsidiary, is recognised in the parent company´s 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 in Annual General Meeting of distribution from the company concerned. However, where the dividend distributed exceeds the accumulated earnings after the date of acquisition, the dividend is recognised in the income statement. The recognition will indicate the need for impairment test of the investment.

Tangible assets
Depreciation is charged on a straight line basis over the estimated useful life of the assets until they reach the estimated residual value. Pursuant to the provisions of IFRS, the residual value is revalued annually. In the parent company's financial statements, the residual value is determined at the date of the entry into service and is not subsequently adjusted.

Financial assets
Investments in Group enterprises
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 that the distributed dividend exceeds the accumulated earnings after the date of acquisition, that would indicate the need for impairment test of the investment.

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. If the fair value is not immediately ascertainable, the shares are measured at a prudently assessed 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.

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