

# Sustainability report 2016



LTIFR

1.5

Down from 1.8

Admissible  
whistle-blower cases

23

Down from 34

% Female employees

14%

Up from 13%

Tonnes of CO<sub>2</sub>

44,195

Down from 46,910

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## ABOUT THIS REPORT

The 2016 Sustainability Report describes the non-financial performance of FLSmidth & Co. A/S, based in Copenhagen, Denmark and supplements the 2016 Annual Report. The Sustainability Reports have been published every consecutive year since 2010 and is in accordance with the Danish Financial Statements Act section 99a. The quantitative information that is in compliance with GRI standards has been denoted as such in the summary of performance. The scope of this report is the area under financial control of FLSmidth, with the exception of the section on supply chain.

It is possible to access previous year's data on our website. Please go to [www.flsmidth.com/sustainability](http://www.flsmidth.com/sustainability).  
Contact: [sustainability@flsmidth.com](mailto:sustainability@flsmidth.com)

The reporting period is 1 January 2016 to 31 December 2016.





## KEY HIGHLIGHTS

### LTIFR

1.5

Down from 1.8

### TRAINING HOURS ON SAFETY

186,715

Up from 165,945

### ADMISSIBLE WHISTLE-BLOWER CASES

23

Down from 34

### NUMBERS OF IN-DEPTH DUE DILIGENCE SCREENINGS CONDUCTED

226

Up from 55

### % FEMALE EMPLOYEES

14%

Up from 13%

### % EMPLOYEES WITH PERFORMANCE DEVELOPMENT REVIEWS

86%

Up from 85%

### SUPPLIERS ASSESSED FOR ENVIRONMENTAL AND SOCIAL PERFORMANCE

161

Up from 0

### % LOCAL SPEND

61%

Unchanged

### ABSOLUTE EMISSIONS, SCOPE 1 & 2 (IN tCO<sub>2</sub>)

44,195

Down from 46,910

### CO<sub>2</sub> INTENSITY METRIC (IN tCO<sub>2</sub>/COST OF PRODUCTION)

3.25

Up from 3.18

Please refer to the relevant sections for the definitions of the indicators

# LETTER FROM CEO

## DRIVING PERFORMANCE THROUGH SUSTAINABLE PRODUCTIVITY ENHANCEMENT

Sustainability is core to our business model and guides our overall strategy for both the short and the long term. It allows us to improve internal performance and to live up to our values, while delivering compliant quality results to our customers. By focusing on safety and environmental impacts throughout the value chain, and remaining committed to the principles of the United Nations Global Compact we are well positioned to provide solutions to many of the world's sustainability challenges.

This year I am very proud to announce the significant progress we have made on many of our sustainability performance indicators relative to the targets we set. With an increased focus on the risks and impacts within the organization, we have defined in more absolute terms what matters the most to us, our shareholders and to our customers. We can now adapt our sustainability program to be more inclusive, satisfying a greater number of stakeholders.

For the 4<sup>th</sup> consecutive year FLSmidth's safety performance improved and I applaud the success of our staff in continuously developing our safety culture. As such, we will continue to strive for zero harm by setting another ambitious target for 2017. However, I am deeply saddened by the tragic loss of a sub contractor's life, resulting from an unfortunate incident at one of our minerals sites. Since then, we have conducted a specific root-cause analysis to ensure that it does not happen again.

### Unlocking potential

As sustainability is crucial to achieving our long-term objectives; we stand firmly by its integration into our corporate vision. Sustainability is how we operate as a business and what differentiates us in a competitive market. We are determined to unlock potential, be it the talent of our staff, through value engineering with our partners or by launching innovative products and services that improve our customers' operations.

Productivity is the key enabler for sustainability within FLSmidth, as well as with our partners and customers. It is what helps us become more efficient, while supporting customers to reduce emissions and lower operating costs. By building on the complementary nature of sustainability and productivity, we have established the capacity to get results, while being adaptive and resilient.

### Our Values drive our behaviour

Our values of competence, cooperation and responsibility empower our employees to deliver quality results. This means promoting collaboration between teams and integrating a culture of accountability at all levels. It means always being ethical in our business dealings and being both honest and transparent at all times. We, as a company, have always embodied our Danish values; they make us who we are today and who we have always been.

I would like to take the opportunity to say thank you to our employees and all partners and customers for making this progress happen. I am proudly convinced that we are on the right track because of the great collaboration amongst our global workforce and our partners. I encourage you all to keep integrating the principles of sustainability into your daily activities, so that we can all achieve tangible outcomes. ■

Copenhagen, February 2017  
Thomas Schulz  
Group CEO



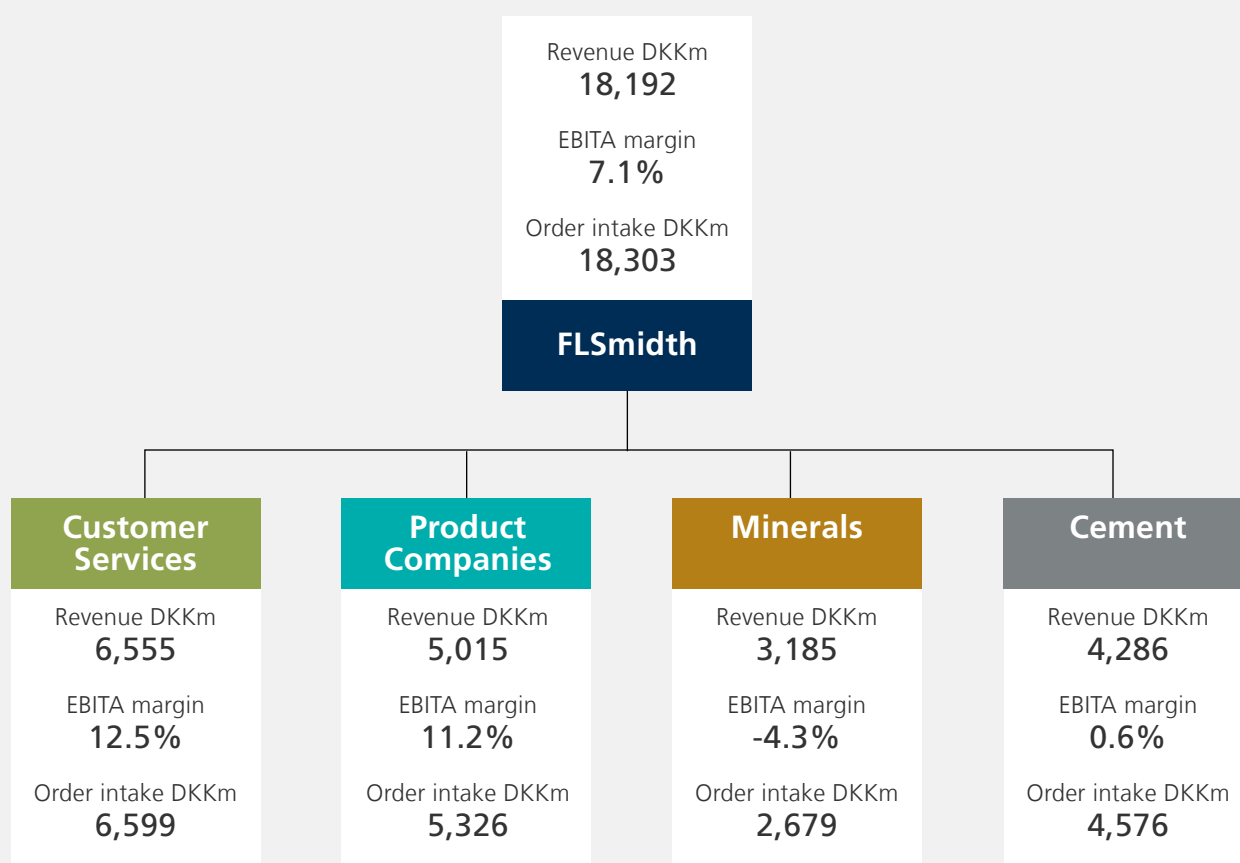
# FLSMIDTH AT A GLANCE

FLSmidth is the market-leading supplier of productivity to the global minerals and cement industries. Headquartered in Copenhagen, Denmark, FLSmidth delivers engineering, equipment and services solutions to customers in more than 50 countries worldwide. Productivity,

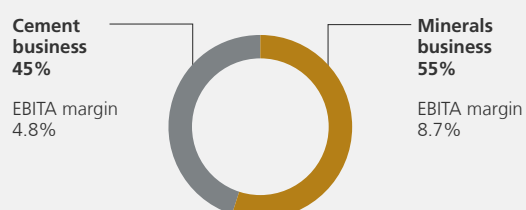
sustainability, and quality are focus areas for more than 12,000 employees in FLSmidth. ■

For more information, visit [www.flsmidth.com](http://www.flsmidth.com)

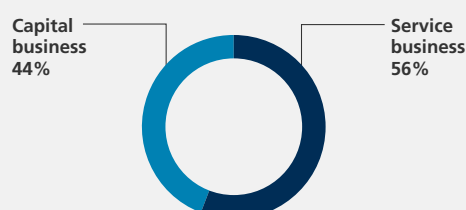
## FINANCIAL RESULTS 2016



### REVENUE SPLIT BETWEEN CEMENT AND MINERALS BUSINESS



### REVENUE SPLIT BETWEEN SERVICE AND CAPITAL BUSINESS



# HUMAN RESOURCES

## EMPLOYEES

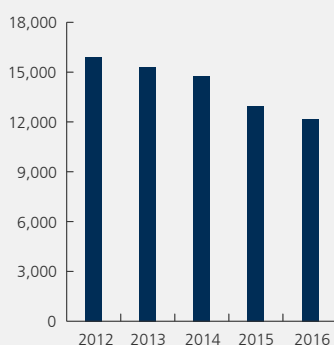
FLSmidth is a learning organisation, and our people are our most valuable resource. In 2016, we continued to invest extensively in people development and leadership training with a strong emphasis on selecting, attracting, developing and retaining the right people to support value creation in the Group.

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.

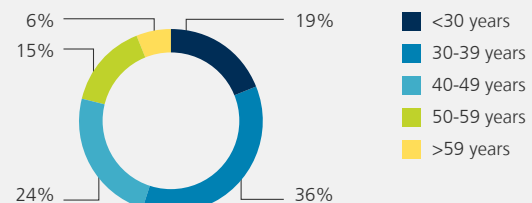
The composition of the global workforce was more or less unchanged at the end of 2016. 55% of FLSmidth's employees were below the age of 40 at the end of 2016 (end of 2015: 56%). 80% of the employees have more than 2 years' seniority (end of 2015: 78%). 14% of FLSmidth's permanently employed staff is 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

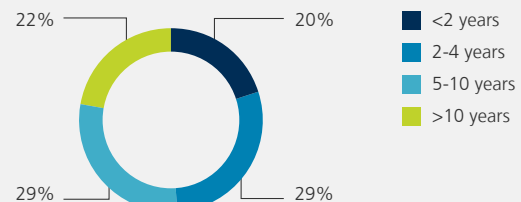


■ Number of employees

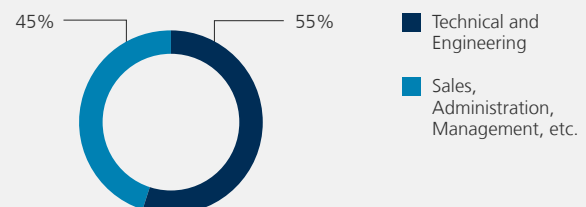
### AGE DISTRIBUTION



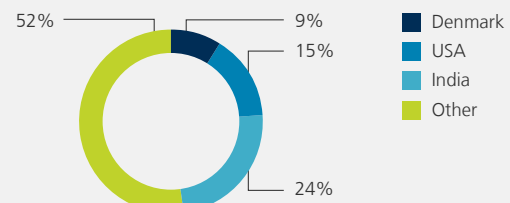
### LENGTH OF SERVICE



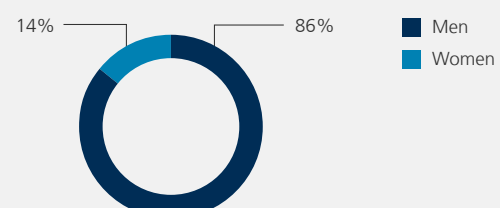
### JOB FUNCTION



### GEOGRAPHICAL DISTRIBUTION



### GENDER



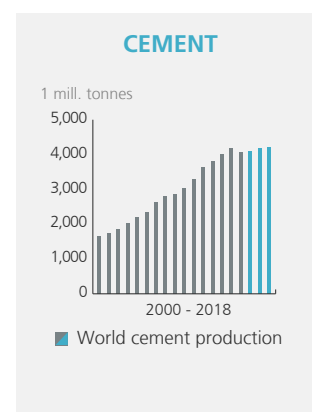
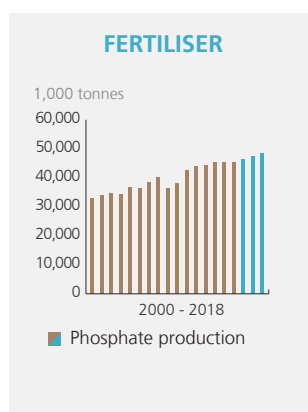
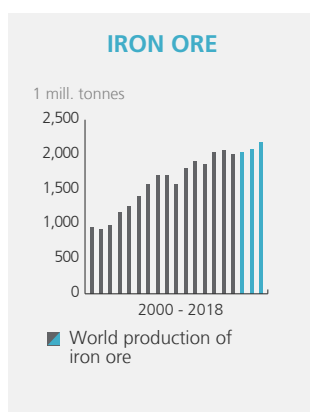
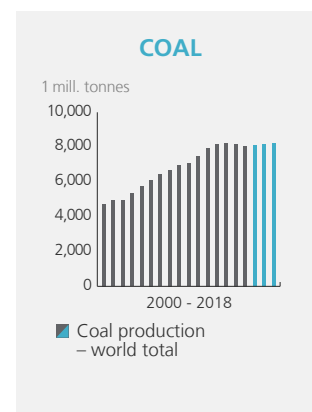
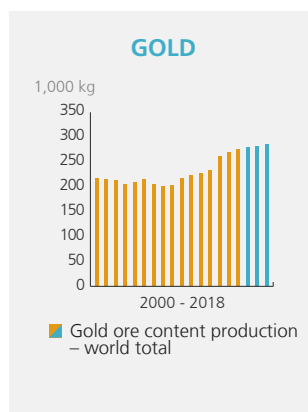
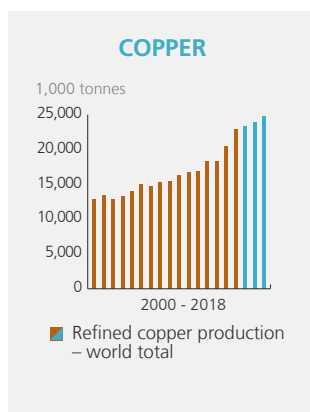
## THE BIG PICTURE

Societies all over the world are growing and steadily becoming more economically developed. Millions are moving from poverty to middle class, requiring better living standards, making urbanisation and industrialisation the key drivers behind an ever-expanding infrastructure. This expansion fuels an increasing demand for construction materials, of which cement is one of the most important, and for material goods and energy production, for which minerals lay the foundation. Amidst this growth, however, raw material and energy resources are becoming increasingly scarce, accentuating the need to remain competitive by becoming more productive. Adding to this, issues such as climate change and public health are challenging traditional production philosophies and steering the industry towards more inclusive growth, shared value creation and social

responsibility. A significant portion of the world has committed itself to sustainable development and encouraging nations, civil society and industry to commit themselves to uphold the values laid out in the United Nations Sustainable Development Goals and the Paris Climate Agreement. To survive and prosper in the 21st Century, there is a clear understanding that industry must play its part to support the planet and its people to develop sustainably.

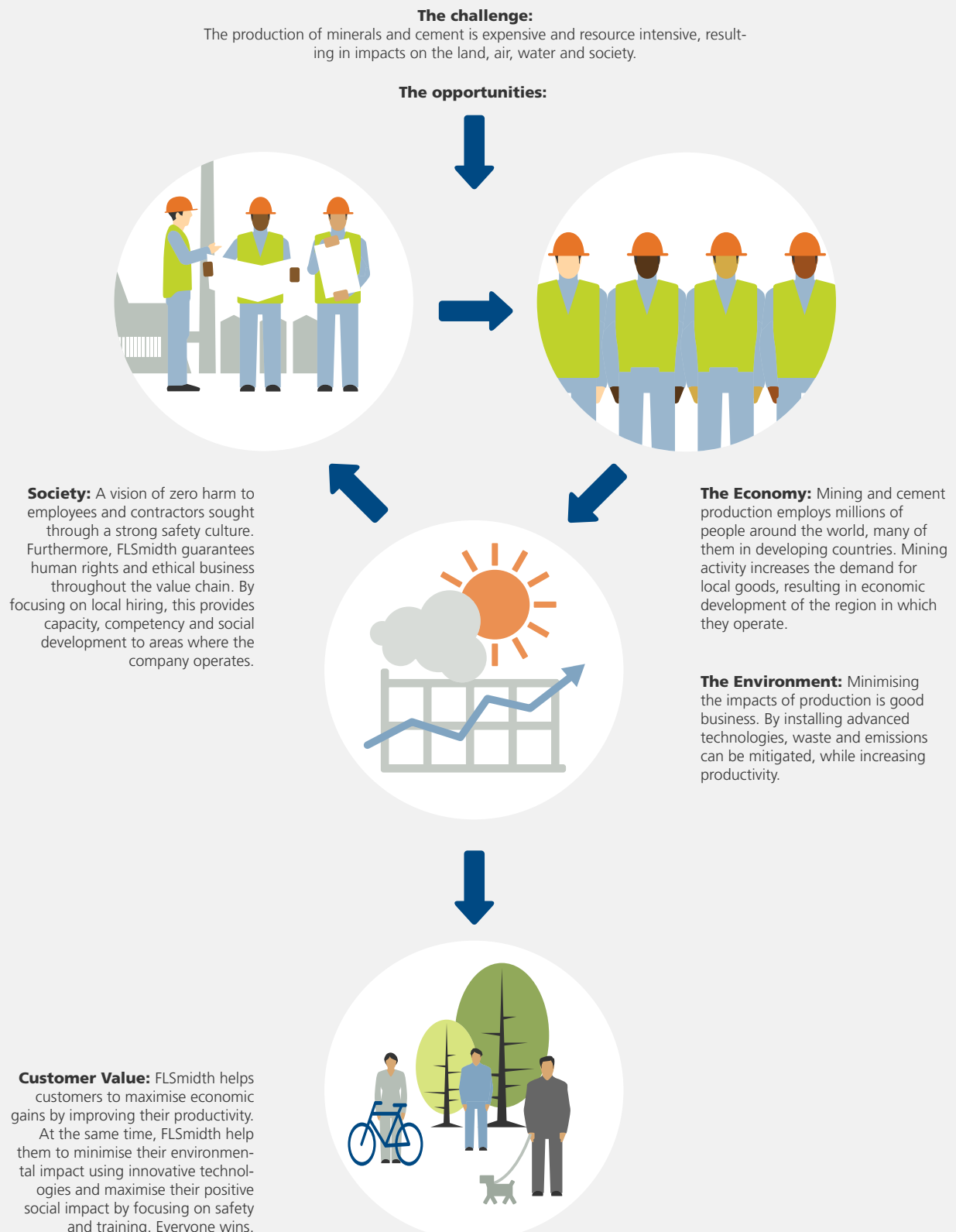
### THE NEED FOR MATERIALS

As the global consumption of minerals and cement continues to grow every year, there is greater need for source materials. This presents various challenges and opportunities for FLSmidth and the industry in general as well as potential areas of value for customers. ■



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

# SUSTAINABILITY DRIVES CUSTOMER VALUE





## SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS



FLSmidth supports the United Nations' Sustainable Development Goals (SDGs) that came into effect in 2016. As a provider of advanced sustainable technologies for cement and minerals, FLSmidth is strategically positioned to help countries achieve the SDGs by enhancing economic productivity, social prosperity and environmental excellence. The SDGs will also be used as guide the internal sustainability program. The SDGs provide an opportunity to impact the markets served, while simultaneously allowing FLSmidth to create part of the trillions of dollars of global economic growth that the SDGs are estimated to generate by 2030.

As assessment of FLSmidth's business model, strategy and sustainability program shows that the company is currently contributing to numerous of the SDGs and aims to do so to a greater extent in 2017 and 2018. Of the 17 goals, the following three were prioritized as those that FLSmidth will advance the most:



With a focus on increasing both internal and external productivity, FLSmidth promotes financial and economic growth through its operations and the value chain. Within the organization, FLSmidth ensures working standards in all aspects of the operations, specifically in providing an enabling environment that promotes world class safety and human rights practices. Within the value chain, innovative solutions are launched that increase resource efficiency of customers, and can lead to a decoupling of environmental impacts and economic growth. Furthermore, with a due diligence program that includes human and labour rights in the supply chain, FLSmidth encourages the diffusion of the values of 'decent work' throughout the world.



FLSmidth supports industries that provide the basic physical structures and materials essential for society to function. Offering products and services to any location in the world means that FLSmidth contributes to the sustainable development of technological capabilities. This is especially relevant when developing industrial activity in fragile states and lower-middle income countries. The amount spent on research and development that impact infrastructure also plays a key part in the business model and drives financial growth.



FLSmidth is committed to improve responsible production and consumption. The commitment is managed internally and in the value chain by an effective governance system that not only 'sets the tone from the top', but also measures the impact. This is complemented by measuring and publically disclosing non-financial performance. The sustainability program aims to promote the effective management of natural and human resources. In the value chain, the sustainable production of products, projects and services for customers, as well as responsible sourcing result in diffusion of this goal. ■

## A SUSTAINABLE BUSINESS MODEL

### LIFE-CYCLE APPROACH

A core component of the business model and strategy is a life-cycle approach. For customers, this means that the focus is on the total cost of ownership of their assets, which is especially relevant for integrating environmental and social considerations into their business. The impacts of building and commissioning equipment can pale in comparison to that of the operational phase of their life, which can last decades. By providing a full portfolio of products over the entire flow sheet, FLSmidth has a summary of the risks and impacts over the full life cycle of operations while it is still in the design phase. This can support customers in achieving cost effectiveness, while supporting them to adhere to ever more stringent environmental regulations over the product life-cycle. Optimised solutions can be found that maximise the uptime of the customers' entire production line, while ensuring that future impacts are minimised. By assisting throughout the life-cycle of products, customers can decrease their environmental impact while allowing for best-in-class service for safety, ethical integrity and human resources from beginning to end.

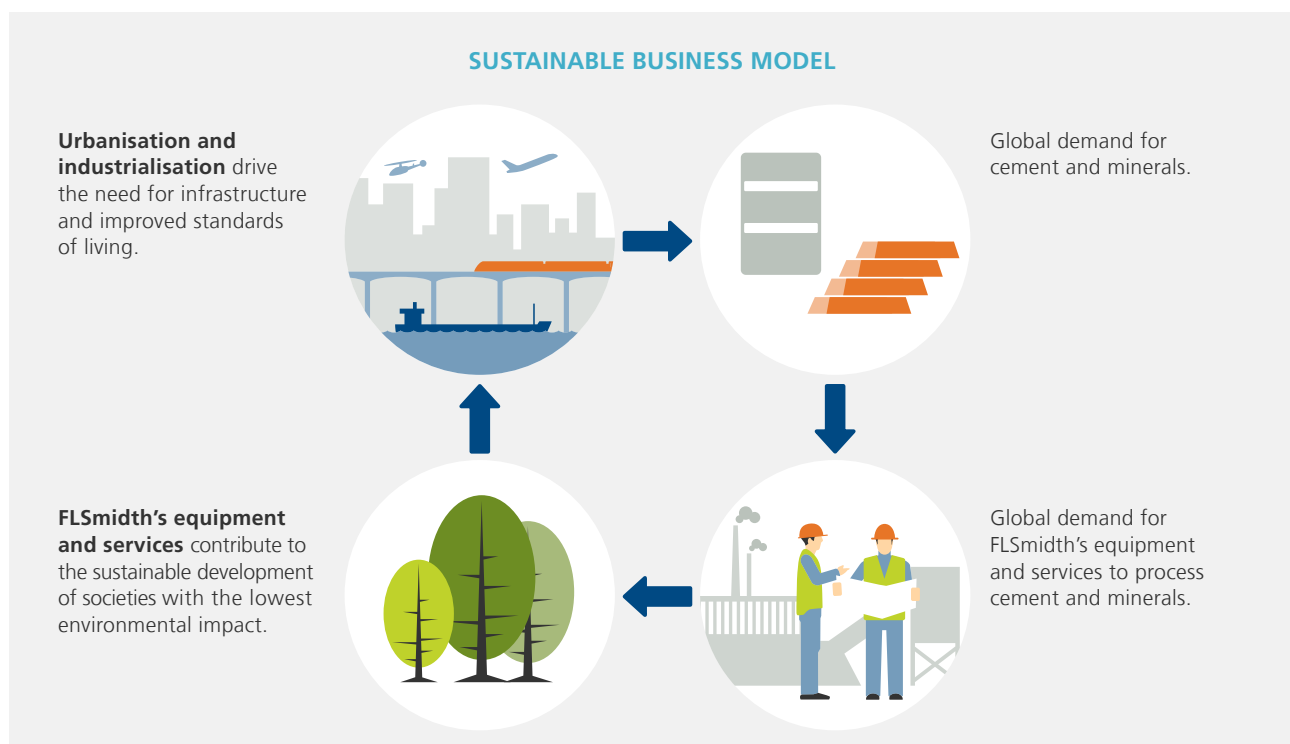
### FULL FLOW SHEET

A complete portfolio of core technologies and extensive process know-how enables FLSmidth to provide the full flow

sheet of reliable solutions within the cement and mining industries. In cement, this means from initial crushing and grinding of the limestone until final handling and packing of the cementitious materials. In minerals, FLSmidth is active all the way from in-pit crushing and conveying, through to beneficiation and recovery of the valuable minerals. As world class experts throughout the entire operations of clients' sites, it allows for a thorough understanding of the environmental impacts and safety risks that customers face.

### FULL-SERVICE PROVIDER

As a full-service provider, FLSmidth supplies everything from single products and services to complete plants or production lines and full operations and maintenance solutions. Customers can rely on FLSmidth's safety culture, high standards for business integrity, people development expertise and world-class environmental technology throughout the entire production process. This is particularly vident in the 'Design-Build-Operate'-model, where FLSmidth offers to design, build and operate customers' plants, as well as in the 'Engineer – Procure and Construct' models of customers' plants in which FLSmidth oversees the development of entire production facilities, thereby decreasing customers' business risk and environmental impacts. ■



## INNOVATION AND SUSTAINABILITY

FLSmidth's strategic advantage lies within the ability to supply productive and sustainable products and services. As providers of best-available technology for the cement and mining industries, FLSmidth has a significant role to play in providing base materials that do not compromise future generations to meet their own needs. Innovating products and services that mitigate environmental impacts and safety risks is good business, and a core driver for profitability. Future results are not dependent on the success of single innovations but on the continued stream of new developments to enhance existing strong offering. In 2016, FLSmidth spent DKK 202m on in-house R&D to ensure productivity improving solutions that turn our customers' everyday challenges into great opportunities. In addition, project-financed developments have taken place in cooperation with customers.

Resource productivity is the key element that FLSmidth employs to drive the world's sustainability agenda. Through established innovation processes that continuously bring environmental technologies and services to market, customers' ability to meet their sustainability expectations can be exceeded. With cement and mining industries currently focusing on improving productivity, now is the ideal time for companies to improve their production processes and subsequently reduce their environmental footprint per unit of output. This calls for solutions that enable companies to minimise energy consumption, re-process previously discarded waste material and minimising water usage – to name a few examples.

Whether customers need to meet ever more stringent national emission standards, or improve their safety record, FLSmidth is at the forefront of product and service development. It is a differentiating factor, one on which future financial performance all actors involved is heavily dependent.

FLSmidth has a legacy of leveraging its human resources and capital to innovate within the field of environmental protection technologies, while ensuring that its product portfolio promotes a safe work place. With a strong presence within the markets where it operates, FLSmidth is uniquely placed to apply its capacity to innovate, enabling customers to achieve their sustainability targets.

FLSmidth brings to the market broad R&D capabilities, enabling the development of innovative products and competitive offerings. A particular focus is on developing

solutions for the environmental and safety issues that customers face, while strengthening their competitiveness under the current market conditions. By balancing efforts across an ambitious range of objectives: introducing major new technologies, continuously improving existing products, delivering new productivity-enhancing offerings, and developing efficient digitalised work routines. Meeting these objectives allows customers to 'do more with less', thereby making them more resource-efficient.

FLSmidth's highly skilled and experienced employees are the key R&D resource. At their disposal are world-class facilities at the R&D centres Dania and Salt Lake City as well as in the Group's nine product companies. Co-development with suppliers on value engineering projects is also a key driver of effective innovation. Product development sometimes calls for innovation within non-core technologies as well, and in those cases, FLSmidth will look to partner with technology experts rather than 'reinventing 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 with universities and firms to accelerate research. The MiCeTech (Minerals and Cement Technologies) programme is a joint research project between FLSmidth, Hempel and DTU (Technical University of Denmark) with the support of The Danish Advanced Technology Foundation and with a clear aim to generate tangible outcomes. ■



### FACTS

**Amount spent on in-house R&D  
in 2016: DKK 202m**

## KEY INNOVATIONS IN 2016



CO<sub>2</sub>

### CLIMATE CHANGE

Carbon emissions and operational expenditures are a direct consequence of energy consumption. Fuel and electricity can make up the highest cost of operating a cement plant or a minerals processing plant. These emissions can be substantially abated through the use of best available technology, with a particular focus on maximising productivity through increased 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. An additional way to save energy is by managing the overall plant consumption and optimise processes through collection and analysis of performance data.

FLSmidth's OK® Mill is the world's most energy efficient vertical roller mill for cement grinding, improving energy efficiency by 10-15% and significantly mitigating clients' carbon emissions. Voted the most innovative product in the history of FLSmidth's by its employees this year, the OK® 62-6 is the world's largest mill. With the highest capacity and the best product quality at the lowest energy consumption, this enables up to a 40% saving in capital expenditures. In addition, the latest design applications mean that the mill can be used both for cement and raw meal grinding, allowing the customer to optimise maintenance and spare parts inventory. The first mill has been engineered and sold and is awaiting delivery.



ORE QUALITY

### WASTE & ENVIRONMENTAL CONTAMINATION

For mining customers, a key challenge is managing the environmental contamination of soils, air and water. Over the course of time, deposits containing high concentrations of copper have become scarcer, resulting in the need to extract lower grade ores. As the mines develop, sulphide ore is exposed, which can contain toxic impurities such as arsenic. These lower grade sulphide ores require the installation of a concentrator and a smelter before refining, which require substantial investments. It also results in piles of copper concentrates with more than 0.5% arsenic, which are too high for smelting.

In 2016 FLSmidth won the global Top100 R&D award at the R&D 100s for the Rapid Oxidative Leach process (ROL), allowing copper producers with low to mid-grade copper ore to bypass smelting by utilising their existing processing infrastructure. The FLSmidth ROL process technology significantly improves the productivity of the mine, increasing the output up to 3%, meaning that for a copper mine producing 200,000 tons per year, it would result in an additional 285m DKK per year. In addition to primary metal production, the ROL process technology allows for efficient recovery of metals from waste recycle streams and leach residue. This means that piles containing arsenic can be processed at the site with complete control over arsenic bearing residues generated after leaching, making it possible to avoid potentially toxic emissions to soils, air and water. ■

## GOVERNANCE OF SUSTAINABILITY

Sustainability within the FLSmidth Group is centrally governed by the Corporate Social Responsibility (CSR) Board with decentralised execution. This blend of top-down and bottom-up elements allows for oversight, while integrating necessary actions into the daily work of employees across the organisation. The CSR Board provides the opportunity for sparring between its members and for the company to propose solutions that can be adopted and executed quickly. Group Sustainability prepares the agenda for the CSR Board meeting, provides decision support for its members, supports in the implementation of the sustainability programme, and reports non-financial performance annually to shareholders in the Sustainability Report.

The CSR Board is comprised of the CEO, as well as senior and executive vice presidents:

- Supply Chain, quality and manufacturing
- Human Resources
- Communications, Marketing and Sustainability
- Operations & Maintenance
- Compliance

In order to live up to the values of competence, cooperation and responsibility when conducting business, Group Legal presides over the Code of Conduct and the Group Compliance Manager reports progress directly to the audit committee of the Board of Directors on a quarterly basis. This ensures that business is conducted with integrity and that issues of non-compliance are addressed at the highest level.

The Risk Management Framework is set out in the Group's Risk Management Policy, which describes its purpose, scope, principles, expectations, roles and responsibilities, policy authority and the monitoring and managing of risks. The Board of Directors is ultimately responsible for this policy, including defining the Group's overall risk appetite and risk tolerance.

### Changes in governance this year include:

- Changing the name from Group CSR to Group Sustainability, in order to reflect the ambition to employ environmental and social aspects of business to drive financial performance
- Agreement to revise the governance structure in 2017 in order to be more business and market driven
- The Board of Directors will be presented with the overview and results of the sustainability programme on an annual basis. ■



# STAKEHOLDERS AND MATERIALITY ASSESSMENT

In order to prioritise resources and align expectations for sustainability improvements across internal and external stakeholders, a materiality assessment was conducted. The assessment is based on input from key stakeholders, who were identified as those who either significantly impact FLSmith's operations, or are impacted by them. Material topics were chosen by engaging decision makers and benchmarking against stakeholders' disclosures. A literature review of external communications of industry leaders in the cement and mining market was conducted, as well as with key suppliers, leading to a comprehensive understanding of the impacts that have been publically disclosed.

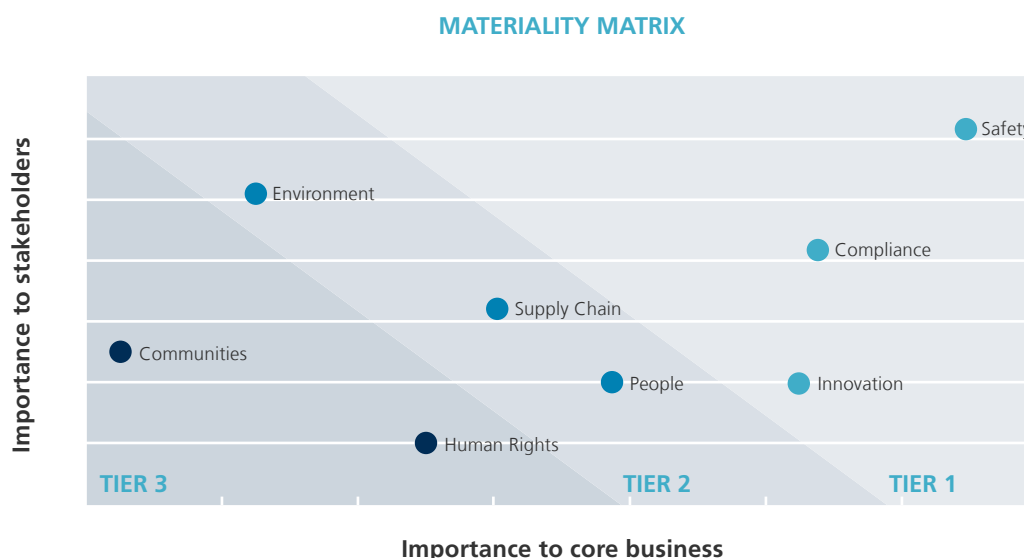
Executive management was surveyed to determine which material aspects of sustainability supported the organization to achieve its long term goals, in order to determine the ones that are core to business. This internal stakeholder engagement will be amplified in the coming years to include a broader base of stakeholders and to identify key actors who can act as leverage points to diffuse the principles of sustainability to the greatest extent possible.

This was supplemented by external input from financial analysts following FLSmith. In 2017, it is planned

to broaden the scope of stakeholder engagement by initiating dialogues with more tiers of internal management, key customers, suppliers, and investors. By understanding their sustainability context and determining their expectations, it will be possible to steer the sustainability program in an inclusive manner. The primary focus will be on continuously incorporating these dialogues into the sustainability program, so it can periodically be course-adjusted, satisfying stakeholder expectations as they develop.

Operating in the mining and cement industries presents a number of environmental and social challenges, most notably relating to supplier and customer impact. By understanding the life-cycle of the portfolio of products brought to market, FLSmith's sustainability program can be further designed to promote best practices and effectively meet customers' needs. This will drive financial growth and mitigate business risk, meaning that FLSmith will be strongly incentivised to continuously improve.

The analysis revealed topics divided into three tiers according to importance to the business and the key stakeholders:



The top two prioritised tiers have been selected as the material topics covered by this report. Tier 3 topics are included the Human Resource policy, but their implementation has not been addressed at a centralised level. It is expected that they will be reported as separate material topics in future reports.

# SAFETY

## POLICY

FLSmidth's health, safety and environmental (HSE) policy is based on the company's values of competence, cooperation and responsibility, reflecting the essential role of HSE in ensuring sustainability within FLSmidth. FLSmidth is committed to excellence in safety by integrating an HSE mind-set into the company's culture and by maintaining safety as a top priority.

The HSE policy's core principle is to achieve excellence, for safety this means that all injuries and unhealthy conditions can be prevented, the ambition of zero harm and that all stakeholders have the competencies to work safely and share best safety practices with colleagues.

## POLICY IN ACTION

Each year, a different member of Group Executive Management is appointed Safety Chairman, ensuring involvement at an executive level and to help determine strategy, policies and objectives.

At FLSmidth, the local organisation in each country is responsible for HSE within that country, handling local policies, targets, standards and legal compliance responsibilities. These are then implemented in the business units and locations within the countries. Policies, objectives, travel security, relevant procedures and standards are established at a Group level.

Reflecting the company value 'competence', FLSmidth leverages its strong capabilities within organisational HSE and, in particular, safety awareness. Employees participate in extensive training, and each year, a Safety and Quality Week is being held during which employees take part in different relevant activities. Other initiatives include the development of the '10 Safety Rules' booklet, the awareness programme 'Look, stop and act', and a safety leadership guideline.

The President's Safety Award rewards special efforts within safety, and in 2016, two FLSmidth units received this reward in recognition of exceptional safety performance and safety best practises.

A specially developed reporting tool enables country organisations to upload safety incidents and data on a monthly basis. This reporting forms the basis for tracking of the safety performance on monthly, quarterly and annual level across the Group. Special procedures exist for reporting fatalities and very severe incidents.

## RESULTS

The results for LTIFR (Loss Time Injury Frequency Rate) consider contractors at FLSmidth addresses, and the coverage for both is minimum 99%. For the safety training, 100% employees are considered, but not contractors.

## ASSESSMENT OF RESULTS

In 2016, the LTIFR improved by 17% compared with the previously year and ended at 1.5, below the Group target. Another safety KPI, TRIFR (Total Recordable Injury Frequency Rate) indicates that FLSmidth overall continues to improve its Health and Safety performance. But with 124 injuries in 2016, FLSmidth will continue its vision to strive zero harm.

Safety training is a top priority for FLSmidth. This covers training in first aid, hazards/standards and job-specific subjects etc. The total work hours, shown in below table, spent on safe training include both employees and contractors. In 2016 FLSmidth employees in average used 10.1 hour on safety training.

By the end of 2016, approximately 22 percent of all FLSmidth employees worked under an OHSAS 18001-certified management system.

## RISKS

FLSmidth employees are exposed to HSE risks in their work at mining and cement sites, particularly from heavy machinery, equipment and traffic. Rigorous standard safety procedures and best practises must be applied through all phases – construction, maintenance and operations. There are also potential safety risks at FLSmidth's own manufacturing locations related to machinery, tools, mobile equipment, material handling and internal traffic, which must be controlled. In addition, high security risk in some countries requires strict travel safety procedures. Risks are mitigated in the Group Risk Management framework in Group Legal.

# SAFETY

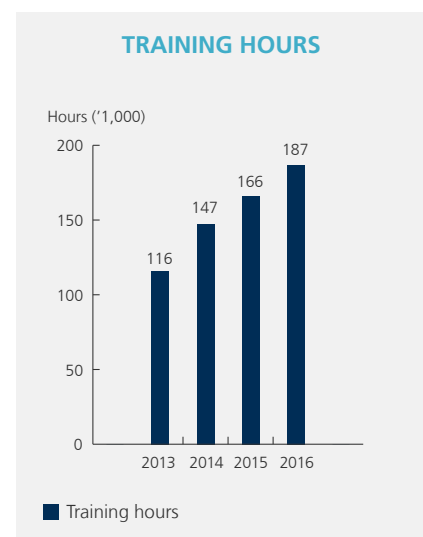
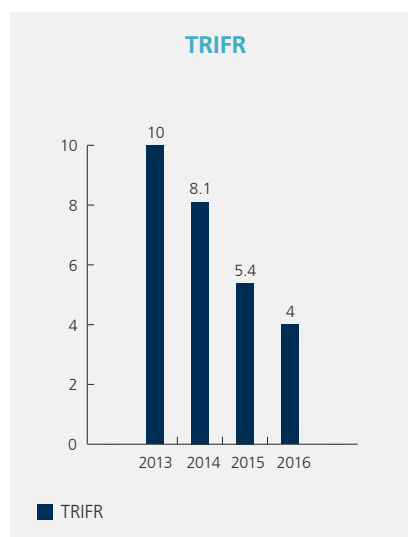
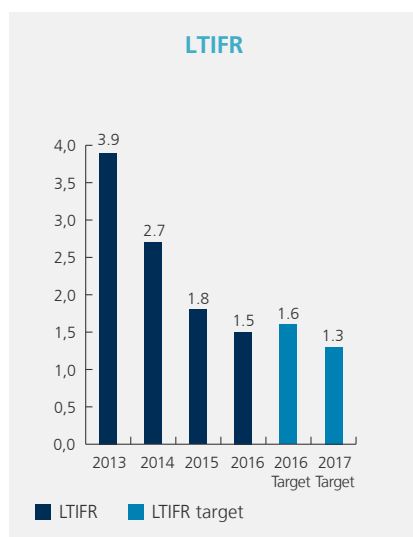
## FUTURE EXPECTATIONS

FLSmidth's key ambition is to achieve zero harm for its employees. The medium-term target is 1.0 in LTIFR by 2020. To ensure continuous improvement, LTIFR targets are set each year at all levels: Group, division, relevant countries, and business units. FLSmidth has decided to implement HSE-certified management systems throughout the business and the OHSAS 18001 standard has been chosen for HSE.

In 2017, a mandatory personal safety KPI will be introduced for top managers. This will ensure agreement between personal objectives and FLSmidth's policy for systems and a safety culture that supports the zero harm ambition.

### Specific Group targets for 2017 are:

- 60% of FLSmidth will be covered by a certified HSE management system
- LTIFR target of 1.3



# COMPLIANCE

## POLICY

The Code of Business Conduct is the primary policy for compliance and each employee has received a guidebook explaining the Code of Business Conduct in a simple language. Group Compliance is responsible for three core areas of operation, each of which has its own policy: anti-corruption, competition law and export control. Moreover, detailed guidelines have been introduced for whistleblowing and conflict of interest. Inspired by the UK Bribery Act's Guidance document, the key compliance-related activities cover the following areas: risk assessment; policies and organisation (proportionate procedures); top-level commitment; due diligence; communication; training, monitoring and review.

## POLICY IN ACTION

The FLSmidth Executive Management and Board of Directors are highly engaged in the compliance programme. They were the first group of people to be trained in the Code of Business Conduct and the Group CEO has personally delivered the key message of compliance through town hall presentations and videos.

Group Compliance is responsible for setting directions and providing appropriate tools. A team of 14 Regional Compliance Representatives within Group Compliance – all company lawyers trained in key compliance skills – are responsible for implementation in their region. Their main tasks are training employees on the Code of Business Conduct, screening third parties and conducting internal investigations.

It is crucial to have a comprehensive understanding of the risks present when conducting business. Following a risk assessment based on in-depth interviews with key employees in 2014, employees were surveyed to evaluate awareness levels. It has been decided that the survey will be repeated periodically, yet the timeframe has not been decided on.

Training has top priority. All white-collar employees, including directors and managers, as well as an increasing portion of blue-collar employees, are required to attend training. In 2016, the third-party due diligence process created a database of third parties, with a focus on those acting as intermediaries. Each third party undergoes in-depth due diligence screening and an extensive approval procedure. The screening includes inter alia trade sanctions, corruption issues, litigation cases, adverse media, and basic company registration documentation.

## RESULTS

The coverage of results is shown in the following text and table:

All governance body members and employees have had the Code of Business Conduct communicated to them. All executive managers have received anti-corruption training. There were no public legal cases regarding corruption brought against the organisation or its employees and there is one pending legal action regarding competition law.

## ASSESSMENT OF RESULTS

FLSmidth has a solid framework for enacting policy, with an Executive Management team that is highly committed. Following the outstanding achievement of more than 240 in-person training sessions in 2015, the success of the Code of Business Conduct training was documented by the positive feedback received through the 2016 survey.

In 2015 and 2016, remarkable results were achieved by conducting more than 240 in-person training sessions, covering more than 80 percent of all white-collar employees worldwide. In-person training requires a significant investment in time and resources, but has a positive impact. For instance, the 2016 compliance survey revealed that almost 90 percent of respondents knew the difference between a bribe and a facilitation payment.

## RISKS

FLSmidth operates in countries with compliance-related risks. Avoiding fraud, bribery, corruption and conflict of interests is high on the agenda, which implies constantly monitoring and implementing mitigating actions to reduce such risks. Risks are mitigated through the Group Risk Management framework in Group Legal, as well as through quarterly updates to the Audit Committee.

# COMPLIANCE

Description	2015 result	2016 result	2017 target
Total number of whistle-blower reports submitted	35	25	
...of which admissible, i.e. reports that were in scope with the whistle-blower hotline program	34	23	
...of which in:			
- Africa and Middle East	12	6	
- Asia and Oceania	3	10	
- Europe and former Soviet Union	7	1	
- North America	4	3	
- South America	9	5	
a. Total number and percentage of operations assessed for risks related to corruption.	22	29	
a. Total number and percentage of governance body members that the organization's anti-corruption policies and procedures have been communicated to, broken down by region	100%	100%	100%
b. Total number and percentage of employees that the organization's anti-corruption policies and procedures have been communicated to, broken down by employee category and region	100%	100%	100%
d. Total number and percentage of governance body members that have received training on anti-corruption, broken down by region.	0%	0%	10 / 100%
e. Total number and percentage of employees that have received training on anti-corruption, broken down by employee category and region.	6,922 / 75%	7,414 / 81%	8,823 / 95%
...of which managers or senior managers	1,247	1,303	1,551
...of which executive management team	100%	100%	100%
a. Number of legal actions pending or completed during the reporting period regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the organization has been identified as a participant.	1	1	1
Numbers of in-depth due diligence screenings conducted	55	226	430

Due diligence is a recent addition to the FLSmidth compliance programme. Solid progress was made in 2016, with more than 50 percent of high-risk business partners completing the full due diligence screening and approval procedure.

Group Compliance also intends to investigate the applicability of the UK Modern Slavery Act to FLSmidth, with the view to incorporate it if and where it makes sense

## FUTURE EXPECTATIONS

In 2017, FLSmidth will improve its level of training by reaching 95 percent of all white-collar employees. It is expected that all high-risk third parties will be screened and the whistle-blower hotline will be revamped. The frequency of the awareness survey will also be determined according to business needs. This will play an important part on assessing the success of the training program, while highlighting areas of improvement that will be taken into account when delivering future training.



## PEOPLE

### POLICY

The Group Human Resources (HR) policy envisions FLSmidth continuously strengthening its position by being seen as an employer of choice. The aim is to achieve this by developing and encouraging a competent, knowledgeable and innovative organization that empowers employees to reach their full potential. Employees are offered equal opportunities irrespective of gender, age, ethnic or national origin and religious beliefs, disability, political or sexual orientation and family status. Being committed to creating a healthy, flexible and productive work environment allows employees to engage in a challenging career and attain the important balance between work and personal lives. FLSmidth offers competitive employment conditions, remuneration and recognises employees' right to be organized and bargain collectively, while supporting human rights and refusing to engage in child or forced labour.

### POLICY IN ACTION

HR at FLSmidth consists of two areas: Compensation, Benefits and Mobility (CBM) and People & Organisation Development (POD). CBM supports the organisation by developing and defining best practices, tools, concepts and programmes. POD supports managers to unlock the potential of their resources in line with Group strategy and ensuring sustainable performance.

CBM has developed a Group compensation and benefits model defining the pay mix between fixed pay, variable pay elements and other compensation elements and benefits segmented according to the various position levels within the organisation. The compensation model is used as the foundation for aligning compensation across the Group based on the position level. Performance-based pay, which makes up the variable pay elements, consists of long-term incentive programmes (LTIP) and short-term incentive programmes (STIP). Implemented at Group level in 2016, the LTIP performance share programme aligns the incen-

tive awards with the performance of management. The purpose of STIP is to ensure fulfilment of the company's short-term (annual) KPIs. CBM has recently reviewed the STIPs to create further alignment between the three main programmes applicable to Group, divisional and country participants respectively.

POD has developed several tools, processes and systems to support managers, while ensuring data protection. These include a recruitment process, a process for recording employee data in a consistent way, target setting and evaluation, calibration evaluations of performance and potential, and a process for succession planning. Development needs are identified, addressed and evaluated as part of the target setting and evaluation process. Managers are accountable for using the tools, processes and systems; compliance and quality is monitored by Country HR. POD helps managers to improve the quality of leadership through the Leadership Transition Training programme, which helps manager understand what is expected of them. In addition, FLSmidth delivers a programme for senior managers called Flying the Flag, which helps strengthen culture and reinforce the competitive edge by developing and deploying values that provide a distinctive identity for the company.

### RESULTS

The following results cover 100% of employees.

Description	2015 result	2016 result
Programmes for upgrading employee skills and transition assistance programmes		
Leadership Transition Training	approx. 512	280
Flying the Flag (Top300)	190	96
Percentage of employees receiving regular performance and career development reviews (calculated as reviews closed in 2016)	85%	86%

### RISKS:

A key risk within the organisation is that the leadership pipeline will not be maintained. Furthermore, another risk is that the full potential of staff is not unlocked, due to holding one another accountable, maximising results within the matrix structure and supporting those who aspire to take-up senior management positions and who would need to transition at least two-layers in order to do this. These risks are mitigated through internal actions in Human Resources.

## PEOPLE

### ASSESSMENT OF RESULTS

POD evaluates the quality of training through surveys when training is completed and then measures the impact of the training by conducting pre- and post-training assessments, and results have allowed the training program to be adjusted as to continuously develop. For the training programs, it is floating based on nominations from managers for new hires and for promoted employees. The Flying the Flag program is for the Top300, meaning that these are constantly being adjusted.

### FUTURE EXPECTATIONS

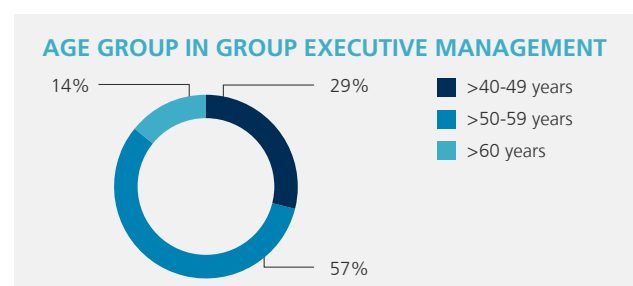
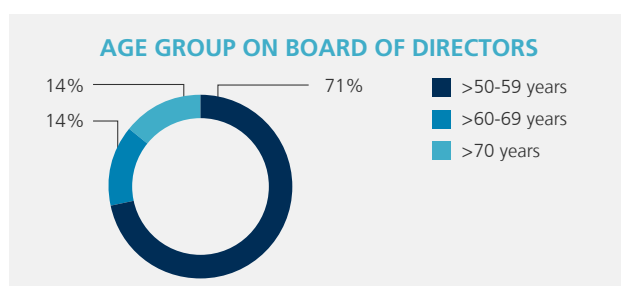
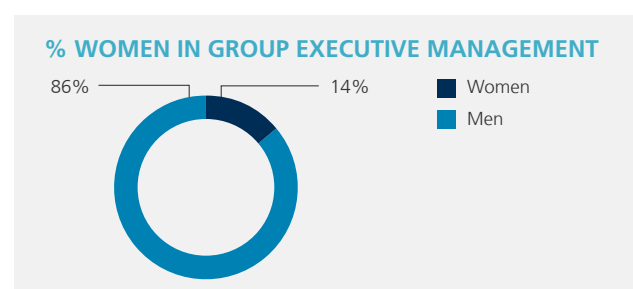
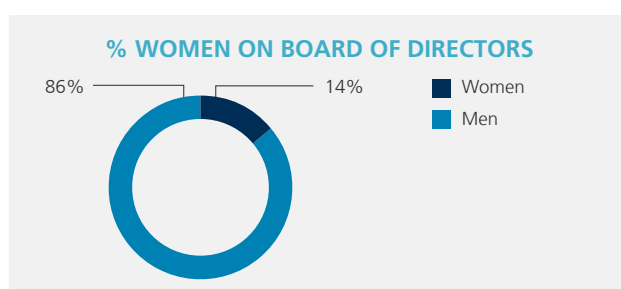
POD intends to support managers in helping them to strengthen their accountability towards each other and helping them to unlock the performance of resources within a matrix organization by facilitating workshops for leadership teams. POD will continue to deliver Leadership Transition Training and FLSmidth will build on the success of Flying the Flag with a programme called Flying more Flags, which is intended to strengthen the pipeline of senior leaders. It is designed for employees who aspire and demonstrate the potential to take up senior management positions and who would need to transition at least two layers in order to do this.

In terms of addressing development needs in 2017, CBM will engage in a policy project to identify and document a Group-wide compensation philosophy. The philosophy will provide direction for the company's overall position within employee compensation. Further, CBM will work with the organisation to make career opportunities within FLSmidth more transparent. It is expected that by the end of Q1 2017 that targets will be set for these indicators.

A very important issue that has not been systematically addressed in 2016 is that of the gender balance in the workforce. Over the course of the year, the target for women on the Board of Directors was not met, nor the target for women in the Global Management Forum. Furthermore, the overall percentage of females in the workforce increased by only 1%. This has been recognized at a management level and the topic will be addressed in the upcoming year.

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

### GENDER AND AGE DISTRIBUTION IN 2016



## SUPPLY CHAIN

### POLICY

In order to build strong business ties and long-standing relationships, FLSmidth expects suppliers to hold an equally high regard for responsible business conduct. Crucial to this is the Code of Supplier Conduct, which clarifies expectations towards suppliers. Group Procurement owns the policy, which has been in place since 2012. The main points of this Code of Suppliers Conduct are:

- Legal compliance – the supplier is expected to be in legal compliance with all applicable laws in all jurisdictions in which they operate
- Health & Safety– the supplier is expected to provide a safe and healthy working environment for all employees
- Basic Human rights
- Environment – the supplier is expected to meet all applicable environmental laws, industry standards and norms

FLSmidth currently does not have a policy that covers increasing the amount of spend in local markets, however due to the nature of the business, especially in the Customer Service division; the market situation encourages this behaviour.

### POLICY IN ACTION

Suppliers, defined as any entity from which FLSmidth buys from, are informed about adherence to the Code of Supplier Conduct and the consequences of non-compliance. If the supplier does not meet the expectations communicated, they risk being blacklisted from FLSmidth's list of suppliers.

Approximately 100 inspectors have been trained, enabling them to rapidly assess suppliers during visits. On average, an inspector visits one to two suppliers a week, who are deemed important to FLSmidth and the quality of the final

product delivered to customers, but where risk of poor quality is relatively high. These suppliers are therefore important to FLSmidth from a sustainability perspective. Assessment results are stored in a central database, providing Group Procurement with an overview of the state of the supply chain and an indication of which suppliers are eligible for a supplier development programme.

Using a specially developed tablet app, inspectors assess suppliers' performance based on the following criteria using a 1-5 scale:

- Safety system
- Work-related accidents
- PPE
- First aid
- Temporary workers
- Personal ID papers
- Minimum age records
- Environmental policy
- Environmental procedures

The data gathered is then transferred to an FLSmidth database and suppliers are given an overall score. If non-compliance is revealed during a routine inspection, it will be reported to the Group Category team. A Group Category Manager will then communicate the corrective actions that need to be performed by the supplier in order to be in compliance. When the corrective actions are completed, a further inspection is made to confirm completion.

### RESULTS

Suppliers screened through on site audits account for 13% of spend. The total amount of suppliers who present a social or environmental risk has not been concluded by the end of 2016.

### RISKS

Supply chain sustainability risks include losing a stable position on the market due to impact of customers, loss of reputation, damaged public image, legal action and compromising compliance, business ethics and values. It especially includes the risk that lack of due diligence would result in harm to human health when outsourcing activities, as well as increased environmental impact. These risks are mitigated by centralizing all on-site audit information in Group Strategic Procurement, who can act upon the areas that require special attention.

## SUPPLY CHAIN

Overall local average spending was 61%, which can be used as an indirect proxy for the impact on socioeconomic development in the markets in which the FLSmidth entities operate. The definition for “local spend” is: spend in a country where an FLSmidth entity buys from a supplier in the same country. Every country office is considered as a significant location of operation. This result did not deviate since the previous year.

### ASSESSMENT OF RESULTS:

In Q3 2016 the procurement function underwent a large re-organization globally, which led to a disruption of sustainability auditing at suppliers’ sites. The new organisation has been implemented and the audits are getting back on track. So far no suppliers have received a score under 50%. It is very encouraging that the suppliers selected comply with the minimum standards set in the Supplier Code of Conduct. Therefore no supplier relationships have been terminated as a result of the program. As there are still some suppliers that scored “Good”, they will require additional development. These suppliers have been clearly identified, and improvement programs have been built and being implemented. The CSR audits are seen as critical to ensure that the activities outsourced do not compromise FLSmidth’s value of responsibility.

The percentage of spend on local suppliers is considered appropriate for maintaining market competitiveness and the proper functioning of the company.

### FUTURE EXPECTATIONS

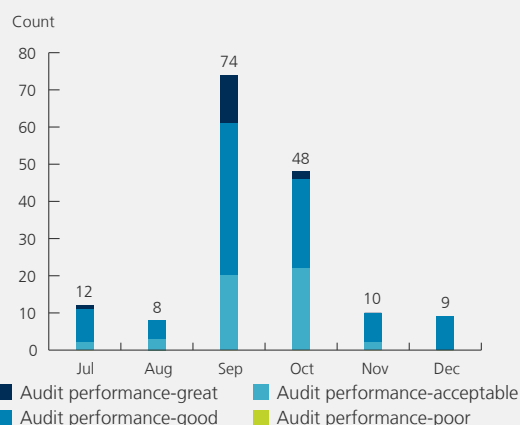
Local spend is dependent on market developments and will vary over time and there will be a continued focus on hiring locally.

Improved performance in the supply chain is the desired outcome of these efforts. This involves a quarterly status report on FLSmidth’s supply chain sustainability performance and semi-annual report on supplier development programmes. These are presented to the CEO, CFO, CPO and the Sustainability department. FLSmidth expects constant improvement and transparency within this program.

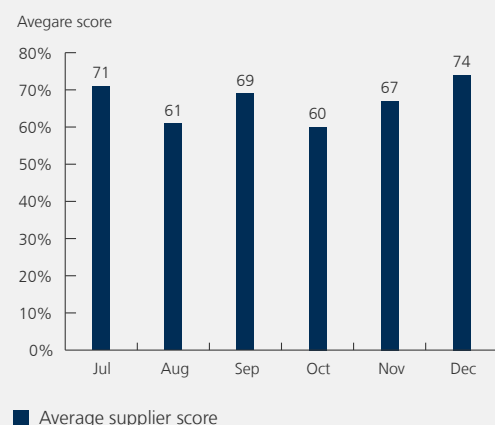
As the quality inspectors who conduct the in-person audits have been trained and are carrying out the Responsible Supply Chain audits, the expectation is that the numbers of suppliers assessed will increase, as will the coverage of spend of audited suppliers. This information will be relayed to the relevant members of the procurement function and they are expected to use the information when managing the relationship with the supplier.

FLSmidth intends to investigate the supplier categories that present the most social and environmental risks.

#### ON-SITE SUSTAINABILITY AUDITS



#### AVERAGE SUPPLIER SCORE



# ENVIRONMENT

## POLICY

Global warming has become a defining and critical global issue in the 21st Century and it has become common for private sector organizations to include it into their business strategy and policies. As FLSmidth has been providing technological solutions focused on energy efficiency for customers for as long as it has operated, this has constantly been incorporated into everyday business. As the vast majority of emissions in the value chain occur at customers' sites, the products brought to market are the best means of combating climate change on a large scale. However, in 2016 FLSmidth made an explicit internal commitment to this end, incorporating climate change mitigation into the Health, Safety and Environment Policy. Doing so lays the groundwork for reducing the internal carbon footprint, which will present numerous opportunities. The environmental policy makes explicit reference to operational excellence by lowering the environmental impact of operations. FLSmidth's policy commits the organisation to prevent pollution, mitigate climate change and improve environmental performance by not only complying with legal and other obligations, but also through sustainable utilisation of resources.

## POLICY IN ACTION

For the 9th consecutive year, FLSmidth has calculated its carbon footprint. It will also disclose the carbon footprint in more detail to the Carbon Disclosure Project (CDP). Legal entities within the Group are responsible for disclosing their carbon footprint and can assign a staff member to implement mitigation actions.

Absolute Emission data, defined as fuels and transportation (Scope 1) and electricity (Scope 2) are collected annually in the financial reporting tool. The tool also allows for each legal entity within the Group to log their carbon savings emissions. This means that emission reduction

is managed on a local level, where staff is in a suitable position to oversee

local improve results. The tool also has data collection for initiatives that have been undertaken that impact carbon emissions.

Carbon Intensity is an important metric that can show the extent to which internal efforts have an impact on Absolute Emissions. In years with higher or lower commercial activity, Absolute Emissions fluctuate according to the needs of the market. This gives a distorted picture of performance however, as the lower emissions may not necessarily reflect actions taken by FLSmidth. There is therefore a need to define a metric that can help decouple Absolute Emissions from commercial activity; measuring emissions in such a way that internal efficiency can be emphasized. This was done for the first time in 2016 by relating Absolute Emissions to the Cost of Production for continuing activities, and comparing it to previous years.

Carbon is currently the only environmental impact data that is measured, aggregated and periodically reported in a centralized manner. Other environmental impacts and pollution prevention measures are the responsibility of each legal entity within the Group, who are required to comply with local legislative requirements where they operate.

## RESULTS

The following results cover emissions produced by 97% of the Cost of Production. The emissions guidelines used are those from the United Kingdom's Department for Environment, Food & Rural Affairs (DEFRA) Environmental Reporting Guidelines from 2011, which was built in FLSmidth's Enterprise Resource System. An internal investigation has shown that if the 2011 figures were to be updated, the outcome would remain extremely close

## RISKS

Climate change risks include regulatory exposure to emission compliance schemes, carbon taxation, reputation considerations, and disruptions to business due to extreme weather risks, notably the 2016 flooding in Chennai where FLSmidth has the most employees. Environmental risks are currently not being addressed at a centralized level; each site is responsible for compliance with local legislation.



## ENVIRONMENT

what are currently reported, and would not justify the time and effort needed to update them. Only CO<sub>2</sub> is considered and not any other gas with greenhouse warming potential, nor biogenic CO<sub>2</sub>.

Due to a change in Group level travel agency in 2016, FLSmidth lost the ability to calculate scope 3 emissions, which has been defined by the amount of airplane based travel that the company undertook.

### ASSESSMENT OF RESULTS:

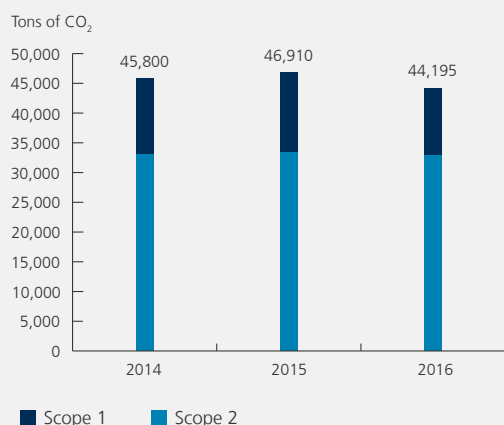
For absolute emissions, the sum of scope 1 & 2 emissions have reduced 6% from previous year. This has been achieved by local level emission reduction programs, as well as being driven by market activity.

For carbon intensity, there was a slight increase by 2%, which was due to the 6% decrease in absolute emissions, matched by an even larger decrease in the Cost of Production of 8%. Although total carbon decreased, when put in the perspective of the Cost of Production, carbon intensity performed worse than the previous two years. The outcome of this analysis shows that carbon emissions were not decoupled from economic performance.

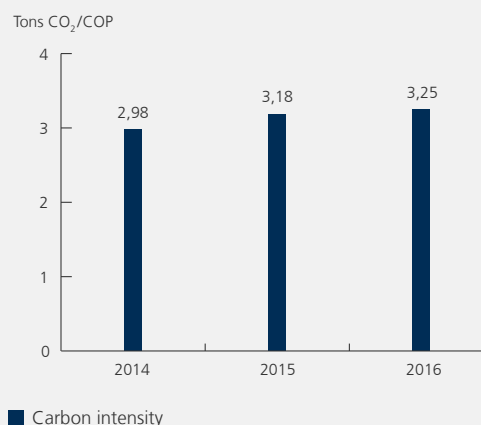
### FUTURE EXPECTATIONS

In 2017, FLSmidth will take a more proactive approach to mitigating climate change, in order to reflect the importance of it to the organization, stakeholders and the planet. Responsibilities for measuring the carbon footprint, setting targets and driving performance have been more clearly assigned and a system to incentivise mitigation will be devised. A new reporting system will be implemented allowing results to be measured more easily and more frequently, while using the most up-to-date Environmental Reporting Guidelines. Furthermore, FLSmidth is in the process of rolling out an environmental management system across 28 locations, which will provide clear procedures for acting on climate change, customized to the locations in which FLSmidth operate. FLSmidth will continue to report progress to the Carbon Disclosure Project in more detail. ■

#### ABSOLUTE CARBON EMISSIONS



#### CARBON INTENSITY EMISSIONS



## KPI SUMMARY

This material references GRI Standards, 2016. The figures listed below are those provided internally, which are used for decision support at the highest level of the Group.

FLSmidth does not have a policy to seek external verification for non-financial performance.

### SAFETY

Description	2013	2014	2015	2016	2016 target	2017 target
LTIFR	3.9	2.7	1.8	1.5	1.6	1.3
TRIFR	10	8.1	5.4	4		
Training hours	115,797	147,367	165,945	186,715		

### COMPLIANCE

Description	2015 result	2016 result	2017 target
Total number of whistle-blower reports submitted	35	25	
...of which admissible, i.e. reports that were in scope with the whistle-blower hotline program	34	23	
...of which in:			
- Africa and Middle East	12	6	
- Asia and Oceania	3	10	
- Europe and former Soviet Union	7	1	
- North America	4	3	
- South America	9	5	
a. Total number and percentage of operations assessed for risks related to corruption.	22	29	
a. Total number and percentage of governance body members that the organization's anti-corruption policies and procedures have been communicated to, broken down by region	100%	100%	100%
b. Total number and percentage of employees that the organization's anti-corruption policies and procedures have been communicated to, broken down by employee category and region	100%	100%	100%
d. Total number and percentage of governance body members that have received training on anti-corruption, broken down by region.	0%	0%	10 / 100%
e. Total number and percentage of employees that have received training on anti-corruption, broken down by employee category and region.	6,922 / 75%	7,414 / 81%	8,823 / 95%
...of which managers or senior managers	1,247	1,303	1,551
...of which executive management team	100%	100%	100%
a. Number of legal actions pending or completed during the reporting period regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the organization has been identified as a participant.	1	1	1
Numbers of in-depth due diligence screenings conducted	55	226	430

This material references Disclosures 102-17: Mechanisms for advice and concerns about ethics, 205-1: Operations assessed for risks related to corruption, 206-1: Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices from GRI Standards: 2016.

# KPI SUMMARY

## PEOPLE

Description	2015 result	2016 result	2017 target
Programmes for upgrading employee skills and transition assistance programmes			
Leadership Transition Training	approx. 512	280	
Flying the Flag (Top300)	190	96	
Percentage of employees receiving regular performance and career development reviews (calculated as reviews closed in 2016)	85%	86%	
Diversity of governance bodies and employees			
% Women on Board of Directors	17%	14%	25%
Age Group on Board of Directors	3 > 50-59 years 3 > 60-69 years 0 > 70 years	5 > 50-59 years 1 > 60-69 years 1 > 70 years	
% Danes in Board of Directors	50%	43%	
% Women in Group Executive Management	13%	14%	
Age Group in Group Executive Management	1 > 30-39 years 2 > 40-49 years 5 > 50-59 years 0 > 60 years	0 > 30-39 years 2 > 40-49 years 4 > 50-59 years 1 > 60 years	
% Danes in Group Executive Management	38%	43%	
% Women in Global Management Forum (Top70 managers)	10%	11%	15%

This material references Disclosures 401-5 from GRI 405: Diversity and Equal Opportunity from GRI Standards: 2016

## SUPPLY CHAIN

Description	2015 Result	2016 Result
Local average spend (% of total suppliers)	61%	61%
Number of suppliers screened for environment performance	0	161
Number of suppliers screened for social performance	0	161

This material references Disclosures 204, 308-2 and 414-2 from GRI 204: Procurement Practices and Disclosures 308-2: Supplier Environmental Assessment, Disclosure 414-2: Negative social impacts in the supply chain and actions taken from GRI Standards: 2016

## EMISSIONS

Description	2015 Result	2016 Result
Scope 1 emissions (fuel)	13,460	11,347
Scope 2 emissions (electricity)	33,450	32,848
Carbon intensity (scope 1 + 2 / Cost of Production)	3.18	3.25

This material references Disclosure 305-1 Direct (Scope 1) GHG emissions, Disclosure 305-2 Energy indirect (Scope 2) GHG emissions, Disclosure 305-3 Other indirect (Scope 3) GHG emissions, Disclosure 305-4 GHG emissions intensity from GRI Standards: 2016

## UNGC TABLE

UN Global Compact Principles	Pages
Support and respect the protection of internationally proclaimed human rights	19
Make sure that they are not complicit in human rights abuses	19
Freedom of association and the effective recognition of the right to collective bargaining	19
The elimination of all forms of forced and compulsory labour	19
The effective abolition of child labour	19
The elimination of discrimination in employment and occupation	19
Support a precautionary approach to environmental challenges	21-24
Undertake initiatives to promote environmental responsibility	21-24
Encourage the development and diffusion of environmentally friendly technologies	11
Businesses should work against corruption in all its forms, including extortion and bribery.	17

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