

SUSTAINABILITY REPORT 2017

LTIFR

1.8

Up from 1.5

Whistle-blower cases

51

Up from 25

Female employees

13.5%

Down from 14%

Tonnes of carbon

64,267

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ABOUT THIS REPORT

The 2017 Sustainability Report describes the non-financial performance of FLSmidth & Co. A/S, based in Copenhagen, Denmark and supplements the 2017 Annual Report. The Sustainability Report has been published every consecutive year since 2010 and is in accordance with section 99a of the Danish Financial Statements Act. The scope of this report is the area under financial control of FLSmidth, with the exception of the section on supply chain. FLSmidth & Co. A/S is listed on NASDAQ OMX Copenhagen..

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

The reporting period is January 1st, 2017 to December 31st, 2017



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals. We welcome feedback on its contents.

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FLSMIDTH AT A GLANCE

Cement and minerals are vital for economic, social and technological development. Urbanisation and industrialisation drive the need for infrastructure and improved standards of living. This creates an increasing global demand for cement and minerals such as copper and gold. However, greater scarcity of resources such as energy, water and raw materials is leading to more complex and costly operations, which challenges the performance of mining and cement companies.

This calls for innovation and high-end technical solutions, which is where FLSmidth has a leading position and a strong competitive edge. Together with our customers, we activate our knowledge and experience to bring better solutions to light. Through enhanced productivity, we contribute to the sustainable development of societies with the lowest possible environmental impact.

Though cement and mining are distinct industries, there are considerable commonalities and synergies between the two, and we have the unique advantage of being able to leverage resources, technologies and best practices across our cement and mining businesses.

OUR VALUES



Competence
Co-operation
Responsibility

Based on these values, we earn the trust and respect of our shareholders, customers, business partners, suppliers, employees and the communities in which we live and work.



Who we are

We supply everything from single machinery to complete cement plants and minerals processing facilities including services before, during and after the construction.



We are present in

50

Countries

Our major engineering locations include Bethlehem, PA (USA), Chennai (India), Copenhagen (Denmark), Salt Lake City, UT (USA),



We employ close to

11,700

Our in-house resources are primarily engineers who develop, plan, design, install and service equipment, with most of the manufacturing being outsourced.



Our vision

We drive success through sustainable productivity enhancement

Our brand promise

We discover potential

WHAT WE DO

Our unique combination of engineering, products and services enables us to be a leading supplier of productivity enhancing solutions to the global cement and mining industries. We help our customers to increase production output, decrease operating costs and reduce environmental impact.

Our value proposition builds on extensive process know-how, combined with a 'full flow-sheet' of premium, sustainable technologies and a life-cycle service offering. We have a proven track record of quality and reliability.

Global organisation and footprint

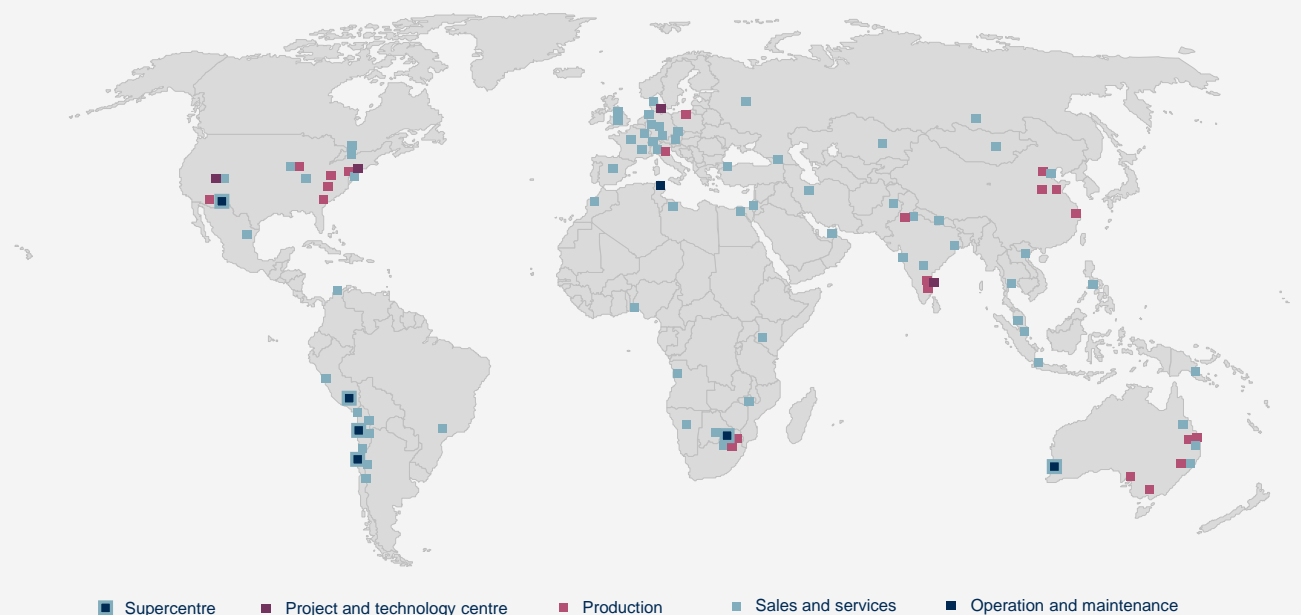
With local presence in more than 50 countries, FLSmidth is a truly global company. The geographical footprint is reflecting our diversified customer base, composed primarily of global and regional cement and mining companies that invest in new capacity or in expanding, upgrading, maintaining and servicing existing production capacity.

FLSmidth has vast experience in working with a broad range of customers around 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 major miners account for a considerable share of the aftermarket business in mining.

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 the aftermarket business in cement.

Being close to the customer is the key to the aftermarket. Combining local presence with global support and expertise makes it possible to deliver premium solutions where our customers need them. FLSmidth's vast number of local sales and service offices ensures frequent customer dialogue and speed of delivery. In parallel with recent years' efforts to optimise and streamline the global footprint, we have continued to open new sales and service offices around the world to cover white spots.

GLOBAL CENTRES OF EXCELLENCE AND SERVICE CENTRES CLOSE TO CUSTOMERS



Global Headquarters
& Group Functions

Denmark

Shared Service Center

India

Global Project Global project &
Technology Centres (Denmark, India, USA)

4

Local sales and
service offices

72

Service Super Centres
in mining clusters

6

In-house workshops
(70-80% outsourced)

22

Formal country organization
(appointed country CEO)

25



LETTER FROM THE CEO



In a world where economies are growing and resources are becoming scarce, innovation is the key to helping businesses and societies achieve sustainable growth.

With rising global challenges such as climate change and water scarcity, FLSmidth is in a unique position to support customers in the cement and mining industries to operate as responsibly as possible.

In 2017, we took a long and hard look at the future of our industry, our business and our company to define a new vision: *“We drive success through sustainable productivity enhancement”*. This vision will shape our business for the years to come, and it is based on the fundamental idea that sustainability and productivity cannot be thought of separately. We fully recognise that sustainability is good business for our customers, our shareholders, our stakeholders and for us.

Sustainable development is the key driver in our industry and our focus on productivity enhancement increases our customers' competitiveness, as well as our own. Sustainability calls for a strong life-cycle approach across the entire value chain. By focusing on our suppliers, our business and the entire life-cycle of our customers' operations, we can identify even the smallest sustainability impacts and cost savings. Our business will only grow as we deliver equipment, projects and services to our customers that are ever more sustainable and productive.

Our ability to deliver sustainable productivity enhancement starts at home. Although we did improve our performance in some aspects of our internal sustainability program, it is with great regret that one of our sub-contractors in Algeria tragically lost his life this year. After four years of systematic improvements leading to improved safety performance, this year marked the first drop. The focus for 2018 is to achieve our vision of zero harm, and to not stop until all of those working

under our supervision are safe. 2017 marked a step-change in how we manage our impacts. We established a new sustainability governance structure where I personally oversee the sustainability performance of the risks and impacts, which are presented at the annual Board of Directors meeting. This shows a real commitment to our stakeholders, and encourages our employees to be engaged and get results.

Looking into 2018, we will be investing in digitalization, and we are excited about the prospects it has for productivity-driven growth and shared value creation, including sustainability. With big data, we will be able to monitor the performance of equipment very closely, meaning that resource use, such as use of fuel and water, can be optimised in real time. It also means that equipment will have more uptime with scheduled preventative work, leading to decreased safety risks related to maintenance.

It has been 10 years since FLSmidth became a signatory to the United Nations Global Compact and our commitment to it and its principles have never been stronger. We would like to take this opportunity to thank our people and our stakeholders for helping us get to this point in our sustainability journey, and we encourage everyone to think and act sustainably in their professional and personal lives.

Thomas Schulz, CEO

OUR SOCIAL PURPOSE

FLSmidth's social purpose is to support customers to be productive by extracting responsibly, thereby enabling them to produce the materials that build sustainably societies

As change in the world is accelerating, as the geopolitical landscape becomes seemingly more complex and as markets face increasing levels of disruption, there is a crucial need for organisations to define their social purpose. Determining the reason for being of a company, or how the collective work of all employees contributes to society, results in an understanding of how the company as a whole impacts the world. This can be used to identify the leverage points of the organisation to improve social and environmental conditions where they operate.

The world's population growth is increasing at an astonishing rate. Many lower to middle-income countries continue to have high birth rates, while life expectancy has never been higher. With the goal of providing better conditions for their families, many people from rural areas migrate to urban areas in the hope of finding a better life. As people pull themselves out of poverty, societies become more developed and national income increases. All of these factors intensify the global demand for infrastructure and metals, many of which are produced by FLSmidth's customers.

However, there is a trade-off between socioeconomic development and the natural resources required to fuel it. Cement and mining operations cause large-scale impacts to the environment. Biodiversity is affected, carbon emission and water extraction increases, while the quality of air and water can deteriorate if not dealt with in a responsible manner. As a supplier of equipment, projects and services to cement and mining companies, FLSmidth's social purpose is well defined. As the world requires infrastructure made from cement and goods made from minerals, the goal is to reduce the amount of resources required for the production process, while also increasing the level of output. This is the definition of productivity and the reason our strategy is to be productivity provider #1.

The ability to continuously optimise the flow of natural resources to society relies on the ability to innovate. By researching and developing new technologies and services through the lens of productivity, FLSmidth plans to unleash a new wave of productivity. Transformative innovations that revolutionise the way industry impacts the environment have the potential to deliver real shared value.

The goal is to continuously develop products and methods that help the mining and cement industries to extract resources more responsibly. This means that the surrounding areas of plants, mines and quarries can flourish, that the environment is not impacted to the point that it cannot recover, that its surrounding communities have the means of a sustainable livelihood and that the local economy grows. Efforts made to improve safety, people skills, compliance, environment, supply



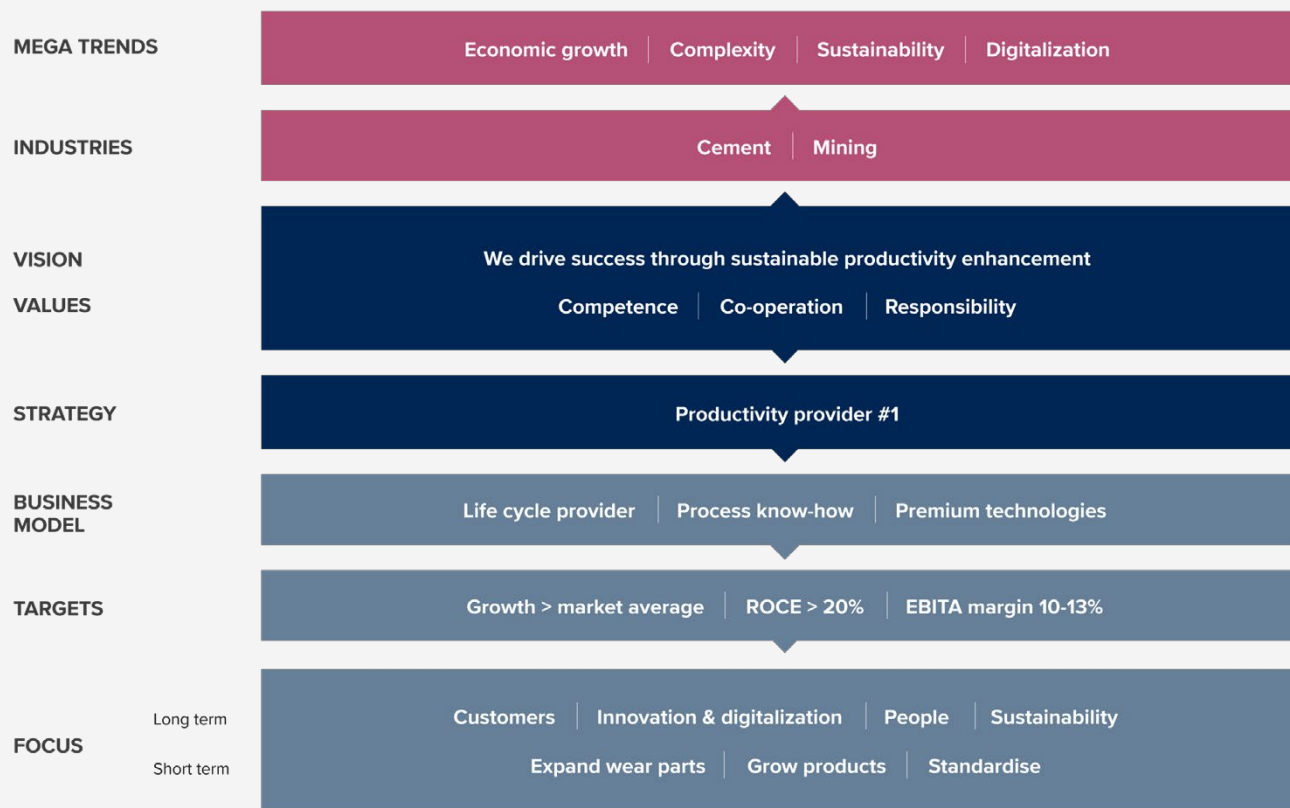
chain and human rights can have a massive impact on a local and global scale. This can make the industry as a whole improve year on year, allowing for the materials required by society to be supplied sustainably for the long-run.



STRATEGY AND BUSINESS MODEL

FLSmidth's new vision of “*we drive success through sustainable productivity enhancement*” sets the tone for the business model, and therefore the foundation for meeting customer demands.

Sustainability plays a central role in the external forces shaping the markets for minerals and cement, as well as the opportunity to support clients to address their environmental and social challenges.



STRATEGY

FLSmidth is a leading supplier of productivity enhancing solutions to the global cement and mining industries. We help our customers increase output, lower operating costs and reduce environmental impact. Through a life cycle approach we enable our customers to lower their total cost of ownership over the entire life of their plant.

Our key to productivity is a full flow-sheet of premium technologies, embedded in a unique combination of leading products, process knowhow and wide-ranging services.

All unified by state-of-the-art automation and control systems, which position FLSmidth as a market leader in analysing and understanding performance data. We sell more than just equipment, plants and services – we deliver productivity.

The benefits for the customer are clear: More reliable and optimised operations, proactive and predictive maintenance, and increased uptime.

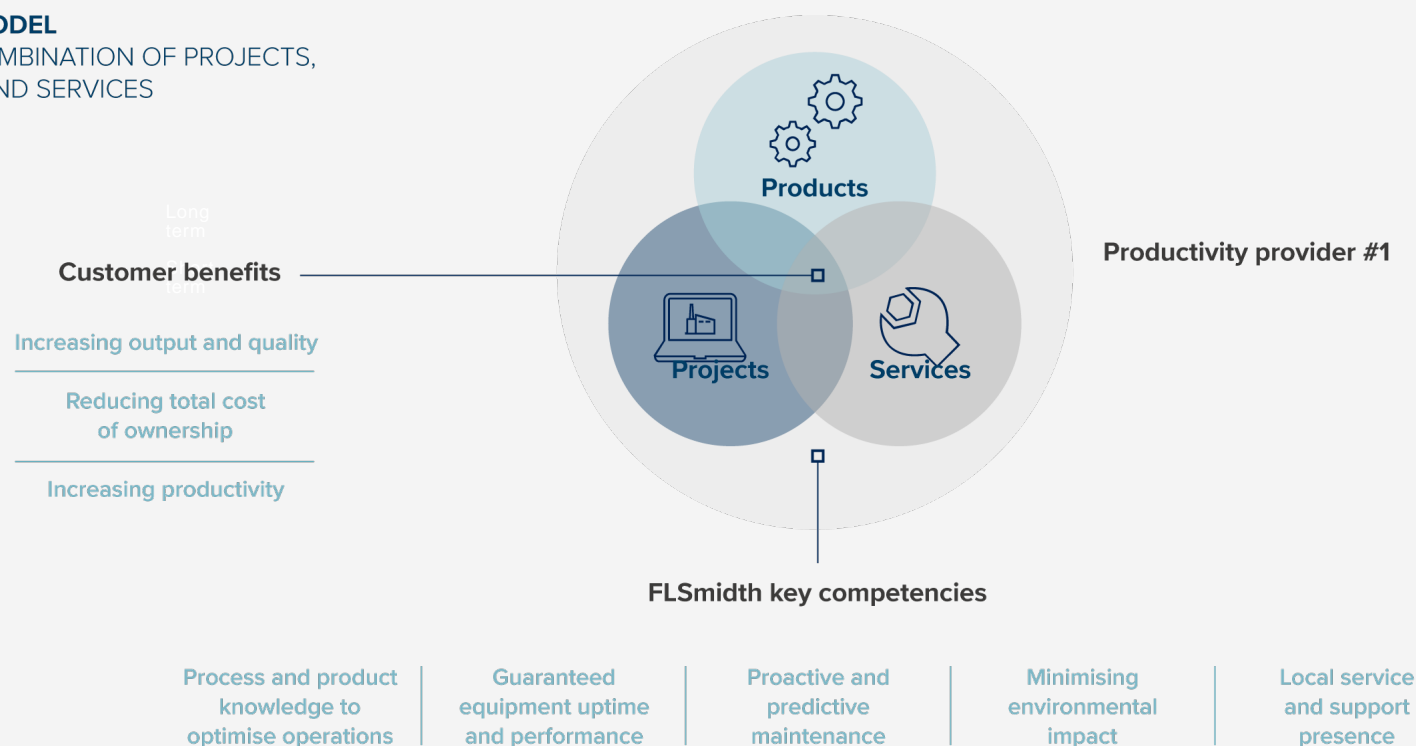
Our offering extends beyond the typical warranty on a single piece of equipment. We bundle equipment to offer

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, quality and project follow-through. At the same time, we have the most complete offering in our two core industries.

Our strategy is to be Productivity Provider #1 based on our vision, values, people and know-how.

BUSINESS MODEL

A UNIQUE COMBINATION OF PROJECTS, PRODUCTS AND SERVICES



OUR EMPLOYEES

FLSmith is a learning organisation, and our people are our most valuable resource. In 2017, 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.

The global organisation has been significantly impacted by the cyclical downturn and the changes in market conditions over the past five years. As a consequence of corrective actions implemented in late 2016, the number of employees was further reduced in 2017. However, on 1 November 2017, the acquisition of parts of Sandvik Mining Systems added 187

employees to the global organisation.

The number of employees amounted to 11,716 at the end of 2017, representing a decrease of 4% compared to last year (end 2016: 12,187). The decline is primarily explained by business right-sizing and corrective actions, as mentioned above. The composition of the global workforce was more or less unchanged at the end of 2017.

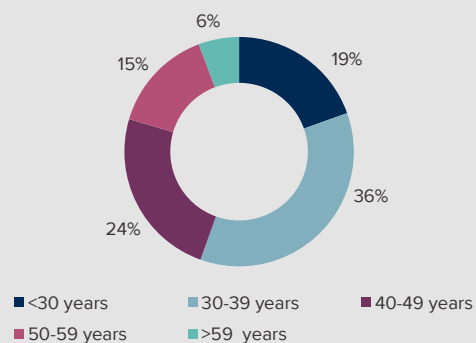
53% of FLSmith's employees were below the age of 40 at the end of 2017 (end of 2016: 55%).

79% of the employees have more than 2 years' seniority (end of

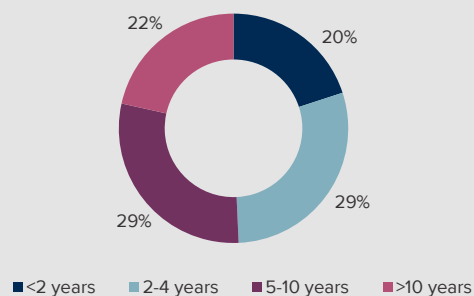
2016: 80%). 39% of all employees have less than 5 years' experience (end of 2016: 49%), which is an indication of the transition FLSmith has been going over the past 5 years to become a productivity-driven company.

13% of FLSmith's permanently employed staff is female (end of 2016: 14%). Please see the section on people to understand more about gender and diversity.

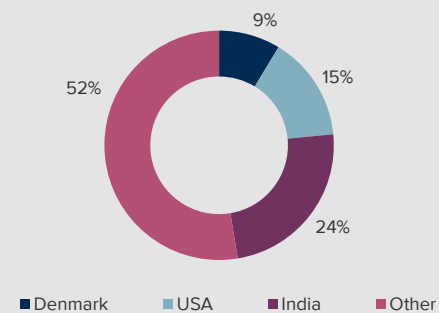
AGE DISTRIBUTION



LENGTH OF SERVICE



GEOGRAPHICAL DISTRIBUTION







FINANCIAL IMPLICATIONS OF SUSTAINABILITY

Understanding the link between financial and sustainability performance throughout the value chain drives the business

forward, through increased profitability and decreased risk. To stay at the forefront of these developments, FLSmidth has

identified key levers as growth opportunities, each having a clear impact on sustainability:

FOCUS AREA	DESCRIPTION	
 Customers	<p>The world's need for housing, infrastructure and minerals drive the cement and mining industry to produce more. Increased energy costs, water scarcity and changing regulations adds to growing complexity in the business environment, and customers' need for sustainable solutions has never been higher. Customers face individual challenges depending on the industry and the geography, and close customer relationships are required to understand and convey these challenges to</p>	<p>the right people within FLSmidth. By having a local presence and one face to the customer, it makes doing business simple. The ability to address issues related to the environment, society or the economy relies on FLSmidth being valued as a trusted business partner. That is why close customer relationships are a promoter for sustainability. To evaluate our customer relationships, the Net Promoter score is used, as is the ability to deliver in full on time.</p>
 Innovation	<p>Researching and developing transformational technology in the cement and mining industries can literally change the face of the planet. FLSmidth envisions a world where mining companies don't need tailings dams, and where cement companies don't need to rely solely on fossil fuels. Where proven, game changing technologies can be brought to market, sold across the world and completely change the way cement and minerals are produced. Over the course of 2017,</p>	<p>FLSmidth spent 212 DKKm on in-house research and development at sophisticated laboratories and testing facilities in the USA, India and Denmark. Fast commercialisation of new products and services is a top priority, and FLSmidth is also pursuing more transformational innovations that can unleash the next wave of productivity.</p>
 Digitalization	<p>Customers' purchasing habits are increasingly based on the total cost of ownership over the product life-cycle. Operating costs account for approximately 75% of the total cost of ownership for a cement or mining operation, and energy is the single largest component. Through digital monitoring and control systems being brought to market, customers have the ability to optimise processes and predict maintenance schedules. This decreases safety risks, as interactions between people and machines are limited, thereby enabling better safety performance.</p>	<p>Monitoring and data analytics create an unrivalled combination that significantly improves productivity, while optimising resource usage. This leads directly to maximum efficiency and profitability by reducing energy consumption and thereby carbon emissions.</p>
 Standardisation	<p>Through standardisation FLSmidth seeks to reduce costs and complexity without compromising performance. Value engineering initiatives for product development can build on elements that improve sustainability from the beginning. Early involvement of R&D and sales allows for simplification and alignment of product specifications. The outcome is lower costs and equal or improved functionality. Smarter production is critical for FLSmidth as production costs make up</p>	<p>approximately 75% of Group revenue, of which 70-80% is outsourced. Standardising parts and developing close partnerships with key partners pave the way for closer sustainability dialogues in the future and better performance of the entire value chain.</p>
 Grow products	<p>By providing a full portfolio of products over the entire flow sheet, FLSmidth can provide customers with 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. FLSmidth helps customers design an operation with the right combination of products that</p>	<p>help them mitigate their environmental impact while allowing for best-in-class service for safety, ethical integrity and human resources from beginning to end. FLSmidth's product line management set up means that growth opportunities and sustainability enhancers within the entire life-cycle of an operation can be identified and acted upon.</p>



COMMITTED TO THE SUSTAINABLE DEVELOPMENT GOALS



Decoupling environmental degradation from economic growth is a crucial element of sustainable development. FLSmidth supports this through the development of national economies both by internal operations, as well as improving the productivity and impacts of customers and suppliers. Providing employment opportunities within the company is a direct contribution to local and national employment. Furthermore, contractor labour through suppliers without compromising FLSmidth values improves the sphere of influence.

With FLSmidth's commitment to working with the goals that are directly influenced by its business activities, they indirectly influence several other goals as well.



By creating decent working conditions and economic growth in the local communities FLSmidth operates in, the company indirectly affects the fight towards ending poverty.



When supporting the development of ending poverty through the above-mentioned activities, the company also indirectly supports the ambition to end hunger.



Through employment and the ongoing education and training of local workers, FLSmidth further impacts the goal to increase the number of young people and adults who possess relevant skills for employment.



FLSmidth is a product, project and service provider to industries that produce essential materials for societies to develop and function. As innovation is central to FLSmidth's business model, developing clean and environmentally sound technologies drives the company forward. Societies are built from cement and minerals, and producing them responsibly can go a long way towards promoting sustainable development. This means mitigating CO₂ and increasing manufacturing employment per unit of value added.

With innovation in the products, projects and services offered being a driver for future growth, there are also numerous other indirect benefits:



By providing sustainable innovations and technologies, FLSmidth indirectly supports the work towards ensuring access to clean water in areas where water resources are scarce.



FLSmidth also indirectly supports the development of safe and sustainable cities and communities, by providing efficient and safe equipment to prevent environmental disasters.



Through sustainable innovations and technologies, FLSmidth indirectly influences the work towards mitigating climate change



FLSmidth is fully committed to advancing sustainable production and consumption patterns internally, as well as goods and services procured and delivered. Focusing on improving supplier performance, and delivering technologies and services that improve customers' impacts is central to FLSmidth's business model. This ensures the sound management of resources and significantly lower releases into air, water and soil, minimising their adverse effects on the environment and human health. Furthermore, being responsible also means doing business ethically; and to stem the possibility of fraud or corruption.

Being responsible means taking a holistic view of the environment, society and the economy:



By developing technology that helps customers meet their national emission regulations, emissions such as dust which causes respiratory illnesses can be mitigated.



Providing energy-efficient technology to customers around the world means that the customers do not require as much energy from the national grid.



Placing a strong focus on doing business ethically significantly reduces the chances of fraud or corruption. This can help promote FLSmidth's values towards customers and the public sector.

CHALLENGE: COPPER IN ARMENIA

FLSmidth is staying on to help a mine in Armenia faced with accusations of causing environmental and social impacts. Active involvement has a greater long-term impact on sustainability than abandoning a site and leaving the problems with the client and the local community.

In 2013, FLSmidth was hired to engineer and provide equipment for a mineral processing facility for a copper mine in Lori province near Teghout in northern Armenia, partly funded by Danish institutions. The equipment supplied for the project was of the highest standard regarding environmental impacts. Local residents and non-governmental organisations raised issues about the construction and operation of the mine, mainly with regard to pollution of rivers; the felling of forests that are home to endangered species and accusations of exploitation of small farmers whose land was expropriated under allegedly questionable circumstances.

In 2017, this came to a head when a Danish non-governmental organisation levied unsubstantiated accusations against the mine operator and FLSmidth. This led to public scrutiny of those involved and caused the withdrawal of the financial guarantee, although this did not contribute to resolution of the concerns. As a supplier to the project, FLSmidth chose a rather different approach. It was well understood from the beginning that pulling out of the project meant leaving it for the customer



do so, even though the issue under scrutiny (mine and tailings facility) were not in scope of FLSmidth.

“We decided to stay in the area and attempt to make a positive difference by applying our expertise. We believe you can make more of an impact by being present on site, as long as there is trust in the relationship and the aim to solve the problems at hand. We are in regular dialogue with our customer on how best to assist them with their challenges and thus make a positive difference in the area,” said Manfred Shaffer, executive vice president of the minerals division.

ESTABLISH EFFECTIVE COMMUNICATION CHANNELS

As supplier to the project, FLSmidth expects that the customer will take the necessary steps to address and improve conditions surrounding the mine and processing plant. By leveraging the relationship with the customer, a dialogue was immediately established by the project manager and escalated within the organisation. This allowed proper communication channels to be established at the right levels to review options for overcoming the challenge.

Furthermore, FLSmidth engaged some of the financial parties to identify what their concerns were, prior to their withdrawal. This allowed for a full understanding of the stakeholder expectations. The unsubstantiated claims were discussed directly with the non-governmental organisation and the journalist who levied the accusations. FLSmidth's role was made clear, as well as where the legal responsibilities of each party lie, and how FLSmidth went beyond the legal boundaries to address and support a resolution of the issues.



This was a very complex situation, where national laws and norms were not aligned with international performance standards; where the way of operating a mine and processing plant in the country was called into question and with confusion as to what the actual individual responsibilities of each stakeholder were. We are committed to continually raising the standards of sustainable development in our field, and we believe that we can push the development in the right direction through dialogue,”

**said Manfred Shaffer,
executive vice president of the minerals division.**

CUSTOMER: TEGHOUT CJSC

FLSmidth: delivered design, machinery and supervised the construction of the mine facilities, all above ground
Customer: Teghout CJSC

Finance: Denmark's Export Credit Agency (EKF) provided the financial guarantee, and The Danish pension fund, PensionDanmark, partly provided the financing with DKK 350m by extending a loan arranged by a French bank to a Russian bank for further on lending.

Major risks: An identified potential risk to the customer is that the nearby dam, built to stem the flow of liquid waste from the mine, might collapse should a major earthquake strike the area. In 2016, the World Bank published a study on the mineral sector in Armenia, showing that none of the 21 tailings dams reviewed had the appropriate design or management for a seismically active area. Teghout CJSC is currently reviewing the risks and solutions based on the International Commission on Large Dams standards and has committed itself financially to implement the proposed solution.

Timeline:

- 2008: Order for the mills and grinding area, with associated plant engineering
- 2011: FLSmidth receives order for the balance of equipment and plant engineering
- 2014: All engineering of the plant was done in accordance to local codes and standards and put into operation
- 2017: Financing was withdrawn



ENGAGING STAKEHOLDERS

Stakeholder engagement is of great importance to FLSmidth in order to unlock potential, be transparent, and drive sustainable productivity enhancement. In order to achieve this, key stakeholders must be engaged on a regular basis to get insight into their advice, inputs, and expectations.

General stakeholder groups were identified by Group communication, marketing and sustainability. Additional stakeholder groups were added through desk reviews of industry publications, as well as through conversations and interviews with internal staff. The outcome of the exercise showed that the largest and most influential stakeholder group is internal staff, meaning that they are prioritised in terms of engagement.

A central aim of the materiality assessment in 2017 was to gain an understanding of which stakeholders were being engaged where and by whom in the organisation. This resulted in an in-side-out perspective, which was summarised and centralised by Group sustainability. This allows the scope of stakeholder engagement to be broadened by initiating dialogues with more tiers of internal management, key customers, suppliers, non-governmental organisations, academia and other central stakeholders.

The goal of the extended stakeholder engagement program is to understand the stakeholders' sustainability context and determine their expectations, which will advance the work within the sustainability agenda and help steer the sustainability program in an inclusive manner. The extended stakeholder engagement initiative is planned to be a key focus area for 2018.



Throughout 2017, the following stakeholders were engaged through various channels:

Customers

Customer engagement and satisfaction, which not only includes end customers but also agents and engineering, procurement and construction management companies is high on FLSmidth's agenda. Continuous interaction and collaboration to effectively solve customers' biggest risks and challenges is a crucial point in being a successful company. To ensure high customer satisfaction and valuable partnerships FLSmidth strives to assure that customers are fully informed about the constant expansions and enhancement of products and offers that improve productivity in their operations and provides them with a competitive edge.

Sustainability and productivity are central components of FLSmidth's brand. Issues such as safety, energy efficiency and emissions are value propositions and are constantly addressed face-to-face with customers. These often form a part of customers' criteria for supplier selection and can be both qualifiers and differentiators, in turn giving FLSmidth a competitive advantage.

Sustainability issues are also a key theme in FLSmidth's publications, such as the magazines Discover Mining or Cement Highlights. In 2017, Discover Mining published an issue entitled "Troubled Waters", which gave deep insights into the topic of minimising water usage at customers' mining sites. In the April edition of Cement Highlights, a member of the management board at one of the world's largest cement companies (a long-time customer of FLSmidth) gave his thoughts on the future of the cement industry, discussing the topic of climate change at length. When published, the magazines are sent in hard copy to customers.

FLSmidth also participates in a number of cement and mining conferences around the world on an ongoing basis. Productivity and topics related to sustainability are discussed directly with customers as value propositions. FLSmidth employees also present papers for innovative products and services that can have a considerable impact on improving the environment.

A large scale engagement process with customers was undertaken through a Global Image Survey. The purpose was to understand FLSmidth's brand awareness and customer perceptions, as well as to benchmark against peers. Topics addressed with customers included how much importance they place on safety, energy efficiency and sustainable technologies, which allows FLSmidth to differentiate itself further as an enabler for customer sustainability. The process engaged 436 customers and allowed for a Net Promoter Score to be calculated, showing that the FLSmidth brand perception has increased over time.

Financial institutions:

Banks and financing partners are highly important and close collaboration partners for business and projects around the world. FLSmidth therefore strives to create valuable and transparent partnerships that ensure compliance and ethics in the industry.

FLSmidth works alongside customers on a continuous basis to secure financing for projects around the world. Numerous financial institutions require customers to adopt world class standards related to the environment, society and the economy. FLSmidth works hand-in-hand with both the customers and the financial institutions to ensure that projects adhere to the standards required. As an example of how FLSmidth works with its partners, please review the case study on Teghout elsewhere in this report.

Public sector

Transparency is a driver for everything the company does, including tax, employment and business activities. FLSmidth values open and collaborative dialogue with tax authorities in each of its countries of operation to ensure compliance to national laws.

Due to FLSmidth's position in the global cement and minerals market, the company often interacts with government officials and local authorities, both with respect to general knowledge and expectation sharing in relation to global operations, and in assisting customers to gain their license to operate in specific

areas. As one of the big Danish export organisations, FLSmidth is occasionally invited to roundtable discussions by the Danish Ministry of Industry, Business and Financial Affairs to provide feedback on new and current legislations and export laws.

Universities

Collaboration and interaction with academia is important for ensuring a consistent knowledge flow and innovation in the company.

Having close collaboration with universities, specifically engineering programs and projects, as well as doctoral studies, helps attract top talent, acquire new knowledge and develop innovative ideas within the company. It is therefore considered a crucial investment in the future of the business.

University collaboration also covers guest speaking at universities and local university visits to FLSmidth's super centres around the world. This provides the students with a more tangible and broadened understanding of the work and the various career opportunities available at FLSmidth.

FLSmidth also collaborates with universities to recruit fresh graduates showing high levels of talent.

One of FLSmidth's university collaborations is a project running from 2013-2018 with the Technical University of Denmark. The focus of the program is to develop fundamental tools and advanced technical solutions that will lower the environmental impact, improve the overall economy, and improve energy efficiency for processing large amounts of particulate materials in cement and minerals processes.



Outsourcing partners:

With more than 80% of its manufacturing outsourced, suppliers and sub-contractors play a crucial role in FLSmidth's ability to deliver premium projects, products and services. Please review the section on supply chain to gain insight into how these partners are engaged on sustainability matters.

Supplier relationships are deemed very important to FLSmidth to ensure the high quality of the products and success of the company, which is why long-term partnerships with qualified and professional suppliers are highly valued.

Having a large pool of suppliers can result in inefficiency in economies of scale. To overcome this challenge FLSmidth is building a product-sourcing plan to identify preferred, alternative and blacklisted suppliers for future orders. Contracted labour is a significant part of FLSmidth's business model, as its workforce needs vary throughout the year depending on projects. It is important to ensure that the right people are hired, and that they believe in the values that FLSmidth builds upon. In terms of sustainability matters such as safety, FLSmidth does not distinguish between its own staff and contractors.

Civil society

This stakeholder group consists of communities, mass communication, non-governmental organisations and charities, as well as trade unions and staff associations.

For FLSmidth, it is essential that added value be provided to the local community where operations are based. This is accomplished by listening to the local expectations on e.g. using local employment and paying taxes. Dialogues are a main driver in overcoming potential resistance and creating a good and trustworthy relationship with local communities.

There is support for internal staff to organise in staff associations and trade unions in the different regions of operations. It is valuable for both the employees and FLSmidth to have a portal where staff at all levels can channel concerns and disagreements to the management's attention. Continuous interactions and dialogues create a healthy working environment and solve rising issues before they escalate out of hand.

FLSmidth's media activities include the CEO's quarterly live briefings on the company's performance, and recurrent interviews with company specialists on new trends and technologies in the cement and minerals industries.

FLSmidth responds to media enquiries and provide corrective information if necessary... Sustainable topics are also re-occurring themes of editorials written by FLSmidth in international industry magazines. Furthermore, FLSmidth's social media footprint centres on the brand elements of productivity and sustainability.

FLSmidth Donation Fund annually donates up to 400,000 DKK to worthy causes including humanitarian work, environmental projects and education and training. One of the causes from this year's donation went to the next generation of miners in the Zacatecas region in Mexico, who now have access to the FLS ESSA Flotation Cell in the laboratory at the local university.

FLSmidth contributes to PanIIT Alumni Reach for India Foundation, Rural Skill Gurukuls for the underprivileged. The objective of this non-governmental organisation is to implement and scale self-sustainable models that enhance incomes of the under-privileged. Through its unique model, the organisation provides training for skills development of school drop-outs from various rural areas, including the Naxal (far-left radical Maoists) affected districts of India, resulting in social uplift through livelihood enhancement. It is also proposed to utilise their trainees at our project/manufacturing sites. Former Army officers head the training centres and more than 80% of candidates have been sourced from Naxal-affected areas. Non-governmental organisations have been identified as a group that requires additional engagement, and it is expected that this will occur in 2018.

In 2018, roundtable discussions about FLSmidth's materiality topics' risks and opportunities will be the main driver for the dialogues on how sustainability issues within the cement and minerals industries will be conducted. The primary focus is to continuously incorporate these dialogues into the sustainability program, as an iterative process to adjust the course of the program, satisfy stakeholder expectations as they develop, and to provide insight into how the company and its stakeholders can become more productive.

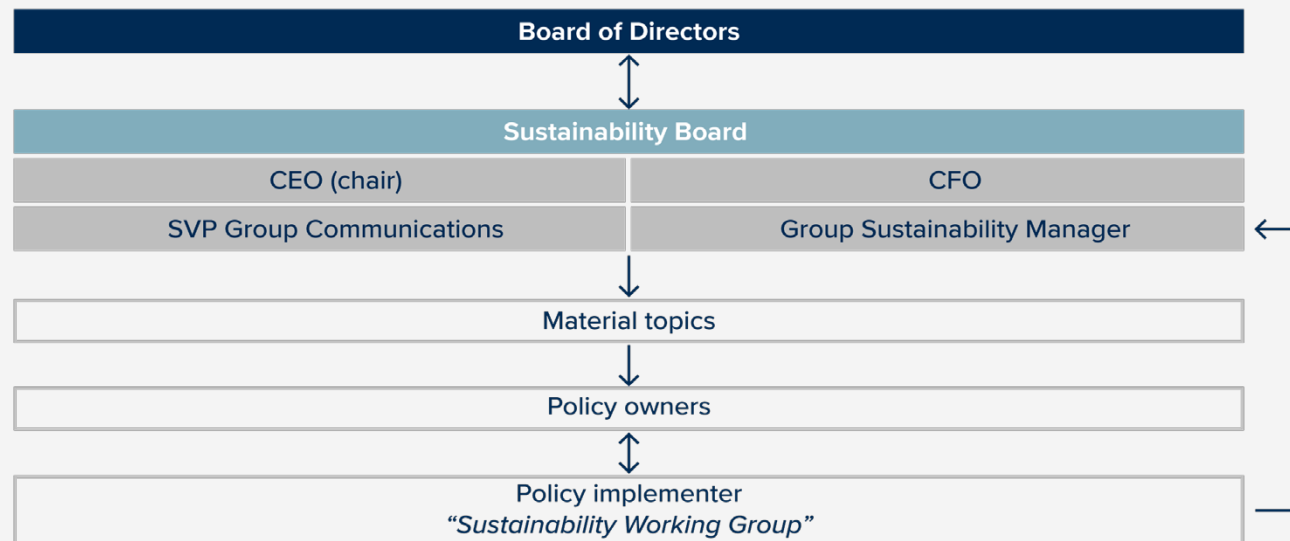


GOVERNANCE

Establishing a properly functioning governance structure for the sustainability program is key to driving results. By setting the tone from the top, the board of directors establishes the mandate for the sustainability program. Performance improvement on material topics both internally and among suppliers and other relevant parties in the value chain are decided by and propagated through the organisation through the Sustainability Board.

On a strategic level, decisions made in the Sustainability Board determine how the organisation will address and advance upon these issues in a systematic way. This is accomplished by establishing a clear policy structure for each material topic, each sponsored by a member of executive management. The individual members of executive management are accountable for selecting which indicators are most pertinent, setting targets for them and continuously overseeing the improvement of performance in their area.

On an operational level, each policy owner assigns a policy implementer who is responsible for the day-to-day improvements on a more detailed level. The policy implementers of each material topic form the Sustainability Working Group, which are the focal points for the Group sustainability function. Together, the members of the Sustainability Working Group collaborate on pushing the performance on the material topics.



In 2017, the reporting structure for sustainability improved significantly. In previous years, the annual sustainability report was the only means of communicating performance. This meant that course corrections were only possible on an annual basis. This year, the reporting cycle has been accelerated to a quarterly basis, as it is included in the Management Report that is distributed to the Board of Directors and Group Executive Management. This provides the means to see progress on the decisions taken in the Sustainability Board. At the end of the fiscal year, the Group Sustainability Manager presents progress to the Board of Directors, who then expresses feedback and suggestions for improvement.

This governance structure has been implemented in 2017. Overall the new structure is expected to provide more transparency regarding how to control environmental, social and economic impacts within the organisation and its value chain.

WHAT MATTERS

As a key driving factor, an opportunity to address global challenges and a means of growing the business, sustainability has always been central to FLSmidth's business model. By changing the vision to *"We drive success through sustainable productivity enhancement"* the importance to core business is emphasised and openly communicated to helping customers increase productivity and overcome their challenges. For that reason, the materiality assessment is an essential task in order to identify future risks and opportunities within the sustainability agenda, not only for the FLSmidth but also for key stakeholders.

The initial materiality assessment was conducted in 2016, and provided the basis for developing a more comprehensive approach. The prioritised materiality topics help set the right focus point and strategic course for the company, both in the short and long-term.

In the 2017 materiality assessment FLSmidth identified the main materiality topics by aligning expectations and prioritising resources for sustainability improvements across internal and external stakeholders. The assessment was based on input from key stakeholders, who were identified as those who impact FLSmidth's operations, or are impacted by the business activities. Material topics were chosen by engaging decision makers and interviewing employees, as well as a literature review to determine the topics important to external stakeholders.

FLSmidth initiated an extended internal stakeholder engagement agenda in 2017. The goal was to engage a broad base of internal stakeholders and identify key actors who could

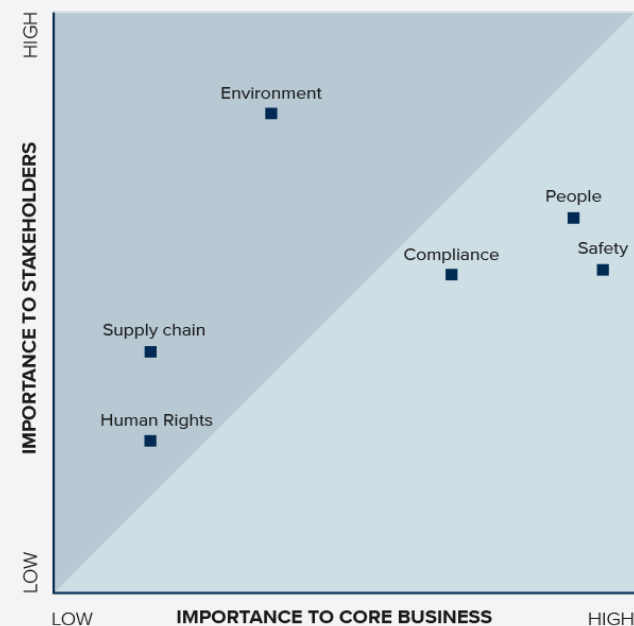
act as leverage points to push the sustainability agenda to the greatest extent possible. To determine which internal stakeholders to engage, the executive management was presented with the ambition of furthering sustainability performance. They were asked to nominate 7-10 employees under their supervision with impact on environmental, social or economic risks and impacts. Ultimately 50 employees were nominated. The nominees were each interviewed and surveyed in order to determine the material aspects' importance to core business, as well as risks and opportunities of achieving long-term goals.

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 thorough understanding of the impacts that have been publically discussed. In the end six out of the eight topics initially detected in 2016 were found to be material. Although the topics are prioritised in the materiality matrix, each one has a responsible policy owner and implementer to improve performance. This includes empowering leaders and those with influence in the organisation to drive results.

Based on a thorough understanding of FLSmidth's customers' most pressing issues, specialist insights and stakeholder feedback, the aim of the sustainability program is to promote best practices and effectively meet the customers' needs while constantly pushing the sustainability standards in the cement and minerals industries.

Going forward, the sustainability function will engage external stakeholders in order to understand their expectations towards FLSmidth. This will be done hand-in-hand with the Sustainability Working Group, resulting in targeted communication to internal staff who can use it to promote actions that address both internal and external impacts.

MATERIALITY MATRIX



SAFETY

POLICY

With the introduction of a new vision for the company, “we drive success through sustainable productivity enhancement”, the health, safety and environmental policy was updated in 2017. This was to align the safety agenda to where the organisation will be heading in the future, and to ensure that safety remains the core component of FLSmidth’s sustainability program. As safety is the most important material topic for the organisation, it is seen as a precondition for achieving the vision. It plays a central role in how services are delivered; it is a value proposition to customers, we compete to be best-in-class and it contributes to the success of the organisation.

The revised policy is based on the core values of competence, cooperation and responsibility. The policy covers sub-contractors, employees and all people working under FLSmidth control in achieving zero harm.

On group level, a group reporting tool has been established where the country organisations upload safety incidents and data monthly. This reporting forms the basis for tracking the safety performance on monthly, quarterly and annual level. Specific procedures exist for reporting of fatalities and very severe incidents.

Rooted in the company value "competence" FLSmidth has a comprehensive focus on leveraging the organisational health, safety and environmental competence and the safety

awareness among all employees.

An example of this is a very high number of recorded training hours per employee. In 2017, mandatory safety shares were initiated at internal meetings as well as increased focus on managers doing safety walks. A “Presidents Safety Award” was also given to the FLSmidth location Pinkenba in Brisbane, Australia, for showing exceptional good safety performance and best safety practices within hazard identification and risk management.

RISK

FLSmidth is executing service operations at mining and cement sites with potential health, safety and environmental risks stemming from as example heavy machinery, processes, equipment and traffic. Whether the site is under construction, undergoing maintenance or in the operational phase, the key industry risk has to be controlled via rigorous standard safety procedures and best practices. Other potential safety risks are our own manufacturing locations where risks from machinery, tools, mobile equipment, material handling and internal traffic etc. must be controlled.

Travel security risk related to business activities in some countries requires high focus and strict travel security procedures that all employees must follow.

Injuries and occupational illnesses are seen as preventable and travel risks can be managed. FLSmidth also realises that failures of proper safety protocols can occur

throughout the value chain and that an act or an omission on the part of FLSmidth can result in the risk of complicity. To that extent, the following risks to the company have been identified through the materiality assessment

Impacts	
Reputation	● High
Bottom line	● Low
Morale	● Medium
Share price	● Low

RESULTS

The data covers FLSmidth's own employees, as well as contractors on FLSmidth's premises.

INJURY FREQUENCY RATES

In 2017, the Lost Time Injury Frequency Rate (LTIFR) compared with the previously year (2016: 1.5) ended at 1.8 - above the group target 2017 at 1.3. Other safety KPIs as the Total Recordable Injury Frequency Rate" (TRIFR) also indicates that FLSmidth in 2017 had a stagnating Health and Safety performance. No single cause can be identified for the negative development but more safety awareness and competence in the working situation could have prevented several injuries. Actions targeting these challenges are among other on the agenda for 2018.

TRAINING

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 2017 FLSmidth employees in average used 14 hours on safety training

ASSESSMENT OF RESULTS

No single cause can be identified for the negative development in injury rates but more safety awareness and competence in the working situation could have prevented several injuries. Actions targeting these challenges are among other on the agenda for 2018, including contractors working for FLSmidth in the frequency rates.

It is with great regret that a sub-contractor tragically lost his life in Algeria this year. Avoiding these events is priority number one for FLSmidth and only zero fatalities is acceptable. Working at height is a specific critical safety risk and have therefore been in focus for several years in FLSmidth and will continue to be priority number one.

Overall the safety performance, measured by the development of the lost time and total recordable injury rate was unsatisfying. After 4 years of systematic improvement in performance, the results in 2017 show that root causes behind accidents, corrective action and focus must continuously be addressed. The amount of training increased significantly in 2017, which is the result of dedication towards safe working conditions and the acknowledgement that competence of our employees is a key to achieve zero harm

FUTURE EXPECTATIONS

The key objective for FLSmidth is to achieve zero harm for all people under its control. The medium term target is 1.0 in LTIFR by 2020. To ensure continuously improvements a LTIFR targets is set each year on Group, Division, relevant countries and Business Units level.

Specific Group target for 2018 are:

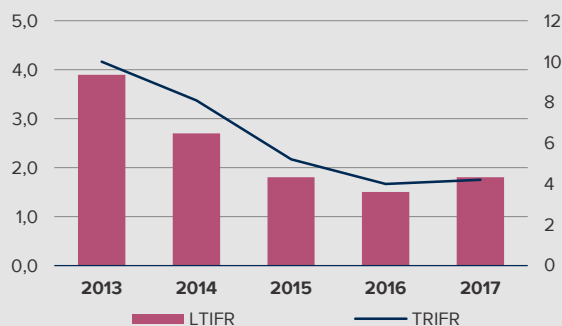
- 0 fatalities
- LTIFR <1.3

Besides using LTIFR as main safety KPI the use of the broader TRIFR will be implemented as KPI for part of the organisation in 2018 to ensure focus on avoiding all injuries.

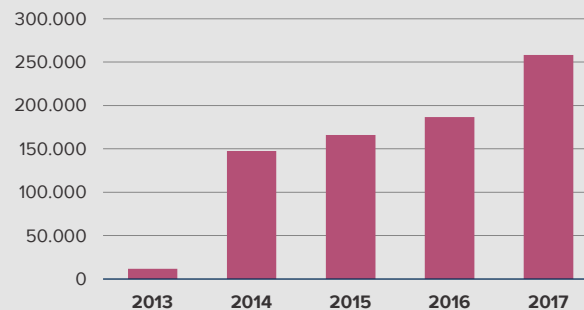
For 2018 a personal operative safety bonus KPI will be mandatory for relevant top managers to ensure agreement between personal objectives and the FLSmidth policy on having systems and a safety culture in place that can support the zero harm ambition.

Several initiatives have been taken in 2017 to get back on continuously improvements and further are on the way for 2018 on how we can improve safety communication to all employees.

LTIFR / TRIFR



TRAINING HOURS



PEOPLE



POLICY

With an enduring aim to be an employer of choice, we recognise that attracting, developing and retaining a highly qualified, competent and value-based workforce is of strategic importance. The foundation of our success is based on the ability of our talented employees to work innovatively and collaboratively to meet the productivity agenda of our customers, thereby sustaining our competitive advantage. With appreciation for the diversity of our workforce, we encourage employees to realise their full potential and career ambitions through equal access to career, learning and development opportunities. We are committed to creating a safe, flexible and productive work environment that allows our employees to engage in a challenging career while maintaining a healthy work-life balance. Accordingly, we offer market aligned remuneration and ethical employment conditions that support human rights and recognise our employees' right to be organised and bargain collectively, while supporting human rights and refusing to engage in child or forced labour.

FLSmidth has committed itself to working on gender and diversity through its policy on the matter.

POLICY IN ACTION

FLSmidth strives to attract, engage, develop and retain the right talent. Specifically, this concerns reward concepts, policies, and governance that strengthen our market position by driving individual contribution to sustainable company success. The organisation is supported through the ongoing development of our leadership; through strengthening our leadership pipeline; through talent management practices that help ensure the right talent in the right roles with the requisite competence and focus, ensuring overall that the organisation is fit-for-purpose.

Sustained focus on strengthening the quality and capability of our leaders at varying organisational levels has continued, building on foundational concepts and further embedding them through additional leadership development programs and talent management practices. Specifically, we have continued to conduct three levels of our core leadership program, Leadership Transition Training, which was first introduced in 2014. Our leaders' capability to work with these concepts and practices has been deepened through two additional workshops delivered in 2017. The Accountability Accelerator workshop, tailored to the unique circumstances of intact leadership teams, has strengthened our culture of accountability, while making the Matrix Work helps unlock the potential of leaders and specialists who work in a matrix to maximise their contribution to performance.

Building on the success of Flying the Flag, previously conducted for top leaders, three sessions of Flying more Flags have been delivered in 2017, and the program will continue into 2018. Designed to strengthen our leadership pipeline with high

potential talent, Flying more Flags targets those who aspire and demonstrate the potential to take on senior management positions.

Following the launch of the new vision in 2017, FLSmidth is developing our global remuneration philosophy to support the vision and strategy through a set of key principles that will guide our future way of working with reward. The focal point of our remuneration philosophy is to drive individual contribution to sustainable company success through rewards that are aligned to the market. By this, we strive to enable the business to focus on driving engagement and the attraction and retention of the right talent. The three main building blocks of our reward philosophy are pay for performance, market alignment and differentiation.

RISKS:

Two key risks for the organisation are the ability to find and retain the right talent, e.g. high value, high performing or high potential. Each of these risks is mitigated in part through internal actions in HR, including the addition of a global talent acquisition resource. Additionally, the career framework will provide increased transparency for career opportunity while a new digital employee platform will provide better visibility into our workforce. Refined variable pay plans will support retention of talent through relevant incentives.

To drive simplicity and equal pay opportunity, a group Compensation and Benefits Model has been developed, which outlines the pay mix between different pay elements segmented by the various position levels in our job role infrastructure. The model is used as the foundation for harmonising terms throughout the organisation while allowing the necessary differentiation across positions and countries to secure market alignment.

To further ensure relevant focus on business results and sustainable long-term decisions, we have two different variable pay elements in the global Compensation Model, one being a long-term incentive programme and the other, short-term incentive programmes.

Results are reported to the Executive Vice-President of Human Resources, who is a member of executive management and ensures that performance is properly assessed and managed

ASSESSMENT OF RESULTS

The results cover 100% of employees.

The personal development review completion rate indicates that 90% of employees are in dialogue with their managers about their performance on assignments and competencies, and about their development and career ambition on an annual basis. We encourage ongoing dialogue and check-ins throughout the year. The training programs listed are focused on strengthening the quality of our leadership and our pipeline and target eligible managers across divisions, countries and functions. The quality of each program is evaluated, with feedback obtained used to strengthen the development experience of attendees. Impact of training is assessed through pre and post assessments.

As the proportion of managers trained increases, the fewer there are to train going forward. This means that the target for 2018 is lower, yet the coverage will be higher.

FUTURE EXPECTATIONS

2018 promises to build on our capability to attract, engage, develop and retain talent through several key initiatives. With recognition for the extent to which our having the right people with the right competences in the right roles ensures our high performance and sharpens our competitive advantage, we will add a new role of head of global talent acquisition to the team. This position will further shape our global talent acquisition strategy and employer brand, ensuring we source and attract the best talent for our organisation, with dual focus on our internal workforce and the external labour market.

Additionally, this position will heighten focus on our gender diversity, a target that is monitored for composition of executive management, the percentage of females in the workforce and in management.

Furthermore, we will release a new career framework including core competencies and leadership principles as part of a modern digital employee platform. In combination this will provide greater transparency into our workforce through aligned and visible talent management and reward functionalities as well as increased access to workforce analytics that will enable our leaders to make informed, high quality decisions. Supported by the latest digitalized employee management technology these initiatives will help make development and career opportunities more transparent and accessible throughout the organisation, thereby supporting the attraction, development and retention of requisite talent in a global context.

	2018 Target	2017	2016	2015	2014	2013
Number of employees having undergone corporate development programs	353	541	376	702		
Percentage of employees receiving performance and career development reviews	92%	90%	86%	85%		
Percent women total	14.5%	13.5%	14%	13%	14%	14%
Percent women managers	11.5%	10.5%	10.7%	10.0%		



COMPLIANCE

POLICY

FLSmidth has implemented various policies to ensure compliance with key international anti-corruption legislation. The Code of Business Conduct is the primary policy in this area and each employee has received a guidebook explaining the Code of Business Conduct in simplified yet accurate language.

Compliance in FLSmidth focuses on four core areas of operation: anti-corruption, export control, human rights and competition law. Policies have been established for each topic, with the exception of human rights, which will be a separate policy in 2018. Most recently, FLSmidth published a Modern Day Slavery Act statement in 2017. Moreover, detailed guidelines have been introduced on other specific areas of interest, such as whistleblowing and conflict of interest.

POLICY IN ACTION

The key compliance-related activities of FLSmidth are organised roughly according to the six elements of the UK Bribery Act's Guidance document: risk assessment; policies and organisation (proportionate procedures); top-level commitment; due diligence; communication; and training, monitoring and review.

FLSmidth's approach to compliance is essentially risk-based. This means that assessments of the compliance-related risks faced as a company are conducted on a regular basis; adjusting focus and resources accordingly. In 2016, a company-wide survey was conducted with a representative sample of employees from all over the world. In 2017, the focus and resources based on learnings from the survey adjusted the

program. In addition, a company-wide assessment of human rights risks, including business partners, is currently being conducted.

At a Group level, compliance consists of setting direction and providing the business with appropriate tools. A team of 13 Regional Compliance Representatives, all company lawyers trained in key compliance skills, are responsible for implementation in their region of the world. In 2017 a group of key Finance and HR managers were identified and trained to be responsible for investigating relevant whistle-blower cases in their fields of work in certain regions of the world. Training continues to be one of the top priorities. The preferred way of training employees is through in-person training. Between 2015

and 2017, approximately 95% of all white-collar employees were trained in the Code of Business Conduct in-person, and training of key employees in export control procedures is on-going. The training of new employees is now in focus; keeping awareness about compliance high with existing employees. For example, a short animation outlining single elements of the Code of Business Conduct is being developed, e.g. the gift policy or the policy about facilitation payments.

The major focus area is the third party due diligence processes. All business partners have been screened in trade sanctions for many years, and in 2015 a new due diligence programme was launched. The programme includes a database of third parties operating with FLSmidth, focusing on those acting as

RISK

Working in the cement and mining industries implies operating in countries with compliance-related risks. In particular, avoiding fraud, bribery, corruption, violation of trade sanctions, and conflict of interests is high on the agenda. Thus, there is constant monitoring of the business and implementing mitigating actions to reduce such risks. FLSmidth realises that failures of compliance can occur throughout the value chain and that an act or an omission on the part of FLSmidth can result in the risk of complicity. To that extent, the following risks to the company have identified through the materiality assessment:

Impacts	
Reputation	● High
Bottom line	● Medium
Morale	● High
Share price	● High

intermediaries. Almost 100% of sales agents working with FLSmidth have gone through a rigorous due diligence screening and approval procedure. So far, more than 400 in-depth due diligence screenings have been conducted in-house. This year, the focus was expanded to include select customers, suppliers and other types of third parties as well. The screening covers trade sanctions, corruption issues, human rights violations, environmental issues, litigation cases, adverse media, basic company registration documentation, and much more.

In 2017 the whistle-blower hotline was re-launched, which is a tool for employees to report concerns in a confidential manner. The re-launch, which involved a communications campaign and a strengthening of capabilities for internal investigations, resulted in an increase in the number of reports submitted, and that more people chose to use the formal hotline rather than through emails or similar channels. The whistle-blower policy

protects reporters against retaliation. The investigation is guided by an internal Investigation Manual by colleagues properly trained in conducting internal investigation.

The FLSmidth Board of Directors and Executive Management are highly engaged in the compliance programme and have shown a high level of commitment. In 2017, their direct involvement was expanded, as well as the level of reporting. Group Compliance reports on a regular basis to the Audit Committee, the Board of Directors and the Group CEO.

RESULTS

See table below. The data covers all operations.

ASSESSMENT OF RESULTS

FLSmidth has established a solid compliance set-up in terms of policy and organisation and has a highly committed Executive Management team and Board of Directors. Some outstanding

achievements have been accomplished in terms of conducting in-person training of more than 90% of our employees and screening more than 400 third parties. In addition, the internal set-up for dealing with internal investigations and whistle-blower hotline allegations has been strengthened, broadening the scope of employees trained in conducting internal investigations and raising the general awareness of procedures in this regard.

FUTURE EXPECTATIONS

In 2018, direct reporting will also be established to the Executive Management team. The Group CEO continues to personally deliver the key message of compliance on a regular basis.

Due diligence screenings of customers and other business partners will be conducted more systematically to address the issues uncovered in this process.

	2018 Target	2017	2016	2015	2014
Total number of whistle-blower reports submitted		51	25	35	19
...of which admissible, i.e. reports that were in scope with the whistle-blower hotline program		48	23	34	19
...of which in:					
- Africa and Middle East		10	6	12	5
- Asia and Oceania		9	10	3	6
- Europe and former Soviet Union		8	1	7	1
- North America		6	3	4	1
- South America		18	5	9	6
Total number and percentage of operations assessed for risks related to corruption.		30	29	22	21
Total number and percentage of governance body members that the organisation's anti-corruption policies and procedures have been communicated to, broken down by region	100%	100%	100%	100%	100%
Total number and percentage of employees that the organisation's anti-corruption policies and procedures have been communicated to, broken down by employee category and region	100%	100%	100%	100%	100%
Total number and percentage of governance body members that have received training on anti-corruption, broken down by region.	9 / 100%	8 / 89%	? / 0%	? / 0%	N/A
Total number and percentage of in-person training for white-collar employees that have received training on anti-corruption	8,823 / 95%	8,173 / 88%	7,414 / 81%	6,922 / 75%	652 / 7%
...of which managers or senior managers	1,551	1,361	1,303	1,247	172
...of which executive management team	100%	100%	100%	100%	100%
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 organisation has been identified as a participant.		1	1	1	1
Numbers of in-depth due diligence screenings conducted	430	398	226	55	14
Incidents of discrimination and corrective actions taken		0	2	3	1



ENVIRONMENT

POLICY

The Health, Safety and Environment Policy is a commitment to minimise environmental impacts, while mitigating climate change. This means not only complying with legal and other obligations, but also preventing pollution and utilising resources in a sustainable manner.

POLICY IN ACTION

Being able to manage environmental impacts plays a central role in FLSmidth's value of Responsibility. As such, a group wide management system in Quality, Health, Safety and Environment was implemented in 2017 in order to periodically review and improve certified quality health, safety and environmental performance.

The strategy for environmental certification is to have a common global management process covering 25 locations in 2017. The external audits have been concluded and the results are positive; the certification body has recommended certification for environment in these locations.

This new approach aiming for common multisite certification covering the Group will secure consistency for auditing, reporting and alignment of processes. It enables improved environmental performance on Group level e.g. by horizontal deployment of any non-conformities. There will also be benefits resulting from the sharing of good practices across the Group.

The transparency of environmental impact reporting within the Group has increased significantly. The measurement of environmental impacts has been anchored in the company by assigning a responsible person for the environment in each location. All locations that are within the financial control boundary in the Group are responsible for reporting environmental impacts. In 2017, three KPIs were followed on the Group level: CO₂ emissions, energy consumption and fresh water use. In 2017 the data collection from the previous reporting tool was moved to a customised SharePoint application operated by the environmental team. The change has given a more active awareness of the environmental data entered, as environmental trained people continuously evaluate the coverage and quality of the data.

In 2017, internal reporting frequency was increased from once a year to being included in the quarterly management report to the board of directors and executive management. It is also addressed in the quarterly sustainability board meetings. The executive management member who is appointed as the Chairman of Safety & Quality has now been designated as the Chairman of Safety, Quality & Environment.

RISK

Climate change risks include regulatory exposure to emission compliance schemes, carbon taxation, reputation considerations. FLSmidth realises that significant environmental impacts occur throughout the value chain and that an act or an omission on the part of FLSmidth can result in the risk of complicity. To that extent, the following risks to the company have identified through the materiality assessment:

Impacts	
Reputation	● High
Bottom line	● Medium
Morale	● Medium
Share price	● High

RESULTS

The data presented covers 97 % of the entities with respect to COGS (Cost of Goods Sold).

Emission conversion factors are derived from DEFRA 2016.

Scope 1: 27,236 tonnes CO₂

Emissions from primary fuels, refrigerants & other gases. Data are from invoices or meter readings.

Scope 2: 37,031 tonnes CO₂

Emissions from purchased electricity, heat and steam. Data are from invoices or meter readings.

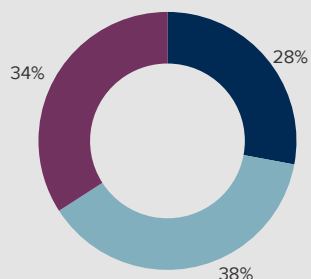
Scope 3: 33,268 tonnes CO₂

For 2017, this includes business air travel and coverage is 70%

CO₂ intensity (Scope 1 & 2/Revenue): 3.57 tonnes CO₂/DKKm

	2017
Fresh water use (m ³)	241,651
Energy used (MWh)	202,464

CARBON FOOTPRINT 2017



■ Direct emissions from fossil fuels (Scope 1, in tons)
 ■ Indirect emissions from electricity (Scope 2, in tons)
 ■ Other indirect emissions (Scope 3, in tons)

Water and energy were measured for the first time in 2017. These figures will be used as benchmarks for improving performance going forward.

ASSESSMENT OF RESULTS

In 2017, the total recorded CO₂ emission increased from 44,195 to 64,267 tons. This significant increase is partially due to the change in data collection, verification and reporting method used, which has improved its quality and reliability. However, there has also been an increase in scope 1 emissions. This year, Operation and Maintenance sites and project locations have been included in the environmental KPI reporting for the first time. These sites will typically use fuels for electricity generation and company operated vehicles, thus mainly affecting scope 1. Also for the first time refrigerants & other gases are part of the scope 1 reporting. Some sites have increased number of shifts resulting in increased emission.

FUTURE EXPECTATIONS

Looking at the environmental impacts from business activities in a life cycle perspective, it is evident that the main impact is connected to the use of our products and services and from supply chain and logistics. Therefore the focus will be on getting more insight into how to include these impacts in environmental performance reporting.

Transparency is paramount, and for this reason our aim is to improve the understanding of the environmental impacts from our products and services in a Life Cycle Perspective. This leads to an investigation of scope 3 Emissions as defined by greenhouse gas Protocol. This is the first step towards documenting the significant improvements already done in reducing the impact from products and services. A reporting system to include logistics in our quarterly CO₂ reporting will be effective from Q1 2018.

The stakeholders related to environment related to the ISO 14001:2015 certification have been identified and it is expected to improve the understanding of their needs and expectations in 2018.

In the Sustainability Report from 2016, it was anticipated to enrol 28 entities in the multisite certification program. This was reduced to 25 due to closure of sites.

FLSmidth will commit itself to reducing 10% of its carbon and water footprint by 2023.



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 is responsible for 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.

POLICY IN ACTION

All suppliers, defined as organisations that FLSmidth buys from, are now obliged to sign the Code of Supplier Conduct, which is aligned with the four main focus areas of the UN Global Compacts. In the case of the Supplier not agreeing to the Supplier Code of Conduct, FLSmidth does not cooperate with this Supplier.

Moreover, FLSmidth is preparing for the ISO 14001 Certification that will raise awareness to our behaviour and facilitate FLSmidth's decision making. This will also create the possibility to work with vendors in developing solutions with an environmental focus, to track whether FLSmidth's behaviour has an impact on 3rd parties environmental impact.

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 but where risk of poor quality of the final product delivered to customers 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 program.

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

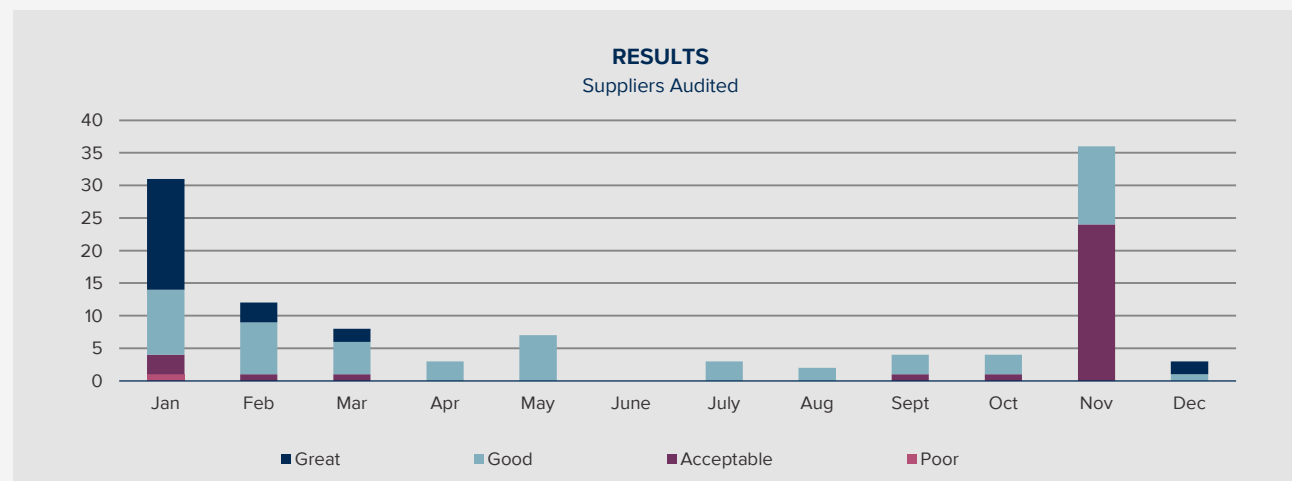
The data gathered is then transferred to an FLSmidth database and suppliers are given an overall score. If non-compliance is revealed during a routine inspection, it will be noted and uploaded to the database for review.

In 2017, the programme results were included in the Group sustainability dashboard, which is published quarterly in the Management Report and sent to members of executive management and the board of directors. The dashboard is also a central focus on the quarterly meeting with the sustainability board.

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 centralising all on-site audit information in Group Strategic Procurement, who can act upon the areas that require special attention.

Risks related to supply chain complicity are taken seriously, with each specific material sustainability risk addressed in its own chapter in this report.



The data covers all external suppliers.

ASSESSMENT OF RESULTS

In Q3 2016, the procurement function underwent a large re-organisation 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 below "Good", they will require additional development. These suppliers have been clearly identified, and improvement programs have been built and are 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.

The sustainable procurement program will undergo a review process in 2018 to ensure the most comprehensive level of risk mitigation is being employed.

Areas that present the highest social and environmental risk will be identified. Auditors have been trained to identify and assist suppliers in continuously improvement in these critical areas. A more structured approach to increase awareness in the organisation and proactively use supplier feedback and assessment is planned to strengthen this function further in the coming year. As a new supplier relationship management program will be launched in 2018, sustainability criteria will be incorporated into it. It is also expected that a supplier portal will be launch, which will include the option for suppliers to self-assess their sustainability performance.

In 2018, it is expected that the following indicators will be measured in Q3: New suppliers that are screened using environmental and social criteria, negative social and environmental impacts in the supply chain and the actions taken.

	2017	2016	2015	2014	2013
Proportion of spending on local suppliers	57%	61%			
Number of suppliers screened for social and environmental performance	113	161			
% suppliers screened for social and environmental performance from total spend	6%				



HUMAN RIGHTS

POLICY

Respect for international human rights is enshrined in several FLSmidth policies including the human resources and health and safety policies. The Supplier Code of Conduct addresses human rights concerns as they relate to actors in the supply chain and the Business Code of Conduct sets out our standards for corporate integrity, anti-corruption and transparency. FLSmidth is also a member of the United Nations Global Compact, and has been since 2008.

Building on these commitments, the creation of a consolidated human rights policy for the Group is being planned. To adequately incorporate the views and concerns of rights-holders, this document will be based on a process of research and internal as well as external consultation which was initiated in 2017 and planned to continue in 2018. The aim is to finalise a standalone human rights policy in 2018 that will take guidance from the United Nations Guiding Principles for Business and Human Rights in terms of both the drafting and implementation of this policy.

POLICY IN ACTION

Human rights due diligence in FLSmidth is undertaken in accordance with the United Nations Framework on Business and Human Rights and its Guiding Principles for implementation.

Where adverse human rights violations are found, they are addressed according to their irremediability, severity, scope and scale. Several impact assessments are planned for 2018, which will enable greater clarity as to the business' current and potential impacts on the enjoyment of human rights where FLSmidth operates.

RISK

The industries to which FLSmidth provide engineering, technology and services constitute high-risk sectors.

The sites in which mining customers operate are determined on the basis of available mineral reserves and may at times be situated near local communities, near other industry which may compound their impact or in areas experiencing environmental strain or with rich biodiversity. This dynamic is also present in the cement industry, where plants are located near quarries and generate emissions, regardless of location.

Group Compliance has in 2017 initiated a review process where risks to human rights and the environment posed by customer relationships are examined. We plan to continue to monitor these risks in 2018.

Impacts

Reputation	● High
Bottom line	● Low
Morale	● High
Share price	● Medium



RESULTS

Initial scoping has been concluded and a baseline compliance assessment of global human rights risks has been initiated.

The target in 2018 is to develop framework for measuring progress.

ASSESSMENT OF RESULTS

In 2017, FLSmidth expanded its approach to human rights due diligence within the organisation.

To initiate this work, a scoping assessment of human rights impacts within the organisation was carried out, consisting of desk based research and interviews across all business functions and regions of operation.

Internal as well as external rights-holders to the business will be considered key stakeholders during this process and the process will inform the drafting of a human rights policy at the end of 2018.

FUTURE EXPECTATIONS

In 2018, the expectation is to complete a human rights compliance assessment across six functional areas of the business: management, human resources, workplace health and safety, suppliers and contractors, community impacts, and security arrangements. An adapted Human Rights Compliance Assessment tool that has been developed by the Danish Institute for Human Rights will be employed. This will cover the structure and workings of the FLSmidth group, and aims to use assessment results to create indicators specific to the business. These indicators will be used as a benchmark for current performance and to monitor progress. To create necessary awareness internal in the company, FLSmidth is expecting to start training employees on Human Rights policies and procedures.

In 2018, a human rights impact assessment of several key projects will be carried out for operational sites within the business. The specific locations chosen for review will be selected based on the criteria outlined.

The human rights due diligence planned for 2018 will also seek to establish greater clarity around implementing responsibility for human rights within the business. Where issues are of a cross-cutting nature (whether thematically or geographically), the current organisational structure may not always be clear on the roles and responsibilities within the business. The aim is to work towards achieving greater clarity on the responsibility for remediation of impacts in 2018.

In 2018, it is expected that the following indicators will be measured:

- Employee training on human rights policies or procedures
- Significant investment agreements and contracts that include rights clauses or that underwent human rights screening.



KEY PERFORMANCE INDICATOR SUMMARY

Material Topic	Target 2018	2017	2016
SAFETY			
Lost Time Injury Frequency Rate (LTIFR)	<1.3	1.8	1.5
Total Recorded Injury Frequency Rate (TRIFR)	N/A	4.2	4
Total training hours	N/A	258,036	186,715
PEOPLE			
Number of employees having undergone corporate development programs	353	541	376
Percent of employees receiving performance and career development reviews	92%	90%	86%
Percent women total	14.5%	13.5%	14.0%
Percent women managers	11.5%	10.5%	10.7%
COMPLIANCE			
Total number of whistle-blower reports submitted	N/A	51	25
...of which admissible, i.e. reports that were in scope with the whistle-blower hotline program	N/A	48	23
...of which in:			
- Africa and Middle East		10	6
- Asia and Oceania		9	10
- Europe and former Soviet Union		8	1
- North America		6	3
- South America		18	5
Total number and percentage of operations assessed for risks related to corruption.	N/A	30	29
Total number and percentage of governance body members that the organisation's anti-corruption policies and procedures have been communicated to, broken down by region	100%	1	1
Total number and percentage of employees that the organisation's anti-corruption policies and procedures have been communicated to, broken down by employee category and region	100%	1	1
Total number and percentage of governance body members that have received training on anti-corruption, broken down by region.	9 / 100%	8 / 89%	? / 0%
Total number and percentage of in-person training for white-collar employees that have received training on anti-corruption	8,823 / 95%	8,173 / 88%	7,414 / 81%
...of which managers or senior managers	1,551	1,361	1,303
...of which executive management team	100%	100%	100%
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 organisation has been identified as a participant.	N/A	100%	100%
Numbers of in-depth due diligence screenings conducted	430	398	226
Incidents of discrimination and corrective actions taken	N/A	0	2

KEY PERFORMANCE INDICATOR SUMMARY

Material Topic	Target 2018	2017	2016
ENVIRONMENT			
Direct emissions from fossil fuels (Scope 1, in tonnes)*	26,691	27,236	11,347
Indirect emissions from electricity (Scope 2, in tonnes)*	36,290	37,031	32,848
Other indirect emissions (Scope 3, in tonnes)*	N/A	33,268	N/A
Carbon emissions intensity, Scope 1 & 2 / Revenue (in tonnes/DKKm)*	N/A	3.57	2.43
Fresh water use (m ³)	236,818	241,651	N/A
Energy used (MWh)	N/A	202,464	N/A
SUPPLY CHAIN			
Proportion of spending on local suppliers	N/A	57%	61%
Number of suppliers screened for social and environmental performance	N/A	113	161
% suppliers screened for social and environmental performance from total spend	N/A	6%	

* Calculation methodology adjusted, see pg. 27 for details



UNITED NATIONS GLOBAL COMPACT TABLE

Principle	Page
Support and respect the protection of internationally proclaimed human rights	22, 30 & 31
Make sure that they are not complicit in human rights abuses	30 & 31
Freedom of association and the effective recognition of the right to collective bargaining	22
The elimination of all forms of forced and compulsory labour	22
The effective abolition of child labour	22
The elimination of discrimination in employment and occupation	22
Support a precautionary approach to environmental challenges	8
Undertake initiatives to promote environmental responsibility	11, 12, 13, 14, 26, 27
Encourage the development and diffusion of environmentally friendly technologies	3, 5, 6, 7, 8, 11, 12, 13, 16
Businesses should work against corruption in all its forms, including extortion and bribery.	12, 24, 25



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FLSmidth & Co. A/S

Vigerslev Allé 77
DK-2500 Valby
Denmark
Tel.: +45 36 18 18 00
Fax: +45 36 44 11 46
corppr@flsmidth.com
www.flsmidth.com
CVR No. 58180912