FLSmidth
– current status and strategy

Poul Erik Tofte
Group Executive Vice President and CFO
Poul Erik Tofte

- **Group Executive Vice President and CFO**
- Joined FLSmidth in 2003
- Previous positions:
  - CFO and EVP, Nettest
  - CFO GN Great Nordic
  - CFO Monberg & Thorsen
  - CFO Carnegie Denmark
Current status and strategy

Agenda

- Transformation over the past 7 years
- Follow-up on the Annual Report for 2008
Transformation over the past 7 years

A family-controlled, endebted conglomerate with four different and independant business areas

A focused, well-shaped engineering company

The leading supplier of equipment and services to the global cement and minerals industries
What has changed since 2002?

Group Structure

- Non-core activities have been divested
- **Cement** and **Minerals** are more balanced in size
- Much stronger focus on **Customer Services**
- The **Indian office** has become a corner-stone in the corporate strategy
More engineering in India
- less in Denmark and USA

- From 5% in 2003 to 23% of the global staff in 2008
- Systematic transfer of standard engineering work to India from Denmark and USA
What has changed since 2002?

Ownership structure

**Market Cap** DKK 2,926m
**Number of shareholders** ~16,000

A and B shares

<table>
<thead>
<tr>
<th>Share Type</th>
<th>2002 Percentage</th>
<th>2008 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Danish (non-registered)</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>Danish institutional</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Danish private</td>
<td>8%</td>
<td>32%</td>
</tr>
<tr>
<td>Foreign institutional</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>ATP</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Own shares</td>
<td>3%</td>
<td>Own shares</td>
</tr>
<tr>
<td>Potagua</td>
<td>46%</td>
<td>Potagua</td>
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</table>

**Market Cap** DKK 9,629m
**Number of shareholders** ~42,000

Only one share class

<table>
<thead>
<tr>
<th>Share Type</th>
<th>2008 Percentage</th>
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<tbody>
<tr>
<td>Danish (non-registered)</td>
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<tr>
<td>ATP</td>
<td>12%</td>
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<tr>
<td>Foreign institutional</td>
<td>35%</td>
</tr>
<tr>
<td>Own shares</td>
<td>2%</td>
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</tbody>
</table>
What has changed since 2002?

Operations

- Changed **sales policies** and stringent **contract conditions**
- Focus on **profitability** rather than market share
- Organisation changed to **project-oriented** from technology-oriented
- **Accountability** established in the organisation
- Increased off-shoring of **engineering to India**
- Increased **sourcing** from low-cost countries
- **Integration** of Cement and Minerals back-offices
More Minerals and Customer Services
– less dependent on large cement projects

<table>
<thead>
<tr>
<th>Order intake</th>
<th>2003</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement</td>
<td>DKK 6,328m</td>
<td>DKK 15,721m</td>
</tr>
<tr>
<td>Minerals</td>
<td>DKK 2,424m</td>
<td>DKK 14,730m</td>
</tr>
<tr>
<td>- of which is Customer Services</td>
<td>DKK 1,825m</td>
<td>DKK 6,073m</td>
</tr>
</tbody>
</table>

- **Minerals’** share of order intake up from **28%** to **48%**
- **Customer Services’** revenue up from **DKK <2bn** to **DKK >5bn**
Current business mix

Revenue 2008
- by type of product

- Projects 65%
- Customer Services 22%
- Products 13%

Revenue 2008
- by country category

- High-income countries 33%
- Developing countries 67%

Revenue 2008
- by segment

- Cement 54%
- Minerals 41%
- Cembrit 5%
Asset light business model

- Flexible cost structure
- Engineering house / technology provider
- Most manufacturing is out-sourced (~80-90%)
- Low working capital due to prepayments from customers of 10-25%
- Low maintenance CAPEX (estimated ~1-2% of revenue)
Flexible cost structure

- **Production costs** DKK 15,685m in 2008, of which ~80% relates to *outsourced manufacturing*, equivalent to ~65% of revenue.

- **Administrative costs** DKK 1,579m in 2008 equivalent to ~6% of revenue, of which approx. half is staff costs.

- **Sales and distribution costs** DKK 1,257m in 2008 equivalent to ~5% of revenue, of which approx. half is staff costs, and the other half variable and contingent upon activity level.

- **Total staff costs** (included in items above) amounted to DKK 3,715m in 2008, equivalent to ~15% of revenue.
Cement – transformation over the past 7 years

- **EBIT-ratio** has been constantly improving since 2003, primarily due to improved order execution and higher quality of order backlog.

- **Guidance 2009:** Revenue slightly lower than in 2008 and satisfactory earnings.

Losses on a few major contracts and clean-up from the past.

Revenue DKKm

EBIT-ratio
Minerals – transformation over the past 7 years

- **Revenue** has been constantly increasing since 2002 due to both organic and acquisitive growth.

- **EBIT-ratio** has improved since 2004, where profit was hit by process challenges in connection with two specific contracts. EBIT-ratio improvement is primarily due to better order execution, higher quality order backlog and changed product mix.

- **Guidance 2009:** Revenue slightly lower than in 2008 and satisfactory earnings.
Cembrit – transformation over the past 7 years

- Cembrit has grown to become the **largest dedicated distributor** and the second-largest producer of **fibre-cement products in Europe**

- Cembrit has a **strong production platform** in the eastern parts of Europe and is currently hit by the slow-down in European construction industry

- Cembrit is **not part of the long-term strategy** of the Group
Working capital trends 2009

- **Prepayments**
- **Inventories**
- **Trade receivables**
- **Trade payables**
Follow-up on the Annual Report for 2008

Guidance 2009 - Group

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>New cement kiln capacity</td>
<td>25-50mty</td>
<td>123mty</td>
</tr>
<tr>
<td>Revenue</td>
<td>20-25bn</td>
<td>25,285m</td>
</tr>
<tr>
<td>Earnings</td>
<td>“Satisfactory”</td>
<td></td>
</tr>
<tr>
<td>Significant slowdown in Cement and Mining Capex is expected in 2009</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Guidance 2009 - Segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement</td>
<td>Revenue slightly down compared to 2008</td>
<td>Satisfactory earnings</td>
</tr>
<tr>
<td>Minerals</td>
<td>Revenue slightly down compared to 2008</td>
<td>Satisfactory earnings</td>
</tr>
<tr>
<td>Cembrit</td>
<td>Revenue slightly down compared to 2008</td>
<td>Modest earnings</td>
</tr>
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</table>
Orders cancelled and ‘put on hold’
– we hope to have seen the peak in Q4 2008

Why?

- **Orders cancelled**
  - End 2008 DKK ~0.9bn (~3% of order backlog)
  - Typically *contracted within the previous three-six months*
    => purchase orders not issued and letters of credits not opened yet

- **Orders on hold**
  - End Feb. 2009 DKK ~3bn (~10% of the order backlog)
  - Typically *put on hold within the first nine months* after becoming effective
    => ‘9 months’ is typically the point of no return

- Less likely that orders contracted before 2008 will be put on hold by now
Margin drivers in 2009

**Positive**

- Healthy backlog
- Relative increase in revenue from product companies
- Relative increase in revenue from Customer Services
- Increasing pricing power vis-à-vis sub-suppliers

**Negative**

- Declining operational leverage
- Inefficient use of internal resources related to order postponements
- Declining pricing power vis-à-vis customers
- Intensified competition
- Worst case: restructuring costs
Guidance 2009

Factors affecting revenue in 2009:

- Timing of order execution and deferral of deliveries
- Timing and level of new orders

Revenue Guidance

Long term margin targets:

Low activity: 8-9%

High activity: 10-12%

‘satisfactory earnings’
Base scenario

We are at the trough right now
– the question is how deep and how wide will it be?

2009 is expected to be a year of transition with low visibility.
We expect to have better visibility in 2010.
Decision to pay dividend for 2008 postponed

- **Equity ratio target:** 30%
- **Lower order intake in 2009** → lower prepayments & **financial flexibility**
- **Maintain ability to pursue strategic acquisitions:**
  - Acquisition of **Conveyor Engineering** announced on 27 Feb. 2009

![Graph of NIBD & gearing]

![Graph of Equity & Equity ratio]
## Analyst consensus estimates after Q4 2008

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group (DKKm)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>22,881</td>
<td>19,945</td>
<td>18,571</td>
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<tr>
<td>Reported EBIT</td>
<td>1,985</td>
<td>1,602</td>
<td>1,494</td>
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<tr>
<td>EBIT-ratio</td>
<td>8.7%</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td><strong>Cement (DKKm)</strong></td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Revenue</td>
<td>11,907</td>
<td>8,826</td>
<td>7,458</td>
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<tr>
<td>Reported EBIT</td>
<td>1,088</td>
<td>754</td>
<td>582</td>
</tr>
<tr>
<td>EBIT-ratio</td>
<td>9.1%</td>
<td>8.5%</td>
<td>7.8%</td>
</tr>
<tr>
<td><strong>Minerals (DKKm)</strong></td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Revenue</td>
<td>10,043</td>
<td>9,101</td>
<td>9,513</td>
</tr>
<tr>
<td>Reported EBIT</td>
<td>999</td>
<td>874</td>
<td>880</td>
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<tr>
<td>EBIT-ratio</td>
<td>9.9%</td>
<td>9.6%</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

Management priorities in 2009

- Cash
- Costs
- Customers

We do not control the markets, but...
...we are agile
...we will **cut costs** when needed
The FLSmidth equity story

- The leading supplier of equipment and services to the global cement and minerals industries

- Leading technology and best flowsheet coverage

- Asset light business model

- Flexible cost structure
  - we can and will adjust our cost base, when needed

- Customer Services is a key focus area and offers growth potential in the future
  - more resilient in economic downturns

- We are no longer dependent on cement projects only!
  - minerals and customer services have become equally important
Questions