FLSmidth India
- a corner stone in FLSmidth’s strategy

Anders Bech, CEO FLSmidth India
Anders Bech

- **CEO, FLSmidth India**
- Joined FLSmidth in 1987
- Previous positions in FLSmidth:
  - Managing Director of FLSmidth India in Chennai (2004)
  - Managing Director of Ventomatic in Italy (2001)
  - Managing Director of FLSmidth Brazil in Sao Paulo (1996)
  - Manager of FLSmidth Thailand in Bangkok (1993)
  - Assistant Site Manager at Siam City Cement in Thailand (1991)
  - Sales Manager FLSmidth Denmark (1990)
  - Project Manager FLSmidth France in Paris (1988)
  - Employed as sales engineer in FLSmidth Denmark (1987)
FLSmidth India – a corner stone in FLSmidth’s strategy

Agenda

- FLSmidth’s history in India
- The off-shoring process
- Present set-up in FLSmidth India
- The local Indian market
- The future global role of FLSmidth India
CEMENT PLANTS EQUIPPED WITH MACHINERY FOR THE MANUFACTURE OF PORTLAND CEMENT ACCORDING TO THE DRY PROCESS

F. L. SMIDTH & Co.'s SYSTEM
## THE DRY PROCESS

### F. L. SMIDTH & Co.'s SYSTEM

<table>
<thead>
<tr>
<th>Name of works</th>
<th>Rotary kilns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>1902. Portland Cement Fabrik Rüdersdorf, R. Guthmann &amp; Jeserich, Kalkberge-Mark</td>
<td>1</td>
</tr>
<tr>
<td>1902. Stá Ama Fabbrica de Calce Cementi de Casale Monferrato, Venezia</td>
<td>2</td>
</tr>
<tr>
<td>1903. Portland Cement Fabrik Rüdersdorf, R. Guthmann &amp; Jeserich, Kalkberge-Mark</td>
<td>3</td>
</tr>
<tr>
<td>1903. Hartmann &amp; Co., Cement Werke, Leopoldsthal, Grossgmain, Austria</td>
<td>1</td>
</tr>
<tr>
<td>1904. Société Anonyme des Ciments Portland de Lorraine, Strasbourg, Works at Distroff</td>
<td>2</td>
</tr>
<tr>
<td>1904. Portland Cement Fabriks-Aktiengesellschaft “Szczechowa”, Poland</td>
<td>1</td>
</tr>
<tr>
<td>1904. Portland Cement Fabrik Ingelheim am Rhein A. G., Nieder Ingelheim a. Rh</td>
<td>2</td>
</tr>
<tr>
<td>1904. P. Macfadyen &amp; Co., Madras</td>
<td>1</td>
</tr>
<tr>
<td>1904. Cement Works Briansk, Zaigrayewo</td>
<td>1</td>
</tr>
<tr>
<td>1904. Green Island Cement Co., Hongkong, Portland Cement Plant at Gin Drinker’s Bay</td>
<td>2</td>
</tr>
</tbody>
</table>

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Capital Market Day 2009
## FLSmidth’s history in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>FLSmidth establish license agreement with L&amp;T for supplies in India.</td>
</tr>
<tr>
<td>1984</td>
<td>Fuller Company of USA establishes joint venture with KCP Limited of Chennai.</td>
</tr>
<tr>
<td>1997</td>
<td>Fuller takes 100% control of Fuller–KCP that changes name to Fuller India and FFE Minerals is established as a separate legal entity.</td>
</tr>
<tr>
<td>2001</td>
<td>FLSmidth acquires Bhagwati Designs in Mumbai.</td>
</tr>
<tr>
<td>2004</td>
<td>Fuller India is named FLSmidth India and the license agreement with L&amp;T ceases to exist.</td>
</tr>
<tr>
<td>2006</td>
<td>FLSmidth Private Limited is established.</td>
</tr>
</tbody>
</table>
India

FLSmidth Designs

FLSmidth House
No. of employees in Cement, Minerals & Designs

- 2003: 534
- 2004: 669
- 2005: 1128
- 2006: 1566
- 2007: 2184
- 2008: 2878
Why off-shoring?
Cutting cost!?  
YES,- but more importantly  
Ensuring resources!!
Organisational initiatives

- Converted the organisation into 5 layer structure using capability model
- Work level capability test of all managers – Modified Career Path Appreciation (MCPA) - for capability assessment
- Use of Occupational Personality Questionnaire (OPQ32) – for behavioral competency assessment and definition of training needs
- Assessment of functional competencies
- Define carrier paths
- Performance pay system through balanced score card
- Group & team leaders as HR line managers
- Building trust and encouraging employees through participation
Training

- 6 months training programs for graduates
- 2 to 24 months training programs of team leaders and managers in Denmark or USA
- Continuous training of all engineering levels by Danish, American and Indian staff
- Frequent visits by global product and project managers
- MBA courses for “Stars”
Employee participation initiatives

- Cross-organisational committees for HR process implementation
- Focus group for designing and evaluation of employee satisfaction survey
- Employee suggestion scheme focusing exclusively on ideas or suggestions for making work life pleasant
Key Learnings
- off-shoring to India

- Total commitment from top management
- Setting expectations clear from off-shoring partners
- Be realistic about available capability
- Joint ownership in training
- Timeliness and quality of output
- Consistent & continuous communication between management and employees
- Proactive approach to change
Distribution of employees in India

By age

- <30: 51%
- 30-39: 32%
- 40-49: 12%
- 50-60: 5%
- 60+: 5%

By education

- Engineers: 43%
- Technicians: 42%
- Administration: 15%
## Attrition in India

<table>
<thead>
<tr>
<th>Category</th>
<th>Attrition Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>10-30%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>15-30%</td>
</tr>
<tr>
<td>IT Enabled Services</td>
<td>20-35%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>15%</td>
</tr>
</tbody>
</table>

## Attrition in FLSmidth India

<table>
<thead>
<tr>
<th>Year</th>
<th>Attrition Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>14.0%</td>
</tr>
<tr>
<td>2005</td>
<td>9.0%</td>
</tr>
<tr>
<td>2006</td>
<td>12.0%</td>
</tr>
<tr>
<td>2007</td>
<td>9.6%</td>
</tr>
<tr>
<td>2008</td>
<td>8.0%</td>
</tr>
</tbody>
</table>
No. of Resigned Employees

2007
Salary 26%
- New Office distance 10%
- Family Reasons 13%
- Going Abroad 9%
- Medical Grounds 2%

2008
Salary 14%
- Expiry 1%
- Going Abroad 9%
- Family 15%
- Medical Grounds 2%
- New office Distance 2%

Effect

- Monetary Benefit 26%
- Personal Reasons 40%
- Career Oriented 20%
- Forced Exit 6%
- Absconding 8%

Forced Exit 4%
- Job Dissatisfaction 12%
- Higher studies 8%
- Different field 2%
- Job Enrichment 6%
- Poor appraisal 4%

Absconding 21%
- Going Abroad 9%
- Family 15%
- New office Distance 2%
Training initiatives

Indian Institute of Technology-Madras, Chennai

“Continuing education program” – Six months of weekend technical education for 35 mechanical engineers & 23 electrical engineers commenced in July & September 2008 respectively. They would get certified shortly. Similar program for 13 chemical engineers commenced in November 2008.

Loyola Institute of Business Administration, Chennai

Three & half months of management education with customized modules on leadership, business & strategic management for the 1st batch of junior & middle managers concluded in December 2008. 22 of our employees came out in flying colors as LIBA certified leaders. The next batch will get certified in April 2009.

University of Cambridge

English certification courses ESOL (English for Speakers of Other Languages) offered by Cambridge University to enhance the English skills of our employees for a period of 3 months was delivered under 1) Beginner Level – KET (Key English Test) for 60 employees; 2) Low Intermediate Level – BEC – (Business English Certification) Preliminary for 29 employees. The next batch commenced in February 2009 with 82 employees.

Continue to improve competencies!
Benefits of off-shoring to India

- We have build up a cost efficient organisation operating in state of the art office facilities

- Fortunate timing made it possible for us to profit better from a booming market

- Productivity within same competency areas on par with our western peers

- Our strong presence in India is very much appreciated by our Indian customers
A green building
...and green powered

1,65 MW of Green Power
60% global cement order execution, targeting 100%

Utilisation of Chennai engineering hours in 2008

Cement

- India 32%
- US 13%
- DK 54%
- Lean 1%

Minerals

- India 76%
- Global 24%
The minerals business in India:

- Serves virtually all industries outside cement
- Full service provider including total turnkey plants since 1997

Vedanta Aluminium Ltd.
Cement pyro market share in India in 2008

- FLSmidth: 54%
- KHD: 19%
- Polysius: 7%
- L&T: 10%
- LNV: 10%
Customer Services continues to grow

- All competences available and used globally
- Pro-active service programs
- Specialized maintenance and trouble shooting services
- FLSmidth training Institute
- O&M launched
- Production started in FLSmidth Foundry
FLSmidth Foundry

- Production of steel castings started in December 2008
- Heat resistant casting products for pre-heaters, kilns and coolers will be produced
- All development done with Magma software, spectrometry and ultrasonic testing ensuring top quality products
Yet, surplus in FY10E and FY11E to remain...

- Lower demand growth of 8% factored vis-à-vis 10% earlier, in line with the downward GDP revision to 7.4% in FY09E and 6% in FY10E.
- Accordingly, utilisation rate expected to drop to 85% in FY10E & 80% in FY11E.

### Demand-supply projections

<table>
<thead>
<tr>
<th>Million tonnes</th>
<th>FY08</th>
<th>FY09E</th>
<th>FY10E</th>
<th>FY11E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective capacity</td>
<td>166</td>
<td>193</td>
<td>232</td>
<td>266</td>
</tr>
<tr>
<td>Capacity addition</td>
<td>7</td>
<td>27</td>
<td>39</td>
<td>34</td>
</tr>
<tr>
<td>Increase in effective capacity (%)</td>
<td>4.4</td>
<td>16.1</td>
<td>20.0</td>
<td>14.8</td>
</tr>
<tr>
<td>Total supply</td>
<td>166</td>
<td>193</td>
<td>232</td>
<td>266</td>
</tr>
<tr>
<td>Domestic demand</td>
<td>163</td>
<td>177</td>
<td>191</td>
<td>206</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>9.8</td>
<td>8.3</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Exports</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total demand (1+2)</td>
<td>169</td>
<td>183</td>
<td>197</td>
<td>212</td>
</tr>
<tr>
<td>Absolute surplus/(Deficit)</td>
<td>(3)</td>
<td>10</td>
<td>35</td>
<td>54</td>
</tr>
<tr>
<td>Capacity utilisation (%)</td>
<td>101.7</td>
<td>94.6</td>
<td>85.0</td>
<td>79.7</td>
</tr>
</tbody>
</table>

**Source:** Edelweiss research

*Our supply timelines factor in 50% utilisation level for a new capacity for the first two quarters post commissioning.*

**Surplus, though lower, remains significant at 15% in FY10E (19% earlier) and 20% in FY11E (20% earlier).**
Still very low consumption compared to China!

+ 700 mtpy or 350 new cement plants!
The future role of the Indian office

- Continue to increase engineering order execution in all areas
- Continue to grow the global back-office functions related to e.g. contract management, procurement and customer services
- Continue to build up the global IT function in Chennai
- Continue to assist product centers in product development
- Increase involvement in R&D projects
- Take good care of an important local market
Questions