Key messages

- Enhanced **data transparency** enabling a better assessment of performance in profit and cash
- Driving performance and service growth through **benchmarking across regions and industries**
- Maximising synergies from **simplified footprint**
- Driving **back office efficiency** through global functional cost owners and consolidation
- Strong focus on **cash conversion**
Driving performance through two industries and seven regions

BEFORE – 4 main P/L

<table>
<thead>
<tr>
<th>Cement</th>
<th>Customer Services</th>
<th>Minerals</th>
<th>Product Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects &amp; Engineered Products</td>
<td>Service</td>
<td>Projects &amp; Engineered Products</td>
<td>Products</td>
</tr>
<tr>
<td>Sales &amp; O&amp;M regions</td>
<td>Sales &amp; service regions</td>
<td>Sales regions</td>
<td>Sales &amp; service regions</td>
</tr>
</tbody>
</table>

AFTER – 2 main P/L

<table>
<thead>
<tr>
<th>Cement</th>
<th>Mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life-cycle ownership</td>
<td>Life-cycle ownership</td>
</tr>
</tbody>
</table>

Focus today

Countries

Group Functions

Customers

Regions

Digital

Group Functions

Customers
**Enhanced data transparency**
Better assessment of types of business and implications for profit and cash
Industry ownership of lifecycle offering

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Gross margin</th>
<th>Working capital</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capita</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects</td>
<td>Low</td>
<td>Low to negative</td>
</tr>
<tr>
<td>Products</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Service</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spare parts</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Wear parts</td>
<td>Medium / High</td>
<td>High</td>
</tr>
<tr>
<td>Services</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Upgrade &amp; retrofit</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

*Indications are relative to FLSmidth*
Regional benchmarking
Data to drive service growth in all regions

Service
- Grow recurring business
- Targets based on market potential, not previous growth rates
- KPI: Growth in order intake

Capital
- Growth targets based on hotlist and potential
- Industries provide global pool of resources for project execution
- Product line management centralised in industries
- Profit above growth in Cement
Benchmarking contribution margins across regions

- Contribution margins are split into six order types on both revenue and order intake (Backlog)
- Ability to benchmark contribution margins across regions by order types
- Mix impacts can be eliminated in performance management discussions
- Regional difference can be used to improve and learn from each other
Benchmarking across regions and industries

Main KPI Group / Industries
- Order intake
- EBITA
- CFFO / NWC

KPIs sales regions
- Order intake by industry
  - Service
  - Capital
- Business result (excluding global costs)
- Regional SG&A cost
- CFFO / NWC
Procurement focus areas to support offering types

Leveraging category management and efficiency from global structure across both industries

**Product line procurement**
- Support PLM in standardisation and modularisation of products
- Shared components, uniform quality and shorter lead times
- Agile and flexible supply chain incl. manufacturing for fast response

**Project management procurement**
- Early involvement in sales phase
- Coordinated purchase, logistics, expediting and quality control
- Efficient use of local regional low cost sourcing for steel structures etc.
- Leveraging of Product line procurement for fast track of long lead items

**Aftermarket procurement**
- Speed
- Regional suppliers for engineered parts and global for repetitive parts
- Pricing models
- Distribution centers for standard spare- and wear parts
FLSmidth Qingdao assembly center

Strategic location to serve global customers with competitive quality products, spare- and wear parts and improve DIFOT

More than 30 strategic Mining and Cement products with associated spare- and wear parts have been moved to Qingdao with new developed supply chain and BOT automation

Synergies from simplified footprint

- Consolidate assembly into centres in China and India
- Enhance external supplier and distribution network
- Consolidate regional footprint
Higher efficiency through Digital

- Better forecasting & prediction of required parts
- Higher share of wallet
- Better, data-driven sales leads
- Lower inventory
- Product knowledge
- Connected products
- Advanced analytics
Higher efficiency through Digital

More automation
= higher efficiency
= improved quality
= better compliance

Processed 10,000 purchase order lines per month (20% of total lines) in October 2019

Average TAT (turnaround time) for converting requisition to purchase order is < 12hrs

Average process time to create a PO is between 5-14 minutes
Driving efficiency in back office

Global functional cost owners
- Optimise across region, industry and Group
- Drive structural improvements
  - Shared services
  - Centres of excellence
  - BOTs

Regions
- Consolidate ERP in regions
  - E.g. North America: 6 into 1 (2 more in 2020)
- Consolidate skills into regional HUBs

Core ERP coverage of FLSmidth entities

Realised, % of revenue
SG&A managed tightly throughout the organisation

**Administration costs**
- Increased investments in digitalization
- Common ERP enables more shared services
- Ambition to manage independently of revenue in growth periods
- Site consolidation a substantial enabler

**Sales**
- Continued white spot investments
- Industries to provide technical sales support to regions to enable scale benefits
- Shared service centre drives efficiency in sales support
Strong focus on cash conversion

- We delivered strong cash generation during the mining downturn (2014-2017)
- 2018 was an exception, partly due to our sold-off bulk material handling business
- We are committed to continuing the strong track record of high cash conversion
- Our target is to keep CFFI at or below the level of depreciations and amortisations less IFRS 16 leases and purchase price allocations

* Continued business only from 2015 and onwards  
** Average cash conversion 2014-2018 adjusted for change in net working capital and provisions
Depreciations and amortisations
Low share of in-house manufacturing – target to keep investments below D and A
Project order intake, P&L and cash flow

Project timeline

- **PREFEASIBILITY STUDIES**
- **FEASIBILITY STUDIES**
- **ENGINEERING**
- **PROCUREMENT**
- **ERECTION & INSTALLATION**
- **COMMISSIONING**
- **WARRANTY**

**Revenue as % of Completed**

**Net Cash Position**

- **Prepayment** Order signed
- **Milestone #1** Payment
- **Milestone #2** Payment
- **Milestone #3** Final payment

**Year 1**

- Year 2
- Year 3
Warranty provisions

- Estimated based on historical realised costs
- “Additions” based on percentage of completion for projects and at shipment for invoicing principle (proportional to revenue)
- “Used” is independent of current revenue and based on claims for finalised projects
- “Reversals” are independent of current revenue and based on expiry of warranty period

Other provisions

- For example disputes and tax risks
- Build up when risk occurs
The benefits of supply chain financing

- The effect on trade payables (net working capital) from the SCF program is calculated daily and included in FLSmidth’s liquidity buffer.
Strong maturity profile on debt facilities

- Primary funding facility is a DKK 5bn RCF from Core banking group:
  - Danske Bank, Nordea, HSBC, Handelsbanken, Commerzbank and BNP
- Extension options (2 times 1 year)
- Strong support from core banking group and other banks
- Pari passu amongst banks
The road to higher profitability

Q3
- Mining project cost overruns of DKK 70m
- Lower margin in mining backlog
  - DKK 120m in 2020 or 1% on mining EBITA
- Under absorption

Activities to bring EBITA back on track
- Consolidate project execution into HUBs
- Business improvement initiatives
- Service growth
  - Order intake is DKK 450 higher than revenue

How do we get to higher EBITA margins?
- Prioritise service growth
- Mining capital margin
- Grow topline
- Operating leverage (manage SG&A)
- Efficiencies (footprint and scale)
Key highlights

- Enhanced data transparency
- Efficient back office
- Footprint optimisation
- Driving performance through benchmarking
- Focus on cash conversion