



Potential for growth in Customer Services

Kristian Gregersen

VP, Head of Global Customer Services, Cement





Agenda

- FLSmidth Customer Services
- Products and services
- Market and customers
- Competitors
- New business and opportunities



Kristian Gregersen

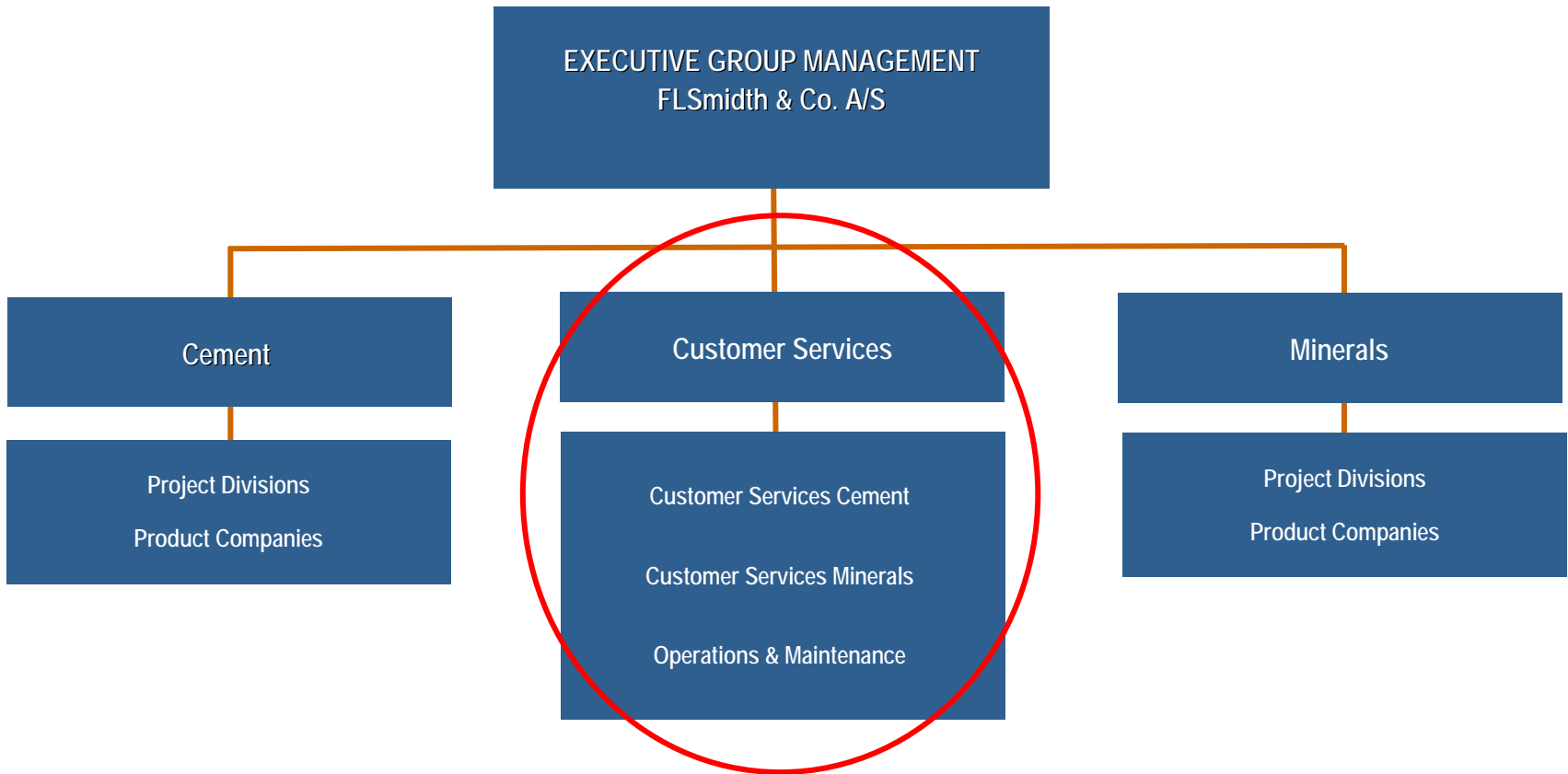
- **VP, Head of Global Customer Services, Cement**

- Joined FLSmidth in 1976

- Positions in FLSmidth:
 - Design engineer, gears and mills
 - Field Engineer, new installations in Indonesia and Algeria
 - Production Management, Manufacturing Plant in Brazil
 - Plant Management, Manufacturing Mexico
 - Director Quality, FLSmidth USA
 - Director IT, FLSmidth USA
 - VP, Customer Services FLSmidth USA
 - VP, Global Customer Services Cement



Structure



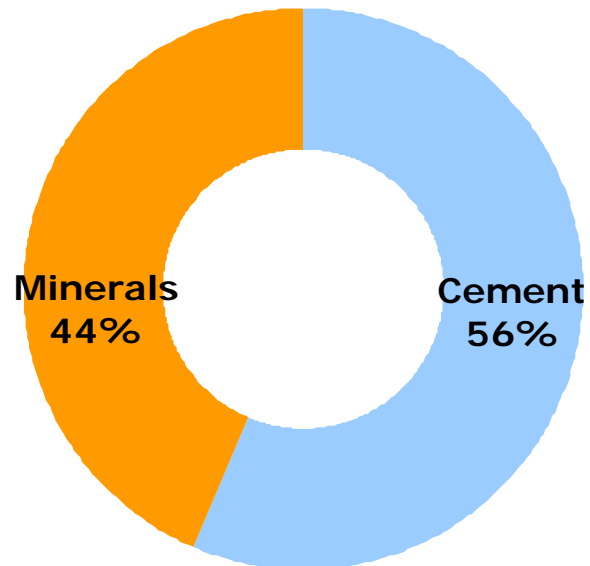


FLSmidth Customer Services global

- A DKK 5-6bn business today
- Targeted growth: **10-15%** annually

Customer Services

Global revenue distribution



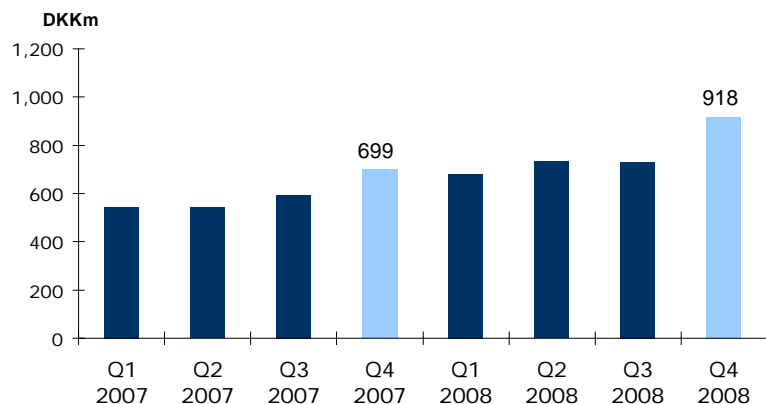


Customer Services order intake and revenue (Cement)

- Revenue follows a much more stable pattern than order intake
- Q4 2007 order intake was positively impacted by a 5-year O&M contract
- Q4 2008 best quarterly revenue ever

Revenue (quarterly) *)

+31% vs. Q4 2007



Order intake (quarterly) *)

-58% vs. Q4 2007



*) including cement product companies

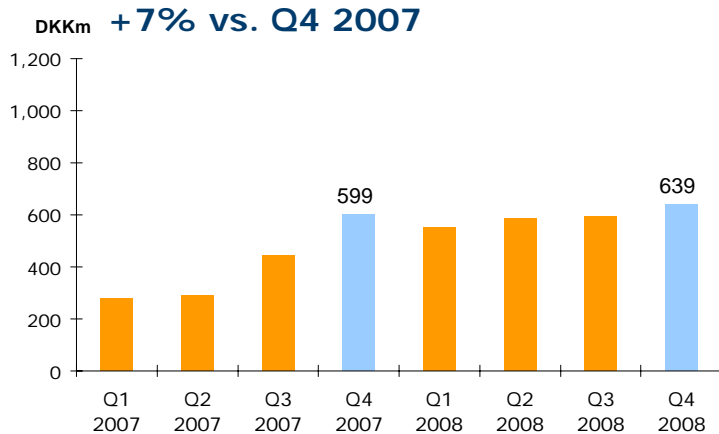
*) including cement product companies



Customer Services order intake and revenue (Minerals)

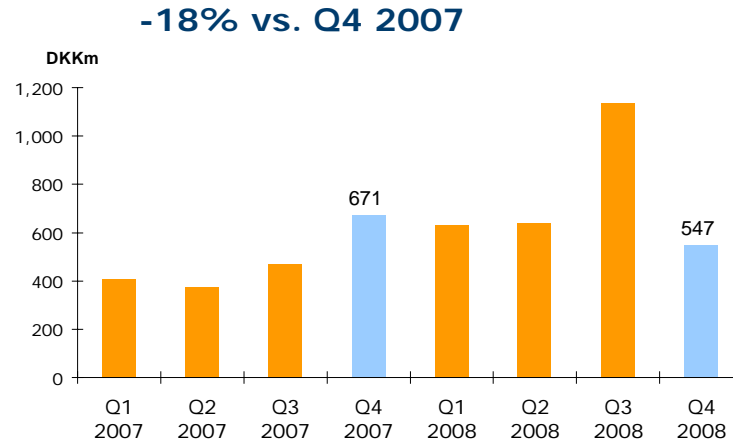
- Revenue follows a much more stable pattern than order intake
- Q3 2008 order intake was positively impacted by multi-year maintenance contracts
- Q4 2008 best quarterly revenue ever

Revenue (quarterly) *)



*) including minerals product companies

Order intake (quarterly) *)



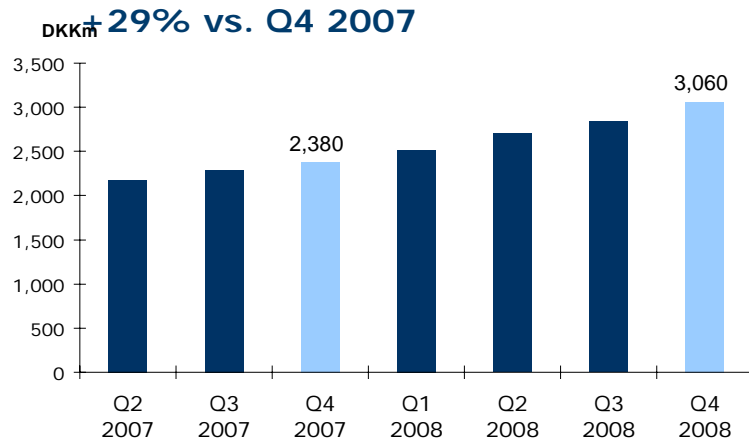
*) including minerals product companies



Target: Customer Services revenue to grow by 10-15% p.a.

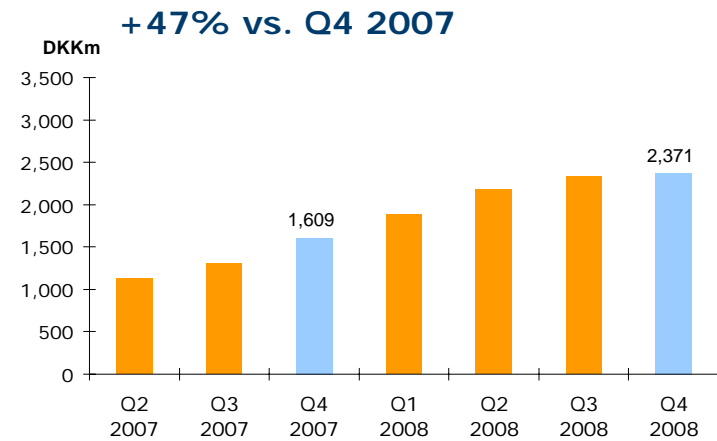
- We prefer to look at 12m trailing patterns in stead of quarterly developments

Cement revenue (12M trailing) *)



*) including cement product companies

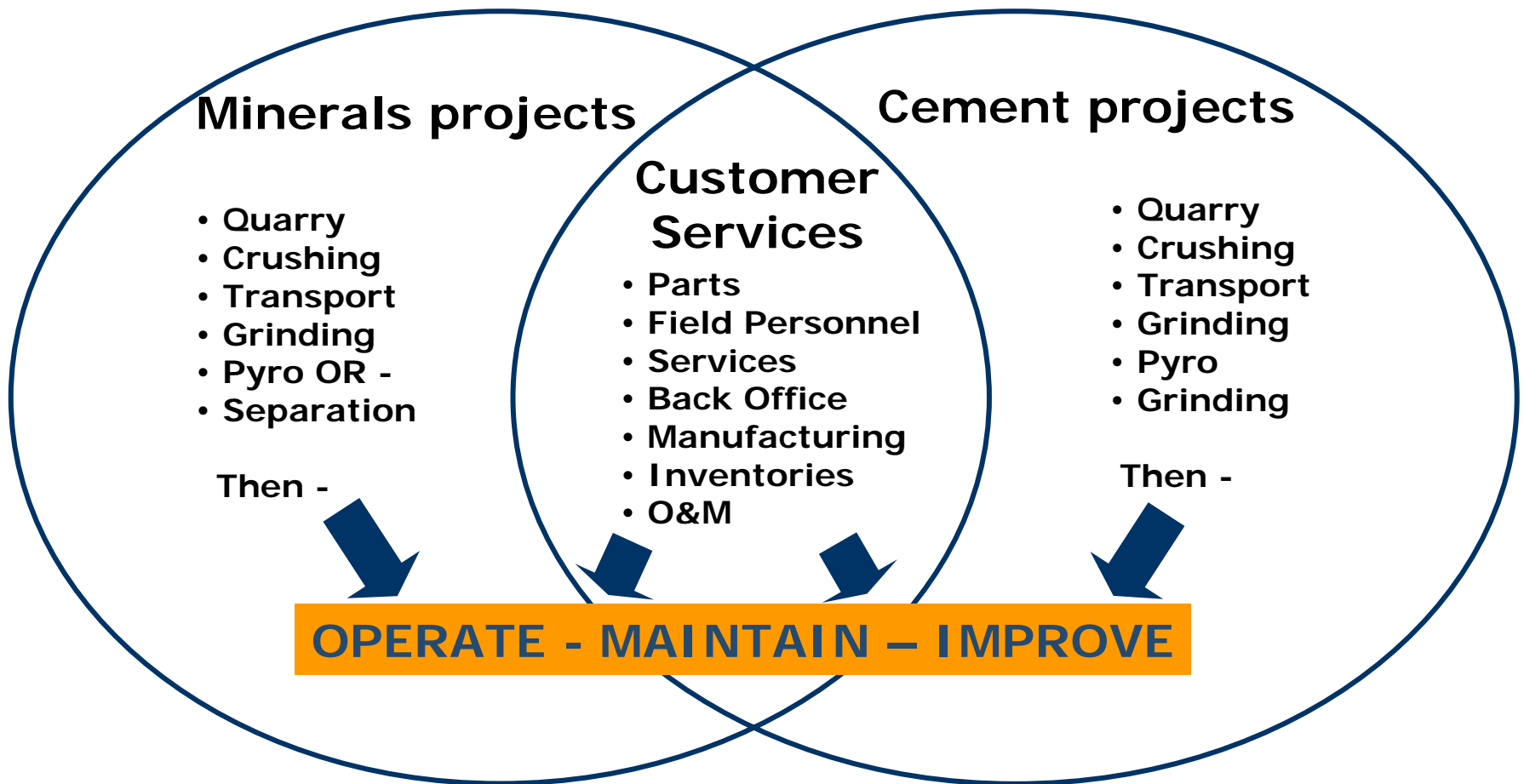
Minerals revenue (12M trailing) *)



*) including minerals product companies



Two industries – one service approach







Customer Services

CEMENT

Design
Build The preferred partner
of the cement and
minerals industries
Operate
Maintain

Capital Market Day London 16.03.09 **FLSMIDTH**

Facts about FLSmidth Customer Services - Cement

- **Scope of business:**
 - **Service to existing plants:** parts, services, upgrade projects, pneumatic transport parts and solutions, Operation & Maintenance
 - **Service to new plants :** supervision for installation and commissioning, plant staff training and development, O&M

- **Customers served globally > 1,000 plants**

- **Orders received per year > 16,000**

- **Number of Employees; 1,100** - of which:
 - 250 have base in DK
 - 220 have base in US
 - 300 have base in IN
 } Of these 260 are on site assignments

 120 are based in Manufacturing

 210 are based in O&M abroad

Customer Services activities in Cement

Expert services

- Mechanical inspection
- Process & operational services

Projects services

- Supervision for installation
- Commissioning

Spare parts

- Sale of replacement parts
- Manufacturing & inventories

Upgrade projects

- Upgrades and rehabilitations
- Output or efficiency focus

Training & seminars

- Public & customised courses
- Highest level & hands on

Operation & Maintenance

- Maintenance contracts
- Operation & maintenance contracts

Alternative Fuels

- Complete alternative fuels solutions

Pneumatic Transport

- Pneumatic bulk conveying

Customer Services activities in Cement

Expert Services

- Mechanical inspection
- Trouble shooting
- Operational services
- Process audits
- “Debottlenecking”



Customer Services activities in Cement

Projects services

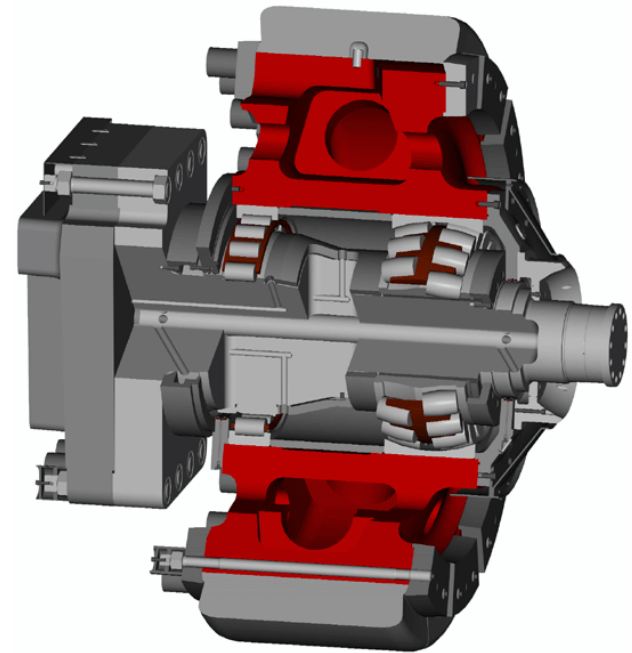
- Supervision for installation
- Commissioning
- Customer training
- First time spares



Customer Services activities in Cement

Spare parts

- Sale of replacement parts
- Manufacturing of parts
- Inventories
- Service centres



Customer Services activities in Cement

Upgrade projects

- Upgrades and rehabilitations
- Production increase
- Stable productivity
- Reduction of total cost of production



Customer Services activities in Cement

Training & seminars

- 12 public seminars per year
- Customised seminars
- Internal training
- E-learning



Customer Services activities in Cement

Operation & Maintenance contracts

- Furnishing all necessary personnel to place the cement production plant in operation, and for
- Managing, operating and maintaining the plant ongoing



Customer Services activities in Cement

Alternative Fuels

- Complete alternative fuels solutions



Customer Services activities in Cement

Pneumatic Transport

- Pneumatic bulk conveying of dry pulverised materials, including portland cement, limestone, ceramic clays, etc.



Manufacturing

- Machine Shop, Manheim Pennsylvania
- Foundry, Chennai India
- Machine Shop, Qingdao China

Competitors



Market description – Parts

- **Parts of mainly FLSmidth designed machines**
- **Most parts are fabricated, forged or cast parts, which can be copied with relative ease**
- **New plants are usually supplied with two years supply of parts**
- **Improved value-creating parts are needed to differentiate from competing products**

Competitors

- **OEM suppliers**
(auxiliary equipment):
GE, ABB, SKF, FAG, Siemens, etc.
- **Specialised global foundries:**
Magotteaux, AIA, Columbia Castings, Estanda etc.
- **Global competitors:**
Polysius, KHD, FCB, L&T, CEMAG, Sinoma
- **Local foundries and workshops**
- **Customers themselves**

Market description – Services

- External inspection of all machines
- Examination of operational data and samples
- Calculation of heat and raw material balances
- If the kiln is stopped, internal inspection of kiln, cooler, preheater, calciner and other machines operating closely together with the kiln

Competitors

- **Global competitors:**
Polysius, KHD, FCB, CEMAG, etc.
- **Independent consultants, specialists and service providers**
Phillips Kiln Services, ASEC, LVT, former employees of FLSmidth and competitors
- **Customers themselves...**

Market description – Operation and Maintenance

- Operate & maintain part of or the entire plant
- Manage and train all personnel
- Performance payment

Competitors

- No global competitors
- Regional competitor: ASEC

Markets & Customers



Tough conditions

- Cement and mineral Plants are, in nature, self destructive
- Crushing, grinding, dragging rock through large and violent machinery is bound to **wear** down everything in contact
- An enormous amount of wear parts, bricking, heat resistant components are replaced constantly
- Meticulous corrective and **preventive maintenance** cycles requires the best resources in the industry
- As a result, **run factors of up 95%**, have been achieved within a single year
- Modern plant utilizes the latest **monitoring technologies** which helps predicting failures so that new parts can be ordered and repairs can be done in time
- **FLSmidth designs, installs and operates cement plants and will become the leader providing operation and maintenance of plants**

Maintenance spend on a typical cement plant

Maintenance Budget OPEX

- General spare parts, wear parts and consumables 2 US\$/ton
- SG&A for maintenance departments 8 US\$/ton

Of the 10+ US\$/ton, FLSmidth typically competes for **1US\$/ton** of OEM parts for main equipment

CAPEX Budget

- For larger break downs and smaller upgrades, a maintenance department typically spend another 1 US\$/ton

Of the 1+US\$/ton, FLSmidth typically competes for **0.5 US\$/ton** which is for parts and components

Traditionally, FLSmidth Customer Services **wallet size** was **1.5 US\$/ton**
In future, FLSmidth Customer Services **wallet size** is **11 US\$/ton**



What changed in the market?

- Traditional large customers will and can handle all operation and maintenance in-house

BUT

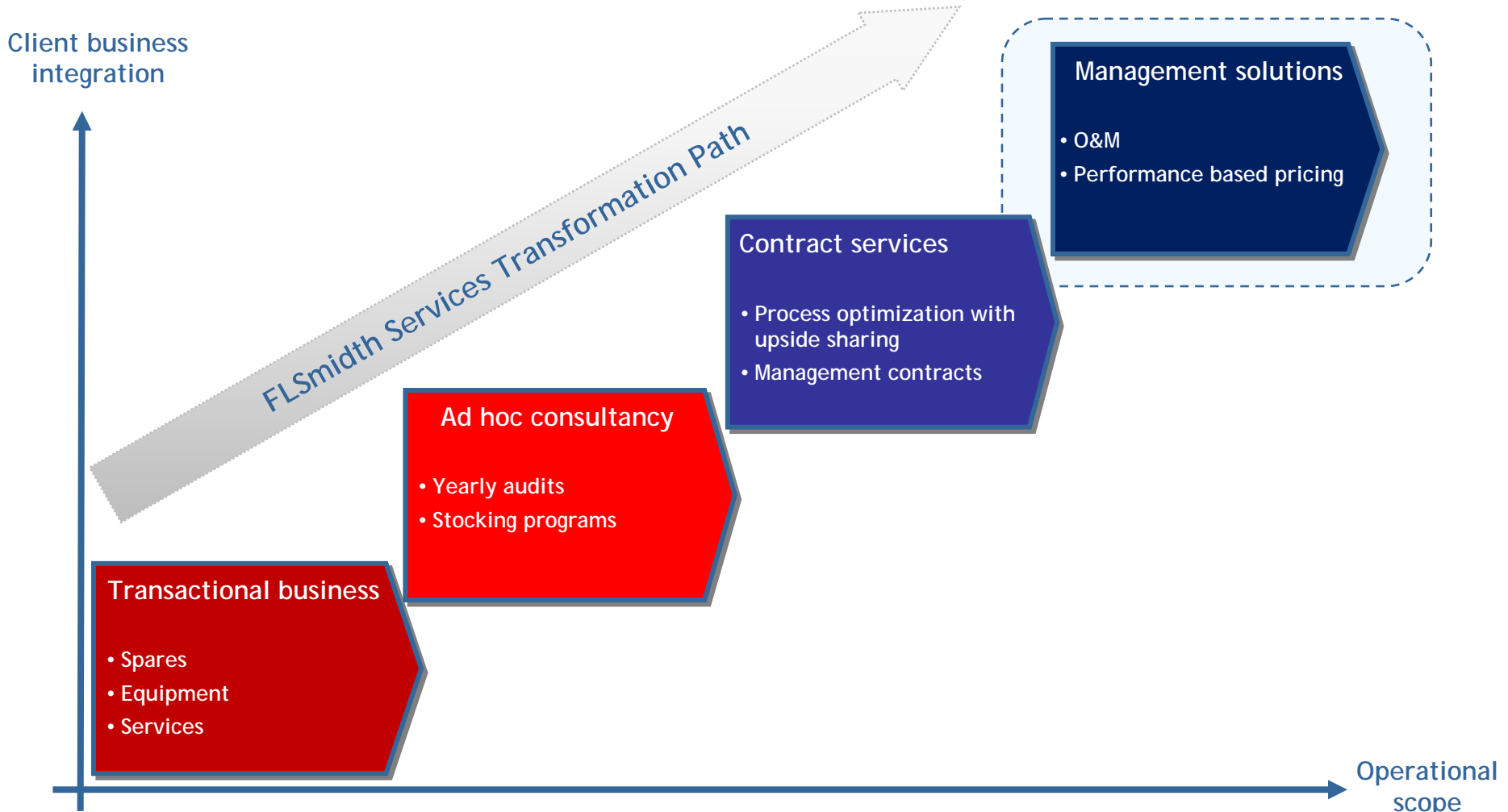
- Many **new customers** have entered the market:
Large entrepreneurs, venture capitalists, etc.
 - with **no "attachment" to the plant and operation**, and
 - with an interest in integrated services or full O&M
- Also, the big 5 have expanded both up- and down-stream
- Past perception of "CORE" business is changing
- Beginning interest in closer partnering with the OEM is emerging

Changing market needs

- Change in **buying behavior**
(Internet, technical centers, business systems)
- Need for **resources and knowledge** due to business expansions
- In addition to parts and services customers demand **total solutions**
- Increased focus on **total cost of ownership**, with concerns in fuel consumption, emission regulation & cost, reliability and wear rate.



Going forward - balancing our red & blue oceans



And FLSmidth is prepared to act



New business opportunities



REDEFINING Customer Services

Support from A to Z



New initiatives

- **Operation and maintenance** services leader
- **Partnership** opportunity project. Targeting closer working relationship with customers it includes executing joint workshops uncovering needs and new ways to optimize operation and business execution
- **Inventories of critical and general spares** for certain main machines
- Leader in cement plant **staff training and development**
- **Alternative Fuels** leader
- **Kiln services** leader
- **Innovation**





We're redefining Customer Services

Every day, FLSmidth Customer Services provides the entire alphabet of support to more than 500 cement plants around the world. From daily operational challenges to strategic planning, our know-how and experience can free you to focus on what you do best: selling and distributing cement. To find out more about A-to-Z support that's redefining the notion of Customer Services, please visit our website at www.flsmidth.com



Direct customer contact **EVERY DAY!**

“Your most unhappy customers
are your greatest source of learning”

Bill Gates

AND

“Your best salesman is a happy customer”



Customer
focus



Questions

Design
Build The preferred partner
of the cement and
minerals industries
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