



FLSmidth – current status and strategy

Poul Erik Tofte

Group Executive Vice President and CFO



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- **Group Executive Vice President and CFO**
- Joined FLSmidth in 2003
- Previous positions:
 - CFO and EVP, Nettetst
 - 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, indebted conglomerate with four different and independent business areas



A focused, well-shaped engineering company

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

2002

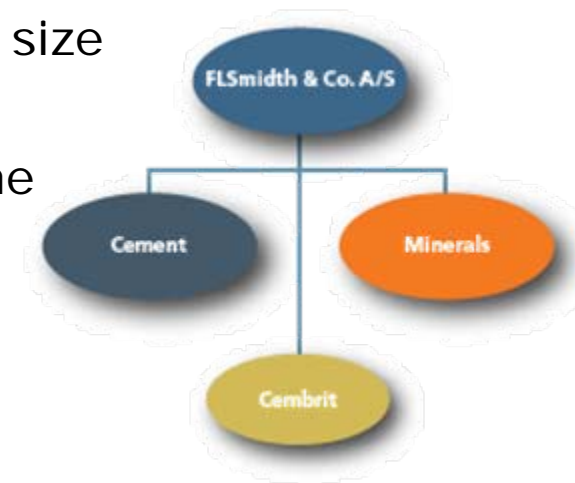
2009



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



2002



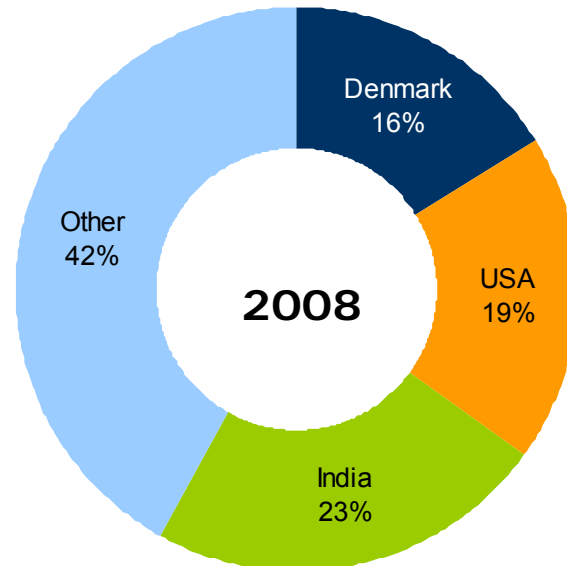
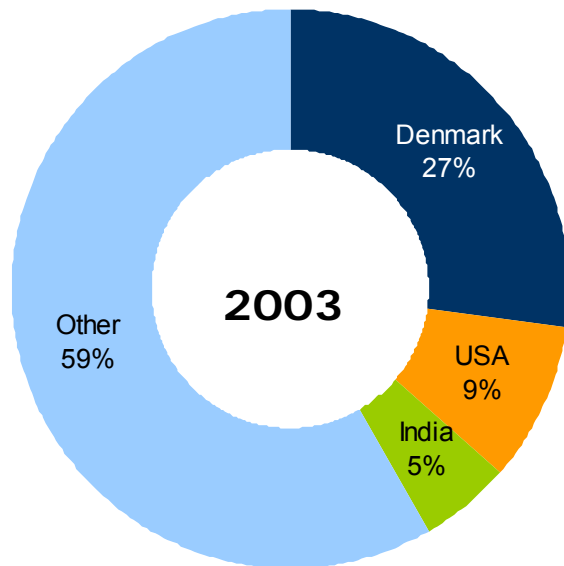
2009



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





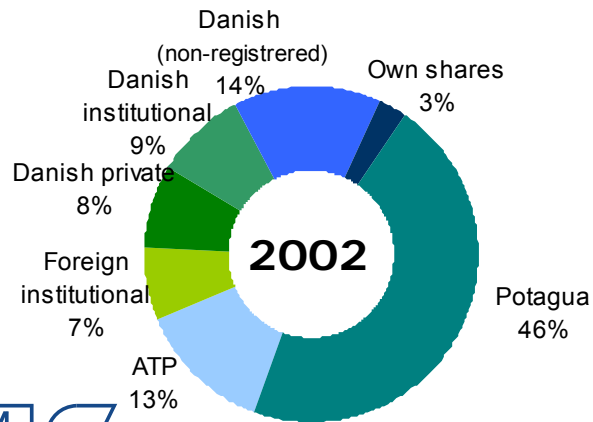
What has changed since 2002 ?

Ownership structure

Market Cap DKK 2,926m

Number of shareholders ~16,000

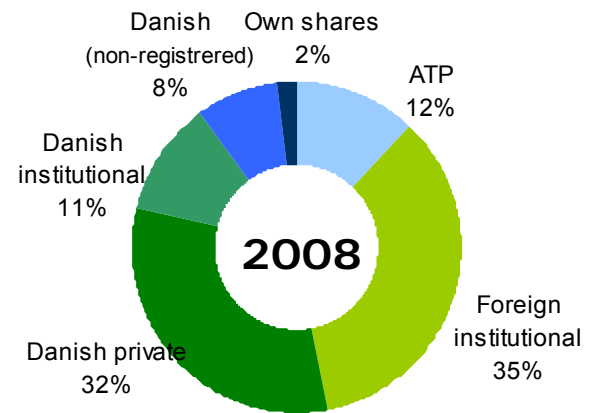
A and B shares



Market Cap DKK 9,629m

Number of shareholders ~42,000

Only one share class



2002

2009

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



2002

2009



More Minerals and Customer Services

– less dependent on large cement projects

Order intake	2003		2008
Cement	DKK 6,328m	➔	DKK 15,721m
Minerals	DKK 2,424m	➔	DKK 14,730m
- of which is Customer Services	DKK 1,825m	➔	DKK 6,073m

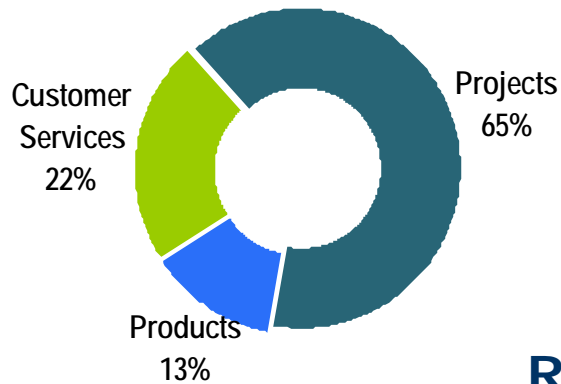
- **Minerals' share of order intake up from 28% to 48%**
- **Customer Services' revenue up from DKK <2bn to DKK >5bn**



Current business mix

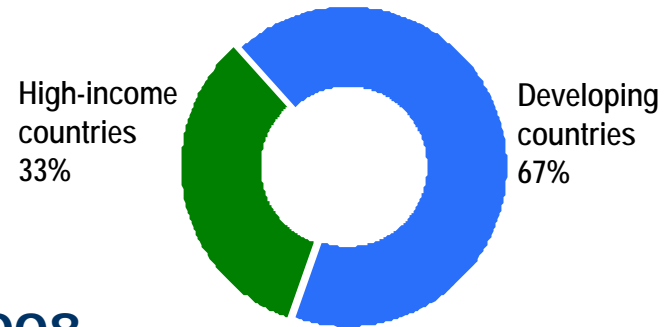
Revenue 2008

- by type of product



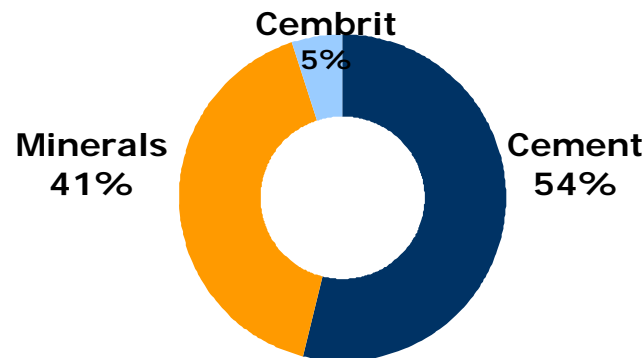
Revenue 2008

- by country category



Revenue 2008

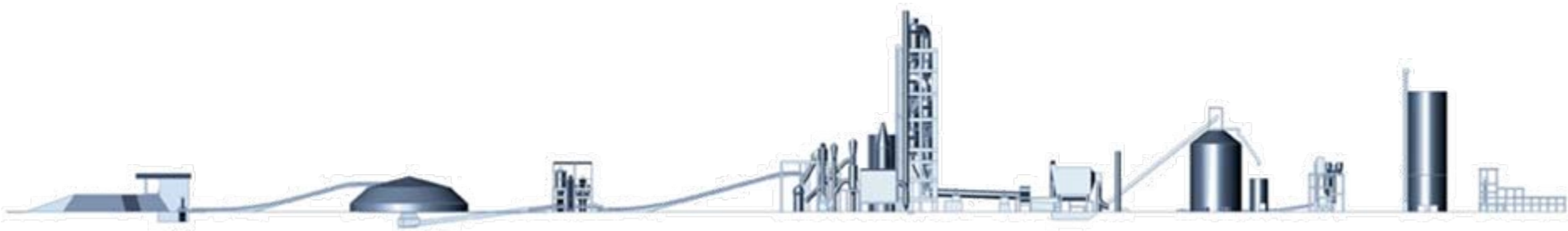
- by segment





Asset light business model

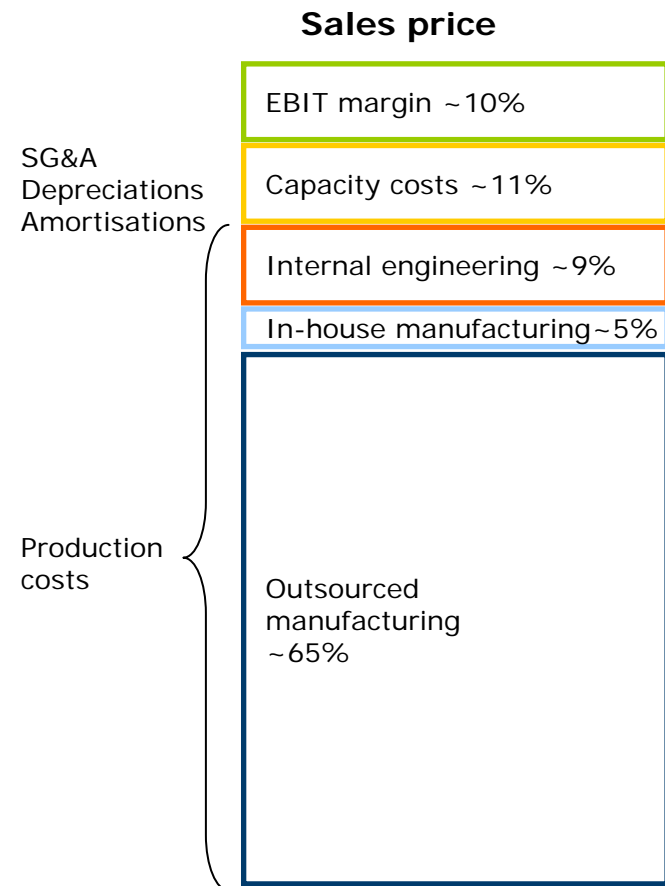
- **Flexible cost structure**
- **Engineering house / technology provider**
- **Most manufacturing is out-sourced** (~80-90%)
- **Low working capital** due to prepayments from customers of 10-25%
- **Low maintenance CAPEX**
(estimated ~1-2% of revenue)





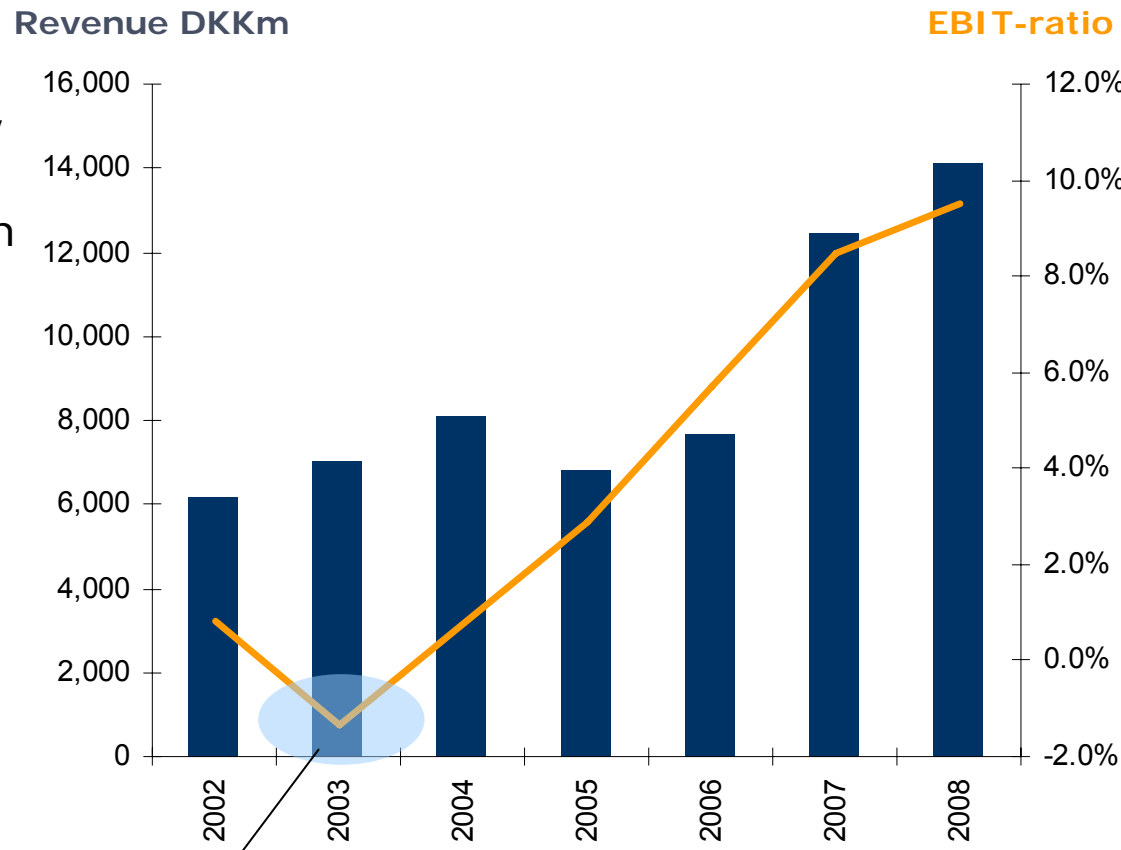
Flexible cost structure

- Production costs** DKK 15,685m in 2008, of which ~80% relates to **out-sourced 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



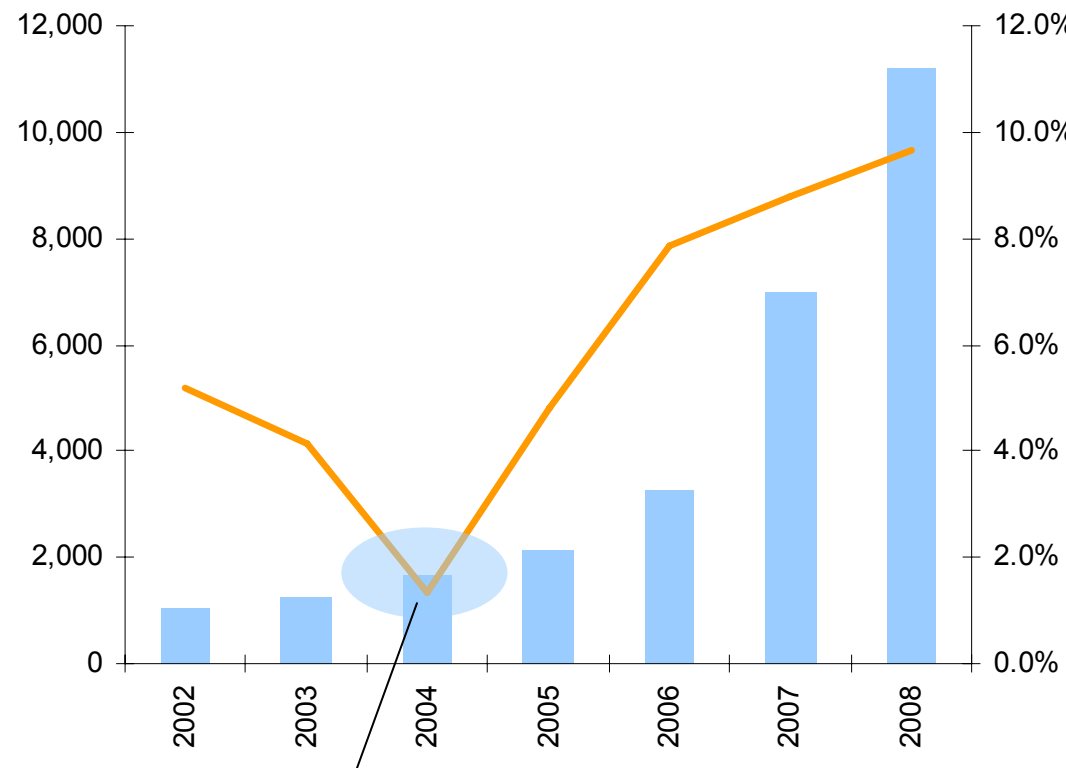
Losses on a few major contracts and clean-up from the past

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

Revenue DKKm

EBIT-ratio

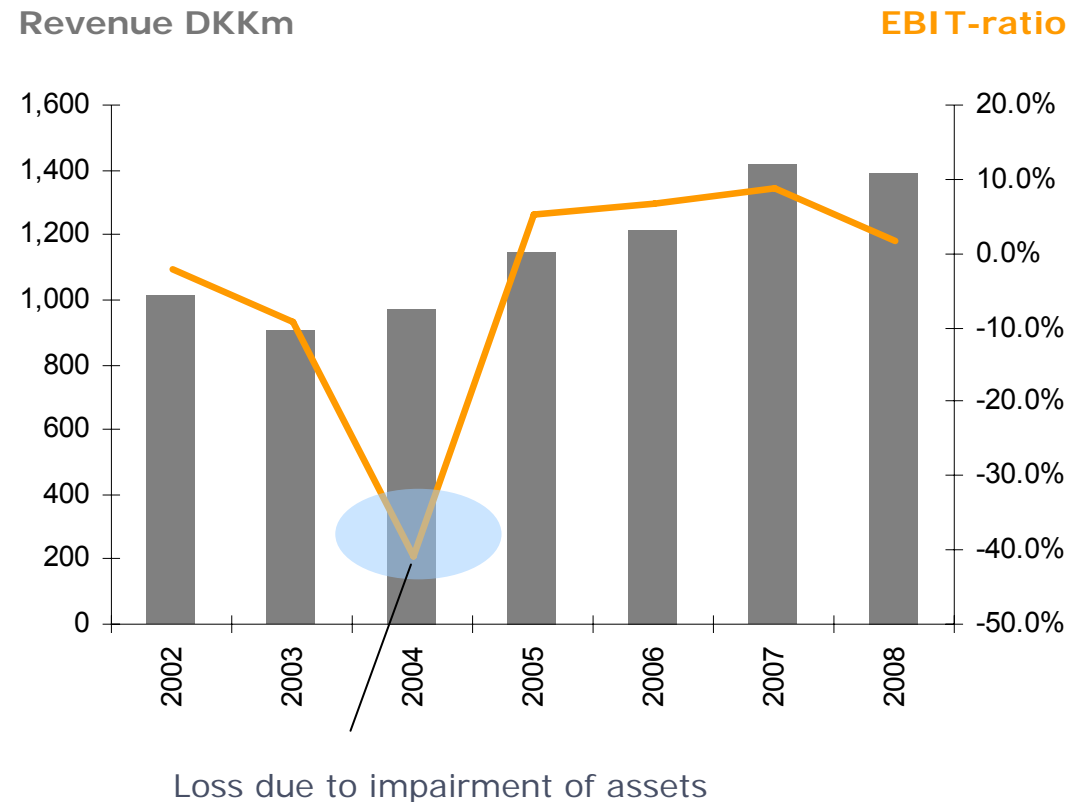


Process challenges in connection with two specific contracts



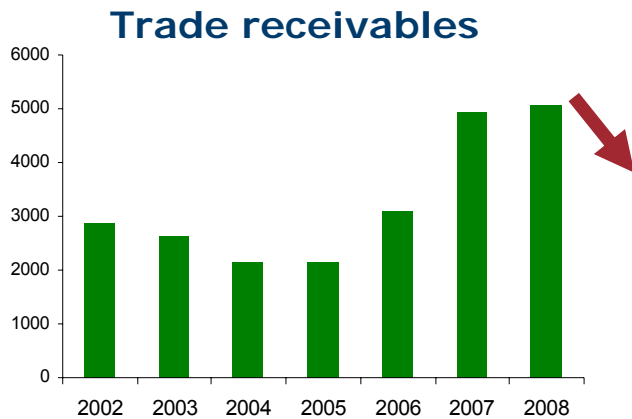
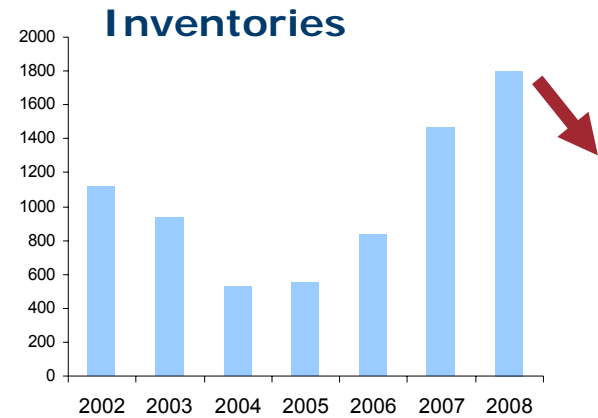
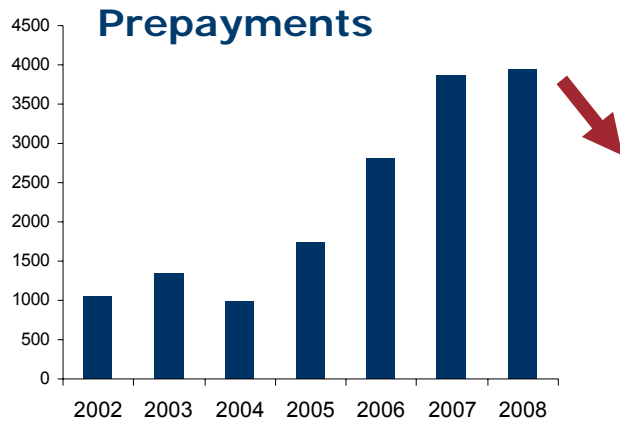
Cembrit – transformation over the past 7 years

- 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





Follow-up on the Annual Report for 2008

Guidance 2009 - Group

	<u>2009</u>	<u>2008</u>
■ New cement kiln capacity	25-50mty	123mty
■ Revenue	20-25bn	25,285m
■ Earnings	"Satisfactory"	
■ Significant slowdown in Cement and Mining Capex is expected in 2009		

Guidance 2009 - Segments

■ Cement	Revenue slightly down compared to 2008	Satisfactory earnings
■ Minerals	Revenue slightly down compared to 2008	Satisfactory earnings
■ Cembrit	Revenue slightly down compared to 2008	Modest earnings

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

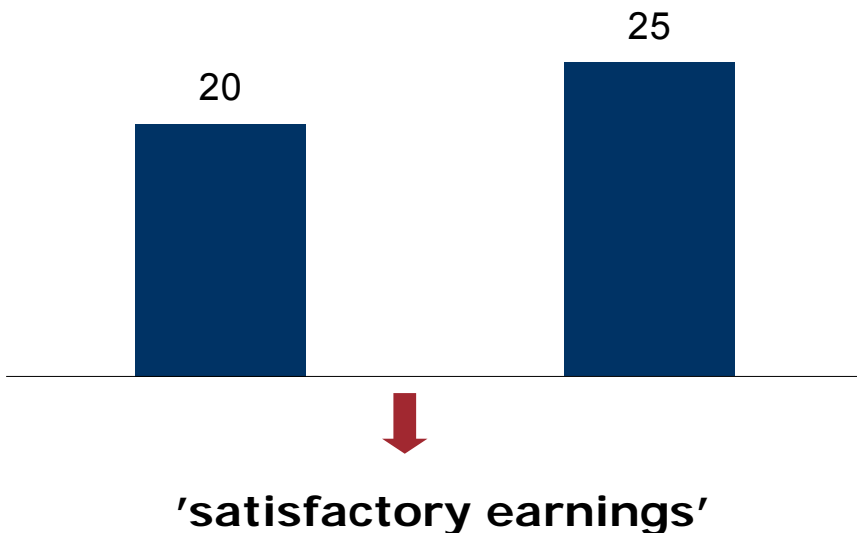


Guidance 2009

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:

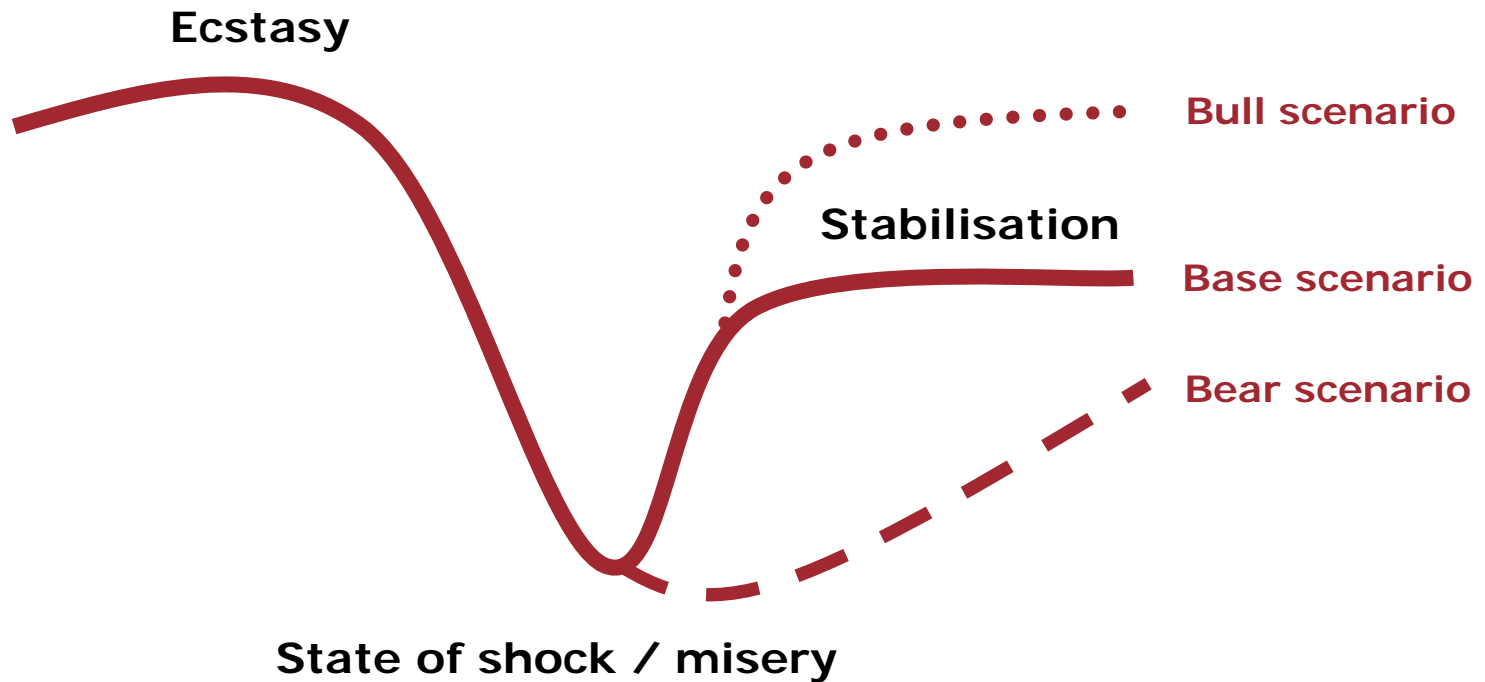
Low activity: 8-9%

High activity: 10-12%



Base scenario

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



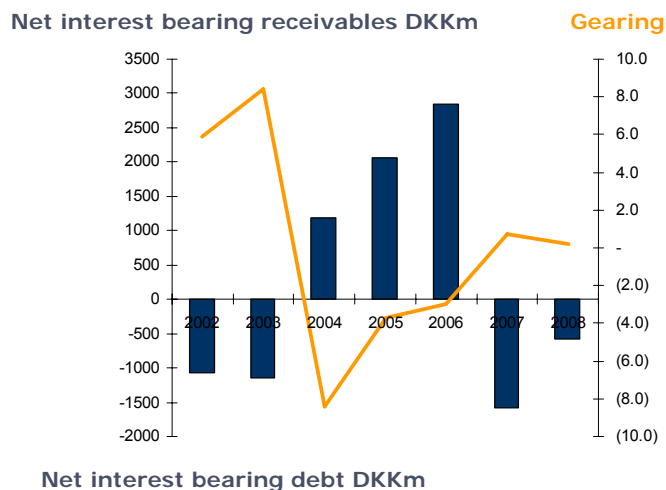
2009 is expected to be a year of transition with low visibility.
 We expect to have better visibility in **2010**.



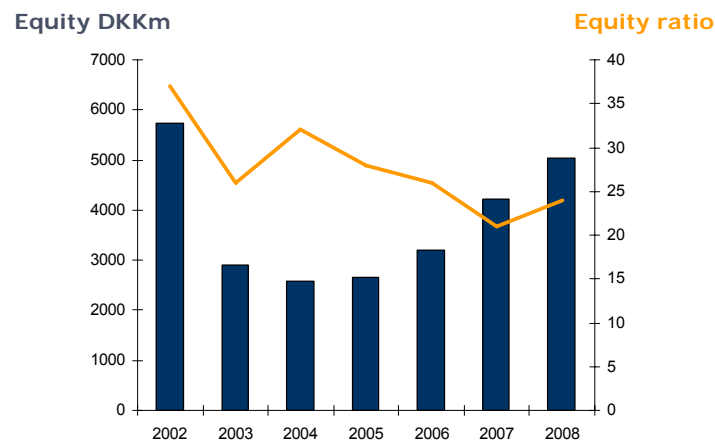
Decision to pay dividend for 2008 postponed

- **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

NIBD & gearing



Equity & Equity ratio





Analyst consensus estimates after Q4 2008

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

Group consensus is based on input from: Alm. Brand, ABG, Carnegie, Chevreux, Danske Markets, Exane BNP Paribas, Handelsbanken, Jyske Bank, LD Markets, Nordea Markets, Sydbank, Standard & Poors and SEB Enskilda

Management priorities in 2009

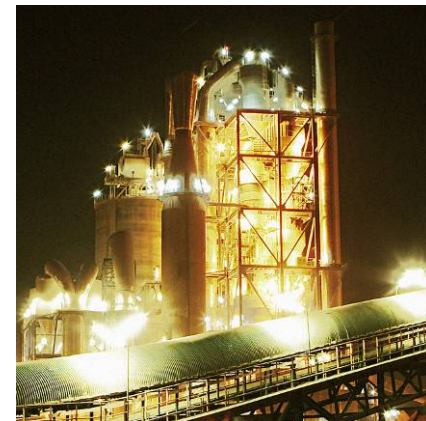
- Cash
- Costs
- Customers

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

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

Capital Market Day London 16.03.09 **FLSMIDTH**

The graphic features the words 'Design', 'Operate', and 'Maintain' in blue, and 'Build' in orange. To the left, two construction workers in blue overalls and white hard hats are looking at a set of plans. To the right, two men in business suits are standing, one holding a rolled-up document. The text 'The preferred partner of the cement and minerals industries' is positioned between 'Build' and 'Operate'. At the bottom, it says 'Capital Market Day London 16.03.09' followed by the FLSMIDTH logo.