

FLSmidth & Co. A/S

BRIC opportunities

Jørgen Huno Rasmussen, CEO

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Nordea, Copenhagen



FLSmidth in brief

Vision

It is FLSmidth's vision to continuously strengthen its position as the preferred partner and leading supplier of equipment and services to the global **cement** and **minerals** industries

Listed on NasdaqOMX

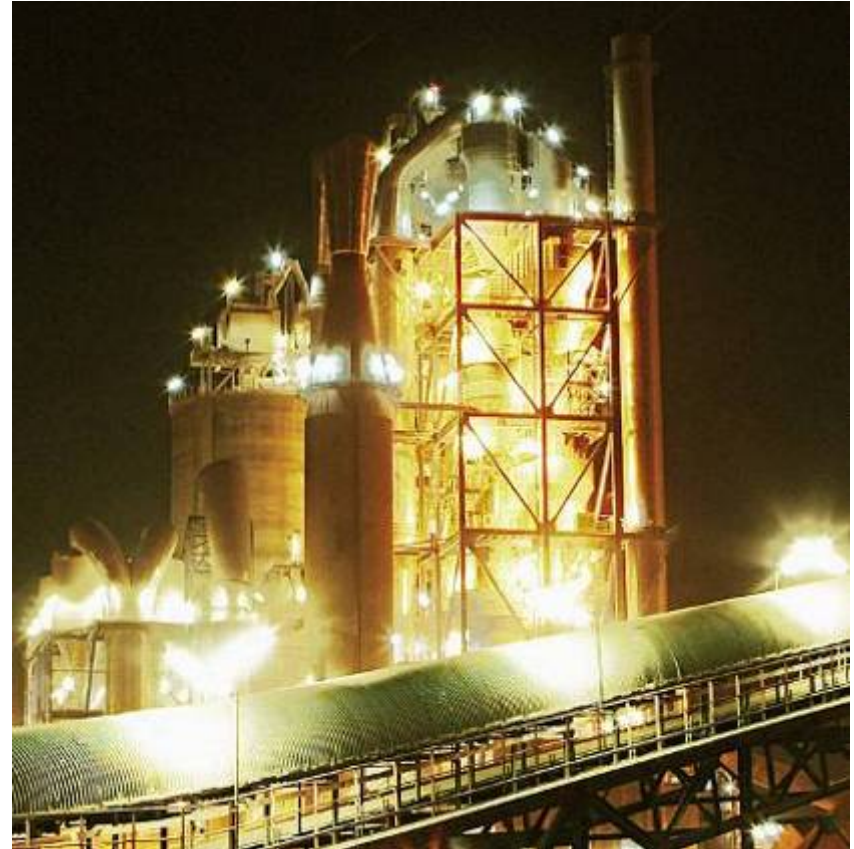
Market Cap DKK ~20bn

Among 5-10 most traded shares in Copenhagen

Number of employees: ~10.900

Expected turnover 2009: DKK 22-23bn

EBIT margin guidance: 8-9% (low activity)
10-12% (high activity)



Who we are and what we do..

- FLSmidth is a **one source supplier** of **equipment, processes** and **services** to the global cement and minerals industry
- **Major engineering centers** in Europe, India and USA are integrated on the same IT-platform
- **Local sales & service offices** are located in all major mining and cement markets
- FLSmidth is focusing on developing its **customer services** business as well as exploiting **growth opportunities** in Minerals – a market that is 10 times bigger than Cement



FLSmidth is in good financial shape

- **Healthy order backlog** ~1 year revenue
- **Equity-ratio** close to **30%-target** (End Q3 2009: 29%)
- **No net debt** (End Q3 2009: Net interest bearing receivables DKK 370m)
- Committed **credit facilities** have been **extended** to 2013
- **Costs** have proven to be **controllable**



Our asset light business model is working well

- **Engineering house** / technology provider
- **Flexible cost structure**
- **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)
- **Standard order engineering** out of India
- **Sourcing** from competitive-cost-countries



Long term market outlook is encouraging

- **Increasing population, urbanisation and industrialisation in developing countries** are expected to generate structurally increasing demand for cement and minerals in future
- **Cement** is a **local business**, capitalizing on local opportunities and demand/supply imbalances
- **Minerals** is a late-cyclical **global business** with a huge potential, servicing many different industries
- The global minerals industry has been **under-investing** for many years, and coupled with **depleting ore qualities**, this has led to **high capacity utilization** and a **build-up demand** for new capacity



BRIC-countries are particularly interesting

- ~ **2/3 of revenue** is generated in **emerging markets**
- **Urbanisation and industrialisation** are mega-trends that will drive economic development in the BRICs
- All **BRIC-governments** are actively supporting and investing in infrastructure, housing, etc.
- Brazil, Russia, India and China are all **Top-5 cement consumers**
- **China** alone consumes **50% of the worlds cement** and **30-40% of most minerals**
- **Brazil, Russia, India** and **China** have vast deposits of natural resources and are all **big mining countries**
- **China** and **India** are **important sourcing countries**
- FLSmidth has a **strong local presence** in all BRIC countries



Brazil

History and current setup in Brazil

- Has been active in Brazil for more than 100 years and locally established since **1957**
- strong local representation!
- All FLSmidth operations in Brazil were centralised and integrated in **one office** in Votorantim (90km west of São Paulo) in **April 2009**, and is currently employing **~150 people**
- Brazil is a **major mining country** as well as a **large cement consumer** and producer
- Brazil's diverse market needs are supported by virtually every division and product company within the FLSmidth group



FLSmidth Office in Brazil

Facts about the Brazilian Cement Industry

- Brazil is the **4th largest cement producer** in the World
- ~190m Brazilians consume ~55m tons of cement annually
=> **cement consumption per capita ~290kg pa.**
- All cement plants are currently working at **full capacity** to meet demand, boosted by income from vast natural resources, privatization, economic reforms and a growing middle class
- **Considerable investments in expansions and new capacity** are currently being planned and executed
- **Buildings account for 75% of cement sales** and infrastructure for 20%
- Brazil has **48 integrated cement plants**, and some of the major cement producers are Votorantim, João Santos, Cimpor, Camargo Corrêa and Holcim



FIFA World Cup 2014 and Olympic Games 2016 to boost cement consumption

Facts about the Brazilian Minerals Industry

- The Brazilian mineral industry is focused on commodities for **export**, mainly **iron ore**
- Brazil has **ample reserves** of several commodities such as bauxite, kaolin, iron ore and nickel, and is also a major producer of key commodities such as gold, coal and phosphates
- The minerals sector employs about **4% of the total workforce of Brazil** (approximately 650,000)
- Some of the major mining companies in Brazil are: Vale, Anglo American and Alcoa



Shipunloader, Vale, Brazil

Russia

History and current setup in Russia

- **1893:** St.Petersburg, Russia visited first time by FLSmidth engineers Foss and Berg.
- **1905–14:** FLSmidth supplies 25 kilns to Russia/CIS
- **2005:** FLSmidth activities in Russia/CIS re-started
- FLSmidth currently employs **35 people in Moscow**
- We are executing a number of cement projects in Russia right now, and Russia is currently the **largest country exposure** in our cement order backlog



FLSmidth Office in Moscow

FLSmidth major orders in Russia/CIS 2005–2008

Project	Year	Country	Description
Sebryakov	2005	Russia	UMS 46 x 14
Karcement	2006	Kazakhstan	3,200 tpd line
Ivano Frankivsk	2006	Ukraine	2,300 tpd upgrade
Kokshetau	2007	Kazakhstan	5,500 tpd line
Podgorensky	2007	Russia	6,000 tpd line
LSR Slantsy	2007	Russia	5,000 tpd line
Shurovo	2008	Russia	5,500 tpd line
OOO Kurskaya	2008	Russia	3,500 tpd line
Verhnebakansky	2008	Russia	6,200 tpd line
SGMK Uchulensky	2008	Russia	3,500 tpd line

Facts about the Russian Cement Industry

- Russia is the **5th largest cement consumer** in the World
- ~142m Russians consume ~50m tons of cement annually
=> **cement consumption per capita ~350kg pa.**
(although temporarily somewhat lower in 2009)
- **Residential buildings account for 50% of cement sales**
commercial buildings for 30% and infrastructure for 20%
- Russia has **53 cement plants**, of which six are grinding units,
and the largest producer is **Eurocement**
- **Most of the existing capacity (~80%) is technologically outdated** and based on old wet-process technology
- Russian cement producers actively engaging in bringing more **modern capacity** on stream, supported by the government
- Most cement works are **fuelled by natural gas**



Facts about the Russian Minerals Industry

- Main minerals are **coal, gold, aluminium, diamonds, nickel, iron ore** and **copper**
- Mostly old and technologically outdated facilities
- Privatization and decentralisation in recent years
- Some of the worlds largest minerals companies are now located in Russia, e.g. Rusal, Norilsk
- **Vast future potential!** – strong desire to reduce costs with large **modern technology**



Coal and minerals are spread over a vast area



India

History and current setup in India

- FLSmidth delivers first cement plant to India in **1904**
- FLSmidth establish license agreement with L&T for supplies in India in **1964**
- Fuller Company of USA (acquired by FLSmidth in 1990) establishes joint venture with KCP Limited of Chennai in **1984**
- Fuller takes 100% control of Fuller – KCP and creates Fuller India in **1997**
- Fuller India is named FLSmidth Limited and the license agreement with L&T ceases to exist in **2004**
- FLSmidth consolidates Indian activities in new state-of-the-office building in Chennai, designed to house more than 3,500 people in **2007**
- FLSmidth opens Indian foundry in **2008**



FLSmidth House in Chennai

India as off-shoring centre

- Today, FLSmidth has ~3,000 employees in India, servicing the local **Indian market** as well as being **off-shoring centre** for the international FLSmidth organisation
- We have a **cost-efficient** organisation operating in **state-of-the-art** office and IT-facilities
- The **productivity** within same competency areas is **on par** with western peers
- Our **strong local presence** in India is very much **appreciated by Indian customers**
- We will continue to grow in India and to in-source **global back-office functions**



FLSmidth House in Chennai

India as competitive-cost manufacturing source

▪ Acquisition of EEL Limited India in 2009

- India's leading manufacturer of **cement material handling** and **bagging equipment**
- Supports the successful global expansion of FLSmidth's product company, **Ventomatic** in Italy
- Revenue: ~ DKK 200m
- Number of Employees: 300



EEL Limited India

▪ FLSmidth Foundry, India started up in 2008

- Production of **steel castings**
- 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



FLSmidth Foundry, India

Facts about the Indian Cement Industry

- India is the **2nd largest cement consumer** in the World
- ~1,1bn Indians consume ~200m tons of cement annually
=> **cement consumption per capita ~180kg pa.**
(lowest among BRIC countries => huge potential!)
- Considerable investments in expansions and new capacity** are currently being planned and executed to match demand projections
- India is witnessing a shift in cement consumption from **housing (currently 60%)** to infrastructure.
- India has **107 integrated cement plants** and 37 grinding units and the largest producer is **Holcim**, through investments in Ambuja Cement and ACC
- The Indian cement industry is dependent on **coal and petcoke** as main sources of fuel



Binani Cement, India

Facts about the Indian minerals industry

- India is a country with vast geographical diversities that provide a variety of mineral and metal resources
- India has **high reserves** of particularly **iron ore, limestone, bauxite and coal** and is also a leading producer of mica, chromite, manganese and aluminium
- A significant market is **coal handling equipment** for power plants
- However, despite the huge reserves, the industry has seen low exploration activity and minimal private sector participation
- The **scale of operations of Indian producers is in most cases small** by international standards. However, there are numerous plans underway to modernize and expand existing facilities
- The sector employs **290 million workers** in the organized and unorganized sectors together
- Among the major mining companies in India are Vedanta, Hindalco, Tata, etc.



Vedanta Aluminum Ltd



China

History and current setup in China

- FLSmidth delivered first two cement kilns to China in **1906**
- FLSmidth Beijing office was opened in **1912**, moved to Shanghai in **1928**, and closed down in **1948**
- Sales to China restarted in **1979** and a Representative office in Beijing was opened in **1984**
- FLSmidth established own company and workshop in Qingdao in **2000**
- **Today**, FLSmidth has **313 employees** in China
- China is our most **important source** for both internal and external **manufacturing**



FLSmidth Beijing Office



New China strategy: "Be Competitive in China"



- FLSmidth is embarking on a **long-term strategy** to strengthen its presence and competitive edge on the Chinese market
- Based on a **Chinese sales organisation** and **Chinese production facilities**, FLSmidth will launch equipment designed for the Chinese market

Long-term goal



To become a competitive supplier in China of cement plants and selected types of minerals machinery and services

- New **order received from Conch** for 12,000tpd cement kiln last week

China as primary source for manufacturing

■ Internal manufacturing

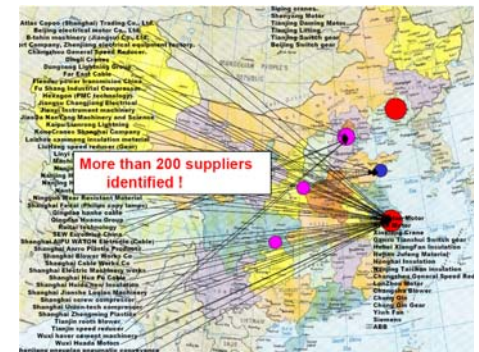
- FLSmidth has a **13,000 m² manufacturing plant in Qingdao**
- To handle the increasing production for international projects and the stronger focus on the local Chinese market, the Qingdao production facility **will be expanded to double** its present size **in 2010**



FLSmidth Qingdao workshop

■ External manufacturing

- FLSmidth is continuously working on identifying and developing new **sub-suppliers in China** and other low-cost countries
- **~25% of the Group's sourcing** today is from competitive-cost-countries, primarily China



Facts about the Chinese cement industry

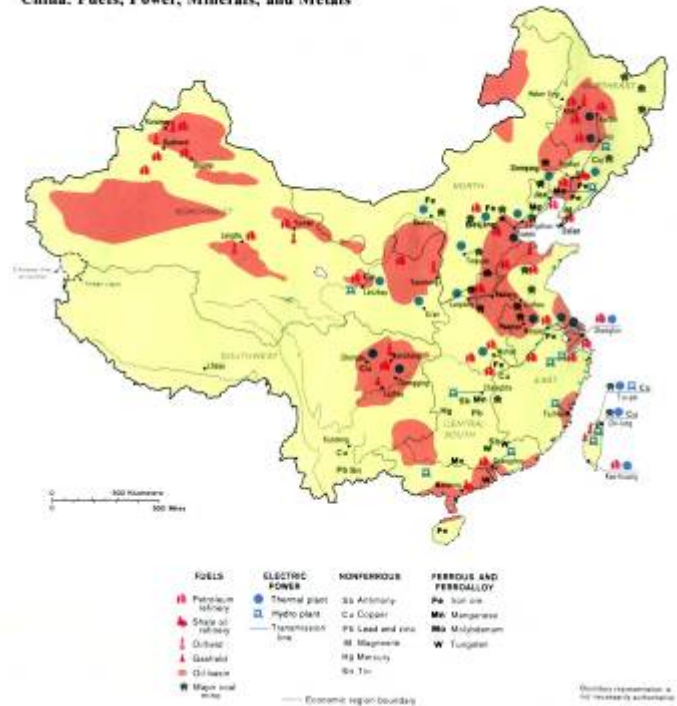
- China is the **largest cement producer** in the World, accounting for about 50% of global cement consumption
- ~1.3bn Chinese consume ~1.450m tons of cement annually
=> **cement consumption per capita ~1,100kg pa.**
- **Non-residential building construction** is currently the largest end-user for cement
- China has **>5,000 cement plants**, of which many are **obsolete**
- **Modern capacity amounts to ~750m tons**, and the largest producer of dry-process cement is **Conch**



Facts about the Chinese minerals industry

- China is **the world's largest consumer** of minerals, however **only a major producer of a few minerals** such as:
 - aluminium, lead, zinc, magnesium and tin
- China is increasingly **investing in mines abroad** in order to become self-sufficient
- Chinese mining companies** are becoming a **significant client base** due to their large foreign investments

China: Fuels, Power, Minerals, and Metals





BRIC cement consumption overview

	Brazil	Russia	India	China
Population	190m	142m	1.1bn	1.3bn
GDP per capita	\$9,500	\$14,400	\$2,700	\$5,400
Urbanisation	81%	73%	28%	44%
Cement consumption per capita	290kg	350kg	180kg	1,100kg
Cement consumption	55mt	~50mt	200mt	1,450mt

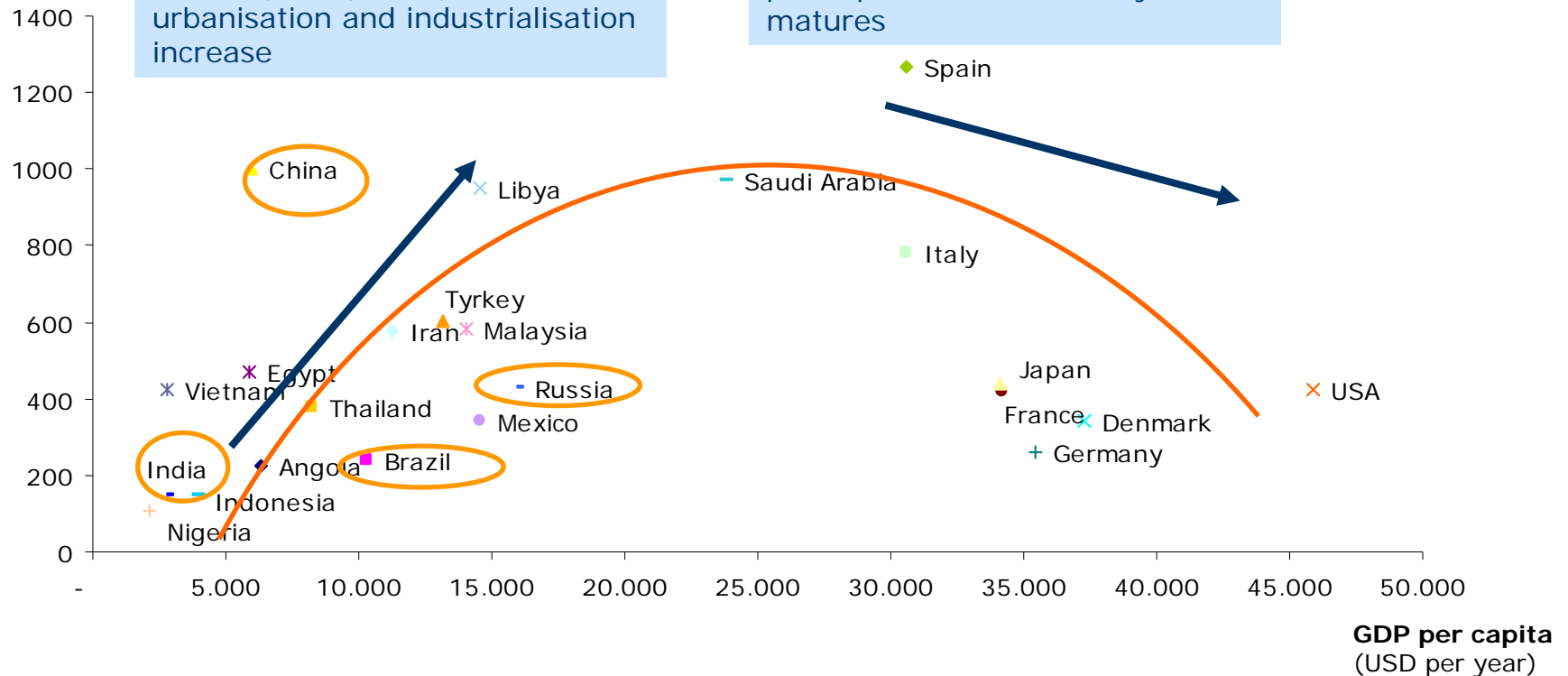
Imagine that India will go through same economic development as China, and what that means for cement consumption and need for new capacity in India..

Relationship between cement consumption and GDP per capita

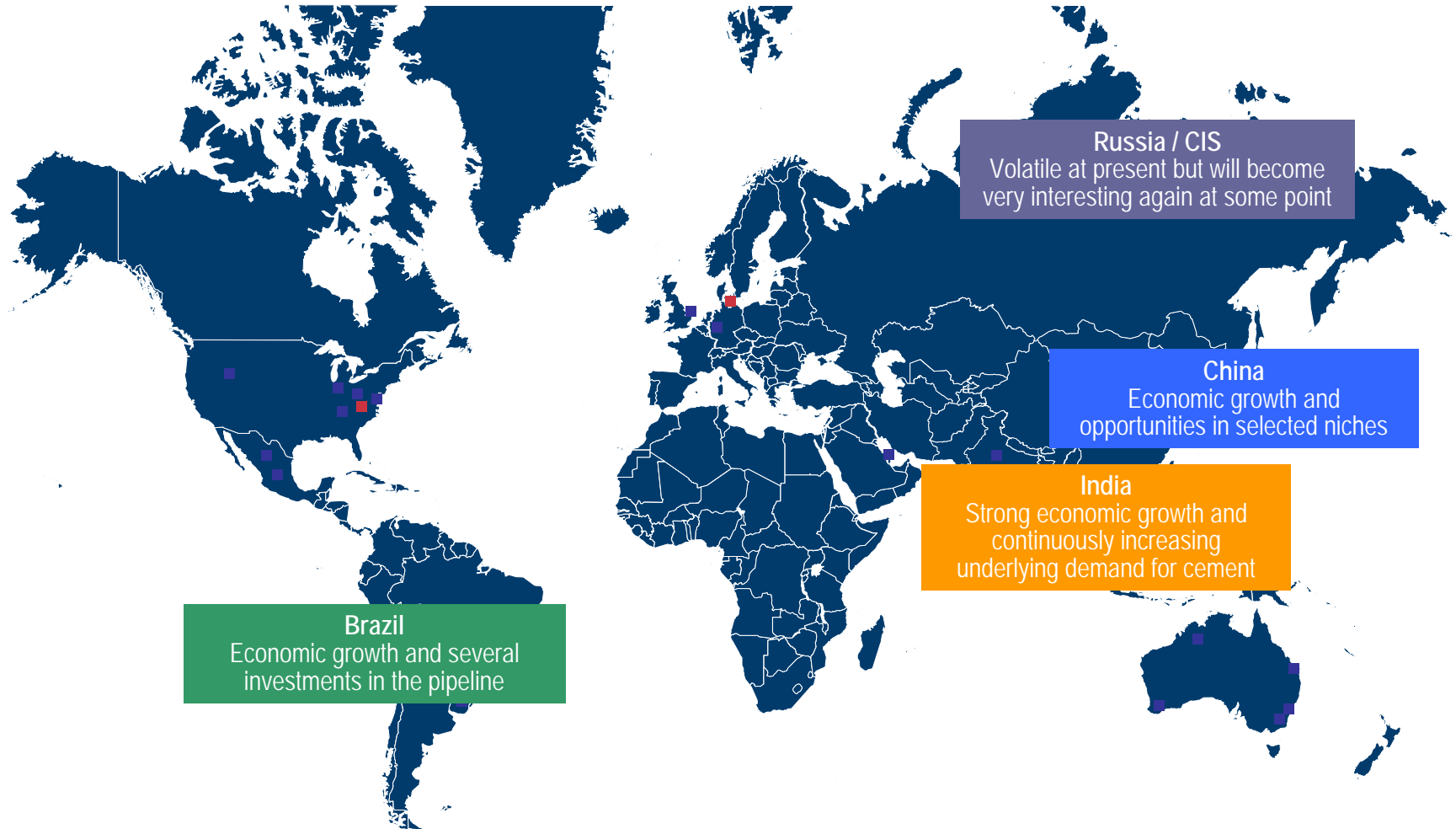
Cement consumption per capita
(kg per year)

Emerging markets
Steep increase in cement consumption per capita as urbanisation and industrialisation increase

Developed countries
Declining cement consumption per capita as the economy matures



Cement market outlook in the BRICs



Minerals market outlook in the BRICs

- **Brazil:** Investments in **iron ore** production coming up
- **Russia:** A volatile market, but opportunities in **gold** and **copper** awaiting financing
- **India:** Opportunities in **alumina**, **iron ore** and **coal**
- **China:** Very important as the world's **largest end-user** of most minerals, less important as mining country



Relationship between copper consumption and GDP per capital over time

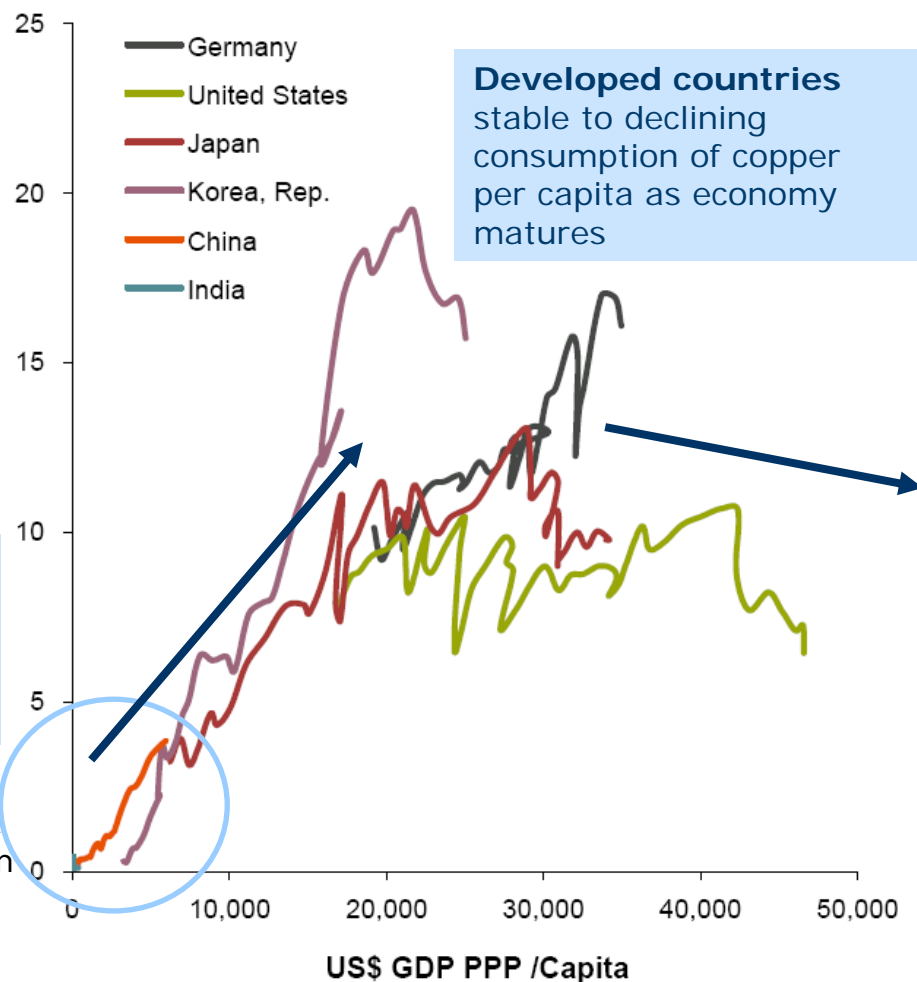
An ever increasing population as well as rising urbanisation and industrialisation in emerging markets will - sooner or later – lead to increased demand for a number of metals and minerals

Emerging markets

Steep increase in copper consumption per capita as level of urbanisation and industrialisation increases

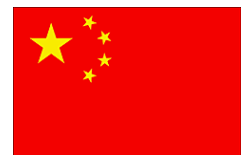
China and India are coming from very low levels

Refined Copper Consumption (kg/capita)



BRIC-opportunities for FLSmidth

- Develop **China** further as **sourcing** country, and advance on “**Be Competitive in China**” strategy
- Develop **India** further as **offshore centre** and **sourcing** country
- Continue to pursue and take advantage of **vast business opportunities** in both Cement and Minerals in all four BRIC-countries
- The **BRIC-countries** and other **emerging markets** will continue to be **the largest source of order intake and revenue** for FLSmidth in future
- The BRIC-countries offer interesting growth opportunities within **customer services and O&M**



Questions

Building cement and minerals plants since 1882