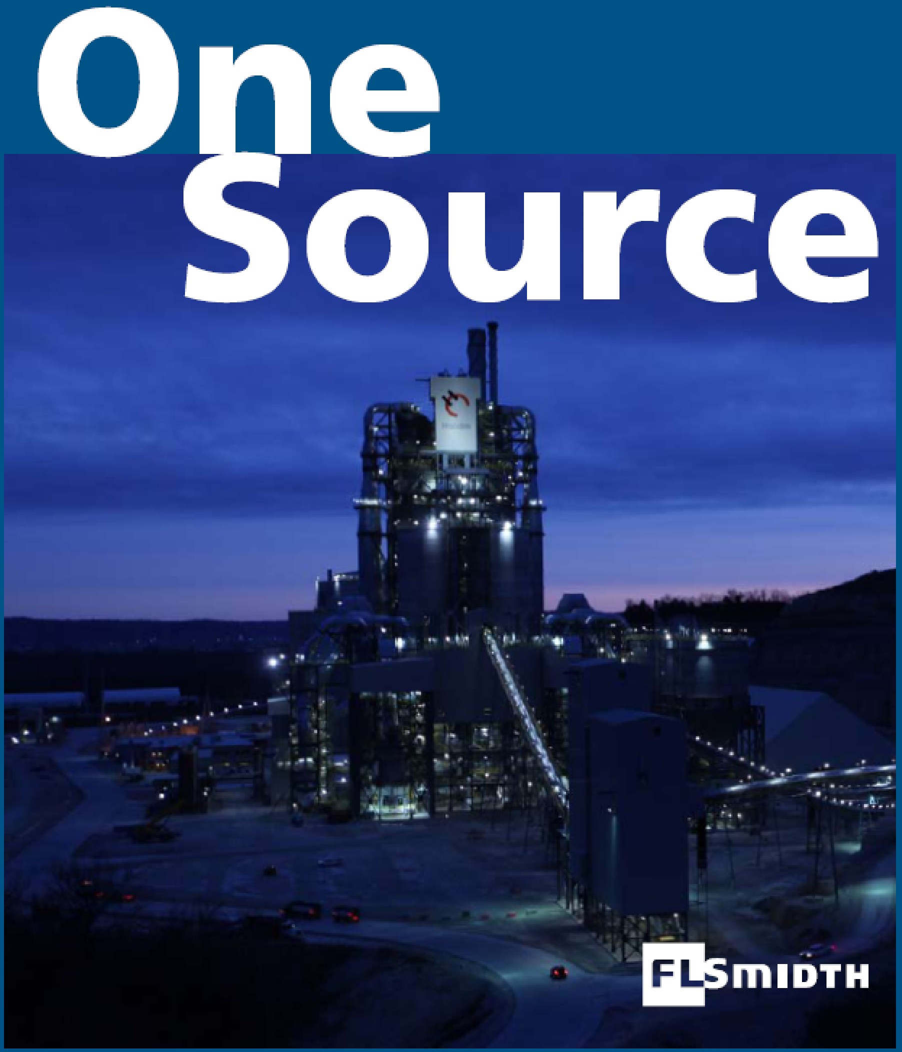
FLSmidth & Co. A/S

Annual Report 2009

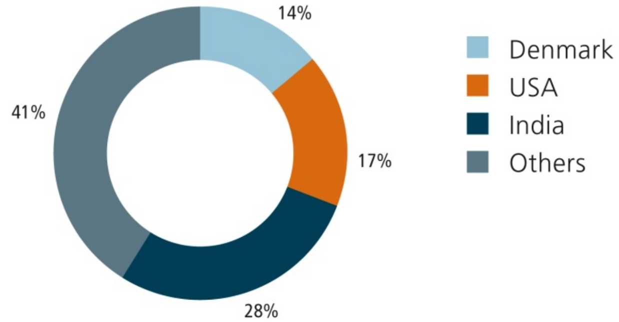


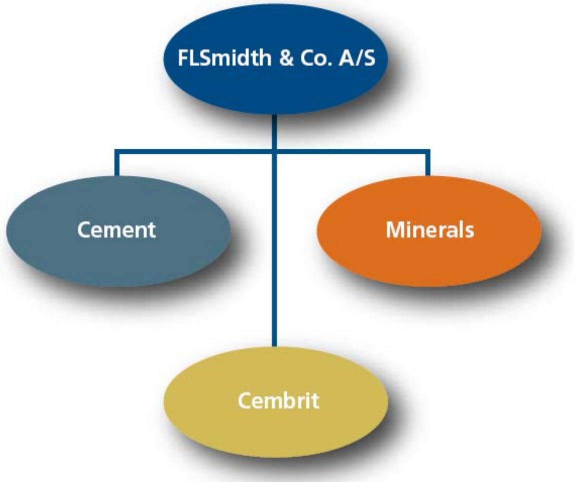
Facts about FLSmidth & Co.

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

- **A global company** with a **strong local presence** worldwide
- Head office in Denmark, major engineering centres in India and USA
- **10,664 employees** worldwide
- **Strong track record** and **128 years of experience**

Geographical distribution of employees

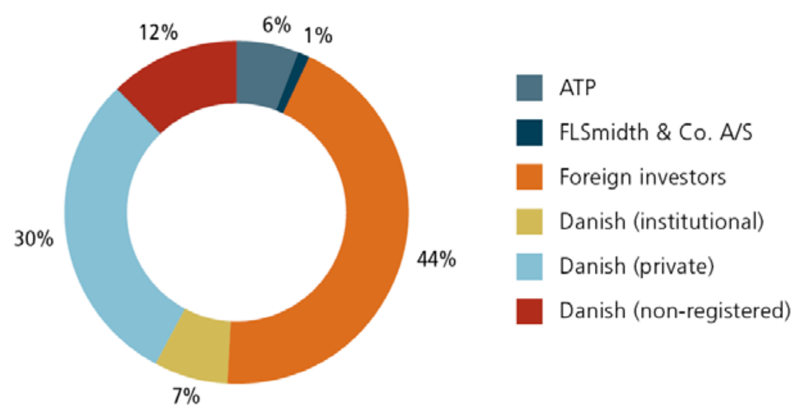




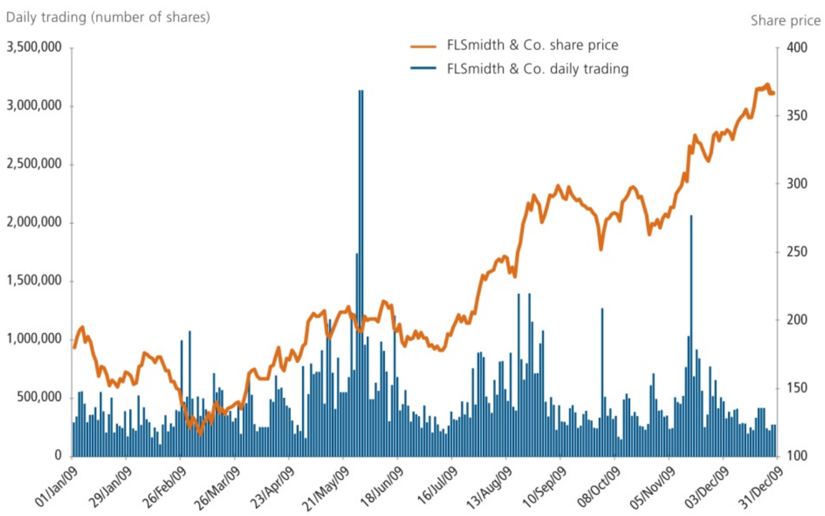
Investing in FLSmidth & Co. A/S

	2009	2008
Total shareholder return :	104%	(64%)
Pay-out ratio:	22% (DKK 2+5 per share)	0%
EPS (diluted) :	DKK 31.9	28.8
Number of shareholders:	44,800	42,000
Market Cap:	DKK 19.5bn	DKK 9.6bn

Classification of shareholders



Developments in share price and trading in 2009



Key messages in Annual Report 2009

- **Historically strong performance**
  - **Cash flow from operations** (DKK)
  - **EBIT margin**
  - **Net profit** (DKK)

	2009	2008
Cash flow from operations (DKK)	2,470m	2,324m
EBIT margin	9.8%	9.5%
Net profit (DKK)	1,664m	1,515m

- **Proposed dividend** DKK 5 per share (on top of DKK 2 already paid in 2009)
- **Order intake in 2010 is expected to increase** in both Cement and Minerals vs. 2009
- Expected **revenue in 2010: DKK 19-20bn**
- Expected **EBIT margin in 2010: 8-9%**

Asset light business model is working well

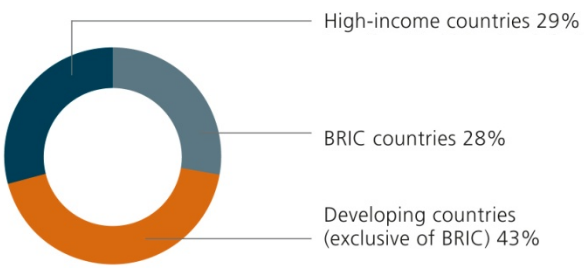
- **Engineering house and technology provider**
- **Flexible cost structure (payroll)**
- **Most manufacturing is outsourced** (~80-90%)
- **Low working capital** due to prepayments from customers (typically 10-25% of total contract amount upfront)
- **Low maintenance CAPEX** (~2% of revenue at present)
- **Order related engineering** off-shored to **India**
- Increased **sourcing** from **competitive-cost-countries** (~25% at present)

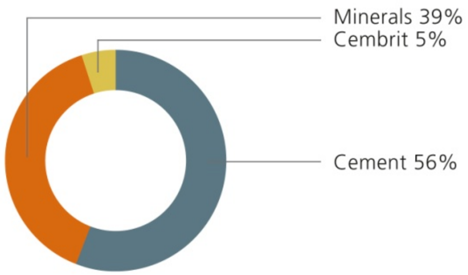
Highlights 2009

DKKm	2009	2008	*change*
Revenue	**23,134**	25,285	*-9%*
EBITDA (before special non-recurring items)	**2,725**	2,911	*-6%*
EBIT	**2,261**	2,409	*-6%*
Profit for the year	**1,664**	1,515	*+10%*
Order intake	**13,322**	30,176	*-56%*
Order backlog	**21,194**	30,460	*-30%*
Net interest bearing receivables /(debt)	**1,085**	(574)	
Working capital	**21**	207	
CFFO	**2,470**	2,324	*+6%*
Free cash flow	**1,965**	1,453	*+35%*
Investments in R&D	**315**	268	*+18%*
Number of employees	**10,664**	11,510	*-7%*

Revenue 2009

- **Revenue in 2009: DKK 23,134m** down 9% vs. 2008
- **Strong order backlog** at the beginning of the year provided protection against weak business climate in 2009 **resulting in a soft landing**
- **Developing countries** accounted for **71%** of revenue in 2009 (2008: 67%) – of which **BRICs** accounted for **28%** (2008: 13%)
- **Cement** is still the largest business segment accounting for **56%** of revenue in 2009 (2008: 54%)

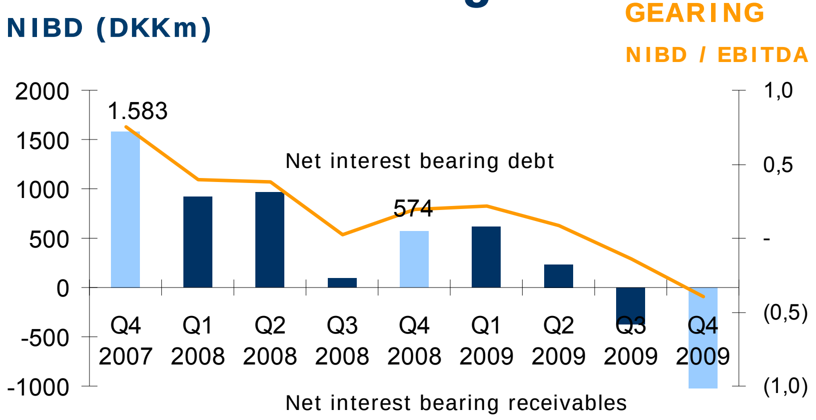




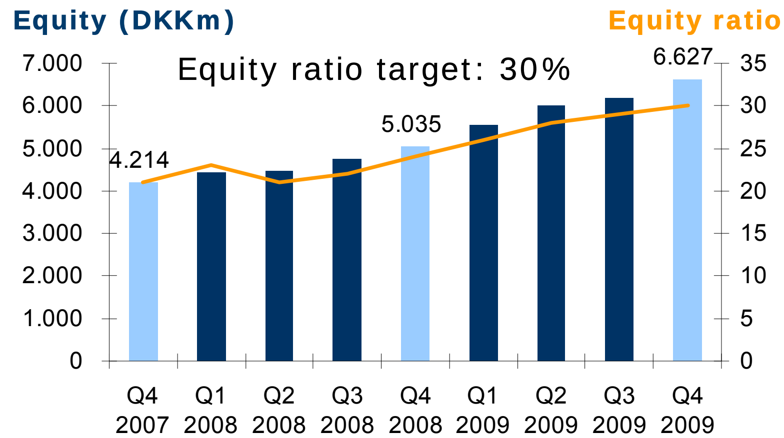
A strong financial platform

- **Equity ratio 30%-target reached in 2009**
- **No net debt** (End 2009: Net interest bearing **receivables DKK 1,085m**)
- Committed **credit facilities extended** to 2013
- **Working capital close to zero** (End 2009: DKK 21m)
- **New dividend policy**: DKK 7 per share per year

NIBD & Gearing

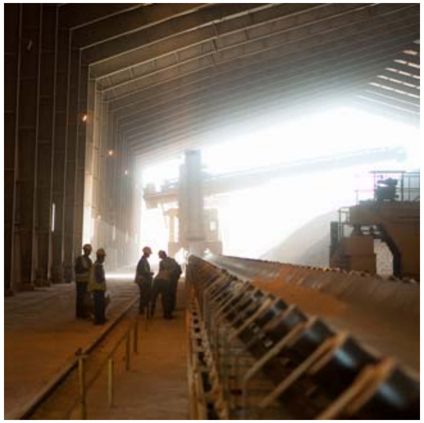


Equity & equity ratio



Key strategic focus areas in coming years

- **Stronger focus in Minerals**
  - Prioritize growth industries
  - Enhance customer intimacy
  - Focused technology portfolio
- **Stronger focus on China and India**
  - Growing regional markets
  - India: internal sourcing of engineering and back-office
  - Group Management to be represented in India from 1 July 2009 by Bjarne Moltke Hansen
  - China: internal and external sourcing of manufactured components and equipment
- **Increased activity in Customer Services**
  - New and innovative service concepts
  - O&M contracts
- **One Company – One Name – ”One Source”**
  - Subsidiaries and product companies to be named FLSmidth
  - Branding platform being launched



Optimisation of the cost structure

- **Cost reduction measures in 2009**
  - Prudent spending
  - Reduced travel activity and increased use of video conferencing
  - Workforce reduced by ~10% (excl. acquisitions)
  - Restructuring of Technical Division and transfer of order related engineering work to India
  - Continued global integration of functions and physical offices

- **LEAN Engineering**
  - Lead time for design reduced by 40% in departments where introduced
  - To be applied in the global organisation

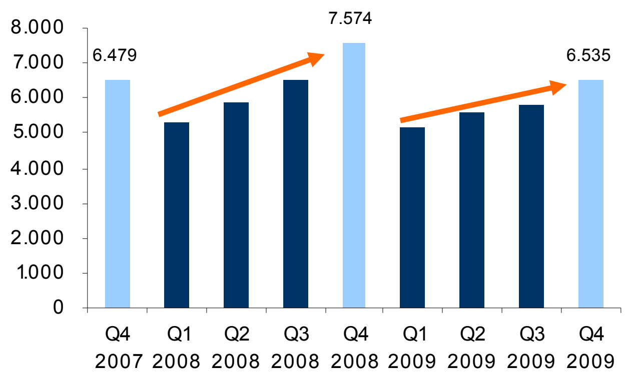


Satisfactory revenue and margins in 2009

- **Revenue down 9%** yoy
  - Customer Services revenue up 2% yoy
  - Traditional seasonal quarterly pattern repeated in 2009
- **EBIT ratio 9.8%** vs. 9.5% in 2008, exceeding own expectations
  - Positively impacted by improved order execution, higher than expected revenue and finalisation of projects
  - Our asset light business model is working!

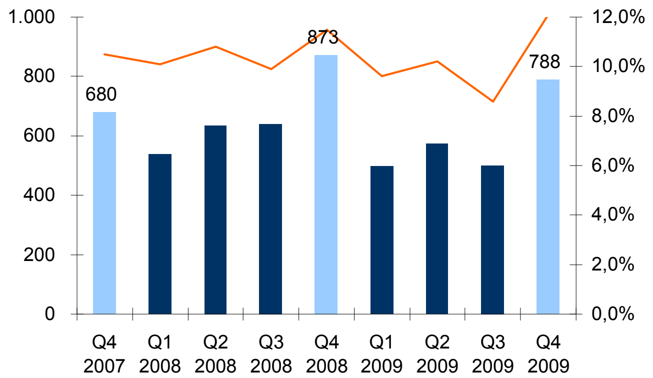
Revenue (quarterly)

DKKm **-14% vs. Q4 2008**



EBIT adj.*) (quarterly)

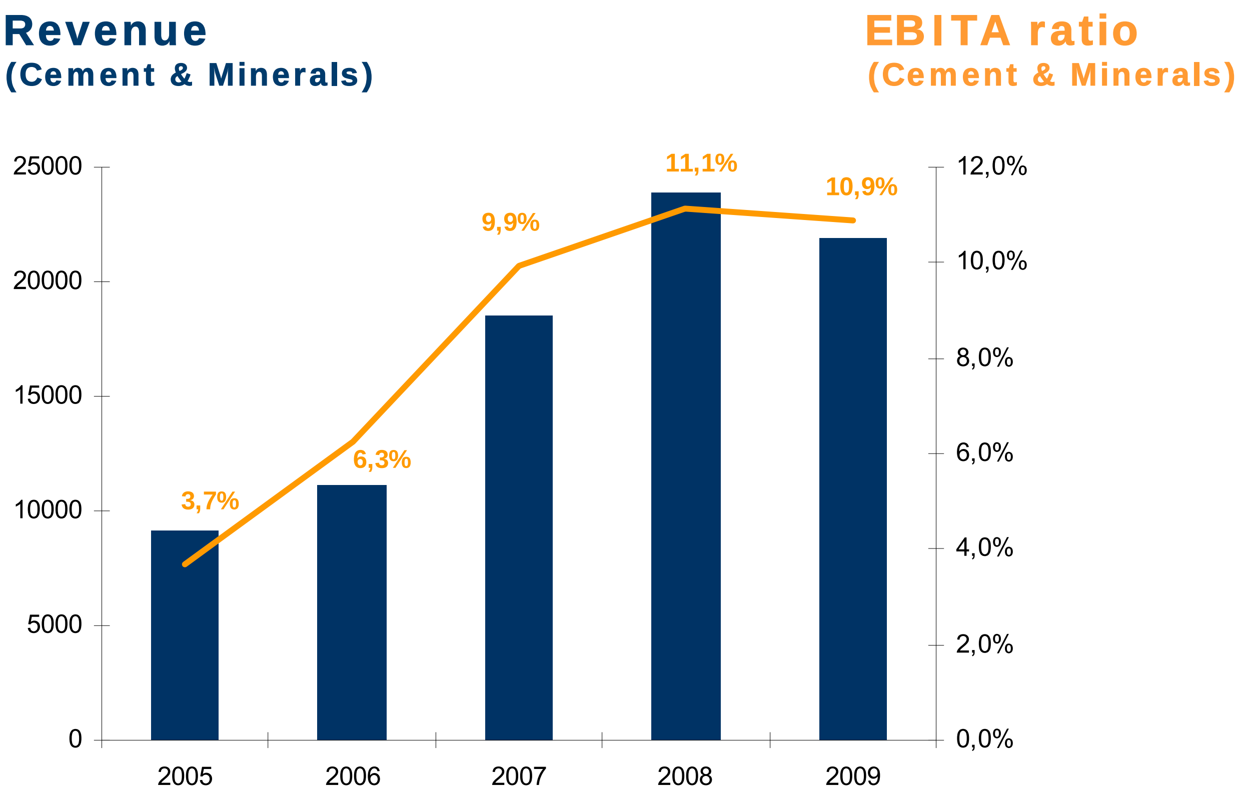
DKKm **-10% vs. Q4 2008**



*) Adjusted for effect of purchase allocation regarding GL&V Process

Development in Cement & Minerals EBITA ratio

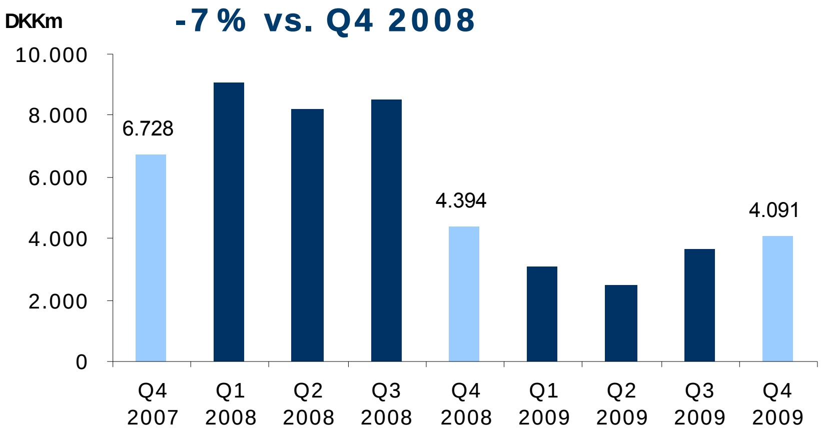
(Group EBIT excl. Cembrit and purchase price allocations related to GL&V)



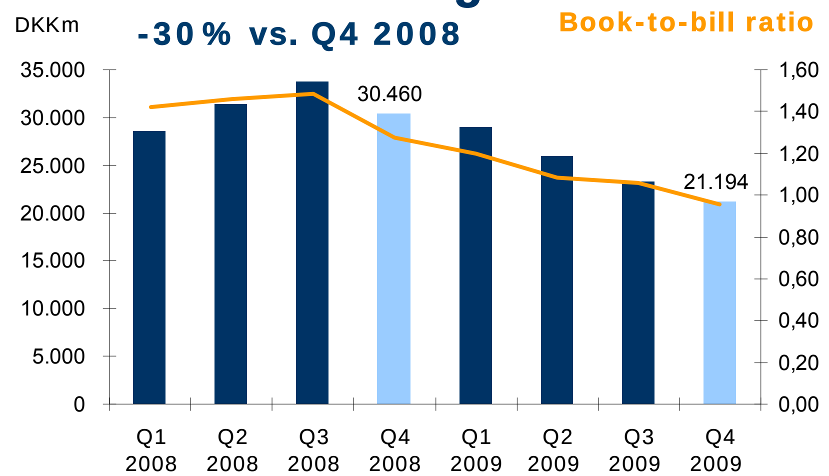
Order intake and order backlog

- Focus on securing new orders on **satisfactory terms and conditions**
- Signs of slightly **increased optimism** and customer interest in Q409
- **Quarterly order intake** down 7% vs. Q408, however up 13% vs. Q309
- **Order backlog** down 30% vs. End 2008
- Approx. DKK 2.5bn of current order backlog is still **on hold**, but developing positively

Order intake gross (quarterly)



Order backlog

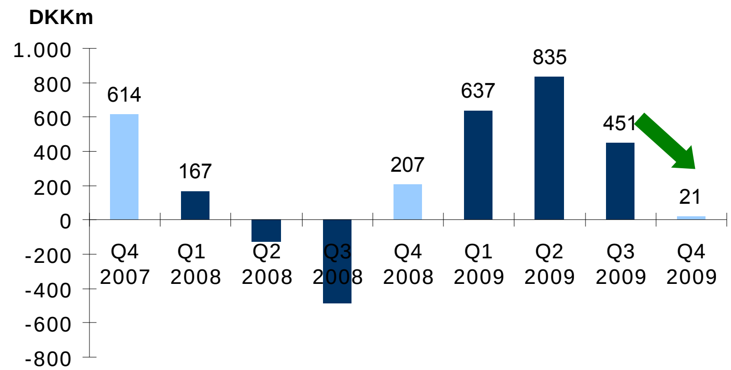


Cash management in 2009

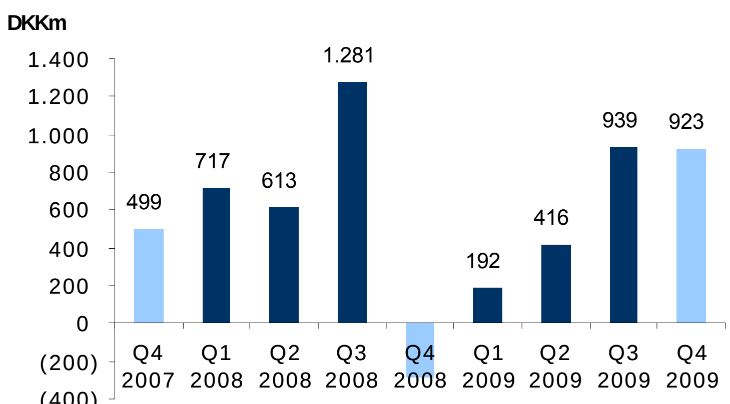
Strong cash-flow generation and working capital under control

- Dedicated effort throughout 2009 to reduce trade receivables and inventories, and to optimise trade creditors
- Increasing trend in working capital reversed in Q3 and Q4

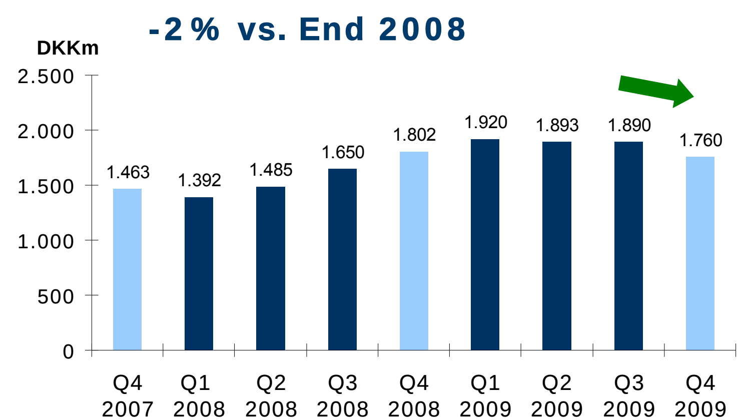
Working capital



CFFO

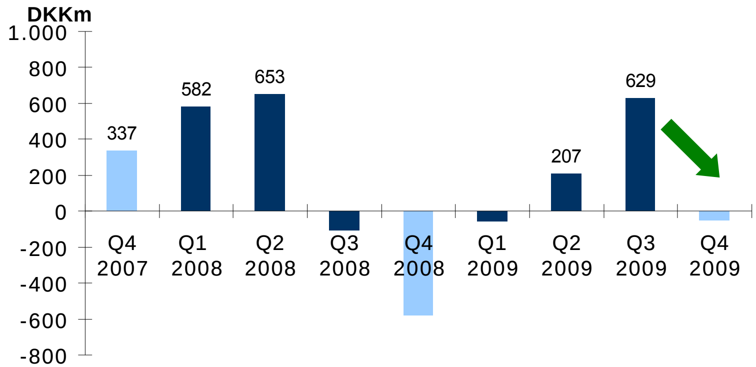


Inventories



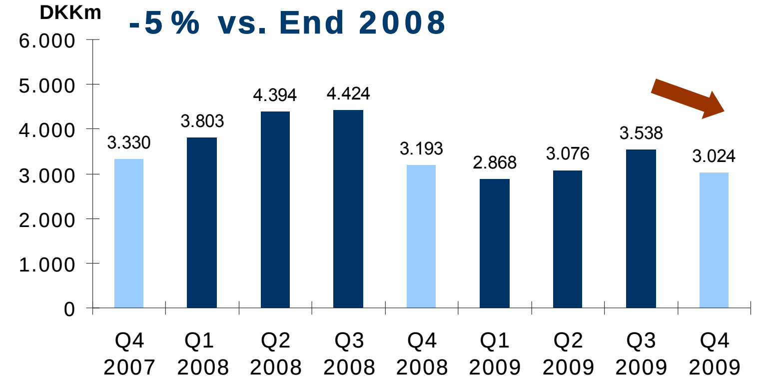
Cash management focus areas

Work-in-progress (net asset)



Prepayments (net liability *)

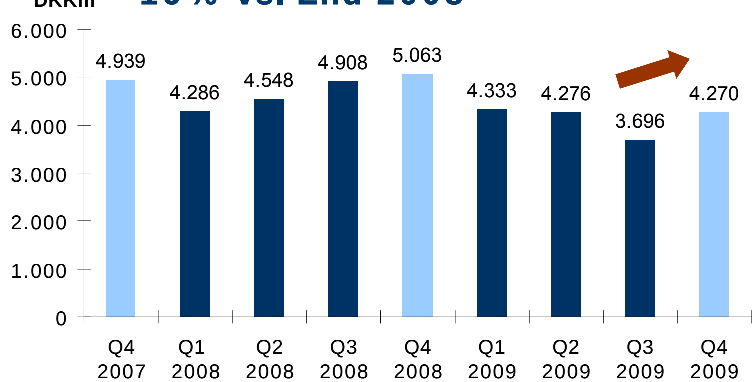
-5% vs. End 2008



*) Prepayments from customers less Prepayments to sub-suppliers

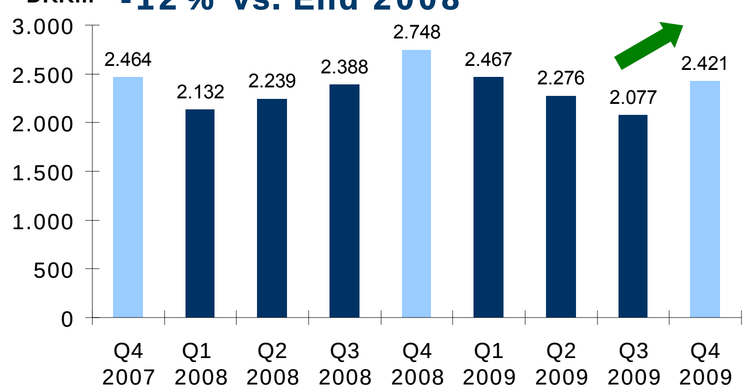
Trade receivables

-16% vs. End 2008



Trade creditors

-12% vs. End 2008



Cement

Highlights 2009

- **Revenue** down by 5%, while **EBIT** was up by 2%, and as such, **record high** - due to higher than expected revenue, improved order execution and finalisation of projects
- Acquisition of **EEL Limited India**
- **The largest cement plant** in the world, Holcim's Ste. Genevieve, USA, was successfully **commissioned** in 2009

Current business environment

- **Market outlook** remains somewhat **weak**, resulting in intensified price competition
- **Local business opportunities prevail,** particularly in:
  - North Africa
  - India
  - Indonesia
  - Latin/South America

DKKm YTD	2008	**2009**
Revenue	13,708	**13,059**
EBIT	1,521	**1,548**
EBIT ratio	*11.1%*	***11.9%***

Holcim, Ste. Genevieve, Missouri, USA

The world's largest cement production line with a capacity of 12,000 tonnes clinker per day

Designed and delivered by FLSmidth

Facts about Ste. Genevieve

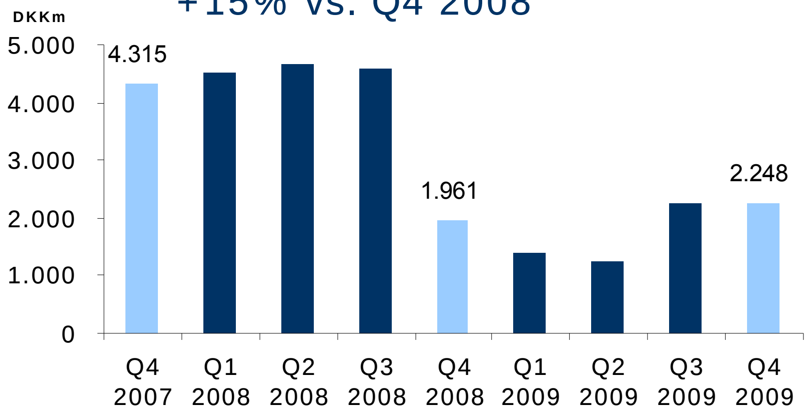
- Commissioned in 2009
- State-of-the art technology
- Largest capacity in the world
- Lowest OPEX per tonne ordinary portland cement produced
- Complies with most stringent environmental regulations

Large cement orders received in 2009

21 July 2009	Uruguay	DKK 225m
30 July 2009	Indonesia	DKK 420m
31 July 2009	Indonesia	DKK 420m
22 Sep. 2009	Libya (O&M)	DKK 330m
14 Oct. 2009	Libya	DKK 970m

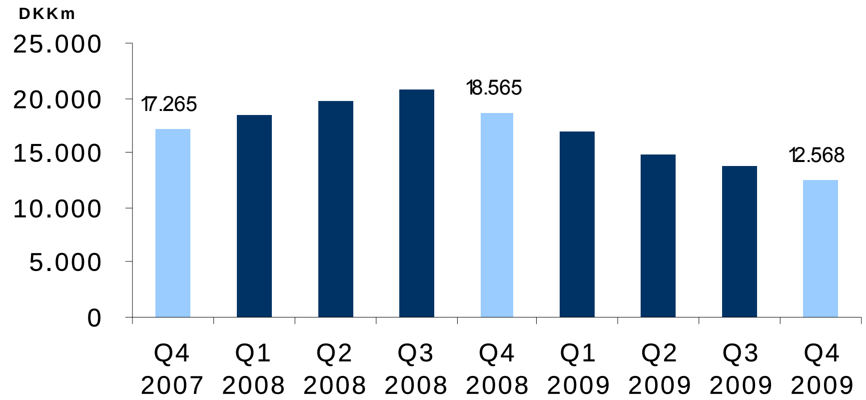
Order intake (gross)

+15% vs. Q4 2008



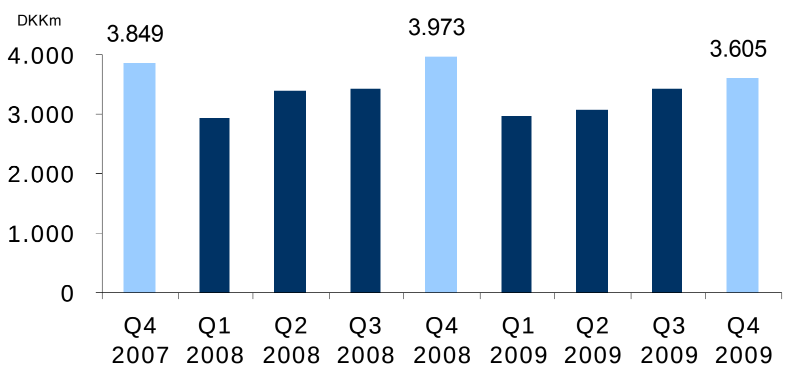
Order backlog

-32% vs. Q4 2008



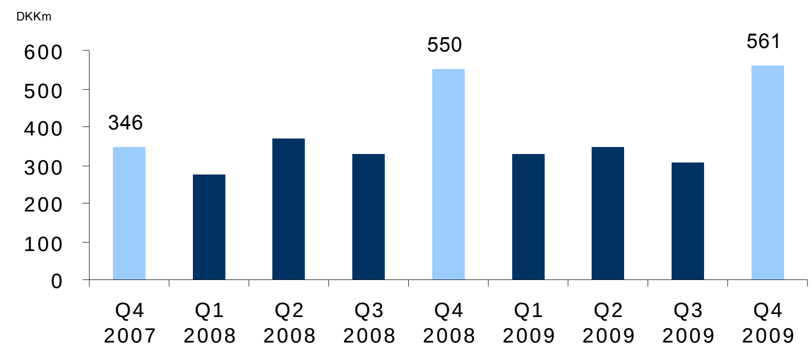
Revenue

-9% vs. Q4 2008



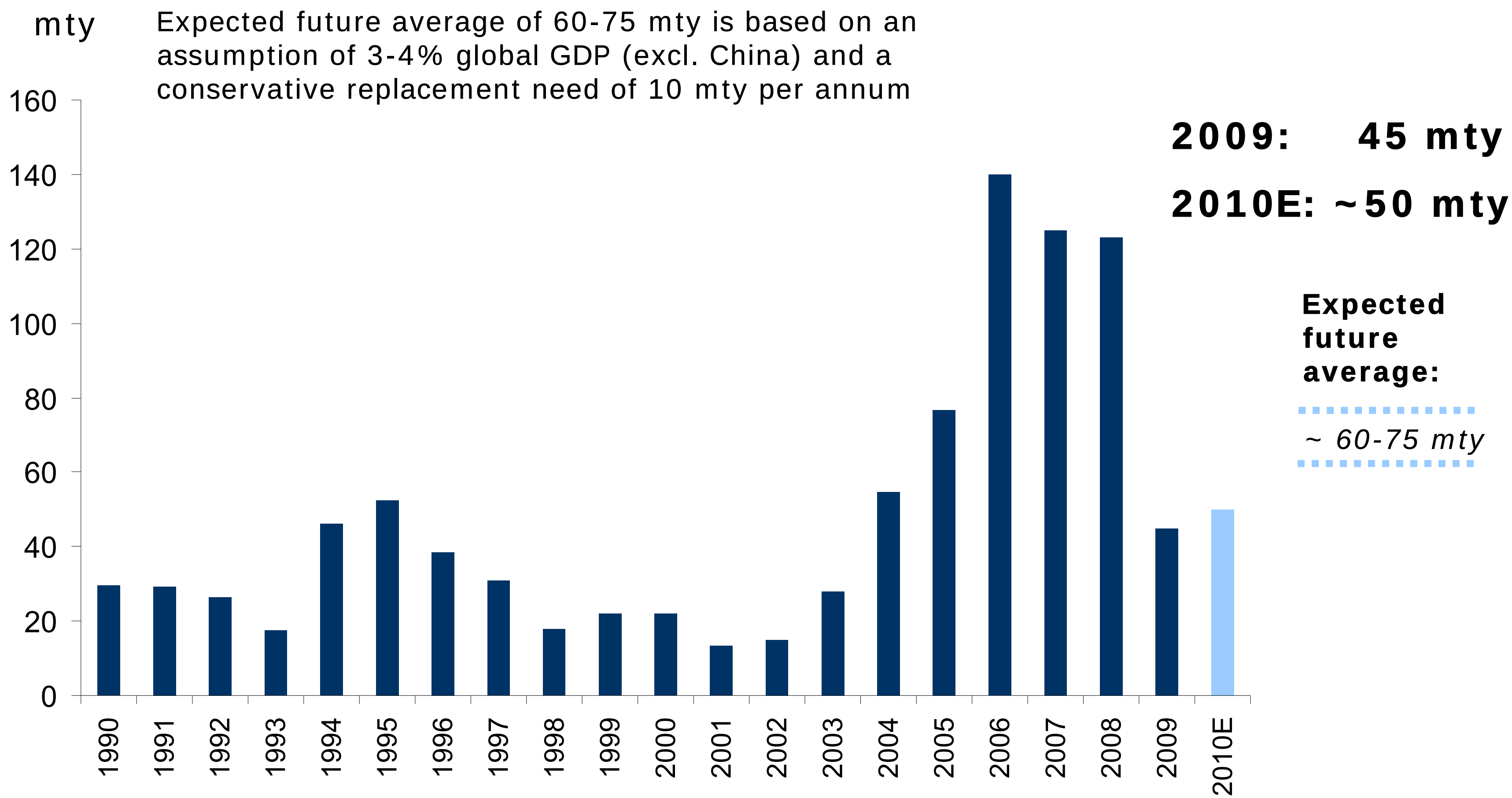
EBIT

+2% vs. Q4 2008



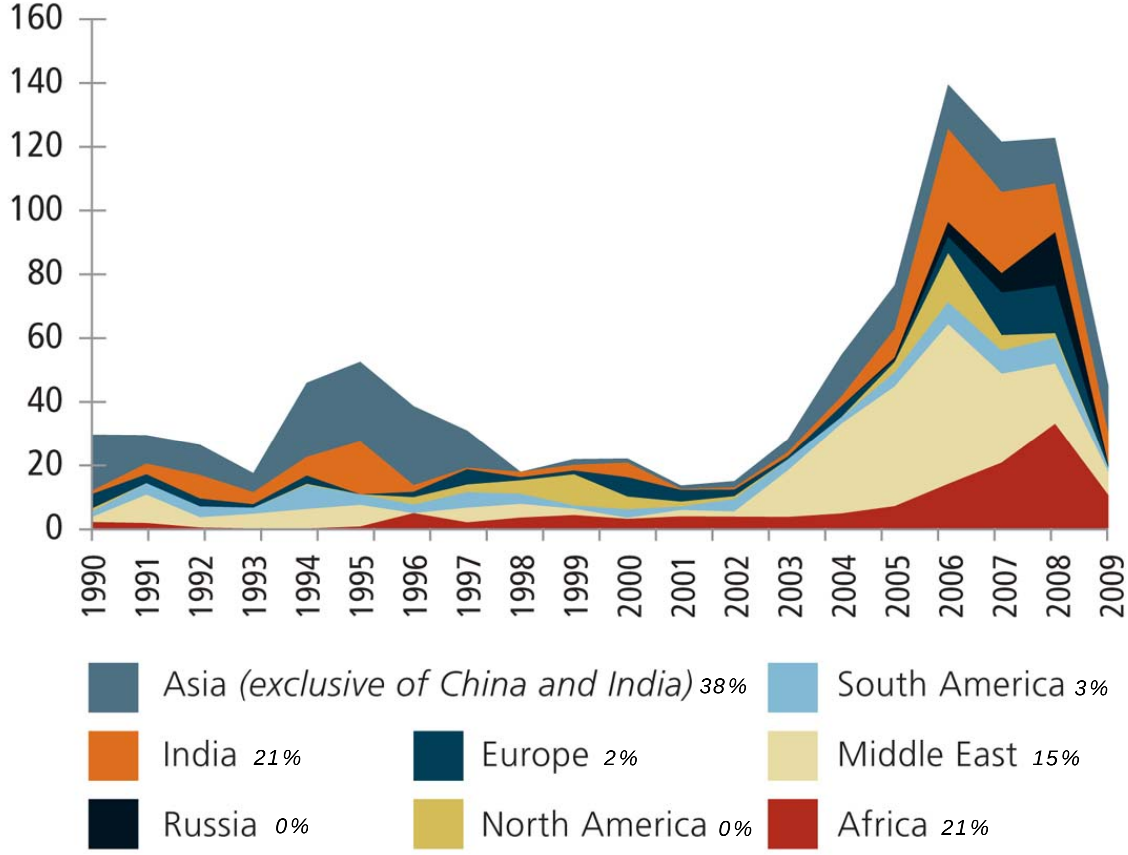
New global contracted cement kiln capacity

(excl. of China)



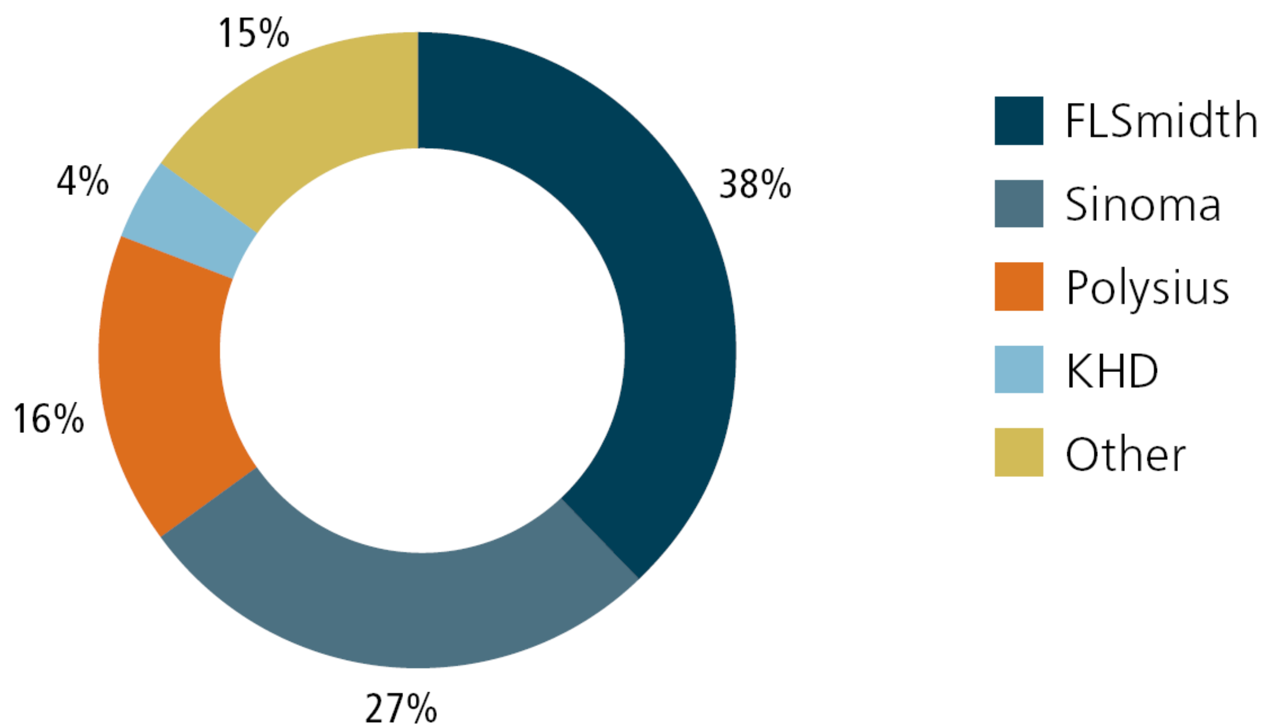
Geographical distribution of new global contracted cement kiln capacity

(excl. China)

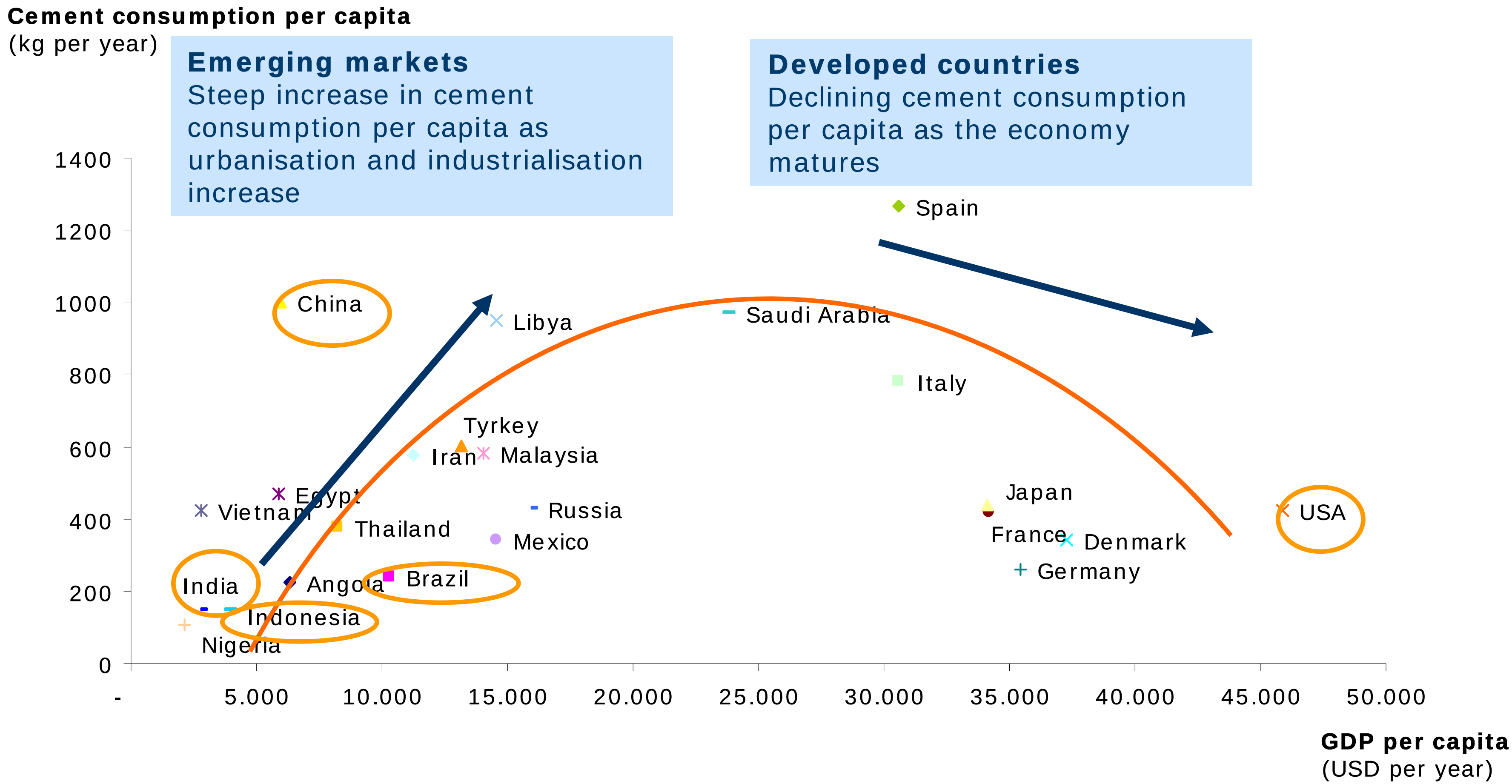


Market share 2009

Contracted new kiln capacity globally excl. China



Relationship between cement consumption and GDP per capita



Minerals

Highlights 2009

- **Order intake** considerably lower, although improvement seen in Q409
- **Revenue** down by 14% and **EBIT** by 17% in 2009
- **Management focus in 2009**:
  1. Stabilise the business
  2. Prepare for the future
  3. Redefine our strategic roadmap

Current business environment

- Supported by improved market conditions, the mining industry is taking a **more optimistic view** on 2010 activities, although **still cautious**
- Announced **2010 Capex budgets** are supporting **increased business activity**
- **Large inquiry list** and improved customer interaction, particularly in coal, iron ore, gold, phosphate and copper

DKKm YTD	2008	**2009**
Revenue	10,470	**9,037**
EBIT	960	**798**
EBIT adj.	1,238	**895**
EBIT ratio	*9.2%*	***8.8%***
EBIT ratio adj.	*11.8%*	***9.9%***

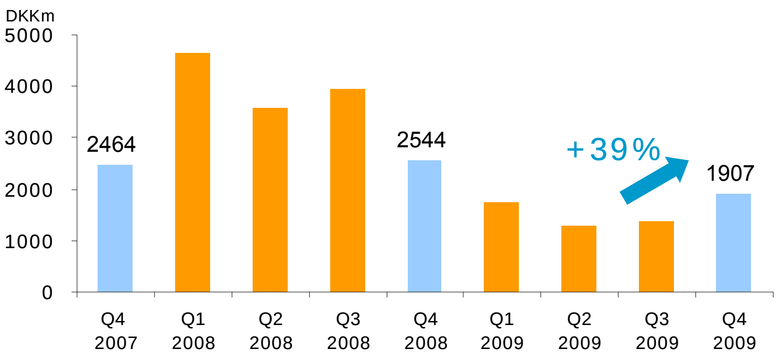
1) Stabilise the business

Order intake and backlog development

- Mining companies focused on balance sheet optimisation and cash preservation
- Only few large projects became contracts
- Intensified price competition as a result

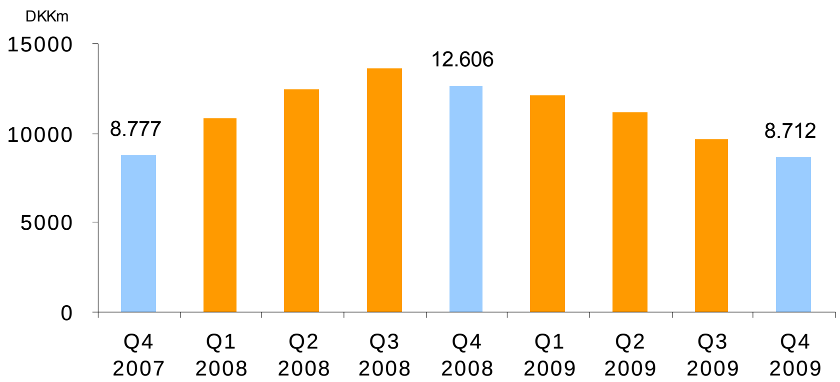
Order intake (gross)

-25% vs. Q4 2008



Order backlog

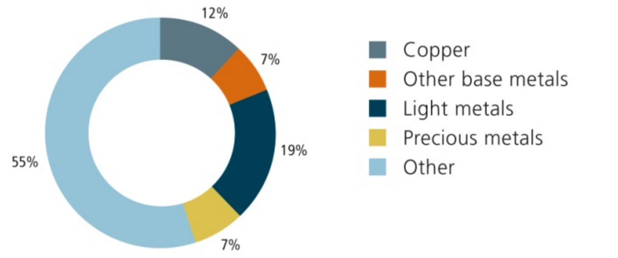
-31% vs. Q4 2008



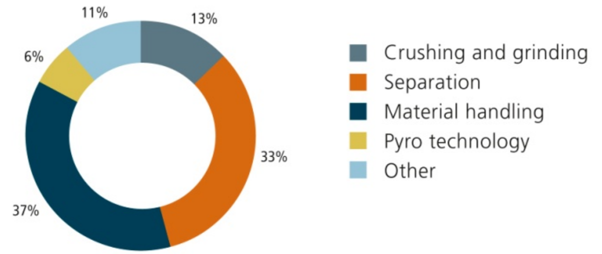
Breakdown of large order intake in 2009 (orders>DKK 50m)

1) Stabilise the business

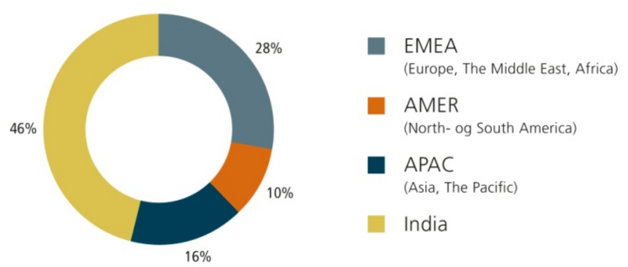
By type of mineral



By product type



By geography



Order intake in 2009

- Activity has primarily been within **coal** and **alumina**
- Demand has primarily been for **material handling** and **separation** equipment
- **India** has been the most active market
- **Major contracts in Q409**
  - India, coal DKK 262m
  - Vietnam, coal DKK 201m

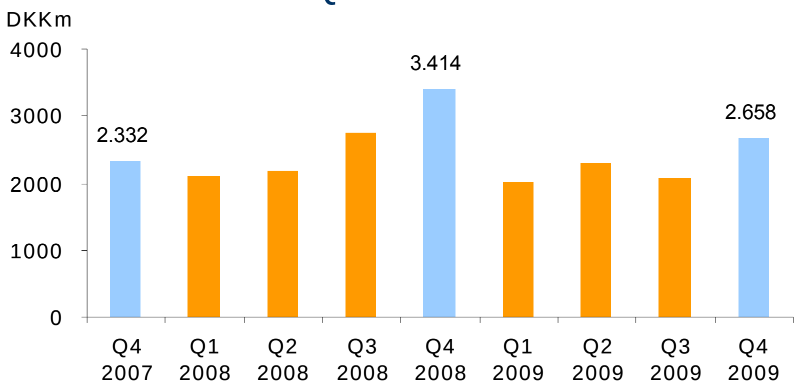
1) Stabilise the business

Backlog execution in 2009

- Some contracts and shipments were postponed or put on hold, resulting in **delayed income recognition**
- Some **normalisation in Q4**, resulting in the highest levels of revenue and EBIT compared to previous quarters 2009
- Several contracts on hold are in process of being revitalized

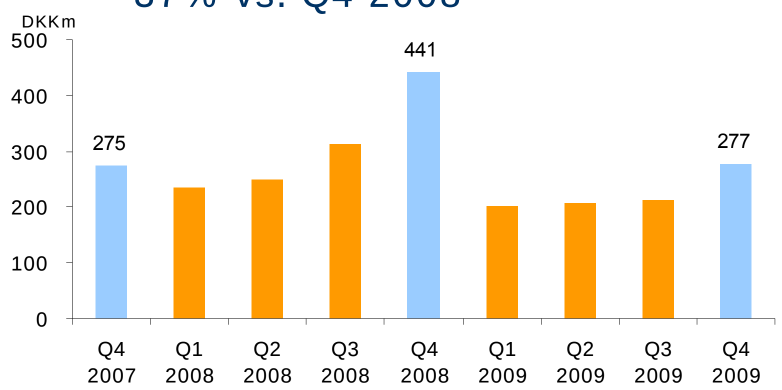
Revenue

-22% vs. Q4 2008



EBIT adj.

-37% vs. Q4 2008



*) Adjusted for effect of purchase price allocations related to GL&V Process; DKK -24m in Q4 2008 and DKK -24m in Q4 2009

2) Prepare for the future

Actions to reduce costs in 2009 and protect margins going forward

- Reduction in force
- Reduced working week
- Monitor operational costs
- Improved utilisation of resources in India
- Improved sourcing in cost competitive countries
- Continued integration with Cement

Acquisitions in 2009

Enhanced flowsheet coverage through acquisition of:

- **Conveyor Engineering**, USA
  (supplier of major bulk material handling systems)
- **Summit Valley Equipment & Engineering**, USA
  (modular gold and silver extraction plants and equipment)

3) Redefine our strategic roadmap

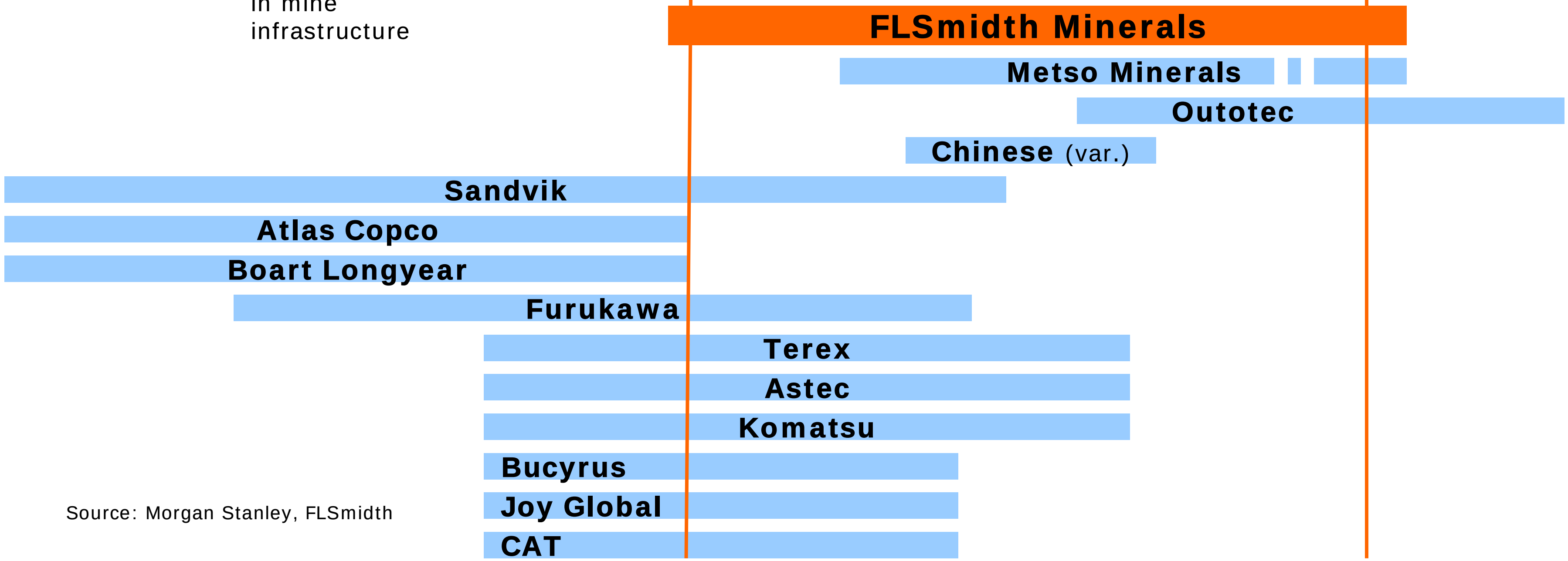
Strategic review with aligned focus and management attention towards

- Improved customer intimacy
- Selected growth industries
- Key technologies
- Grow Customer Services segment
- R&D activities directed towards growth industries and key technologies
- Acquisitions directed towards growth industries
- Further develop supply chain management
- Improved internal coordination and communication through delayering and simplified management structure in place February 2010

Mining equipment suppliers

Typical mining site plant

Exploration	Development	Extraction	Material Handling	Crushing, Grinding & Sizing	Separation	Refining
Exploration for mineral resources •Remote sensing •Geophysical / geochemical tests •Samples Feasibility studies	Drilling and modeling of the ore body Selection of appropriate mining technique Capital investment in mine infrastructure	Mining of the ore body Rock breaking Surface mining Underground mining	Mined minerals transported to processing site Use of loaders, trucks, trains, at the face mining systems and conveyors	Materials are crushed and ground to achieve finer particles Particles sized for optimum recovery of minerals specie	Flotation, leaching, sedimentation and filtration are used to increase the mineral content to an economic level	Refining to increase concentration of minerals further Key techniques: •Pyro-metallurgy •Electro-winning



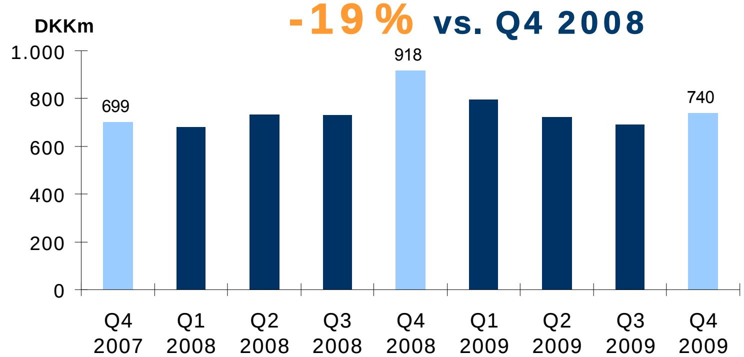
Source: Morgan Stanley, FLSmidth

Customer Services showed signs of improvement in Q4

(included in Cement & Minerals)

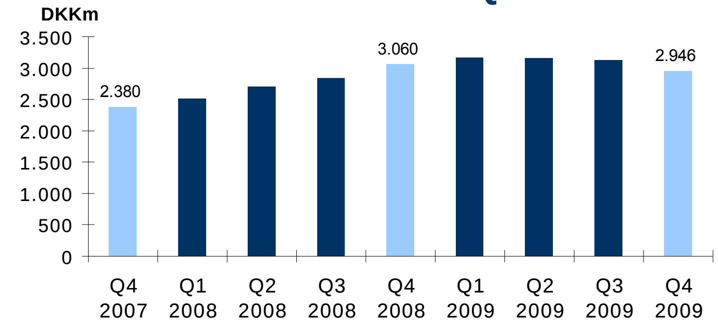
Cement Customer Services revenue (quarterly)

-19% vs. Q4 2008



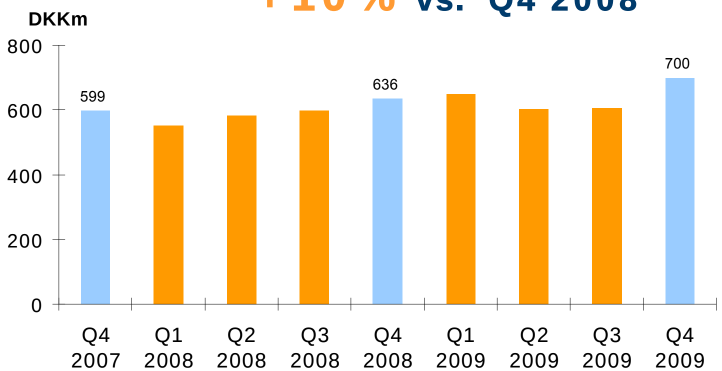
Cement Customer Services revenue (12M trailing)

-4% vs. Q4 2008



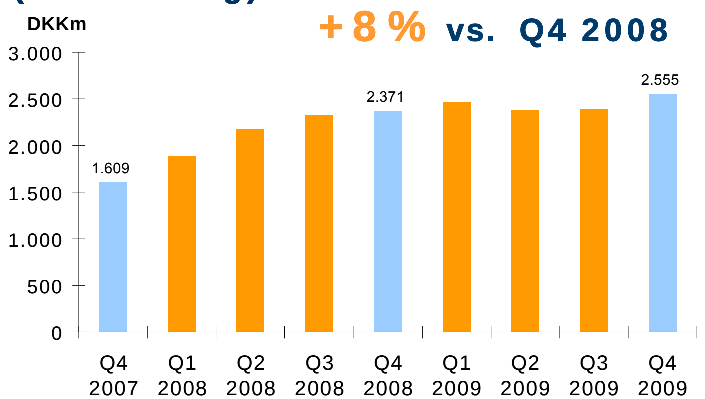
Minerals Customer Services revenue (quarterly)

+10% vs. Q4 2008



Minerals Customer Services revenue (12M trailing)

+8% vs. Q4 2008



Operation & Maintenance contracts (O&M)

- Dedicated work over the past 3 years to establish **operation & maintenance** of cement and minerals processing plants as a **new business area**
- **First Cement O&M contract** in Egypt has been in operation for 1 year with **very satisfying results**
- **First Minerals Maintenance contract** at Los Pelambres in Chile has just celebrated 10 year-anniversary
- **Negotiations ongoing** with several other interested customers

Current contracts

Cement (O&M)
- Egypt (contracted in 2007)
- Libya (contracted in 2009)

Minerals (M)
- Los Pelambres, Chile (prolonged in 2008)
- Collahuasi, Chile (prolonged in 2008)
- Peñasquito, Mexico (contracted in 2008)

Cembrit

Highlights 2009

- **Revenue** down 11% and negative **EBIT** of DKK 25m
- Very **weak first half** followed by signs of **improvement in second half**
- **Production capacity rightsized** to lower demand and number of employees reduced by 15%

Current business environment

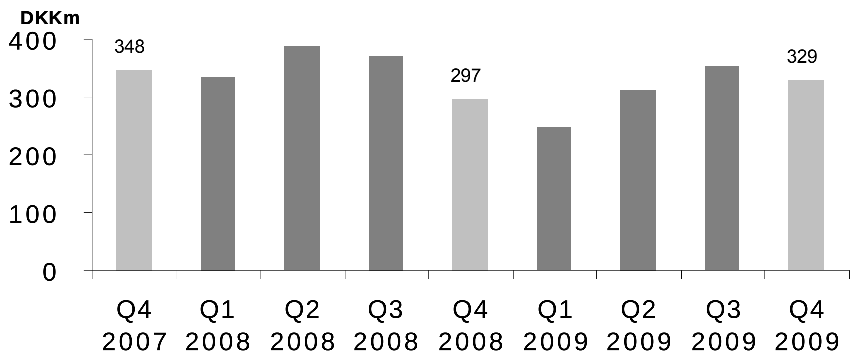
- **Market outlook still weak**, although some signs of stabilisation
- **Eastern Europe** particularly hard hit by slowdown
- **Aggressive competition**

DKKm YTD	2008	**2009**
Revenue	1,390	**1,243**
EBIT	25	**(25)**
EBIT ratio	*1.8%*	***(2.0%)***

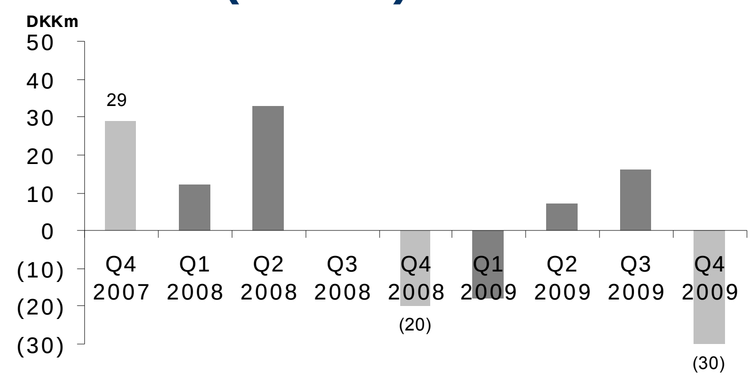
Quarterly developments

- Signs of improvement in second half of 2009
- Revenue up 11% in Q4 vs. last year
- Q1 and Q4 are typically low season

Turnover (DKKm)



EBIT (DKKm)



Guidance 2010

Group

	2010	2009
New cement kiln capacity	50mty	45mty
Revenue	DKK 19-20bn	DKK 23,134m
EBIT-ratio	8-9%	9.8%
Tax rate	30%	19%
CFFI (excl. acquisitions)	DKK -400m	DKK -244m

- Order intake in both Cement and Minerals is expected to increase in 2010 vs. 2009

Segments

	Revenue	EBIT
Cement	DKK 9-10bn	~9%
Minerals	DKK 8-9bn	~9%
Cembrit	DKK ~1.2bn	~2%

Unchanged long term growth and earnings prospects

- **Urbanisation** and **industrialisation** in developing countries are expected to continue to generate increasing demand for cement and minerals in future.
- In periods of **high activity**: Expected **EBIT ratio: 10-12%**
- In periods of **low activity**: Expected **EBIT ratio: 8-9%**

FLSmidth

Concluding remarks

- **71% of revenue** generated in **emerging markets**
- **Record high CFFO, EBIT ratio** and **profits** in **2009**
- **Asset light business model** is working well
- **Increased optimism** among customers
- **Strong financial position** allows **dividend payment** to be **increased** in 2010
- **New dividend policy**: DKK 7 per share per year
- A number of **strategic initiatives** are ongoing to further enhance the competitive and financial position of FLSmidth

Questions