29 October 2019

Interim report Q3 2019

FLSmidth

Key highlights

Q3 2019

- **Positive free cash flow**
- **Lower capital order intake**
- **Record high service order intake**
- **Revenue increased as expected**
- **EBITA margin declined to 8.0%**

2019 GUIDANCE

- Guidance revised on 11 October
- EBITA margin expectations changed from lower end of 9-10% to around 8%

MARKET OUTLOOK

- Good momentum in service but a more cautious outlook on capital business in mining
- Stable level of market activity in cement

Reasons for the revised 2019 guidance

Business mix

- Higher share of capital vs. service*)
- Higher share of minerals material handling vs. minerals processing

Delayed customer decisions

- Weaker capital business environment for mining, and
- Challenges regarding license to operate

⟶ Postponement of capital orders

⟶ Disrupted workflow and under absorption

Mining project profitability

- Final stage of projects
- Too ambitious timeline

⟶ Projects less profitable than anticipated

Acceleration of business improvement initiatives

*) In Q2 2019, FLSmidth specified that it expected the full-year EBITA margin to be in the lower end of the 9-10% range based on a higher share of capital vs. service business

Mitigating initiatives

- Reassessment of profitability on Mining projects
- Change in the backlog mix

→ Quarterly impact on Mining capital business of around DKK 30m compared to run-rate before Q3 2019

Accelerated business improvement

- Consolidation of Mining project execution into fewer centres
- Footprint optimisation
  - For example in procurement

Savings (DKKm) *)	**Total**	**Run-rate end 2019**	**Run-rate end 2020**
EBITA improvement	100	25	100

Costs (DKKm) *)	**Total**	**Q4 2019**	**2020**
Implementation costs	(150)	(75)	(75)

*) Expected financial impact

Guidance

Group	Initial guidance 2019	Realised Q1-Q3 2019	New guidance 2019[2]	Realised 2018
Revenue (DKK bn)	19-21	14.6	20-21	18.8
EBITA margin	9-10%[1]	8.0%	~8%	8.5%
ROCE	12-14%	11.2%	10-12%	11.0%

[1]) Specified to be at the lower end of the range at the half-year results

[2]) Guidance revised on 11 October

Market outlook

Mining

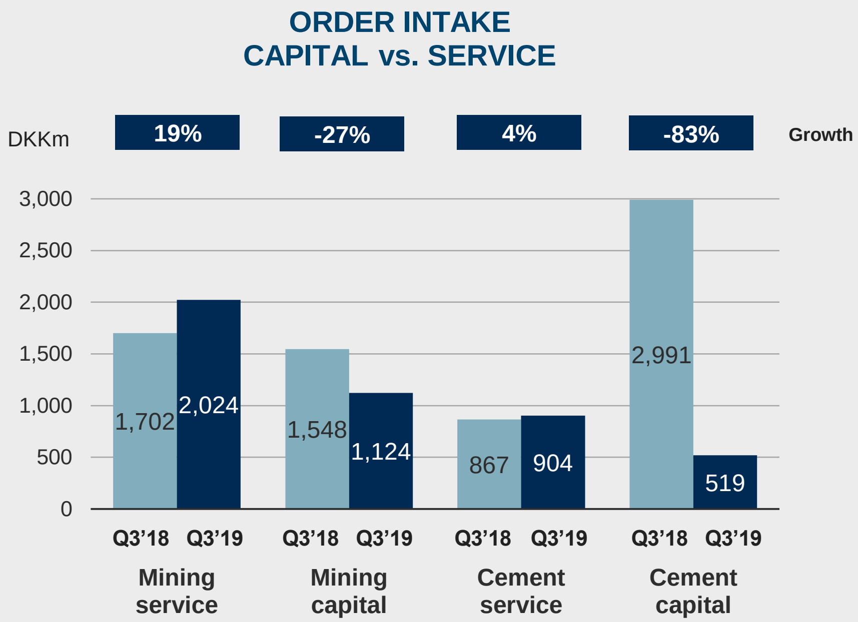
- Good momentum in service
- More cautious on capital business
- Challenges regarding license to operate
- Increasingly strong interest in our sustainable technologies and tailings management to maximize safety and attain a license to operate

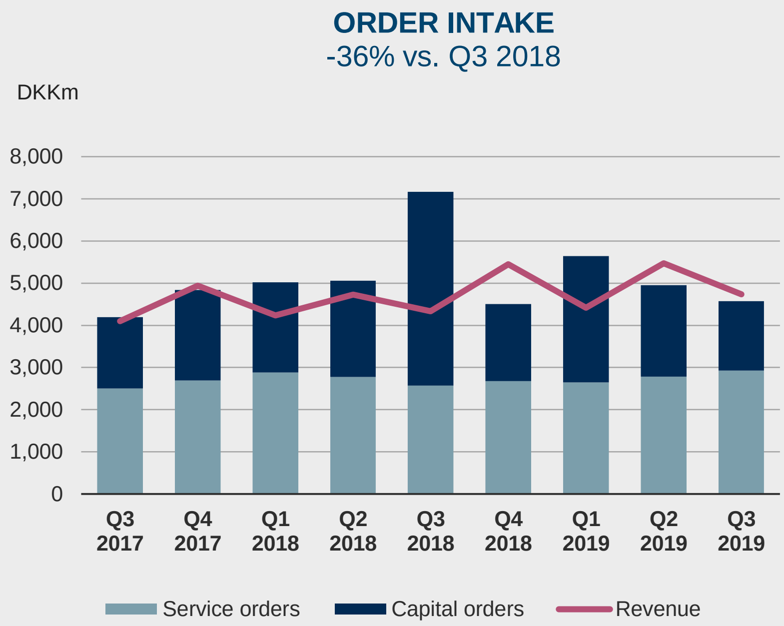
Cement

- Unchanged activity and stable service business
- Market for new cement capacity remains subdued on a global scale
- Increased interest for solutions supporting a lower environmental impact and higher operation efficiency
- Healthy pipeline of small to mid-sized opportunities within upgrades and retrofits

- Customers' primary focus is **productivity** driven by innovation and digitalization

Order intake declined compared to strong Q3 2018



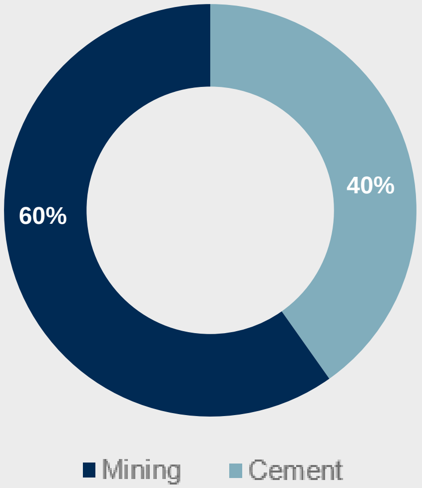


Revenue split in Q3 2019

MINING vs. CEMENT REVENUE

EBITA margin **9.2%**

ROCE <20%

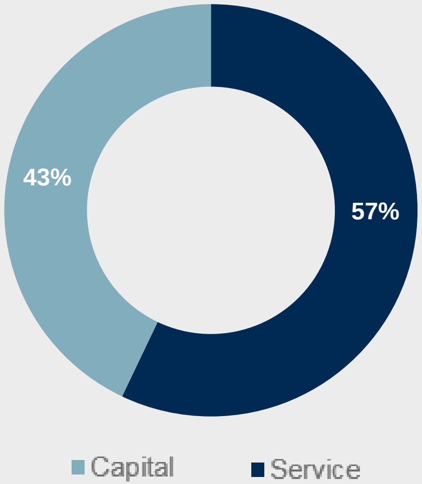


EBITA margin **5.8%**

ROCE >20%

CAPITAL vs. SERVICE REVENUE

Q3 2018: 43%



Q3 2018: 57%

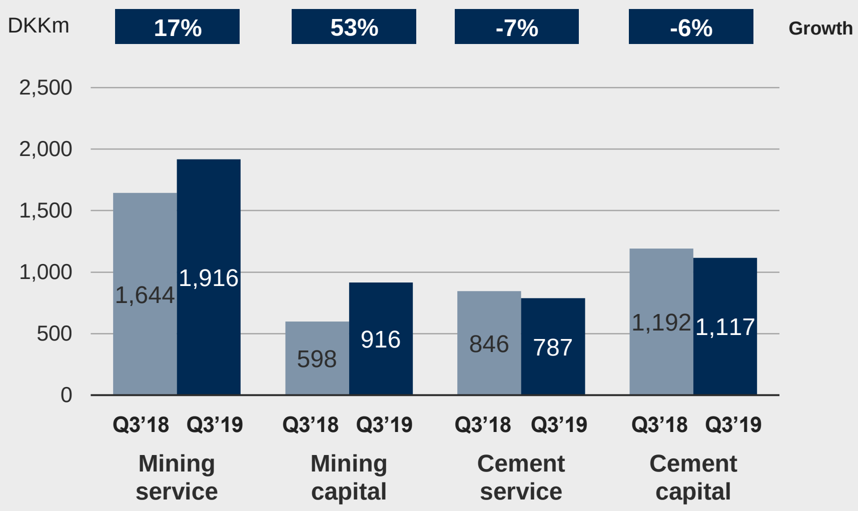
Financial performance in Q3 2019

(DKKm)	Q3 2019	Q3 2018	Change
Order intake	**4,571**	**7,164**	-36%
Order backlog	16,088	17,228	-7%
Revenue	**4,736**	**4,335**	9%
Gross margin	23.8%	26.0%	
SG&A ratio	14.1%	16.6%	
EBITA	**377**	**350**	8%
EBITA margin	8.0%	8.1%	
Profit for the Group	**190**	**162**	17%
ROCE	**11.2%**	**10.7%**	
Employees (Group)	11,859	11,491	3%

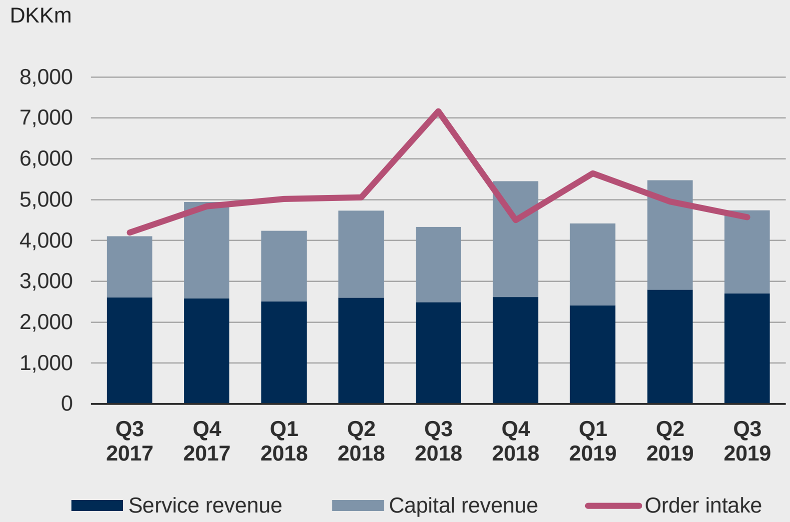
- Absence of large capital orders
  - Lower backlog in Cement
- Strong service order intake
- Revenue improvement as expected
- Gross margin impacted mainly by mining project cost overruns and a weaker business environment which has delayed finalisation of projects
- SG&A affected by revised expectations for incentive pay

Revenue growth in mining

REVENUE
CAPITAL vs. SERVICE



REVENUE
+9% vs. Q3 2018

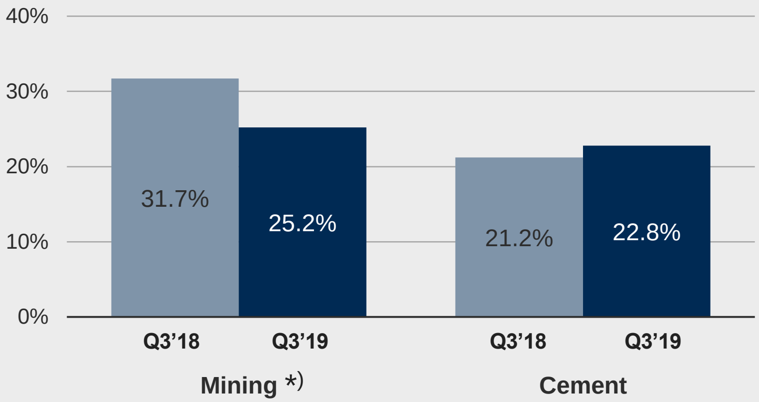


Stable gross profit but low gross margin in Mining

GROSS PROFIT
Unchanged vs. Q3 2018

- IFRS 16 effect on gross profit in Q3 2019: DKK +11m

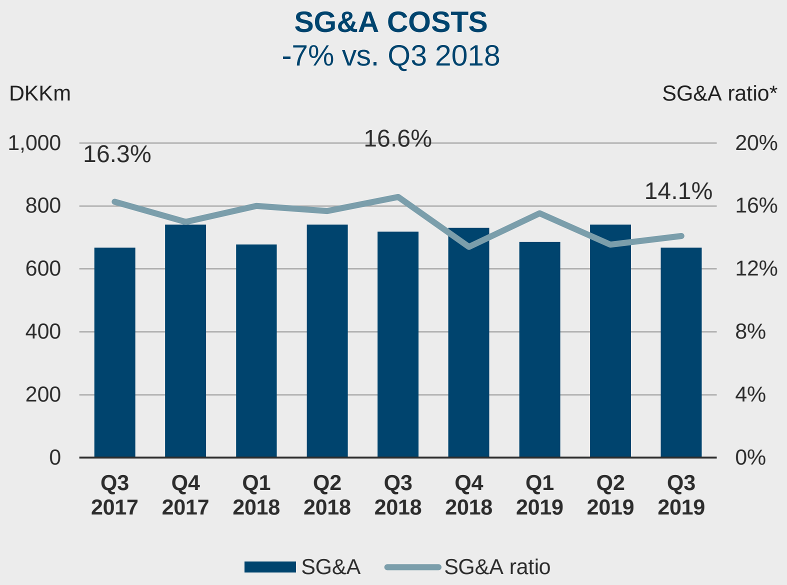
GROSS MARGIN BY INDUSTRY
Q3 2019 vs. Q3 2018



- Lower Mining gross margin due to project cost overruns and a weaker capital business environment which has delayed customer decisions
- Higher Cement gross margin due to execution of higher-margin projects

*) Average Mining gross margin in previous eight quarters: 27.6%

Stable underlying SG&A costs



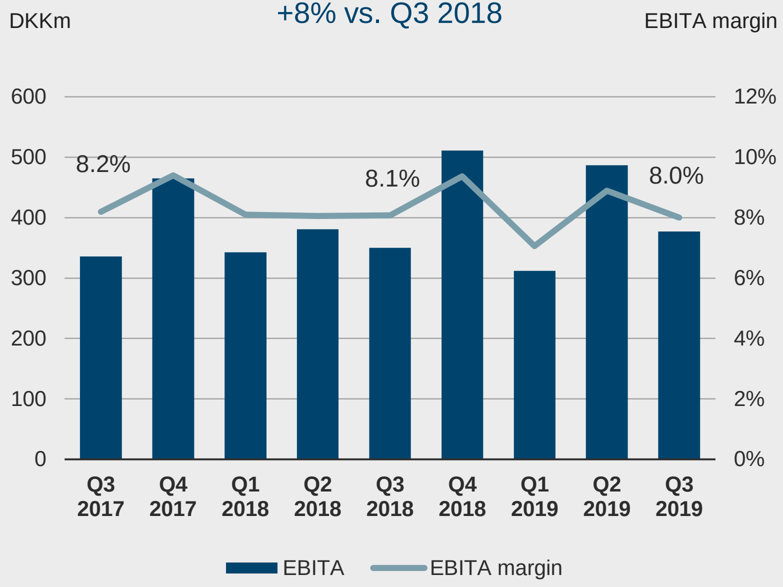
*) SG&A ratio: SG&A costs (Sales, General and Administration) as percentage of revenue

- SG&A ratio down to 14.1% of revenue, from 16.6% in Q3 2018
- SG&A ratio of 14.5% adjusted for IFRS 16
  - IFRS 16 effect: DKK 22m decrease
- **Slight increase in SG&A** excluding effect of IFRS 16 and effect of revised expectations for incentive pay

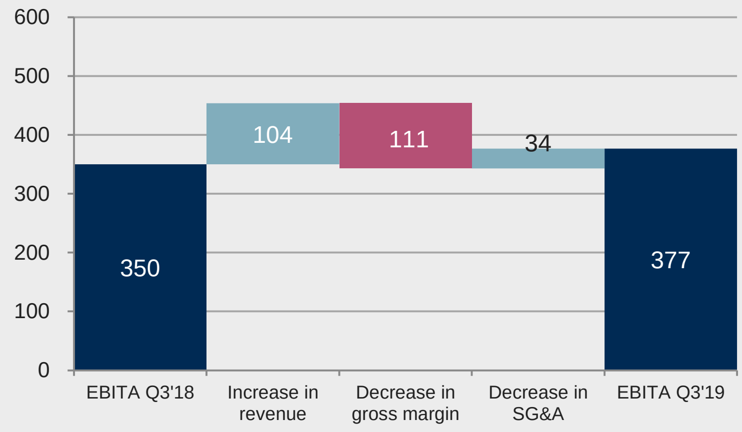
Higher EBITA

margin affected by weaker profitability in Mining capital business

EBITA
+8% vs. Q3 2018

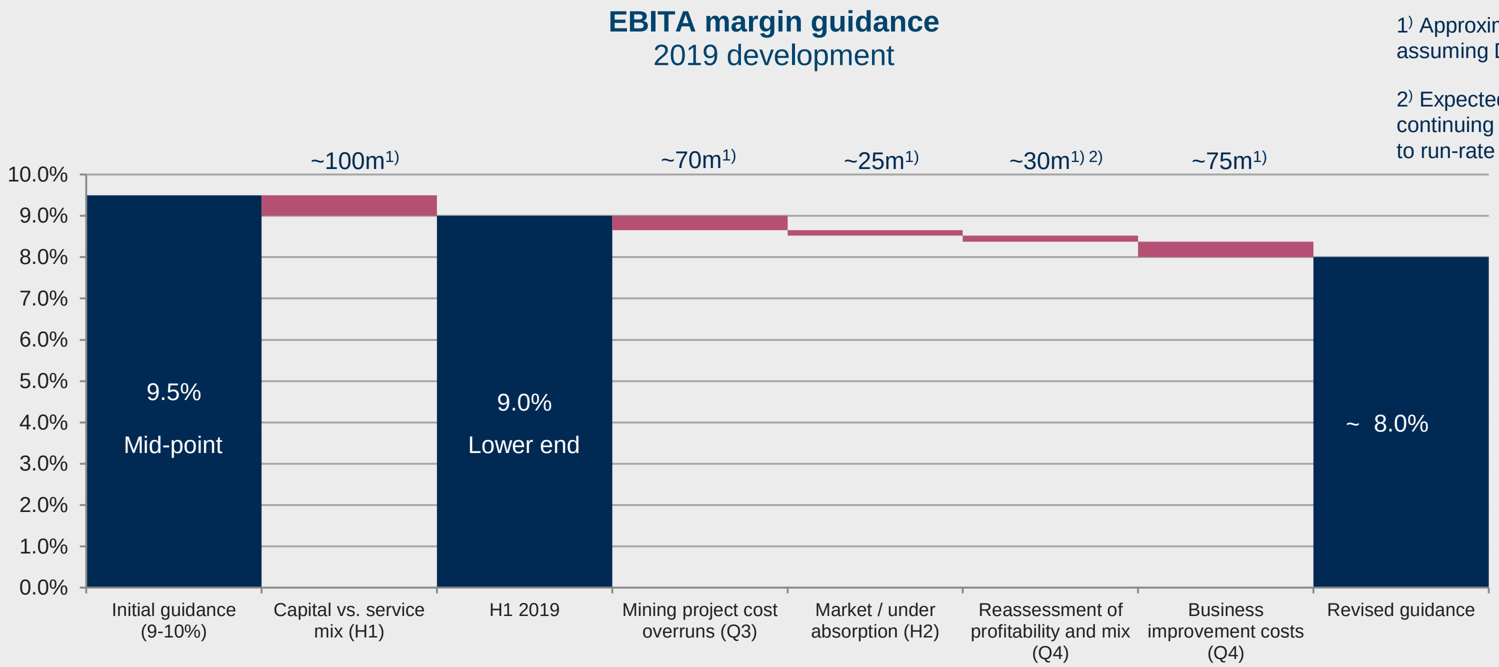


EBITA BRIDGE*
Q3 2019 vs. Q3 2018



*) 2019 numbers shown without the effects of IFRS 16 to be comparable with 2018

EBITA margin guidance change



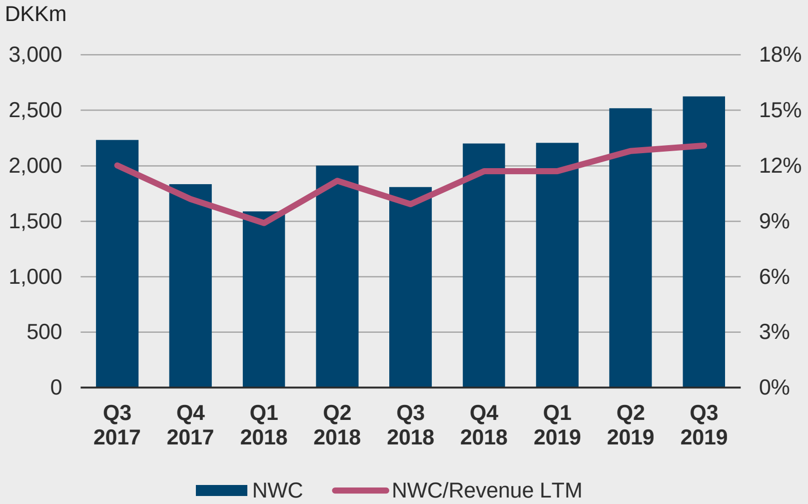
1) Approximate EBITA effect assuming DKK 20bn revenue

2) Expected quarterly impact continuing into 2020 (compared to run-rate before Q3 2019)

Project delays and currency effects

- led to a slight increase in working capital

NET WORKING CAPITAL



- **NWC** at the end of Q3 was 13.1% of the last 12 months revenue (target over the cycle: <10%)
- Supply chain financing led to a slight increase in trade payables in Q3

Net working capital developments in Q3

DKKm	End Q3 2019	End Q2 2019	Change
Inventories	**2,910**	**2,893**	*17*
Trade Receivables	**4,586**	**4,493**	*93*
Trade Payables	**(3,819)**	**(3,914)**	*95*
WIP Assets net	**1,031**	**1,079**	*(48)*
Prepayments net	**(1,412)**	**(1,310)**	*(102)*
Other liabilities net	**(672)**	**(722)**	*50*
NWC total	**2,624**	**2,519**	*105*

- Currency effect on NWC**: DKK 56m** increase

Discontinued activities Q3 2019

Cash flow (DKKm)	**Q3 2019**	**Q3 2018**
EBITDA adjusted	**(1)**	**(4)**
Change in provisions	(7)	(1)
Change in NWC	(43)	(148)
Financial and tax payments	10	(9)
CFFO	**(41)**	**(162)**

- **DKK 7m used provisions in Q3**
- **Discontinued activities** are expected to generate a **cash outflow of around DKK -30m** in the remainder of 2019-2020 based on:
  - Cash payments related to provisions (balance of DKK 239m end of Q3)
  - Cash collection related to net working capital (NWC balance of DKK 232m end of Q3)
  - Moderate SG&A cost

Cash flow in Q3 2019

- Continuing activities and Group

CONTINUING ACTIVITIES (DKKm)	**Q3 2019**	**Q3 2018**
EBITDA adjusted	**475**	**419**
Change in provisions	(79)	(47)
Change in NWC	(35)	175
Financial payments	(19)	27
Taxes paid	(57)	(55)
CFFO (continuing activities)	**285**	**519**

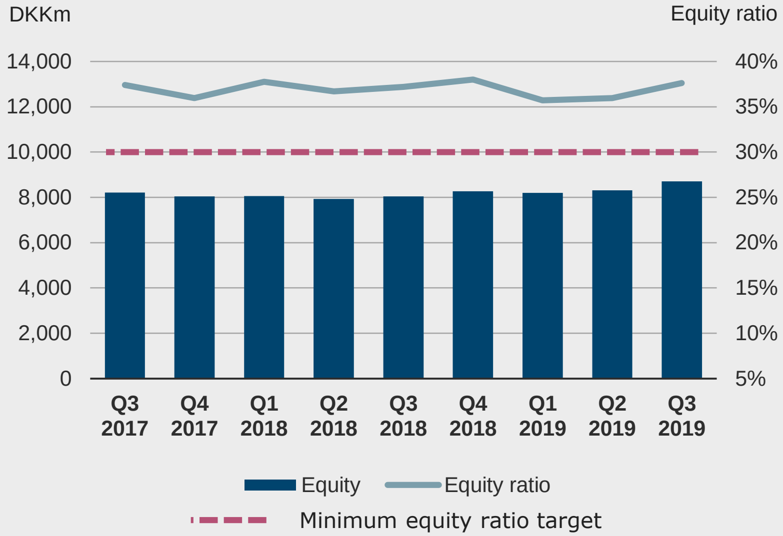
- Decrease in CFFO due to change in provisions, change in net working capital and financial payments

Group (DKKm)	**Q3 2019**	**Q3 2018**
CFFO (Group)	**244**	**357**
CFFI excl. acquisitions & disposals	(105)	(144)
Acquisitions & disposals	(6)	35
CFFI	**(111)**	**(109)**
Free cash flow	133	248
Free cash flow, adjusted for M&A	**139**	**213**

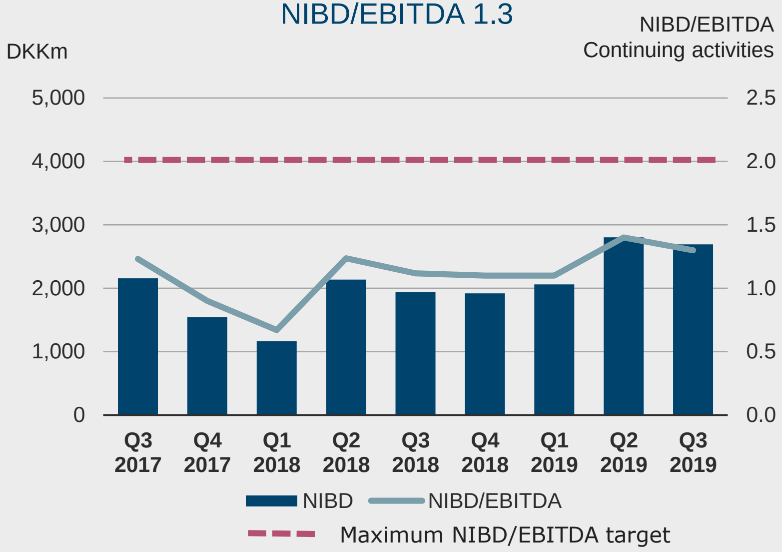
- IFRS 16 had a DKK 30m positive effect on free cash flow
- CFFO of **DKK 621m** in Q1-Q3 2019 (Q1-Q3 2018: DKK 288m)

Capital structure in line with long-term targets

EQUITY
Equity ratio 37.6%



NIBD
NIBD/EBITDA 1.3



- Net debt decreased to DKK 2,693m in Q3 (end of Q2 2019: DKK 2,802m)
- Net debt without IFRS 16 of DKK +324m: **DKK 2,369m**

Looking forward

Key messages

- Strong progress in service
- Cement capital margin improving
- Increasing cash flow from operating activities
- Opportunity within sustainable solutions

- Lower backlog in Cement (timing of large orders)
- Lower margin in the Mining capital business

Management focus

Q4 2019

- Business improvement initiatives
- Backlog conversion and solid execution
- Reduction of net working capital

Long-term

- Customers
- Innovation and digitalization
- Standardisation and modularisation
- Sustainability

Sustainability

Performance
Q1-Q3 2019

TRIFR

1.7

Target 2019: ≤ 2.7

WOMEN MANAGERS

11.4%

Target 2019: 11.0%

SDG'S

RELATIVE CARBON FOOTPRINT (TONNES/DKKM REVENUE)

2.4

2018: 3.2

SUPPLIERS ASSESSED

441

Target 2019: 300

INNOVATION
IN MINING

mixedROW™ Flotation System

TECHNOLOGY FOR SUSTAINED PRODUCTIVITY

The FLSmidth mixedROW Flotation System provides better recovery and greater efficiency

Combines the unique individual benefits of forced air and self-aspirated flotation cells to provide the best metallurgical performance possible

- Lowers energy consumption by up to 40%
- Up to 5% improved recovery rates

THE CHALLENGE
Today's mines need to produce high grade product as efficiently as possible.

THE SOLUTION
Exploit the unique characteristics of both nextSTEP and WEMCO technologies to maximise performance.

THE BENEFITS
- Higher recovery
- Lowers energy consumption
- Improves grade

Key highlights

Interim Report Q3 2019

Revenue increased

Lower Mining margin
Higher Cement margin

More cautious on mining capital

Stable activity in cement

Positive free cash flow

Absence of large orders

Record high service order intake

Revised guidance 2019 on October 11

Save the date

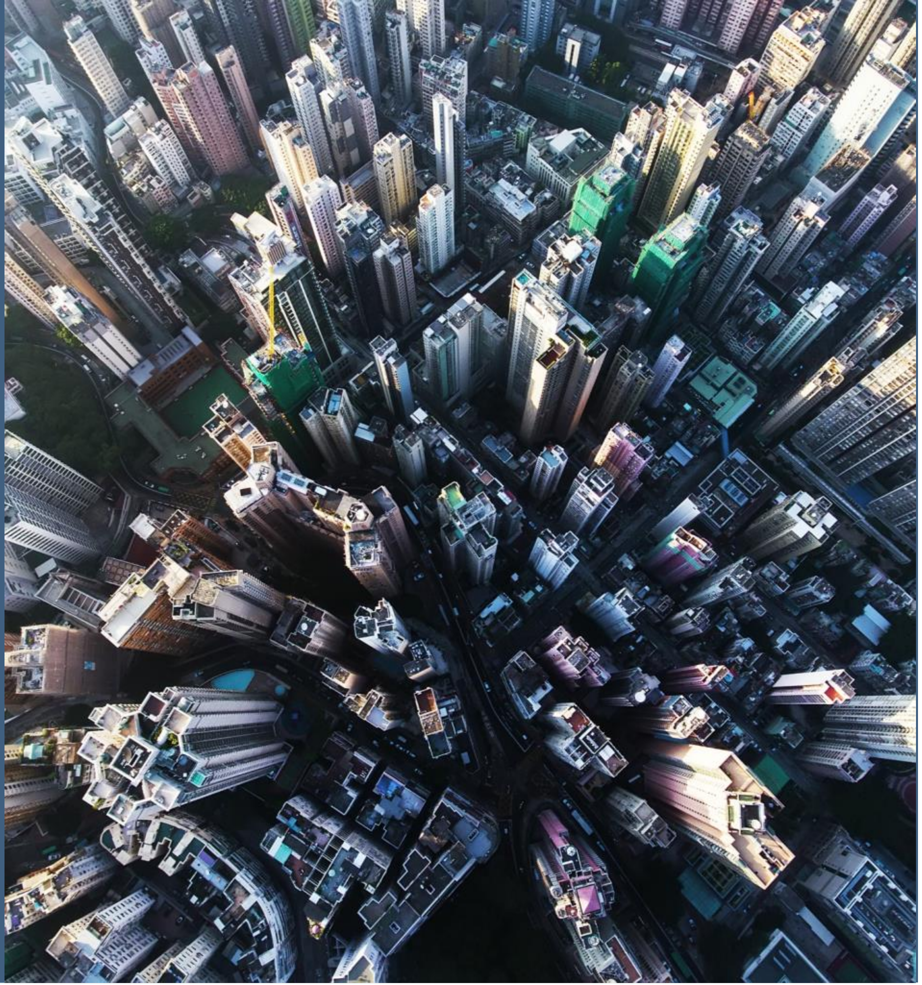
Capital Market Day 2019

- Date
  6 November 2019 11.00-16.00 CET

- Place
  Marketenderiet, Valby, Denmark

- Theme
  Driving **sustainable productivity improvement**

- More information/registration
  www.flsmidth.com/en-gb/company/investors



FLSMIDTH

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- statements containing projections of or targets for revenues, profit (or loss), capital expenditures, dividends, capital structure or other net financial items
- statements regarding future economic performance, future actions and outcome of contingencies such as legal proceedings and statements regarding the underlying assumptions or relating to such statements
- statements regarding potential merger & acquisition activities.

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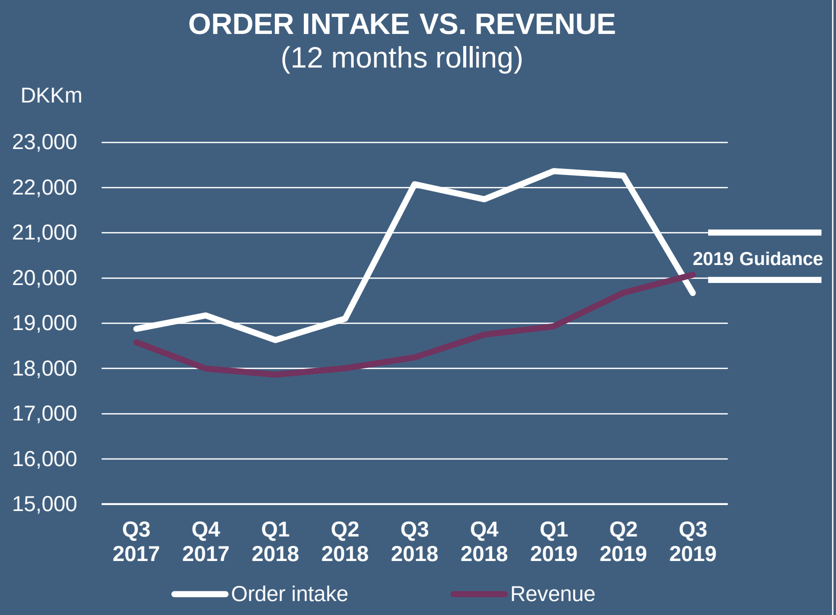
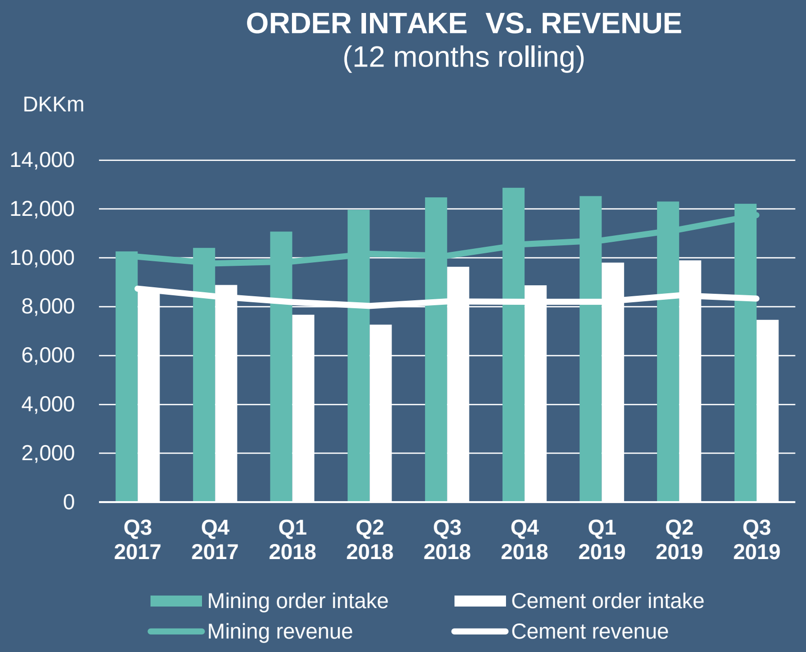
Group

(DKKm)	**Q3 2019**	Q3 2018	Change	**Q1-Q3 2019**	Q1-Q3 2018	Change	**2018**
Order intake	**4,571**	**7,164**	-36%	**15,165**	**17,238**	-12%	**21,741**
- Service order intake	2,928	2,569	14%	8,360	8,227	2%	10,907
Order backlog	16,088	17,228	-7%	16,088	17,228	-7%	16,218
Revenue	**4,736**	**4,335**	9%	**14,624**	**13,300**	10%	**18,750**
- Service revenue	2,703	2,489	9%	7,911	7,595	4%	10,208
Gross profit	1,126	1,126	0%	3,522	3,381	4%	4,693
Gross margin	23.8%	26.0%		24.1%	25.4%		25.0%
EBITA	377	350	8%	1,176	1,074	9%	1,585
EBITA margin	**8.0%**	**8.1%**		**8.0%**	**8.1%**		**8.5%**
EBIT	294	254	16%	893	801	11%	1,220
EBIT margin	6.2%	5.9%		6.1%	6.0%		6.5%

Revenue and order intake





Cash flow statement in Q1-Q3 2019

Group (DKKm)	**Q1-Q3 2019**	**Q1-Q3 2018**
EBITDA continuing adjusted	**1,461**	**1,271**
EBITDA discontinued	(13)	(60)
Change in provisions	(285)	(436)
Change in NWC	(310)	(248)
Financial payments	(34)	(8)
Taxes paid	(198)	(231)
CFFO (Group)	**621**	**288**
CFFI excl. acquisitions & disposals	(264)	(349)
Acquisitions & disposals	(305)	115
CFFI	**(569)**	**(234)**
Free cash flow	**52**	**54**
CFFO (continuing activities)	770	797
CFFO (discontinued activities)	(149)	(509)

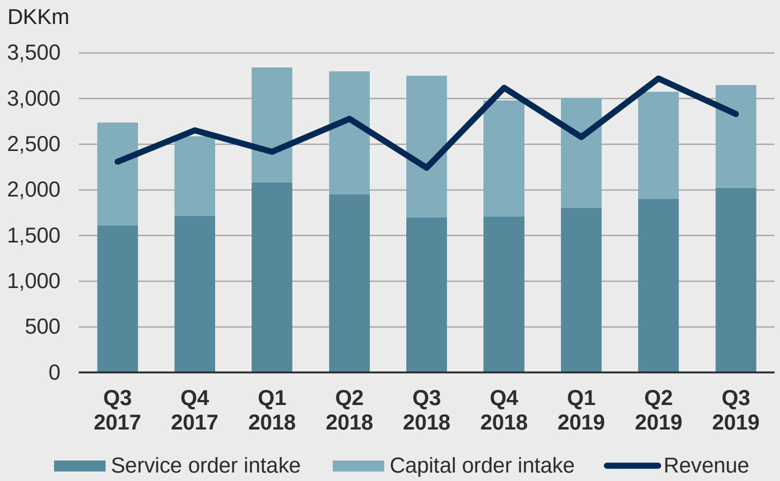
- CFFI increased due to the acquisition of IMP Automation Group
- Free cash flow adjusted for acquisitions and IFRS 16 was **DKK +279m**

Mining

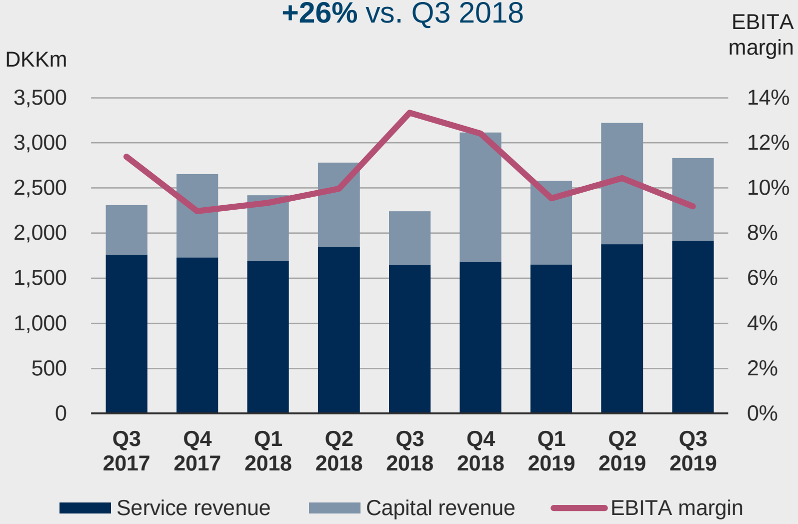
(DKKm)	Q3 2019	Q3 2018	Change	Q1-Q3 2019	Q1-Q3 2018	Change	2018
Order intake	**3,148**	**3,250**	-3%	**9,231**	**9,886**	-7%	**12,866**
- Service order intake	2,024	1,702	19%	5,727	5,734	0%	7,441
- Capital order intake	1,124	1,548	-27%	3,504	4,152	-16%	5,425
Order backlog	8,544	8,579	0%	8,544	8,579	0%	8,350
Revenue	**2,832**	**2,242**	26%	**8,632**	**7,440**	16%	**10,557**
- Service revenue	1,916	1,644	17%	5,446	5,177	5%	6,858
- Capital revenue	916	598	53%	3,186	2,263	41%	3,699
Gross margin before shared costs	25.2%	31.7%		26.0%	28.3%		28.0%
EBITA margin before shared costs	16.3%	20.3%		16.8%	18.6%		18.7%
EBITA	261	299	-13%	843	802	5%	1,189
EBITA margin	**9.2%**	**13.3%**		**9.8%**	**10.8%**		**11.3%**

Mining

ORDER INTAKE
-3% vs. Q3 2018



REVENUE
+26% vs. Q3 2018

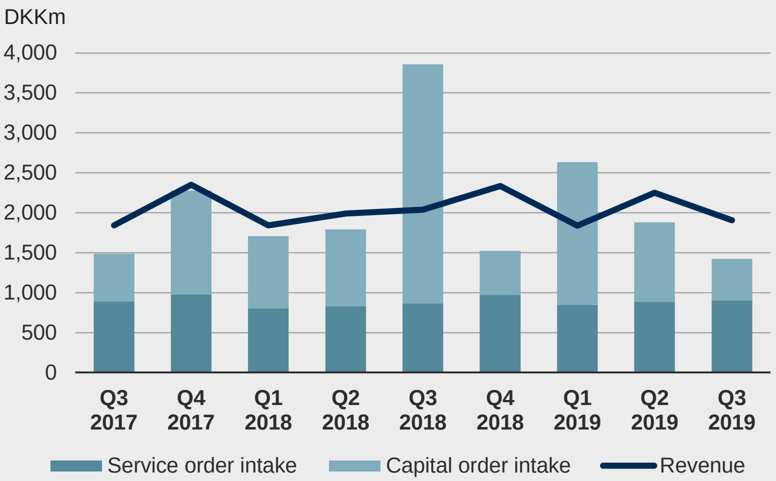


Cement

(DKKm)	Q3 2019	Q3 2018	Change	Q1-Q3 2019	Q1-Q3 2018	Change	2018
Order intake	**1,423**	**3,858**	-63%	**5,934**	**7,357**	-19%	**8,881**
- Service order intake	904	867	4%	2,633	2,493	6%	3,466
- Capital order intake	519	2,991	-83%	3,301	4,864	-32%	5,415
Order backlog	7,544	8,653	-13%	7,544	8,653	-13%	7,872
Revenue	**1,904**	**2,038**	-7%	**5,992**	**5,869**	2%	**8,204**
- Service revenue	787	846	-7%	2,465	2,418	2%	3,350
- Capital revenue	1,117	1,192	-6%	3,527	3,451	2%	4,854
Gross margin before shared costs	22.8%	21.2%		22.3%	22.5%		21.9%
EBITA margin before shared costs	13.8%	7.4%		13.6%	12.8%		13.0%
EBITA	111	41	171%	323	254	27%	381
EBITA margin	**5.8%**	**2.0%**		**5.4%**	**4.3%**		**4.6%**

Cement

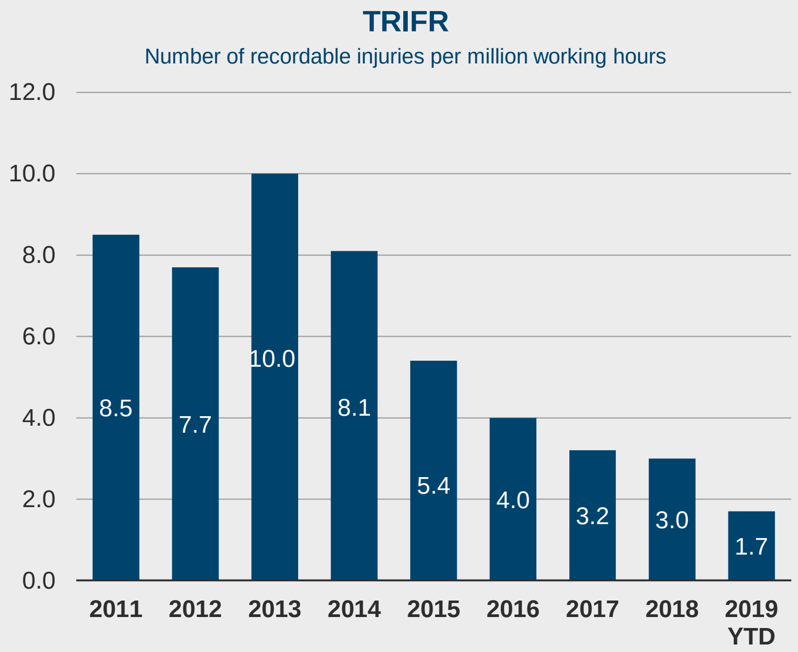
ORDER INTAKE
-63% vs. Q3 2018



REVENUE
-7% vs. Q3 2018

Safety performance

Total Recordable Injury Frequency Rate*) (TRIFR) 1.7



As of 2018, TRIFR is including contractors. Comparison numbers until 2016 are excluding contractors.
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- Safety ambition: **No injuries**
- 2019 TRIFR target : **≤ 2.7**
- Increase from 1.6 in Q2 2019

*) Total Recordable Injury Frequency Rate (TRIFR) includes medical treated injuries in addition to lost time injuries, including contractors

Return on Capital Employed (ROCE)

ROCE Q3 2019*)

11.2%

(Q3 2018: 10.7%)

EBITA LTM	Capital employed
DKK 1,687m	DKK 15,014m
(Q3 2018: 1,539m)	(Q3 2018: 14,387m)

Growth and operating leverage to drive increase in ROCE

Mining ROCE < 20%	**Mining EBITA 9.2%**
Cement ROCE > 20%	**Cement EBITA 5.8%**

Growth
(ORDER INTAKE & REVENUE)

Profit
(EBITA%)

Capital
(NWC%)

Ensure strong operating leverage as growth returns

Run business to optimise free cash flow generation

*) ROCE: Return on capital employed calculated on a **before tax** basis, **including goodwill** and based on last 12 months' **EBITA** and **average capital employed**

Order intake and revenue growth

Order intake growth Q3’19 vs. Q3’18	Mining	Cement	Group
Organic	-5%	-64%	-38%
Acquisitions	1%	0%	1%
Currency	1%	1%	1%
Total growth	**-3%**	**-63%**	**-36%**

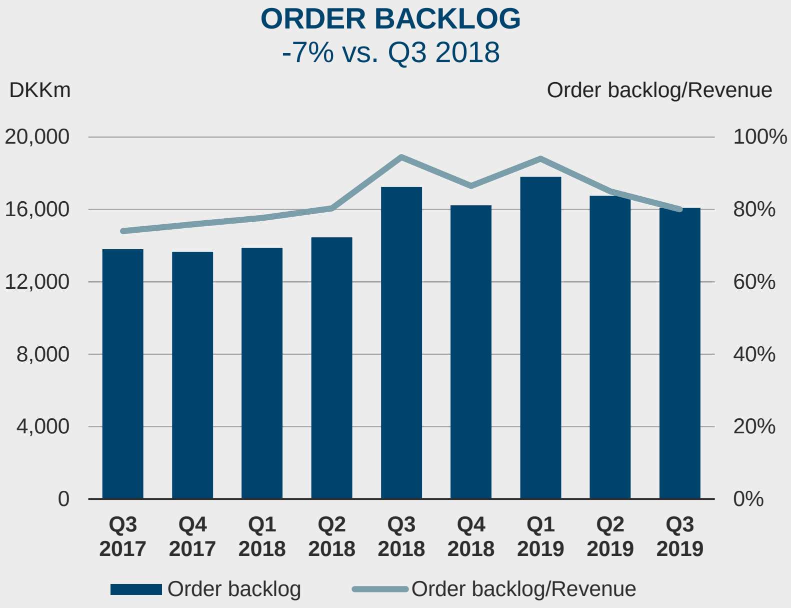
Order intake growth 9M’19 vs. 9M’18	Mining	Cement	Group
Organic	-8%	-20%	-14%
Acquisitions	1%	0%	1%
Currency	0%	1%	1%
Total growth	**-7%**	**-19%**	**-12%**

Revenue growth Q3’19 vs. Q3’18	Mining	Cement	Group
Organic	23%	-9%	7%
Acquisitions	1%	0%	0%
Currency	2%	2%	2%
Total growth	**26%**	**-7%**	**9%**

Revenue growth 9M’19 vs. 9M’18	Mining	Cement	Group
Organic	14%	0%	8%
Acquisitions	1%	0%	0%
Currency	1%	2%	2%
Total growth	**16%**	**2%**	**10%**

Order backlog and conversion to revenue

Order backlog / last 12 months revenue at 80% in Q3



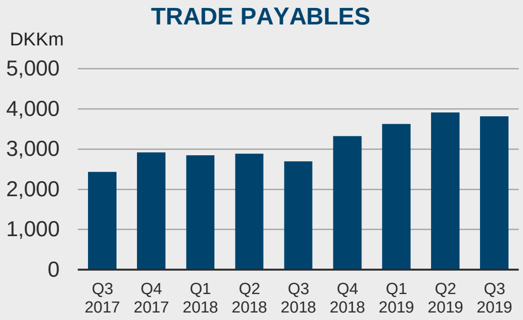
*Order backlog divided by last 12 months revenue

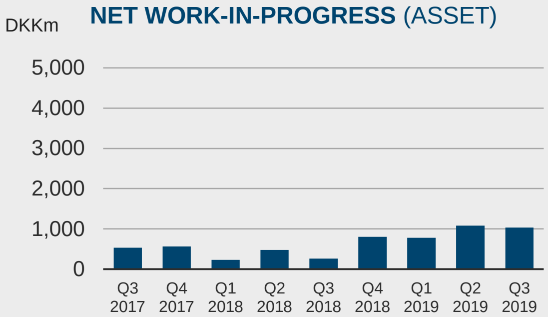
Expected backlog conversion to revenue:

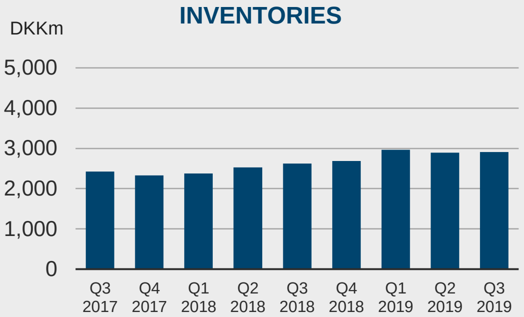
- 32% in 2019
- 51% in 2020
- 17% in 2021 and beyond

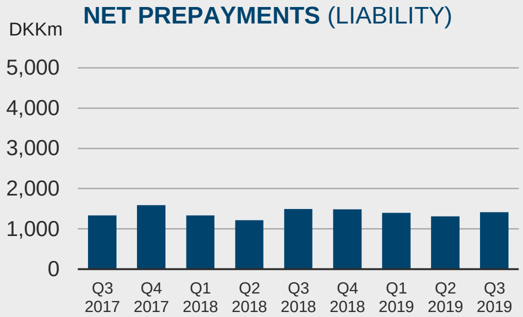
Net working capital components

- NWC increased to DKK 2,624m in Q3 due to a combination of lower trade payables and higher receivables, partly offset by a higher level of advanced payments



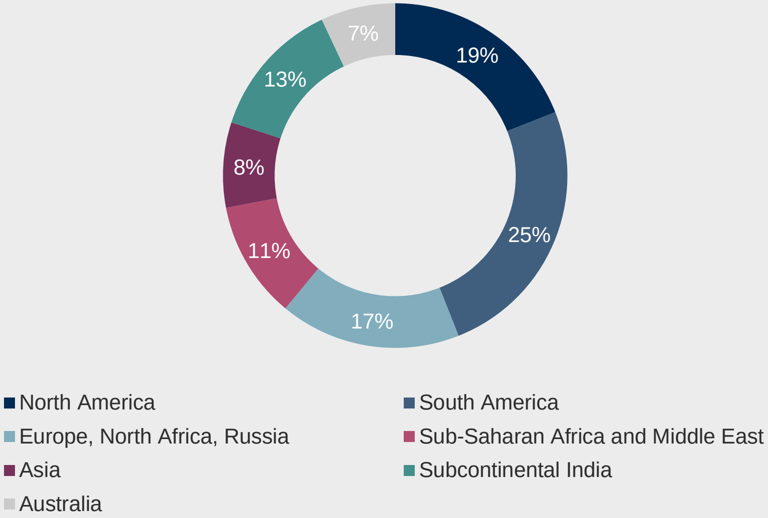




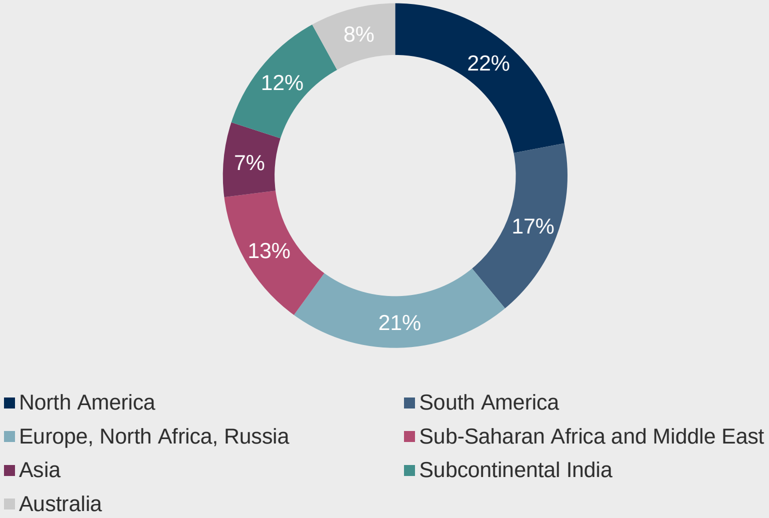


Revenue split in Q3 2019

REVENUE Q3 2019 BY REGION

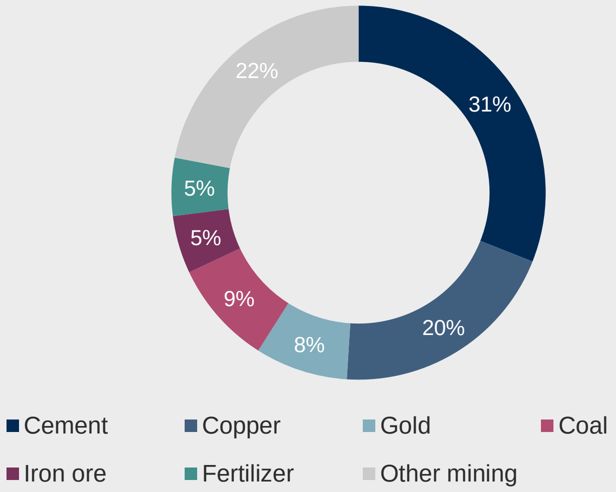


REVENUE Q3 2018 BY REGION



Order intake by commodity

ORDER INTAKE Q3 2019
– by commodity



Effects from implementing IFRS 16, Leases

DKKm	Q3 2019 IFRS 16	Effect from IFRS 16	Q3 2019 IAS 17
Gross profit	1,126	11	1,115
SG&A	(667)	22	(689)
EBITDA	459	33	426
Depreciation and impairment of property, plant and equipment	(82)	(28)	(54)
EBITA	377	5	372
EBIT	294	5	289
EBT	284	2	282
CFFO	244	30	214
CFFF	(115)	(30)	(85)
Total assets	23,148	323	22,825
Total liabilities	(14,444)	(324)	(14,120)
NIBD	2,693	324	2,369

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