

### Development in China



Atlas Copco Capital Markets Day, December 1, 2010  
Björn Rosengren, Business Area President,  
Construction and Mining Technique

*Sustainable Productivity*



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### Agenda



- Development in China
- Innovative technology



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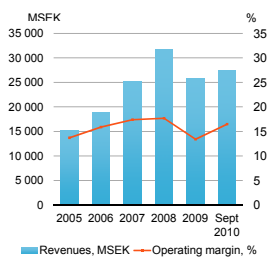
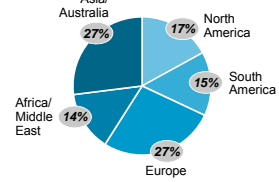
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### Construction and Mining Technique

Revenues and operating margin



Year	Revenues, MSEK	Operating margin, %
2005	15000	15
2006	18000	18
2007	25000	18
2008	32000	18
2009	25000	15
Sept 2010	28000	18



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### Priorities

Profitable growth

- Presence in growth markets
- Developing our service business
- Continued innovation
- Operational excellence



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### Asia / China



Year	Index
2000	100
Sep 2010	622

**+522%**

CMT Asia Orders received Index, SEK 2000 - Sep. 2010



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### China

- General development in China
- Market position
- Demand drivers
- Competitive landscape
- Strategy



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### Construction and Mining Technique in China

- Strong market position in the high end market
- Well developed sales and distribution setup and manufacturing capability
- Strong demand in both construction and mining
- Increased local competition



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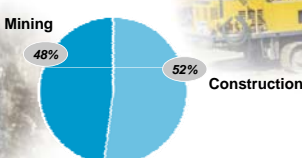
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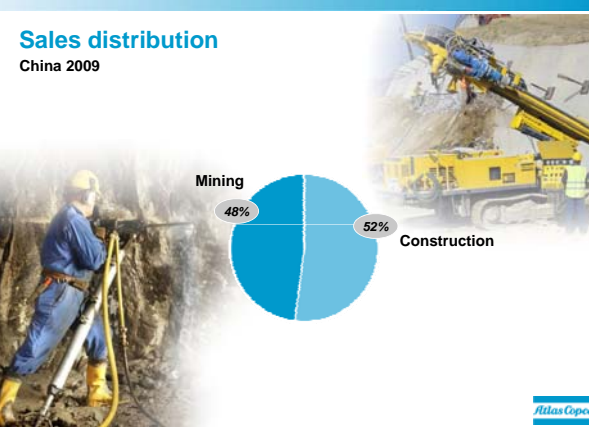
### Sales distribution

China 2009



Mining 48%

Construction 52%



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### Demand driver – mining investments

- Strategic area for local investments in the 5 year plan
- Some major open pit mines are going underground
- Remote located ore bodies
- Low ore grades
- Need for efficiency improvements in operations
- Safety and environmental requirements



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### Demand driver – mining investments

- Cement – Limestone
  - China cement production represents 55% of the world
- Metals mining
  - Iron ore
  - Non-ferrous metals (copper, lead, zinc etc.)
  - Gold (China is the world largest gold producer)
- Chemical mining
- Exploration



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### Demand driver – construction investments

- Railway
  - Railways are planned to increase from 86 000 km in 2009 to 110 000 km in 2012.
- Road and highway
  - 111 highway projects started since 2009. Total planned length 12 000 km.
- Hydropower
  - Developing hydropower is a key strategy for renewable energy.
- Civil construction
  - E.g. harbors and airports.



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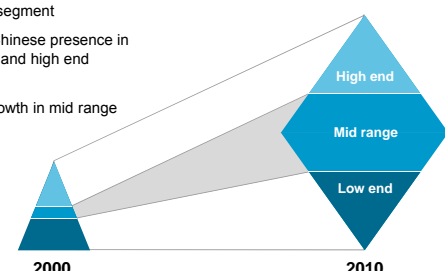
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### Competitive landscape in China

Illustrated

- Mostly international competitors in the top segment
- Growing Chinese presence in mid range and high end segments
- Fastest growth in mid range



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### Mid-range is the key

Customer segment size	Growth	Market share	Customer requirements	Competitive landscape
High end	→	●	<ul style="list-style-type: none"> <li>Requires superior technological features, reliability, and performance</li> <li>Not price sensitive</li> </ul>	<ul style="list-style-type: none"> <li>Primarily international players</li> <li>Locals have high barrier to entry</li> </ul>
Mid range	→	◐	<ul style="list-style-type: none"> <li>Somewhat price sensitive but still requires quality products</li> <li>May require emerging market oriented features</li> </ul>	<ul style="list-style-type: none"> <li>Major battlefield of international players and locals</li> </ul>
Low end	→	○	<ul style="list-style-type: none"> <li>Most price sensitive with only basic feature/function and low quality requirements</li> </ul>	<ul style="list-style-type: none"> <li>Locals dominate</li> </ul>

○ Low  
● High

Source: McKinsey

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### Strategy to reinforce market leadership in China



- Improve position in mid range
- Local design, development and manufacturing
- People management

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### Making China our home market



Market leadership

Global center of excellence

Infrastructure and people

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### Sales and distribution set-up

- Well developed sales, service and distribution setup for all our three brands



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### Customer oriented aftermarket

Underground Rock Excavation	Surface Drilling Equipment	Drilling Solutions	Secoroc	Construction Tools	Geotechnical Drilling and Exploration	Road Construction Equipment	Rocktec
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Customer oriented aftermarket



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### Aftermarket in China

- Characteristics**
  - Service technician cost are low
  - Pirates supplying parts
  - Chinese customers needs good service
- Strategy**
  - Differentiated offer



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### New distribution center

For China and South East Asia

Nanjing, 4000 m<sup>2</sup>

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### Manufacturing in China

沈阳 Shenyang  
张家口 Zhangjia Kou  
天津 Tianjin  
南京 Nanjing  
无锡 Wuxi

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### Sourcing in China

- Develop supplier network to support design, development and manufacturing
- Co-ordination between the divisions to reach scale advantages

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### New R&D center in Nanjing

Cooperation with engineering center in Bangalore



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### Product development in China

- Sophistication/technology level must be adjusted to the local need
  - Local design, development and manufacturing
  - Strong local organization
  - Leverage and build competence
  - Focused R&D for the east
  - High speed
- Differentiated offer

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### Product development in China



- Power Rock D55
- AirRock D45 Semi Hydraulic

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### Product development in China

- CDM 75E
- CDM 75D
- CDM 30

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### Competence development in China

**Atlas Copco's Internal Job Market (China National)**  
60 % (535) of all advertised positions (892) internally appointed since 2002

**China ACADEMY ("Open" and "Division" courses)**  
Initiated in 1999 with 6 "Open" courses...  
**Open:** Management, Leadership, Skills, The Way, English...(everyone can apply)  
**Division:** Products, Service, Systems, Health/Safety, Circles...(specific audience only)  
**Curriculum 2010:** 475 "Division" courses + 26 "Open" courses; 11 locations in China

**CEIBS DIMP (China Europe International Business School)**  
18 Months part-time; 50 Managers have graduated since 2002 + 10 enrolled in 2010

**LTS: (ACCIC Internal Leadership Training Seminars: People Management)**  
6 Modules; Full/half day; 20 Managers have completed since 2009; 20 "WIP" 2010

**Master in Mining Engineering (University of Science and Technology, Beijing)**  
3 year Program; 30 CMT Engineers selected for the 1<sup>st</sup> program, launched Oct 2010

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### Summary

- The recovery from the financial crisis has been remarkably fast, driven by the emerging markets with China taking the lead
- The dramatic Chinese urbanization drives demand for minerals and local infrastructure works
- Chinese competitors are growing fast in the mid range market
- Strategy to make China our "home market" and challenge local competitors with a strong offering in the mid range

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