Development in China

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

Agenda

Profitable growth

Development in China

Innovative technology

Construction and Mining Technique

Revenues and operating margin

North America: 17%
South America: 27%
Asia/Australia: 14%
Africa/Middle East: 15%
Europe: 27%

Revenues, MSEK
Operating margin, %
Priorities

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

Asia / China

- General development in China
- Market position
- Demand drivers
- Competitive landscape
- Strategy
### The world GDP development

**Share of total world GDP (1 AD–2009 AD)**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP share, percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td>0</td>
</tr>
<tr>
<td>1500</td>
<td>20</td>
</tr>
<tr>
<td>2000</td>
<td>40</td>
</tr>
<tr>
<td>2009</td>
<td>100</td>
</tr>
</tbody>
</table>

- **Rest of the world**:
  - 20%
- **Japan**:
  - 50%
- **Europe & N. America**:
  - 30%
- **China**:
  - 20%
- **India**:
  - 5%

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP share, percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>70%</td>
</tr>
<tr>
<td>2009</td>
<td>90%</td>
</tr>
</tbody>
</table>

*North America includes U.S., Canada, and Mexico.*


### Chinese urbanization

- **Over the next 20 years**, Chinese cities will add > 350 million people…
  - the population of the entire United States
- **There will be > 200 Chinese cities** with more than a million inhabitants…
  - in Europe today there are only 35 cities of that size
- **There will be up to 90,000 new skyscrapers**…
  - the equivalent of building ten New York cities
- **There could be up to 170 new mass transit systems**…
  - in Europe today there are about 70
- **By 2025, two-thirds of China’s citizens will live in cities**…
  - that’s nearly 1 billion people

Source: Demographia; China-All-City model output, McKinsey Global Institute analysis.

### Growth in China is driven by urban middle class, which is expected to grow further

- **By 2025**, more than 15% of China urban households will be wealthy, while three quarters will be middle class

<table>
<thead>
<tr>
<th>Year</th>
<th>Mass affluent</th>
<th>Upper affluent</th>
<th>Affluent</th>
<th>Lower affluent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Increasing disposable income – growth of the middle class
- The burgeoning of middle class households is still evident
- The more affluent middle segment will have higher health awareness and require greater convenience

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

Sales distribution
China 2009

Sales distribution

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
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

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.

Competitive landscape in China

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

<table>
<thead>
<tr>
<th>Customer segment size</th>
<th>Growth</th>
<th>Market share</th>
<th>Customer requirements</th>
<th>Competitive landscape</th>
</tr>
</thead>
<tbody>
<tr>
<td>High end</td>
<td>☀</td>
<td>☀ High</td>
<td>• Requires superior technological features, reliability, and performance</td>
<td>• Primarily international players</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Not price sensitive</td>
<td>• Locals have high barrier to entry</td>
</tr>
<tr>
<td>Mid range</td>
<td>☀</td>
<td>☀ High</td>
<td>• Somewhat price sensitive but still requires quality products</td>
<td>• Major battleground of international players and locals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• May require emerging market tailored features</td>
<td></td>
</tr>
<tr>
<td>Low end</td>
<td>☀</td>
<td>☀ High</td>
<td>• Most price sensitive with only basic features and low quality requirements</td>
<td>• Locals dominate</td>
</tr>
</tbody>
</table>

Source: McKinsey

### Strategy to reinforce market leadership in China

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

### Making China our home market

- Market leadership
- Global center of excellence
- Infrastructure and people
Sales and distribution set-up

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

Customer oriented aftermarket

- Underground Rock Excavation
- Surface Drilling
- Construction Drilling
- Geotechnical Drilling and Exploration
- Road Construction Equipment
- Tools

Aftermarket in China

- Characteristics
  - Service technician cost are low
  - Pirates supplying parts
  - Chinese customers need good service

- Strategy
  - Differentiated offer
New distribution center
For China and South East Asia

Manufacturing in China

Sourcing in China

- Develop supplier network to support design, development and manufacturing
- Co-ordination between the divisions to reach scale advantages
New R&D center in Nanjing
Cooperation with engineering center in Bangalore

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

Product development in China

- Power Rock D55
- AirRock D45 Semi Hydraulic
Product development in China

- CDM 75E
- CDM 75D
- CDM 30

Competence development in China

**Atlas Copco's Internal Job Market (China National)**
60% of all advertised positions (850) internally appointed since 2002

**China Academy (“Open” and “Division” courses)**
Inaugurated in 1999 with 5 “Open” courses:
- Open: Management, Leadership, Skills, The Way, English… (everyone can apply)
- Division: Products, Service, Systems, Health/Safety, Circles… (specific audience only)

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

**LTB: (ACCIC Internal Leadership Training Seminars; People Management)**
6 Modules; Full/half day; 20 Managers have completed since 2008; 25 “WIP” 2010

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

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
商场如战场
shang chang ru zhan chang

Committed to
sustainable productivity.

Atlas Copco