



KONE'S CAPITAL MARKETS DAY 2011

# Catching the China Opportunity

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- Real estate market trends
- E&E market development
- Developing KONE in China
- Going forward

# Continued strong macroeconomic backdrop



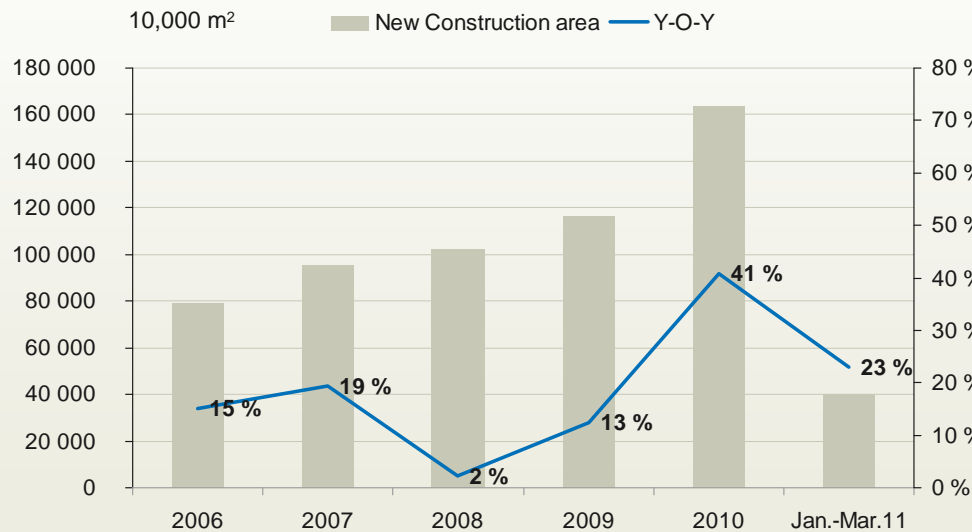
## Macroeconomic indicators

<b>y-o-y %-change</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011Q1</b>
<b>GDP</b>	10.0	10.1	10.4	11.1	11.4	9.6	8.7	10.3	9.7
<b>CPI</b>	1.2	3.9	1.8	1.5	4.8	5.9	-0.7	3.3	5.0
<b>Industrial production</b>	17.0	16.7	16.4	16.6	18.5	12.9	10.3	15.7	14.4
<b>Fixed investments</b>	27.7	26.6	26.0	23.9	24.8	26.1	30.1	23.8	25.0
<b>Real estate investment</b>	29.7	28.1	19.8	21.8	30.2	20.9	16.1	33.2	34.1

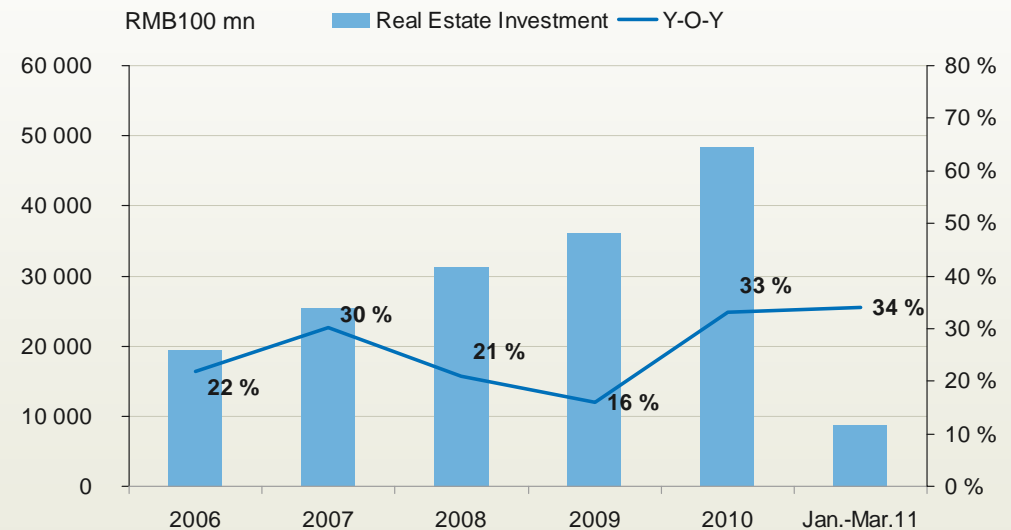
Source: People's Bank of China, National Bureau of Statistics of China.

Real estate industry has continued to perform strongly, but with a slight decline in the growth rate from the 2010 peak

**New construction area 2006-Q1/2011**



**Real estate investment 2006-Q1/2011**

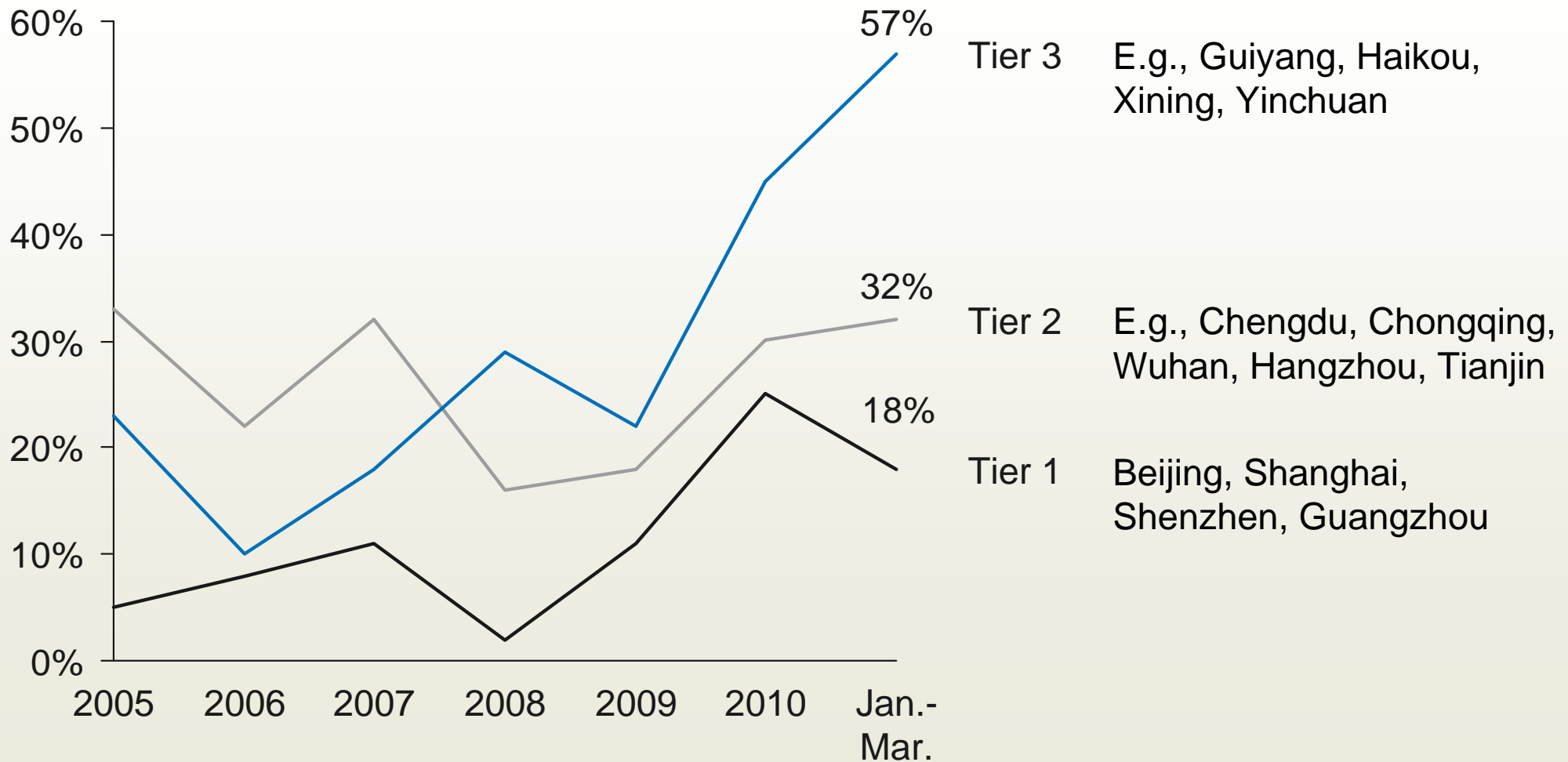


Source: National Bureau of Statistics of China

# Real estate investment growth rates in 1st, 2nd and 3rd tier cities in Q1 2011

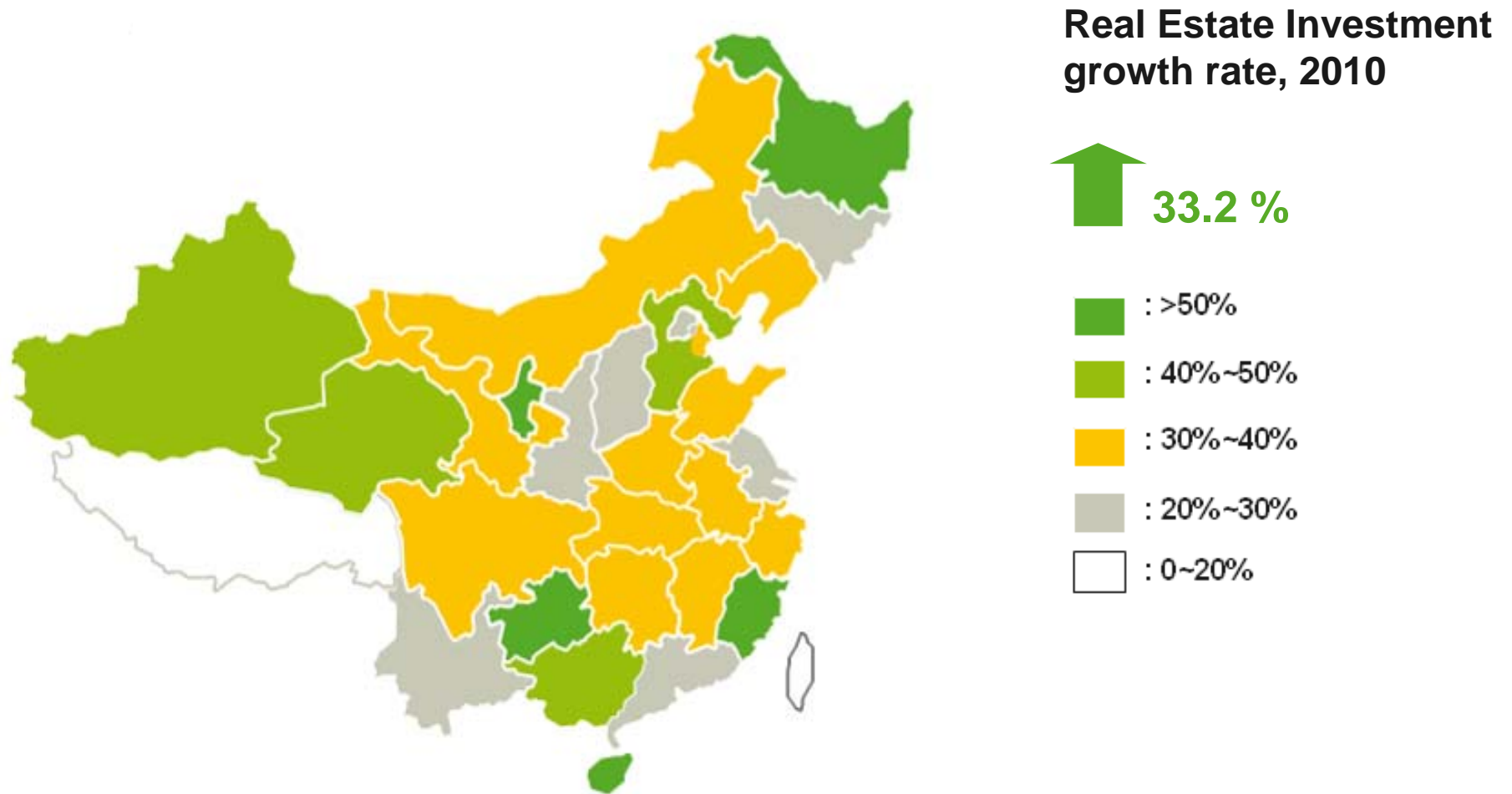


Real estate investment growth, %



Source: Soufun Database

# Focus of growth moving from 1st and 2nd tier to 3rd and 4th tier cities and from East to West



Source: China Economic Information Network

# Measures to cool down real estate sector, but strong focus on affordable housing



## Tightening of policies to limit housing prices in the beginning of 2011...

- Increased down-payment requirements
- Limitations on buying 2nd and 3rd housing
- Local city level housing price control targets for 2011

## ... but strong push for affordable housing

- Target to build 36 million affordable homes in 2011-2015 of which 10 million in 2011
- Investment 1.3 trillion RMB (USD 197 billion) in 2011
- Financing from
  - Central government
  - Local governments (from land sales)
  - Society institutions

# Affordable housing is the key growth driver



- Many forms of affordable housing:
  - Reconstruction of urban shanty towns, subsidized by government
  - Public rent housing - built by government and leased to fresh graduates and migrant workers)
  - Economically affordable housing (commercial apartments, controlled profit margin)
  
- Fixed percentage of development floor area per project to affordable housing and the rest for commercial development
  
- Robust model for years to come to ensure a sufficient amount of entry level apartments





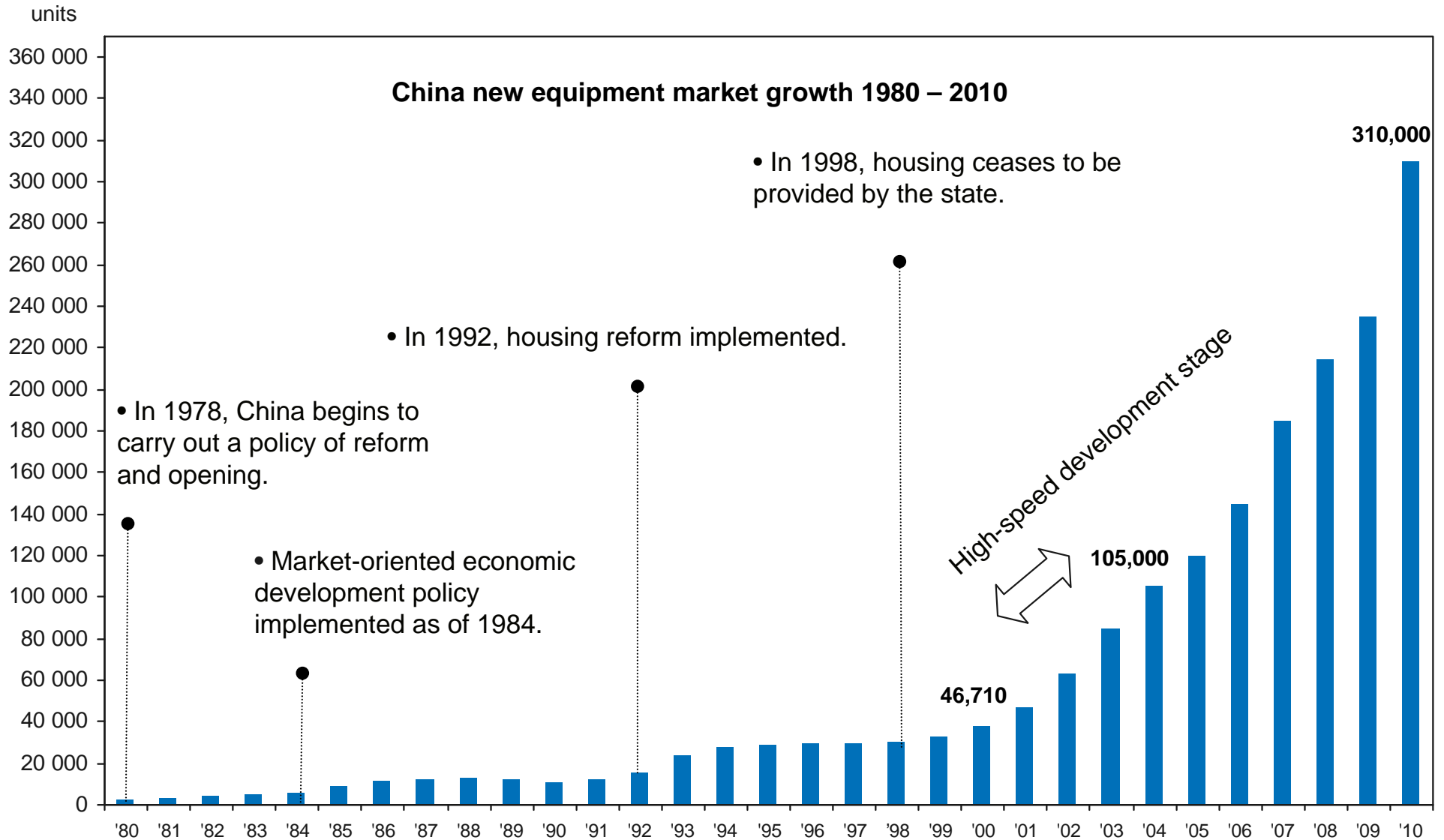
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# Significant expansion in the new equipment market

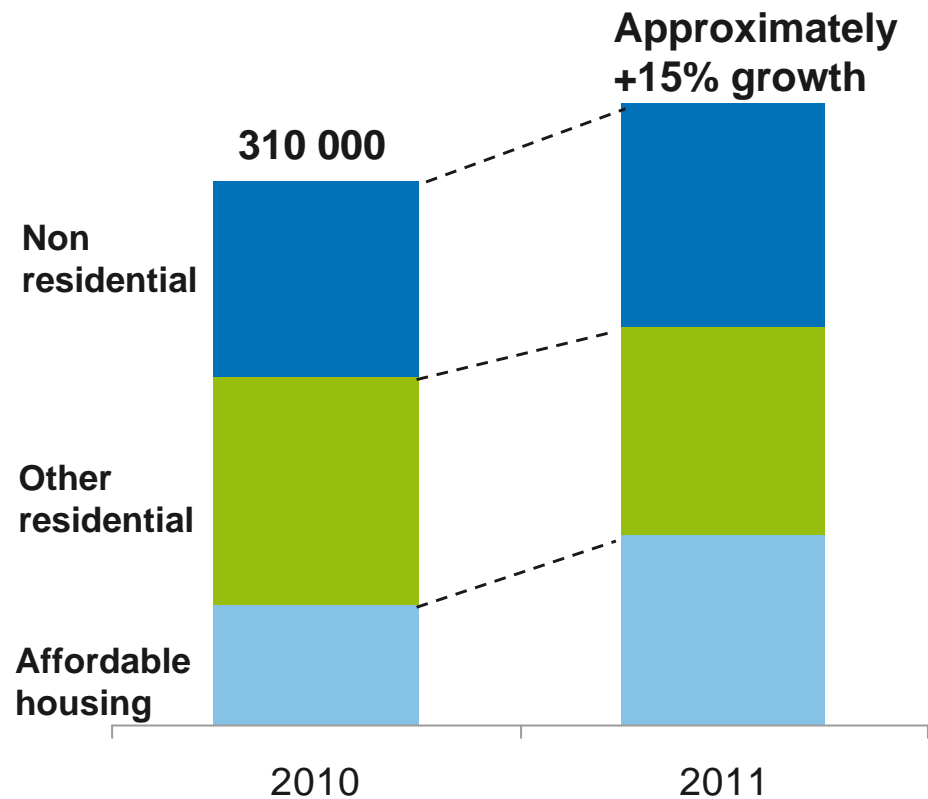


Source: China Elevator Association and KONE's estimates on the market size

# New equipment: expected market development in China for 2010-2011



## Expected development of new equipment market segments, units



- Non-residential segments expected to continue to grow.
- Developers shifting focus from residential to commercial real estate.
- Affordable housing the strongest growing segment, following the China government's target to build 10 million affordable homes in 2011. Translates into approx. 100 000 elevators or somewhat more.
- Normal residential affected in 1<sup>st</sup> and 2<sup>nd</sup> tier cities by tightened policies to limit housing purchases, lending etc, but high activity expected to continue in lower tier cities.

Source: Based on KONE's estimate

# Competitive landscape: many tiers of competition



## Global companies

- Focus on all segments from high-end to low-end and from big cities to small cities
- Strong, global brands as support

## JVs of global companies

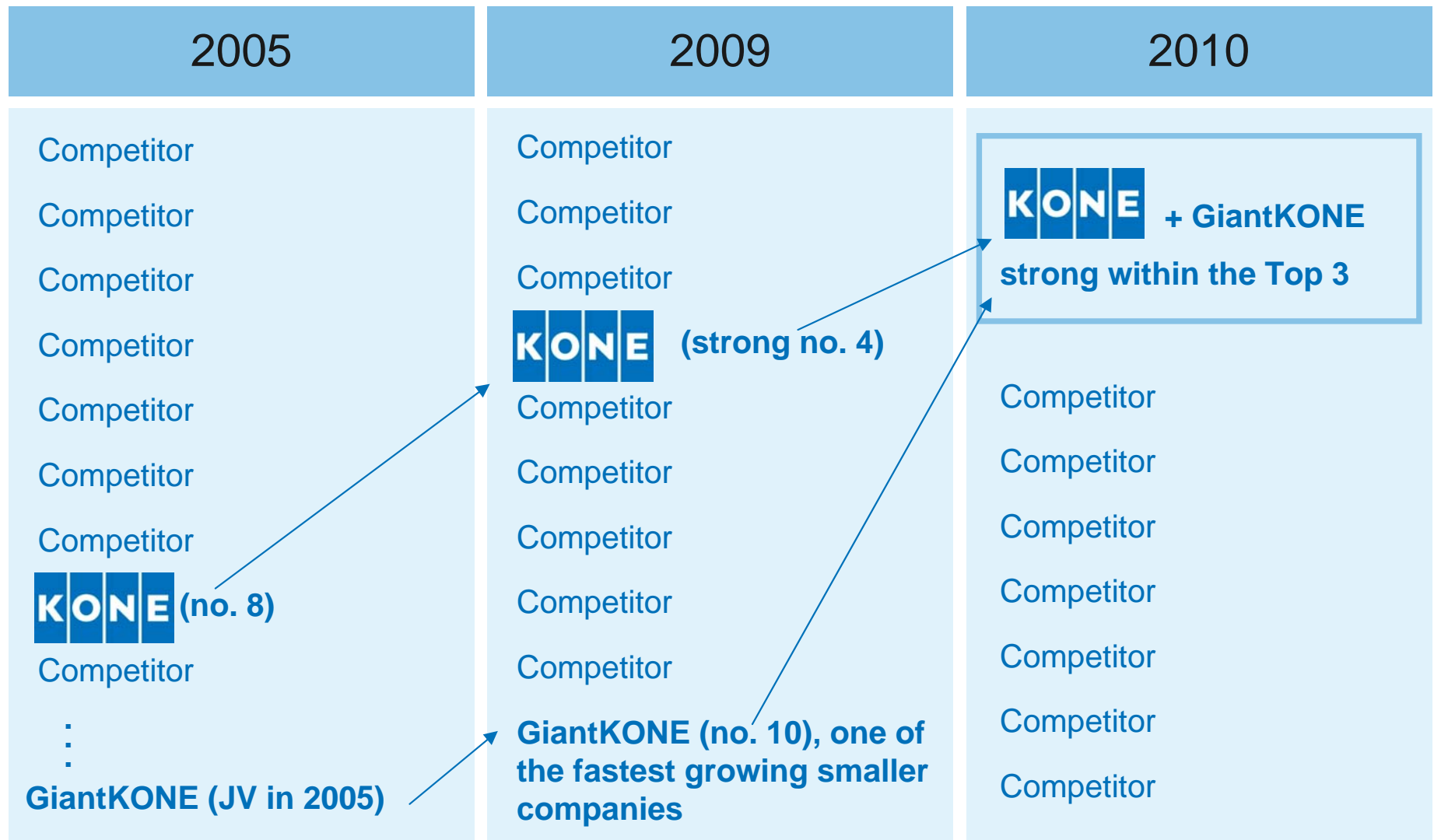
- Focus on mid-end and low-end of the markets
- Focus on 2<sup>nd</sup>, 3<sup>rd</sup> and lower tiers of cities

## Local companies

- Focus on low-end of the market and lower tiers of cities
- Components from suppliers with large volumes



# KONE has grown to become strong Top 3 company in the Chinese E&E market





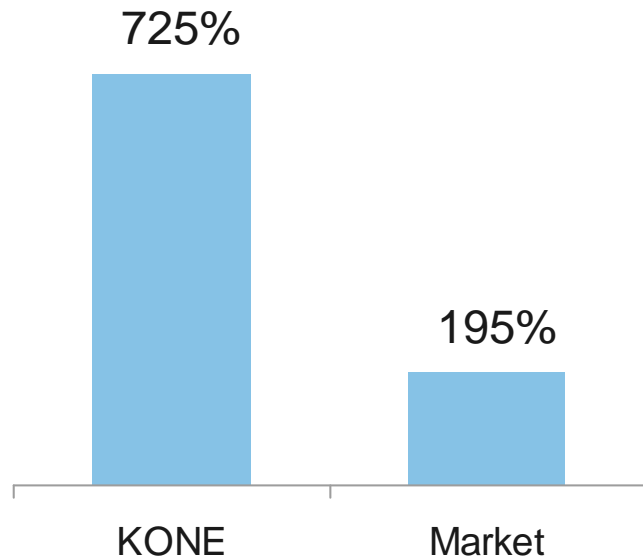
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# KONE has grown clearly faster than the market

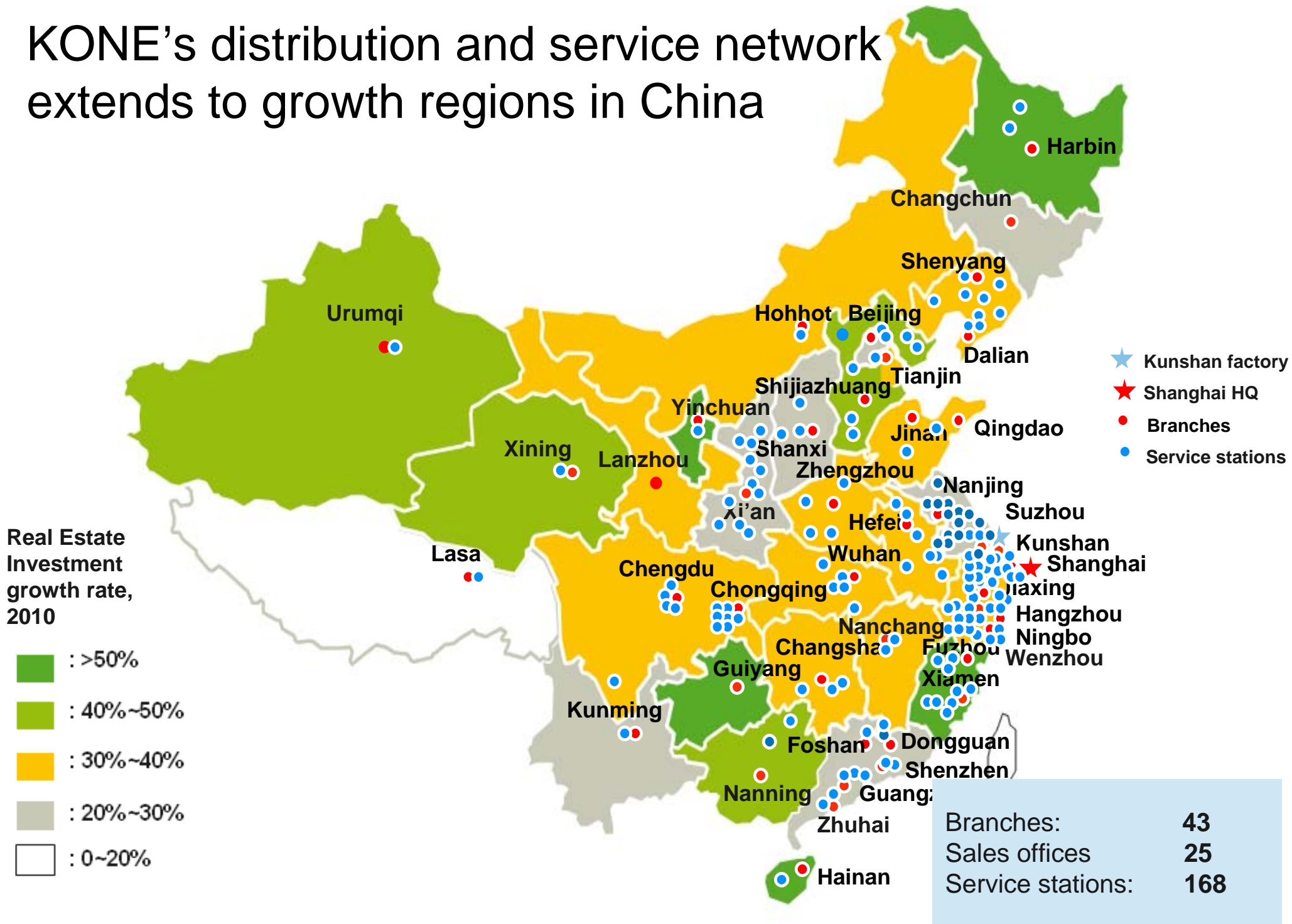


## KONE growth in orders received units vs. market growth, 2004-2010



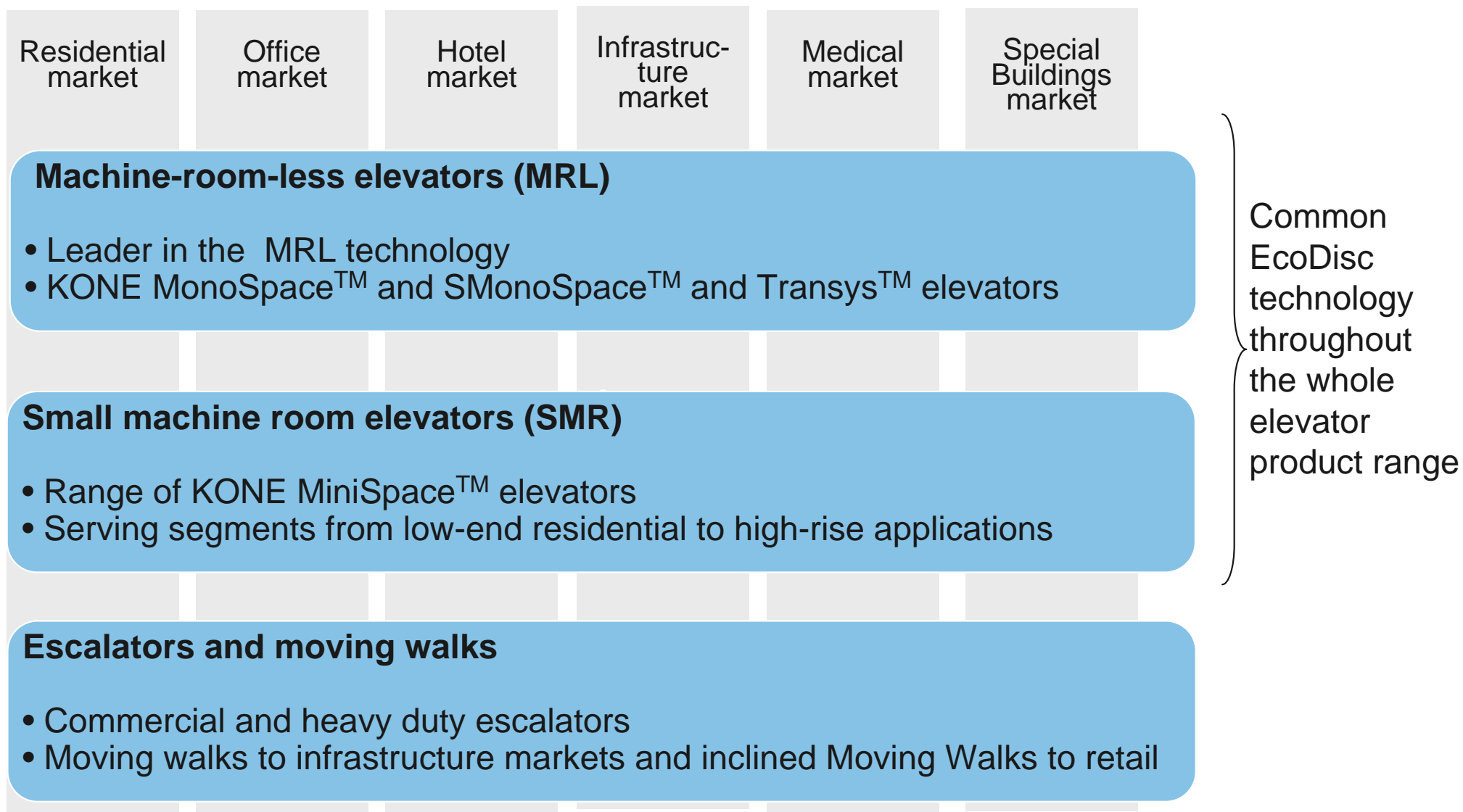
- Grown every year faster than the market during the past 6 years
- Significant expansion in the coverage of network in China
- Been able to improve its profitability
- Developed a market leading maintenance business

# KONE's distribution and service network extends to growth regions in China





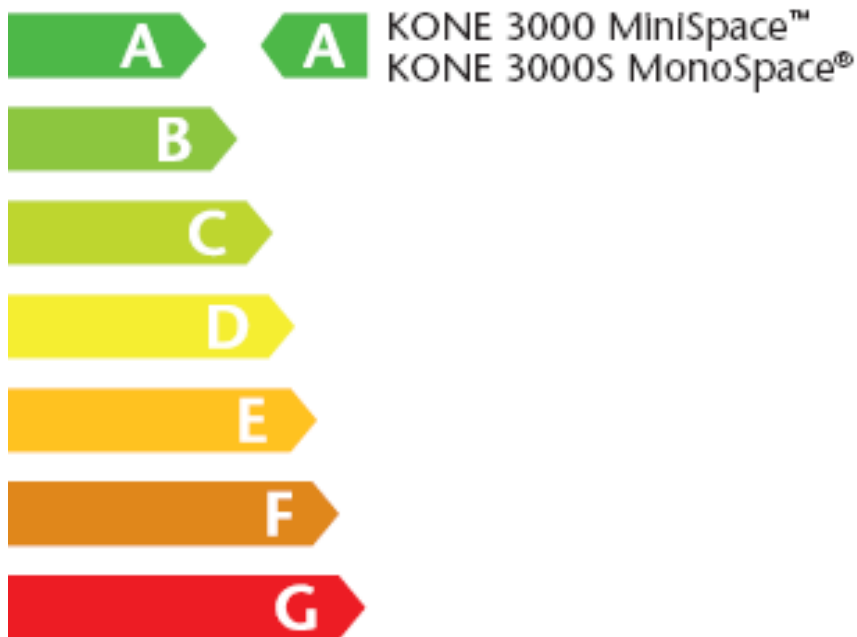
# Strong portfolio of solutions to meet the needs of the different segments



# Industry-leading energy efficiency ratings also in China



## Certificates for elevators manufactured in Kunshan, China



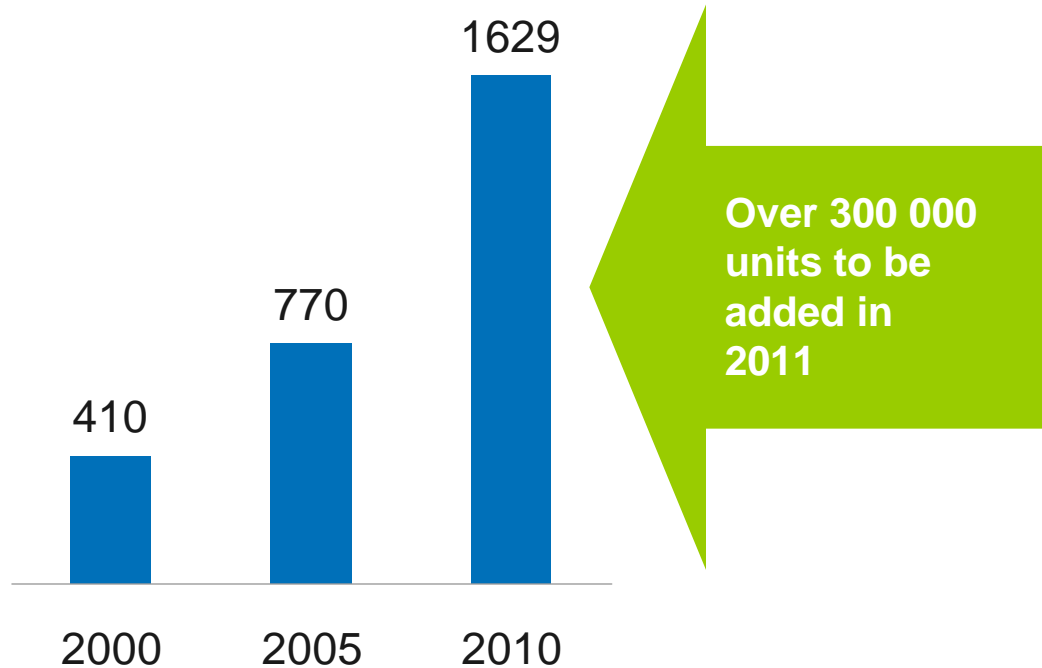
	KONE 3000 MiniSpace	KONE 3000 MiniSpace	KONE 3000S MonoSpace
Load (kg)	2000	1350	1350
Speed (m/s)	6	2.5	1.75
Energy efficiency class	A	A	A

The VDI 4707 is a guideline published by the Association of German Engineers (Verein Deutscher Ingenieure), which aims at classifying elevators based on their energy consumption.

# Maintenance: providing strong future opportunities



Elevator and Escalator units in operation in China (thousand units)



## Maintenance market characteristics:

- Significant annual feed from new equipment market to maintenance base
- Maintenance market is fragmented, but need for high quality service increasing
- Strong basic standards for maintenance exist – a license required

## KONE focus:

- KONE focuses on high conversion rate from new installations to service
- Service in all segments

# Market trends and KONE's response



Strong development of affordable housing market

- New KONE 3000 EMiniSpace elevator launched in Q1/2011 with particular focus on affordable housing segment

Growing environmental awareness

- Leadership in eco-efficiency with VDI A-level energy consumption solutions
- Continuous improvement to maintain leadership

Fast growth of installed base

- Focus on high conversions
- KONE Care service solutions to meet the needs of different customer segments

Demand for high-end major projects increasing

- Further development of sales, sales support and project management resources

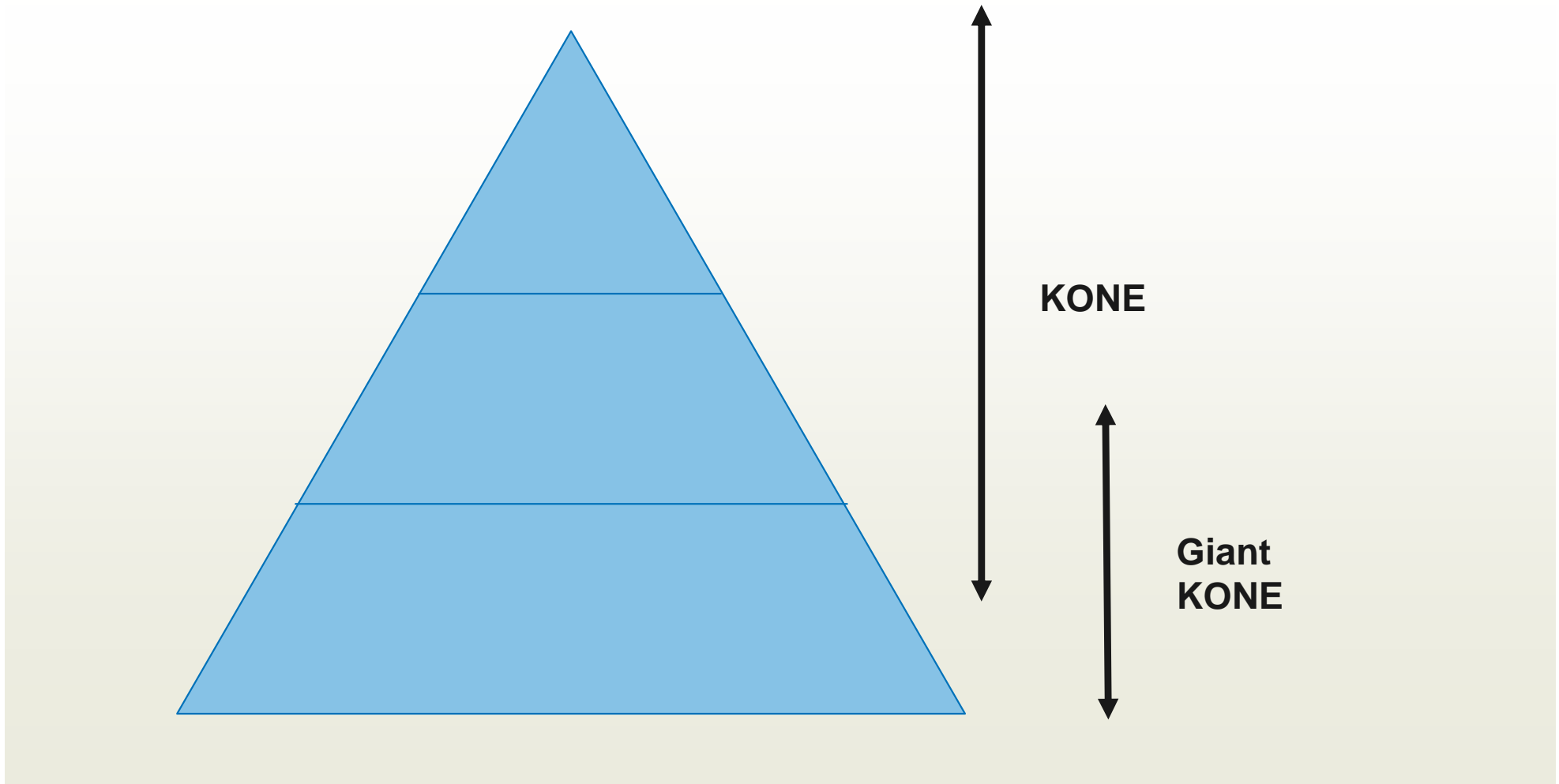


# GiantKONE provides strong second distribution channel



- GiantKONE has a strong product portfolio covering
  - Volume range of small machine room and machine roomless passenger elevators
  - Freight elevators
  - Escalators and ramps
- GiantKONE provides
  - Second distribution channel with a focus on the fastest growing segment and markets
  - Additional production capacity, synergy between KONE China and GiantKONE

# KONE vs. Giant KONE positioning



# GiantKONE's geographical coverage





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# What we have achieved in China



- Grown faster than the market every year for the past 6 years
- Reached Top 3 on the Chinese market (KONE and GiantKONE combined)
- Expanded product portfolio and geographical coverage
- Actively developed our personnel and recruited key talent
- Been able to improve profitability

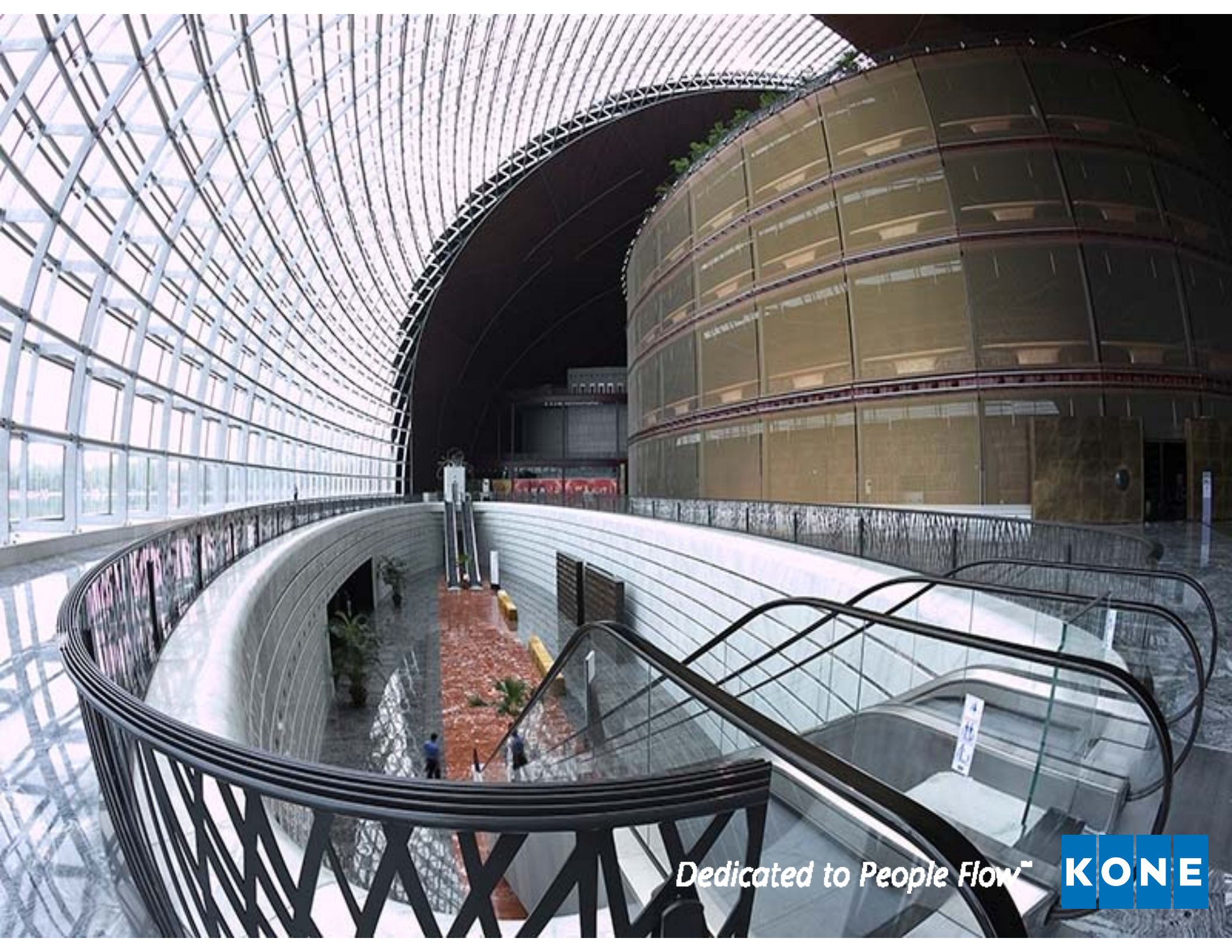


# What we want to achieve in China



- Continue to grow faster than the market
  - Residential, affordable housing
  - Commercial segments
  - Major projects
- Expand service business
- Further expand network in 3rd and 4th tier cities
- Continue strengthening product portfolio
  - Ride experience
  - Cost competitiveness, optimize for China
- Brand – even stronger awareness of KONE
- Fully utilize the market opportunities through two channels, KONE and GiantKONE





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