



KONE CAPITAL MARKETS DAY 2012

# Sustainable growth in China

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June 8, 2012

# Agenda



## ■ Construction market trends

- E&E market development
- Improved competitiveness with new offering
- Maintenance and modernization in China
- Developing KONE China further

# Growth is slowing down in a controlled way



## Macroeconomic indicators

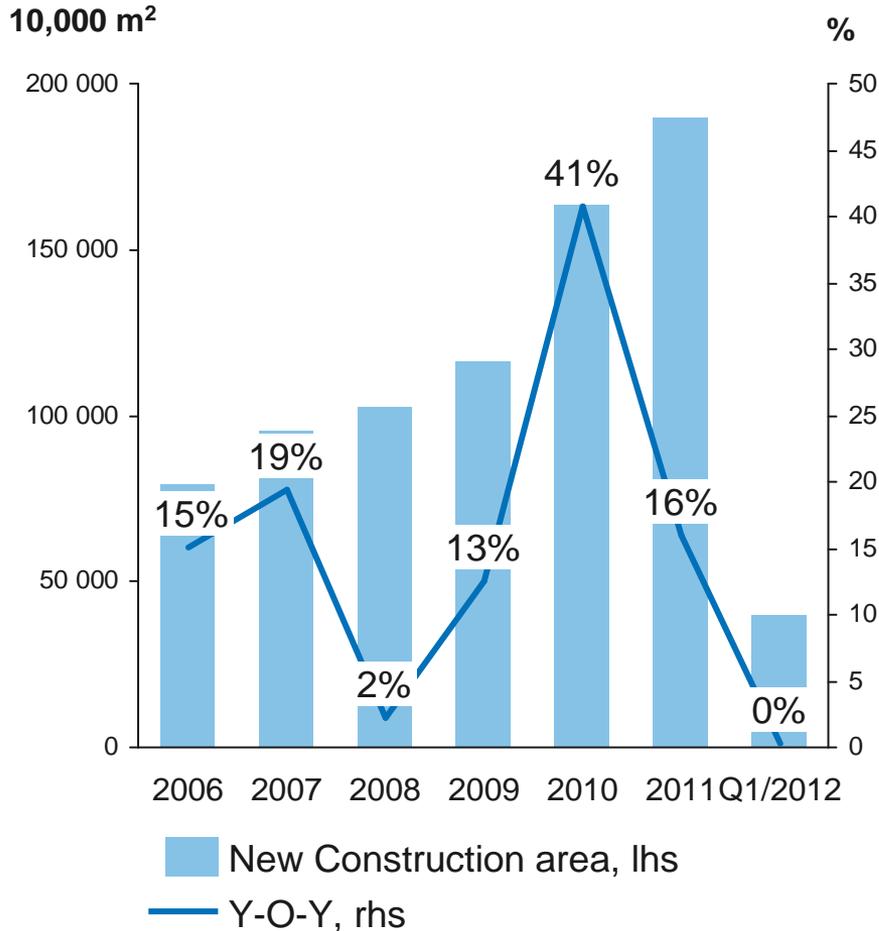
<b>y-o-y %-change</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012Q1</b>
<b>GDP</b>	10.1	10.4	11.1	11.4	9.6	8.7	10.3	9.2	8.1
<b>CPI</b>	3.9	1.8	1.5	4.8	5.9	-0.7	3.3	5.4	3.8
<b>Industrial production</b>	16.7	16.4	16.6	18.5	12.9	10.3	15.7	13.9	11.6
<b>Fixed investments</b>	26.6	26.0	23.9	24.8	26.1	30.5	24.5	23.8	20.9
<b>Real estate investment</b>	28.1	19.8	21.8	30.2	20.9	16.1	33.2	27.9	23.5

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

# Real estate industry growth is slowing down



## New construction area 2006-Q1/2012



## Real estate investment 2006-Q1/2012



Source: China National Bureau of Statistics

# Continued measures targeted to a controlled shift in the economic growth pattern – real estate sector implications



## Real estate sector

- Limitations on buying 2nd and 3rd housing in 1<sup>st</sup> tier, 2<sup>nd</sup> tier as well as in some 3<sup>rd</sup> tier cities and tight requirements on down payment
- With a partial easing of financing restrictions, it has become easier for first-time apartment buyers to get mortgages at lower interest rates
- Corporate financing availability is still tough for smaller construction companies

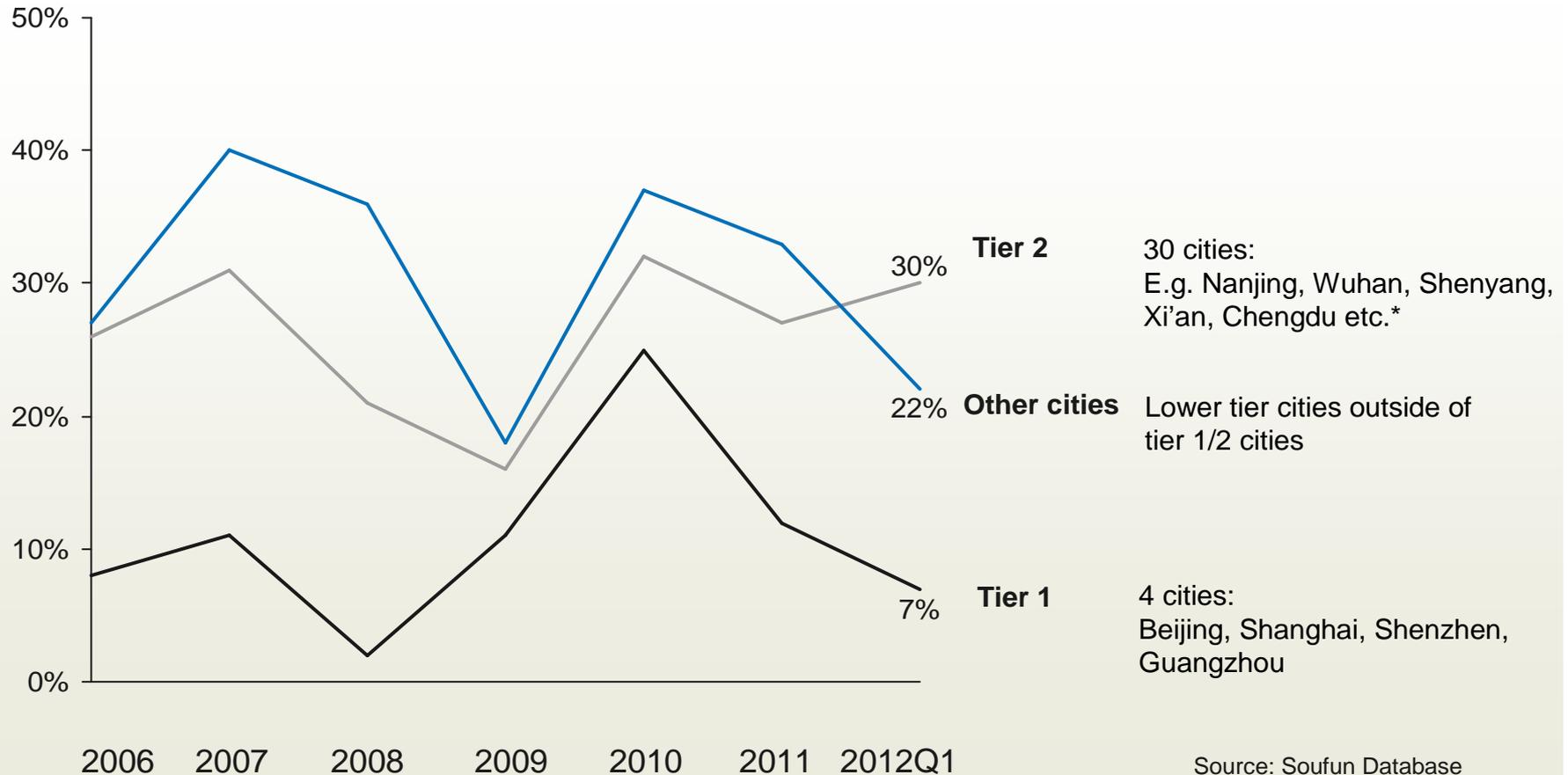
## Monetary policy

- Focus on the general price level – seeking to maintain balance between stability in the economy and relatively fast economic growth
- Reserve requirement ratio cut again in May 2012, the third cut after 12 increases in 2010-2011
- Further cuts of reserve requirement ratio expected during 2012

# Real estate investment growth rates in 1st, 2nd and lower tier cities



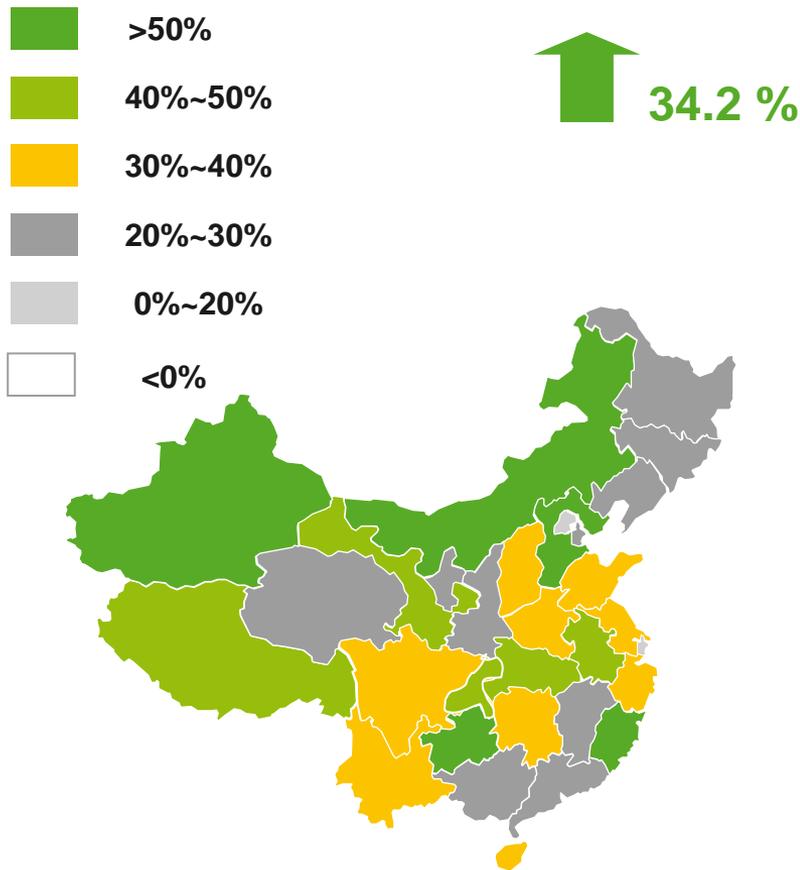
Real estate investment growth, %



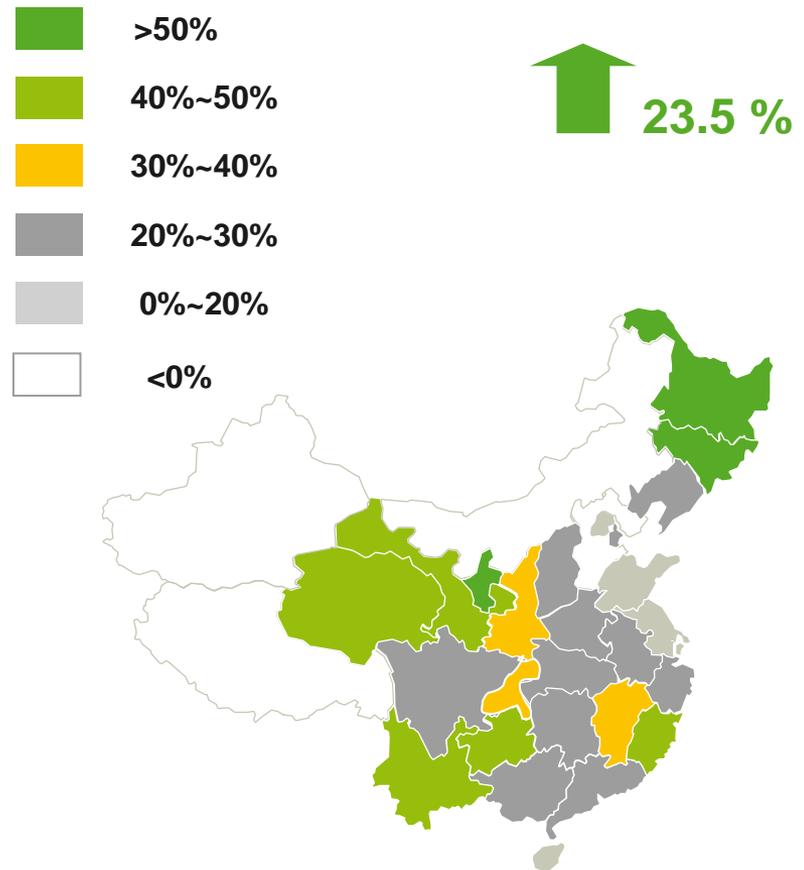
\*Tier 2, 30 cities: Nanjing, Wuhan, Shenyang, Xi'an, Chengdu, Chongqing, Hangzhou, Qingdao, Dalian, Ningbo, Jinan, Harbin, Changchun, Xiamen, Zhengzhou, Changsha, Fuzhou, Urumqi, Kunming, Lanzhou, Suzhou, Wuxi, Nanchang, Guiyang, Nanning, Hefei, Shijiazhuang, Hohhot, Tianjin

# Real estate investment is growing at a lower rate than in 2011 with strongest growth in in-land cities

Real estate investment growth rate, Q1/2011



Real estate investment growth rate, Q1/2012





- Construction market trends



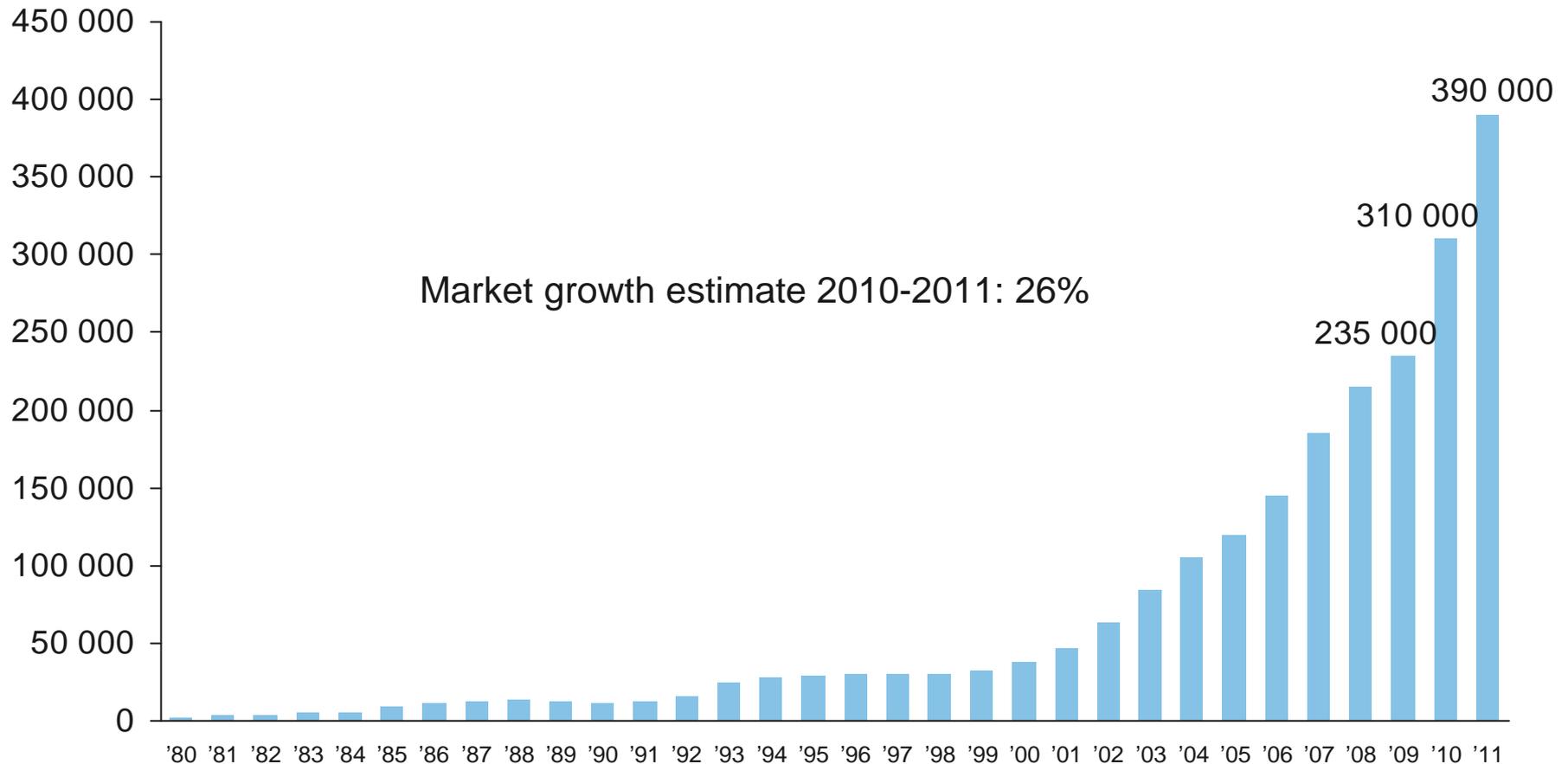
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# Significant expansion in the new equipment market in 2011



China new equipment market growth 1980– 2011, units

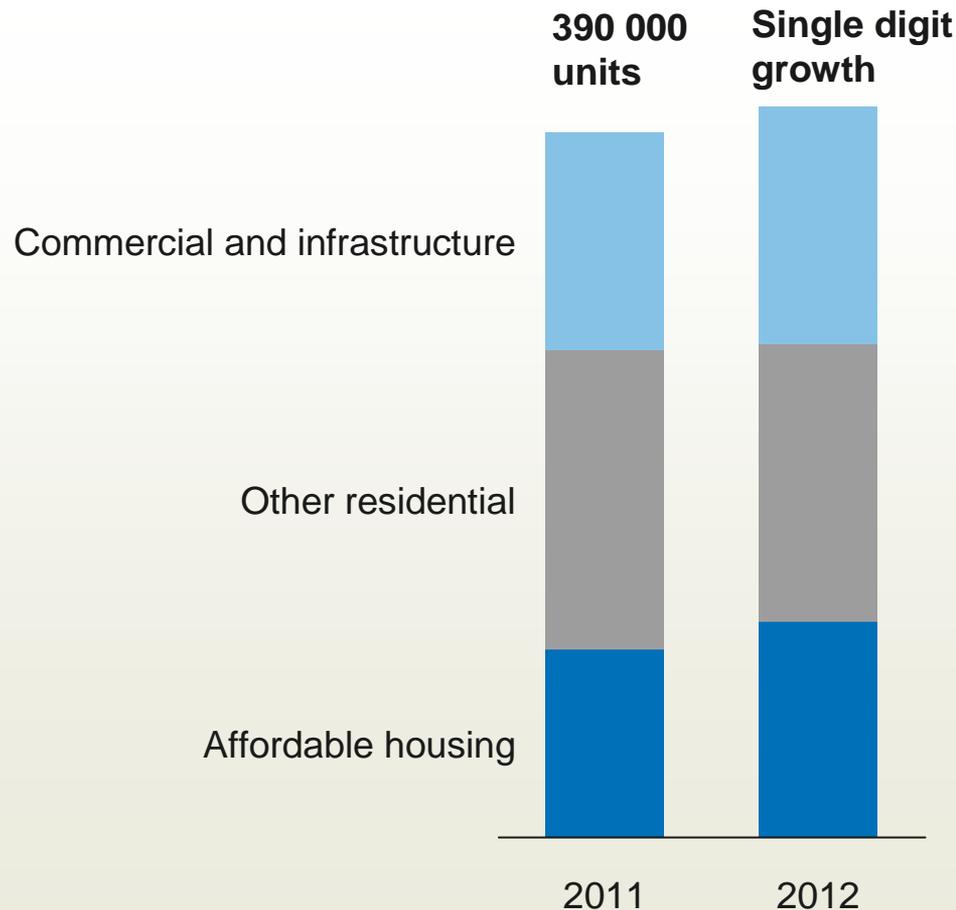


Source: China Elevator Association and KONE's estimates on the market size

# KONE and GiantKONE are well placed to capture growth opportunities



China new equipment market in 2011 and estimated growth in 2012, indicative



# Affordable housing remains the key growth driver in 2012



- Announced target to build 36 million affordable homes in 2011-2015
  - 2011: 10 million starts announced in line with target
  - 2012: at least 7 million starts targeted; January-April 2.3 million starts announced
  
- The affordable housing market for elevators is expected to continue to grow in 2012
  - The affordable housing starts accelerated in the 2nd half of 2011
  - Lag between construction start and elevator order
  
- KONE's E MiniSpace offering for affordable housing has proved to be very competitive
  - KONE's market share in affordable housing is still slightly below KONE's market share in the overall market

# Competitive landscape remains diverse



## Global companies

### New equipment

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

### Maintenance

- Increasing focus

## JVs of global companies

- Focus on mid-end and low-end of the market
- Focus on 2nd, 3rd and lower tiers of cities

- At an early stage and typically facing challenges in building a maintenance business

## Local companies

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

- Focus still on the new equipment business; equipment maintained by local independent maintenance companies



- Construction market trends
- E&E market development



■ Improved competitiveness with new offering

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# New offering will further improve KONE's competitiveness in China



- New KONE N MonoSpace elevator further strengthens KONE's leading position in machine-room-less elevators
- New KONE N MiniSpace elevator further improves competitiveness in mid-rise volume segment of small machine-room elevators
- The affordable housing segment will continue to be covered by the competitive KONE E MiniSpace elevator launched in early 2011
- GiantKONE will continue with its own product line; competitiveness developed continuously



- Construction market trends
- E&E market development
- Improved competitiveness with new offering



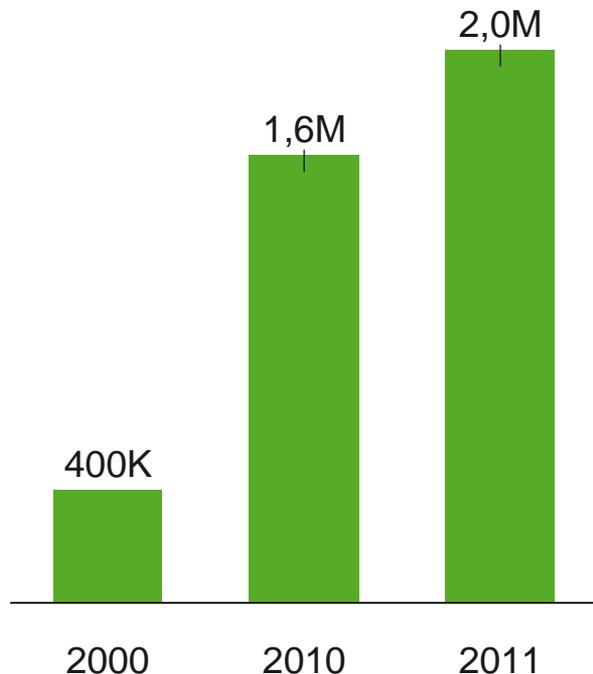
## ■ Maintenance and modernization in China

- Developing KONE China further

# Installed base is growing fast, maintenance market still very fragmented



Elevator and escalator units in operation in China



Source: China National Special Equipment Safety Supervision Bureau and KONE's estimate

- Significant annual feed from new equipment installations
- Maintenance market still very fragmented
  - Share of OEMs approx. 25% of total
  - Share of self-maintenance still high
- Maintenance in the affordable housing segment still in a development phase
  - KONE has developed an optimized cost competitive maintenance method for the segment

# Maintenance regulation is becoming stricter



- The government and local authorities are tightening maintenance regulation
  - Two-man maintenance required by local authorities in 12 provinces
  - Central government considering tougher guidelines for maintenance to ensure safety and related product quality
  - Some pilot initiatives to develop city level remote monitoring platform in big cities (e.g., Beijing, Hangzhou, Chengdu)

# Strong focus on developing a market-leading maintenance business in China

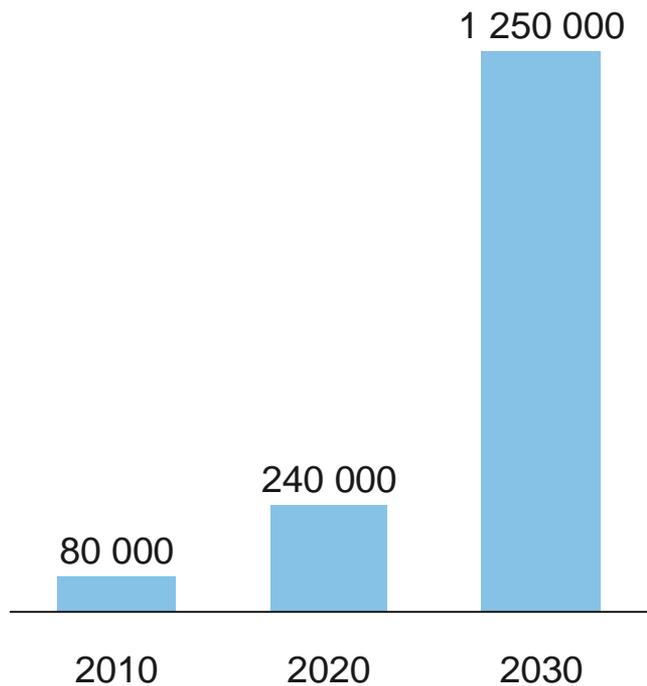


- High conversion and retention rates
- Average annual growth rate of KONE's maintenance base 2006-2011 (in units in service): 36%
- Continuous geographic expansion of maintenance network
- High focus on profitability through active development
  - Pricing development
  - Optimized maintenance method for affordable housing
- Regional technical training centers and technical school collaboration program to ensure availability of skilled people and to further develop maintenance technicians' skills

# Modernization represents an important future opportunity



Units in operation in China at least 20 years old, estimated



- Focus on 1st and 2nd tier cities with biggest aging elevator/escalator base
- Continuous development of offering competitiveness
  - Particular focus on further increasing competitiveness of solutions for mid-end customers in commercial segments
- Continuous development of the skills of dedicated talent for modernization ahead of the growth wave

Source: Based on KONE's estimate. Assuming full replacement of equipment after 30 years in operation.



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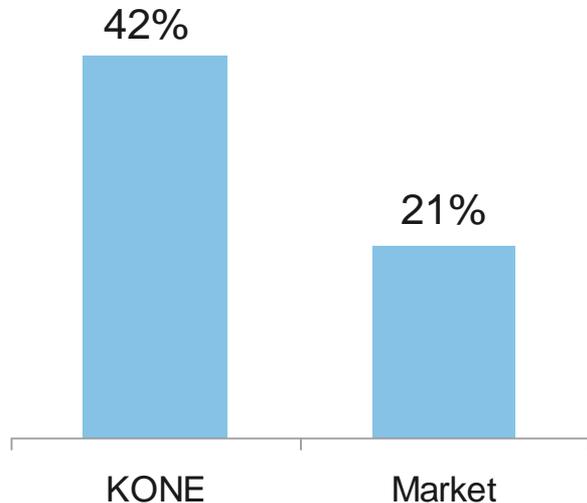


- Developing KONE China further

# KONE has grown clearly faster than the market in China



KONE growth in orders received (units) vs. market growth, CAGR 2004-2011

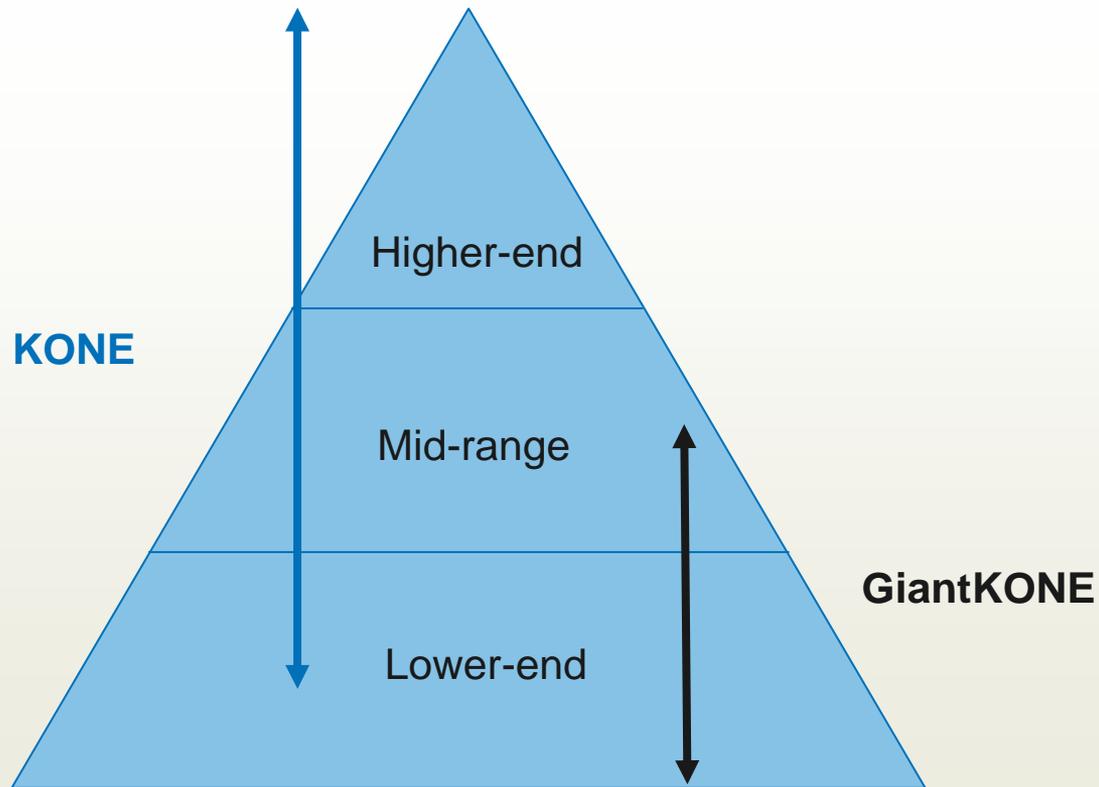


Note: The KONE figure includes GiantKONE for December 2011.

Market growth source: Based on KONE's estimate.

- Very competitive product portfolio covering all segments
- Significant expansion in geographical coverage: over 87 branch offices, 34 sales offices and over 200 service stations spread around China
- Strong leadership and sales teams, skilled technical workforce
- Dual brand strategy: KONE and GiantKONE

# We have a competitive product offering for all market segments in China

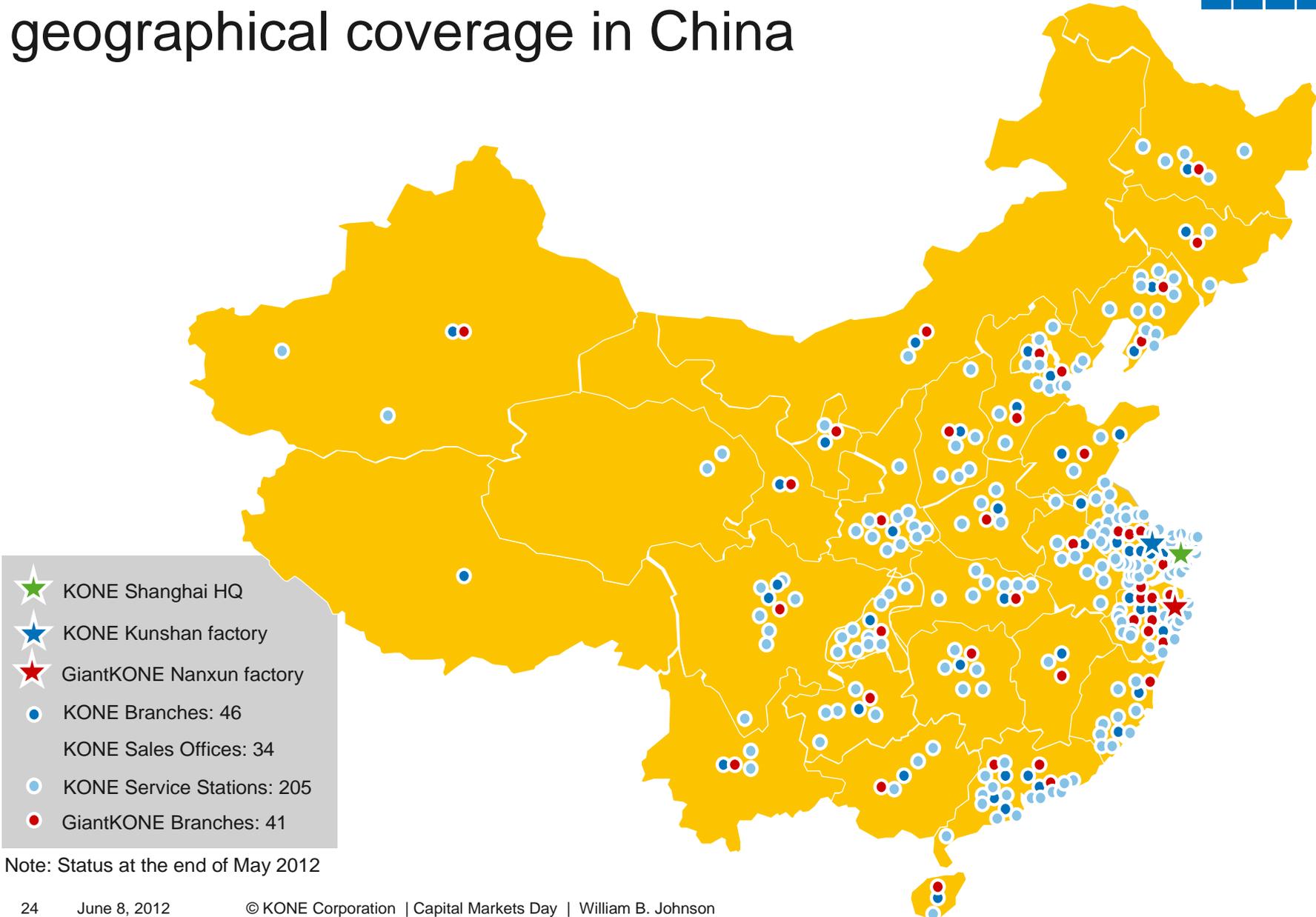


# GiantKONE to keep own brand and production, but processes are aligned and sourcing synergies sought



- GiantKONE continues with its own brand, differentiated offering and production
- Balanced portfolio of products covering volume residential and low-end of retail and commercial segments
- Synergies realized in areas, which do not impact differentiation, e.g. sourcing scale benefits and back office functions and processes

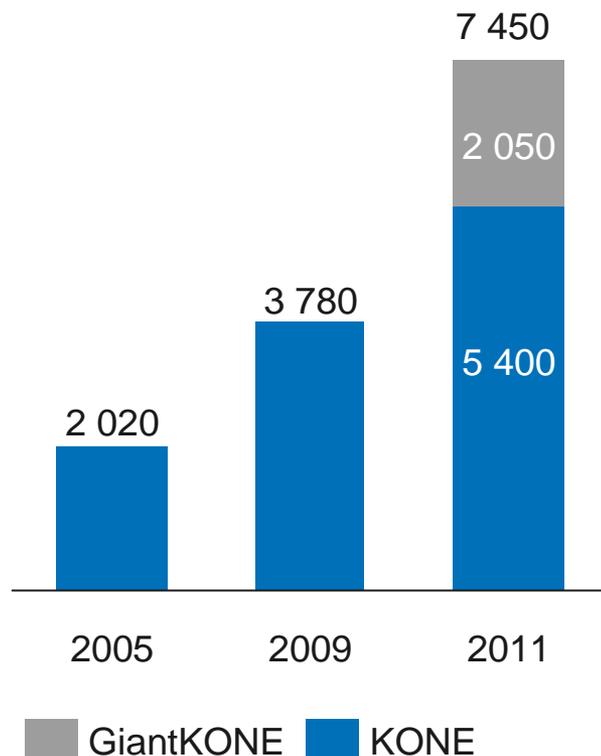
# We have continued to expand our geographical coverage in China



# Motivated and highly capable employees are our key asset – talent management is a priority



KONE headcount in China, 2005-2011



- Attracting the best talent
  - Campus recruitment & employer branding
  - Collaboration with technical schools
  - Career opportunities with the fastest growth company
  - Open and collaborative culture
- Improving employee engagement
  - Above market employee retention rates
- Developing leaders at all levels
  - KONE leadership programs
  - Mentoring and coaching: local, global and cross-company
  - Promoting from within

# Growing in China in a sustainable way



- KONE today no. 2 in China
  
- Objectives:
  - Continue to grow faster than the market
  - Build market-leading service business
  - Continue to improve our profitability
  
- Key focus areas:
  - Offering performance and competitiveness
  - Pricing excellence
  - Productivity development in operations
  - Active talent management



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