ALFA LAVAL
Q4 Earnings Conference Call
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Tom Erixon:

Good morning and welcome to our Q4 update. And let me start by saying that this is a bit special, perhaps. We are closing 2016 today. And we are closing our old operating structure, our divisional structure that we've been reporting to you for many years. And we are, as of January 1, operating in a new one as you are well aware.

So, let's take some highlights on Q4, then. And then through the normal presentation on the quarter. Let me start with some overall reflections on Q4. Order intake was relatively strong sequentially. We were up 16 percent overall. And especially PTD contributed to the growth in orders with a clear strengthening, especially on the large orders side, which we indicated to you with our pipeline already back in the last quarterly update.

EQD continued well, closing the year strongly on growth and orders, but also with the good profitability improvement for the year. And, finally, marine. Although, of course, operating in a rather tough market situation, we were happy to record sequential growth across the board in the sectors, including the service line, on the marine business. So, given the circumstances, a good final quarter in 2016.

Second item, on the cost side, there's been, as you can well understand, a clear focus on managing our cost base in the markets that we are in. And we saw that focus paying off in the quarter, partly on the A&S side, where we are 3 percent down versus Q4 last year. And we, that apart from cautiousness on the spending side, also (saw) the early effects of our restructuring program, despite the fact that we continue to increase our investment into R&D, as we go forward.

We also had several cost programs running related to cost of goods sold, both in our supply chain, including both production and engineering. And we've seen stable gross margin also into Q4, despite some negative absorption effects with the lower activities in the business, overall. And we see that both in the gross margin and, to a degree, in the uptick of the PTD profitability numbers in Q4 versus the rest of the year.

The new organization, as indicated, is operational as of January 1 this year. We are on track with the restructuring program that we announced during the fall of 2016. And we are, in quarter four, charging the remaining SEK400 million one-time charge as part of the restructuring program of SEK1.5 billion in total. That was charged to the fourth quarter. That means that all our one-off charges are now taken within 2016. And you should take that as an indication that we are probably running our footprint program a little bit ahead of schedule, and a little bit faster, than we perhaps indicated at the Capital Markets Day. And we are pleased with that.

That also means that the visibility on the fact on the COGS side with the footprint program is clarifying. And we have indicated in the report that the total savings from our restructuring program overall will be in the magnitude of SEK500 million on a yearly basis. And Thomas will give some further details to that program as he goes into the financial reporting in more detail.

Let me, before I go on in the presentation, just indicate to you that we do have one-time charges and costs in the marine division in the fourth quarter, both relating to some supply chain restructuring outside of our program as it's been running and also some one-time cost related to certain product deliveries over the last few years that are charged as a one-time item on the marine. And that is the main driver of the decrease in the marine margin in quarter four. So, although there are some volume effects on the margin, the vast majority of the margin decline in marine is attributed to this.

With that, let me go to the highlights in the quarter. As you've seen, we've announced a number of large orders. And we think this was, as you know from last quarter call, not a big surprise to us. We indicated the transparency of our pipeline that we would see a pick-up towards the end of the year. It maybe became slightly stronger than we thought ourselves. But, anyhow, we had a number of large projects coming through in the PTD area. And I would also say that on large projects below EUR5 million the activity was fairly good, overall, supporting the order intake growth in -- of PTD in the quarter. So, that was a good quarter.

The other main event was obviously related to the US Coast Guard approval. It came before Christmas for a part of our product range; the size ranges, was important for us to have that approval prior to year ending. It confirms partly our solutions and the approval of those. It confirms the UV technology within the ballast water segment as one of the two technologies applicable in this area. And we are early in this approval process as one of three moving forward in the sector.

As we have said, and we'll be back to that, we don't have any particularly effects in the order books on the ballast-water approval of US Coast Guard, nor on the SOX regulations spilling into the order book of Q4, 2016. As we said in the Capital Markets Day, we expect a gradual effect from 2017, as a result of that.

Going to orders received, here you see the trend occurs over a period of time. You see the relative strength of the Q4 order intake. It is a negative number year on year. And I would remind you that in the Q4, 2015, we had a significant one-time effect of preordering in the pumping system. Overall, that number was SEK1.2 billion, and way above the normal order intake level for pumping systems. So, even compared to the very strong Q4 2015, the numbers this year holds up fairly well.

You can also see that there is an effect of the return of the larger orders in the end of 2016. It's not a number which is equivalent to the strong period in 2014 and, to a degree, 2015. But, from an historical comparison, the return on the large project business in Q4 was relatively meaningful.

Going to the EBITA margin we landed obviously in absolute terms, due to good invoicing, on a positive number compared to the quarters prior in 2016. On margin, we held it relatively stable at the 15 percent mark.

There are obviously positive and negative factors affecting the 15 percent margin in the quarter. Clearly, the one-time effects in marine weighs in the gross margin, and weighs onto the EBITA margin in the quarter in a negative way. On the other hand, we should recognize that there are positive currency effects and positive effects from cost-down projects, as well, contributing to the upside of the numbers. So, all in all, the 15 percent was the result of those factors.

I indicated already that the work on the cost side has supported the development in A&S costs, although it is up a little bit sequentially as it normally is, due to seasonality. Compared to the fourth quarter last year it is a meaningful impact on the number, both in terms of restructuring and general cautiousness on spending, in the quarter.

Let me from here go to the performance on the divisional level and starting with EQD. As you've been noticing, EQD has been on a good run throughout this year, and it continued in a very stable way in the fourth quarter. The year-on-year comparance in this across the board positive, except from service, which has been flat. And, relative the sequential -- relatively strong Q3 and a very strong Q2, we felt we ended up on a good way also on volume for the year. It's visible in many ways, but you can also see it in the operating margin at 15 percent, 14 percent, which was very good in the quarter and was a record profitability level for the year.

You should note that we did have an important operational failure in the summer period in our OEM business which affected both order intake and invoicing for the year negatively. I think our OEM business would have been even stronger without the press failure. We have obviously addressed that problem and we are, since August, running in a normal way. So, we are way up to speed again, and we've dealt with all our issues there. But, all in all, it did have an effect on a number that otherwise would have been even more positive. And the development in OEM business was strong in Q4.

On sanitary it's been a very good year as a whole. And, in fact, after an extremely strong Q2 and a relatively strong Q3 we have been, to a degree, working with extended lead times in the sanitary as well due to bottlenecks. And also those have been dealt with, so we are more or less eliminating them, as we speak. And in Q2 we will be operating on a normal level with higher capacity addressed in a couple of our units. So, it's been positive challenges in some of the areas of EQD throughout 2016, and a good finish of the year.

Let us go to marine and diesel and let me start by saying that the contracting level for the marine industry as a whole in 2016, indeed, ended on a weak note. We still have less than 500 vessels contracted for 2016. And there will be some corrections of those numbers in the beginning of this year. So, we expect that the final number will be above 500, but most likely not above 550. So, it is way below the forecast at the beginning of the year, as it reflects what we've been seeing and feeling in the market. And so markets forecast that we hit the bottom in this year at a 30-year low is probably a reasonable judgment. We may well see an improved order activity and contracting activity in the sector in 2017. But you should remember that we are on a low level and even a high-percentage term is still leaving a number well below the historical averages for 2017. In that environment, we are positive to the fact that we saw sequential growth in all of the areas of the marine business. And there are a range of reasons for that. One is that the ship mix, especially on the cruise side, was very strong. So, we see that in the European numbers. We see it on the cruise side. And that goes through on the traditional equipment business that we had positive year on year and positive sequentially.

The pumping system was positive. We should remember that it has been very weak in Q3, especially, and certainly weak in the year after we had a huge preordering in 2015. So, it may be natural, but, nevertheless, it was a recovery of the certain order level in the pumping system, as well. And across the board it was positive.

Maybe for us one of the more important signals was that also service recovered a bit in Q4. We are negative for the full year on the service development affected by ship owners holding back on service. But still the Q4 was a return to a somewhat better number for year end and certainly, sequentially, a clear improvement compared to Q3. So, all in all, if we look at the order intake side on marine for the quarter it was relatively good. But, of course, still on a low level given the circumstances in the industry.

Finally, on process technology division, a big jump in orders sequentially. Perhaps the most interesting part is related to the oil and gas side of the industry. And our comment to that is that a relatively stable oil price in the order magnitude of $55 per barrel, a small increase in the rig count and a slightly more optimistic spirit in the oil and gas industry upstream, is showing in an increased market activity and, to a degree, also in an increased order activity across the board in our oil and gas sector.

As you know, and as we have indicated previously, we have dropped approximately 90 percent in our upstream business compared to the peak. We are nowhere near on the way back to those historical numbers. But it is a more positive aspect in the oil and gas industry, related both to the amount of spend in service, as well as in maintenance on existing projects. And it reflects in a slightly better order intake in Q4 than we saw earlier in the year.

And, with that said, we have already guided you that we don't expect 2017 to be a major shift in capex activity. And there are relatively long cycles from decision, to the fact, to the time when it hits the order books of Alfa Laval. So, I would not overestimate the impacts of the better sentiment in the sector. But, nevertheless, it was a step in the right direction in the quarter.

With that, a brief summary on the segments, the way we see them for the full year. As I said, on EQD, generally positive on OEM and sanitary. Industrial equipment weak in the quarter, based on seasonality, but also some weakness in general demand. And service for the year flat.

On the marine for the full year, clearly a sizable decline in orders, as you're well aware. But, with that said, a little bit of a better situation in Q4. And, finally, on the PTD side we are very pleased with the full-year growth of the service business; took a big step forward in the year with a 6 percent growth.

Positive sentiments in the waste-water business as well. Food and life science, pretty good overall, but a clear impact of lower investments into vegetable oil related, among other things, to biofuels. And, finally, the energy and process segments which finished the year strongly. But, overall, with a relatively low level of large capex projects early in the year we are behind on a full-year basis.

So, that's where we are on the segments. Let me give you some comments on what's happening on a regional level. And let me start off with Western Europe, which shows really great numbers, both sequentially and year on year. I would say there are two main factors contributing to this. One is that we've had a positive organic growth development in Southern Europe. Both France and Italy have been very positive for us from a -- daily business throughout the year as -- and, perhaps, a bit of a positive surprise and turn from a period of low activity in those markets. At the same time, we also have a big impact in Western Europe, from the large orders. And many of the large orders with -- which eventually will be delivered to Middle East or other places are entered through international contractors, often based in Western Europe or in Spain, or other places. So, those numbers are not only reflecting demand in Western Europe, but also the international contractor activity.

Going to Eastern Europe, Russia, overall a good development in the year. For sure, a slightly weaker finish in Russia, in fourth quarter. But, all in all, we turned the page in Russia, for sure, with a good year. And certainly, a clear change from the economic-crisis period that Russia experienced prior to 2016. So, Eastern Europe including Russia, was a good year for us.

Nordic still negatively affected our offshore business and, overall, a relatively weak year for the Nordic region.

Going to Asia we, for the first time, saw sequential growth in Asia mainly attributed to the fact that the marine order intake improved in fourth quarter versus third quarter. So, you see the 14 percent positive being the main driver of the change, just as well as the minus 41 percent is largely attributed to the marine sector. And I will -- I'll give some further comments to that on the next slide.

Latin America came in well. I would say that the full year, or the comparison on last year, you should remember that we had a clean-up of the order book in Brazil last year. So, the numbers look a bit stronger than they are. But, all in all, still, outside of Brazil, strong growth in many areas. And Brazil also generally positive on a relatively low level for the year.

Finally, then, North America. The numbers overall are impacted negatively on Canada, which had difficult years on large projects and on oil- and gas-related business for 2016. Whereas, US is a bit stronger than the numbers for the region as a whole. And especially the US numbers, relative to last year, improved in the second half. So, reasonable pace in the US business, and reasonable stability.

And let me, with that, take you to our top markets to give you a little bit on -- of flavor for what happens in the individual places.

So, in the United States, you see 2016, what we said, a level of -- on a low level on the oil and gas business. So, the negative effects of that started to be out of our order books, especially in the end of the year. And we'll see where that goes, going forward. But, all in all, a stable year. And you could say 2016 is a year when the US asserted itself as by far our most important market. And we feel good about that.

In China, we have a decrease. Whilst in many segments a relatively good year in China, we were affected in some capex-related areas, but primarily the decline in China is the result of the marine industry.

And if you want a real example of the marine industry impact you see it in our numbers in South Korea. It was in 2015 our third-biggest market. And, relative to 2015, almost two-thirds of our business in Korea disappeared in 2016. And this is, of course, a huge impact from the marine industry on our order books in South Korea. But I would add that, in general, the economic situation in Korea was not good last year and it had impact on capex projects also, to a degree, outside of the marine. But, clearly, this was a big item for us in the year. And, all in all, if you compare, it's about SEK2.7 billion in orders that we -- that dropped in South Korea alone, related to this issue. So, if there is any good news in that, you could say it's better to know where you have the problem than if you don't know it.

Nordic I commented on before. Japan down a little bit; relatively stable in Japan. The marine business is also, and the order books for the shipyards in Japan, is a bit more stable than in other places. So, we see a smaller impact in Japan as a whole.

Southeast Asia I would say a vegetable oil issue. Otherwise, Southeast Asia is stable, stable plus. And, you see the more positive situation in Mid Europe and Adriatic that I indicated before, as well as in Benelux.

India, as a whole year, not a fantastic development. It's flat versus the year before. But a very, very strong finish in India, after a weak start of the year. So, at least, we walked out of the year in India on a strong note in a Q4 that was good.

And I think, with that, we covered the business review from an order point of view. And I would like to hand over for Thomas for some further details on the financials. Thomas?

Thomas Thuresson:
Thank you, Tom. Good morning all of you. Let's start off with a few comments on our sales development. And let me start off by reminding you of the forward-looking statement on sales that I did with the quarter-three report. There I said that we believe it's reasonable to expect an invoicing in the fourth quarter somewhat higher than that of quarter three, mainly because of the phasing of delivery of the backlog, and given due consideration to sideways development or demand for short-lead time items and services.

Well, we ended up with sales of SEK9.9 billion. And, in comparison with quarter three, that means an uptick of 12 percent at constant rates. And year on year, then, we were down 12 percent as well. We ended up, I would say, slightly above our own expectation also for sales, but particularly I think that is to be attributed to significant translation effects. But, of course, we also had an underlying somewhat bigger, higher, level of deliveries than we anticipated ourselves.

If we move on to service, the service activities represented 30 percent of sales in the quarter, exactly, as a matter of fact, the same as in quarter three. And then, compared to last year quarter four, 27 percent. That means year on year we got a mix support from higher service content in our sales. We have also, within service, recognized a minor positive effect through an increased share of cost deliveries of total service revenues.

Finish off on sales, let me give you the first forward-looking statement. We believe it's reasonable to expect a lower invoicing in quarter one than that of quarter four, mainly because of the normal seasonal pattern, with relatively lower level of revenue recognition in contract-based business in the early part of the year.

And, with that, let's move on to gross profit margin. Gross profit margin in the quarter was 34.3 percent, an increase of 0.1 percent year on year, and a reduction sequentially of 1.4 percent. And then, coming back to my forward-looking statement after quarter three, then I said in the near term we expect adverse effects from load and an increased share of capital sales. We expect continued positive FX-transaction effects and positive PPVs.

The actual outcome for quarter four means that gross profit was not influenced by an increased share of capital sales, as I mentioned before. But, for the remaining parameters, gross profit margin developed in the expected direction.

To elaborate on some of the main parameters influencing gross profit margin, let's move on to the next slide. We were suffering adverse effects from a negative price mix including one-off costs in certain deliveries in marine. And I will be coming back to that on the divisional comments in a moment. We were also suffering from a weaker load in certain of our factories.

We were positively affected by purchasing variances. So, initiatives on the purchasing side, they delivered. And, of course, we also got support from FX-transaction effects.

So, let me then move on to the second forward-looking statement. In the near term, we expect adverse effects continue on a declining load. We expect continued positive transaction effects and also positive purchase-price variances.

Let's then look further down the P&L and talk a bit about the development of our overhead costs. R&D ended in the quarter at SEK232 million, an increase year on year, like-for-like of almost 14 percent. If we look at R&D in relation to revenues, we ended at 2.3 percent compared to 1.9 percent in 2015. That is for the full year. In summary, I would say that this fairly sizable increase in R&D has been a conscious increase, a very conscious increase to increase R&D efforts, to support a positive organic development, going forward.

Then let's get to sales and admin. We ended in the quarter at SEK1.53 billion, representing a reduction year on year, like-for-like of almost 3 percent. Again, as Tom already commented, an indication that our efforts to save on cost and adapt to market circumstances is really having an effect. And, of course, this is coming from reduction in headcount as well as savings on other items in the S&A area.

Then if we move further down the P&L account, profit before tax ended at only SEK877 million, a sizable reduction year on year from the almost SEK1.4 billion a year ago. Of course, this decline is mainly explained by the one-off charge of SEK400 million in the quarter and the reduction in sales volume of SEK1 billion. Then, of course, we also get a support from a better financial net compared to last year, coming from FX differences in financial net.

Before leaving the P&L as such, taxes ended with a charge of SEK261 million, looks high compared to the profit before tax of under SEK900 million. The explanation is a combination of that we are not having any tax effects from the write-off of goodwill being part of the SEK400 million one-off charge, and then this is partly compensated by lower deferred taxes from a tax rate cut, particularly in Norway, in fact. But, going forward, we maintain the 28 percent guidance.

Connected to the P&L, EPS ended lower than last year at SEK1.46, of course explained again by one-off charges and lower volume. Then finally, returns on capital employed as well as equity, very much influenced by the one-off charges. We ended at 15.3 percent and 11.8 percent respectively.

Then let's move into the details of the comparison distortion items, or the one-off charges if you like. The program for reorganization that we launched in quarter three, there we took the second step in quarter four. Decisions were taken for the remaining elements of this program, giving a charge of SEK400 million, out of which SEK100 million is write-offs, and consequently a non-cash item. And for the rest, you see that the very vast majority, almost all of it, relates to footprint adjustments -- SEK285 million out of the remaining SEK300 million.

If we look at the one-off charges for quarter three and quarter four combined, the total charge is SEK1.5 billion. SEK700 million write-offs, so non-cash; SEK380 million of the charges relates to adjustments in the overhead area, predominantly sales and admin; and SEK420 million has to do with cost of goods sold adjustments to be implemented.

As far as employee impact is concerned, we anticipate a reduction of some 1,000 employees, out of which 450 comes from the overhead side and 550 from cost of goods. Then finally, on savings, the total of SEK500 million -- SEK300 million for sales and admin, and SEK200 in the cost of goods area.

So what about the implementation, then? Well, we believe that we will have implemented some 75 percent of the savings by the end of this year -- by the end of 2017. So we will be on a level of 75 percent of SEK500 million, that is to say SEK375 million, by the end of this year. We also believe that we will have 100 percent of the program implemented by the end of 2018, and of course, 2018 implementation is entirely to do with the footprint initiative within this program. But that, of course, means we will only have the full SEK500 million in the P&L account in the fiscal year 2019.

With this, I think, to conclude, this means you must not expect more in terms of charges relating to this program for employee reductions or savings, so as far as charges are concerned, this is closed by now.

Let me then move on to divisional performance. Equipment came out better than last year thanks to somewhat higher volume and a better price mix, then reduced by lower load in some factories, and then marginally higher overhead costs at a 14 percent EBIT margin.

Process technology ended lower than last year, but better than quarter three. Compared to last year, the decline is mainly due to lower volume, but also, again, the lower load in certain factories and lower margin on certain projects and then finally, slightly higher costs. However, it should be noted that it is a meaningful improvement on quarter three on the journey back to historical performance levels for these businesses.

Then, let me finish off with marine. We came out lower than both last year as well as quarter three, mainly, if we look at the absolute decline of some SEK350 million, the main reason is lower volume, but we also had to recognize one-time costs in the quarter. These one-time costs, they correspond to approximately 400 basis points out of the total decline, sequentially, of some 500 basis points in margin. This is connected, then to certain product deliveries, and I think it's important to recognize that we're talking product deliveries, we're not talking project business here. We are also making changes in the supply chain outside of the overall restructuring program that's influenced the profit in the quarter. So total effect corresponding to 400 basis points, so underlying a limited decline from quarter three.

Then, let's move on to cash flow. Cash flow from operations amounted to just over SEK1.9 billion in quarter four. This is a slight increase compared to 2015, and I would say it's a good outcome despite substantially lower EBITDA, thanks to a handsome release of working capital and also lower taxes paid.

Regular capex ended somewhat lower than last year for the quarter as well as for the full year, I think well in line with the kind of demand situation we've been faced with in certain sectors.

Investing activities also included acquisitions of SEK187 million, and this refers to the acquisition of the remaining minority in Alfa Laval India Ltd, so the formerly listed company is now a wholly owned subsidiary of the Alfa Laval Group.

Finally, financial net, positive SEK129 million, an outcome SEK73 million better than last year, explained by a combination, partly, of lower interest paid, but very much more so favorable FX differences.

Free cash flow SEK1.8 billion in the quarter, compared to SEK1.65 billion a year ago. For the full year, a free cash flow of SEK4.5 billion, a reduction of only SEK300 million compared to 2015, despite a reduction in EBITA of SEK1.25 billion. I would argue that this is at least partly thanks to a good stability in the underlying way that we do operate in the company.

This cash flow has brought us to a debt-to-EBITDA of 1.81, compared to 1.56 a year ago, and if I exclude the one-off charges, then we're in fact back to about 1.5 to EBITDA. Continued good level of de-leveraging.

FX effects, positive the quarter with SEK141 billion. No doubt an outcome that is below our expectations as far as translation effects are concerned, but this is attributed to an adverse translation effect on working capital. The strengthening of the US dollar, where we have handsome advance payments on the marine side, that caused a one-off adverse translation effect. But of course, assuming a continued strong US dollar this effect will come back as increase the invoicing and increased EBITDA in the coming quarters. Transaction effects, I would say, came in exactly as expected. The forecast for next year, for 2017 -- this year in fact -- from Capital Market Day is confirmed at a positive SEK275 million totally.

Then, our backlog, SEK16.9 billion at the end of the year, representing just under six months of LTM sales. For shipment in this year, 2017, the backlog amounted to SEK12.9 billion. This is a reduction of SEK2.7 billion compared to the starting point for 2016.

With that in mind, let's look, finally, at the bridge to sales for 2017. Starting with the SEK35.6 billion for 2016, again the backlog -- lower backlog of SEK2.7 billion, the negative one, applying the closing rates on in-for-out sales, we anticipate a positive translation effect to the tune of SEK0.6 billion. This gives us a subtotal of SEK33.5 billion, and then of course the unknowns.

Considering demand development during 2016, I think it's reasonable, at least at this point, to expect a lower level of in-for-out orders in 2017 compared to 2016, however this, of course, may change.

And then finally, with regard to prices, we've only made small adjustments to compensate for recent metal price increases.

And then, before I give the word back to Tom, let me just confirm that the Board of Directors yesterday, in their meeting, decided to propose to the AGM that the dividend remains at SEK4.25 per share, and then with that back to Tom for the outlook and the closing remarks.

Tom Erixon:

Thank you, Thomas. Now, as for the outlook, as you may appreciate we closed the year based on our structure, and we're moving into a new divisional structure, so the normal guiding comments are a little bit difficult to handle in this situation. We obviously, starting from the Q1 report, will guide you in a similar way but based on our actual numbers from Q1 as presented.

So let me make the following comments based on that. As a whole for the Group, we expect demand in the first quarter to be somewhat lower than in the fourth quarter.

Now, regarding marine, which will continue to operate more or less exactly as it is today, the forecast for forward looking comment for that division is unchanged, or somewhat lower, compared to Q4.

With the remaining part of the business, we think the pipeline for large projects is perhaps somewhat weaker than in the Q4, so we expect fewer large orders in the fourth quarter, and for the rest of the business an unchanged or somewhat lower demand in the base business. But I think what you should pay attention to is the Group statement, where we will be in a somewhat lower level for Q1 compared to Q4.

With that, we close the presentation. We will have 15 minutes for Q&As, and I leave the word back to the conference leader. Thank you.

Q: Yes, hi Tom and Thomas. A couple of questions please. Firstly, can I come back to the cost savings? We have SG&A down 3 percent in the quarter. How much was this in PTD? You obviously had all the plan. Is there not an upside risk her, that you keep eating on the OpEx side? I appreciate that COGS savings are always a bit more tricky to realize, but aren't your OpEx savings a bit conservative?

Then my second question is on PTD and the margin again. You had cost overruns in the past, you had issues with certain projects. Are these effects annualizing also the reason why the margin is better, or is it just pure cost savings?

Then the final question is on Frank Mohn and the margin. Can we come back to the impact from the one-timers, Thomas? This is certain product deliveries weighing on the margin. You could almost call this a negative mix. How long will this impact last for, and if you could, also comment on whether you had any pure mix impact from lower deliveries in Frank Mohn?

Thomas Thuresson: OK, if I understood your first question correctly you are of the opinion that the OpEx savings are conservative, particularly attributed to process technology. Let me then just repeat, our expectation is that we will realize SEK300 million of savings out of the S&A line, and that is -- well, that's our expectation as far as this program is concerned. So that's really it. If we then look at the process technology margin, we had an improvement, sequentially, and I think that is evidence that measures taken to balance the net activities and, you know, solve the problems related to certain deliveries -- certain project deliveries -- they are getting sorted out.

Then, finally, marine and diesel. Well, this is related to product deliveries. So it's not projects involving engineering and the likes. It is delivery of products. We are of the opinion that we have the issues very well defined, and this is to be considered a one-off charge, so this is nothing that we believe would specifically influence going forward. It is not a mix per se, between one size or the other of a particular product, or a variation between different types of product. It is to do with deliveries of a specific product, and we've taken the hit for these deliveries in this quarter.

Q: OK, just a follow-up, Thomas. In terms of Frank Mohn, the backlog here, how much are we down, and how much is -- will sort of weigh on the mix going forward? Obviously there's a high margin here in Frank Mohn.

Thomas Thuresson: As we get further into 2017 -- as we gradually get into the year, we will see declining revenues from Frank Mohn, but there is no substantial impact, really, in quarter four compared to, say, quarter three of 2016. But yes, we will see declining deliveries in Frank Mohn in 2017.

Q: My final follow-up is, just to come back on the cost savings, what I meant was the 3 percent like-for-like down in S&A in the quarter, this is obviously on top of the SEK300 million, or should we include that within the SEK300 million OpEx, i.e. is there discretionary spend that can come on top of the SEK300 million?

Thomas Thuresson: There is -- this is, of course, the first signs of effects from the program.

Q: Mm. OK, thank you, guys.

Q: Thank you. Just two questions from me. Firstly, on the marine orders, obviously those are now growing sequentially. If we look at the Clarkson's data that's out there, and we think about your lag of sort of three to nine months, are we effectively now saying that we've reached a trough in this business, and we should think about this as a sensible quarterly run rate for going into next year, or do we see potential for another leg down in terms of ordering, from the levels where we're at now?

Thomas Thuresson: Well, I think I've been cautioning you to be too mathematical in looking at this market, because it is more complex than assuming stand-up lead times, and that you have an absolute correlation quarter-by-quarter on -- following the trend curves on the level of contracting with the shipyards, and I think Q4 was an example for that.

I think, though, that our general guidance to the market has been that we have not necessarily seen the full impact of the low level of contracting in 2016 on our order books, and with that said, we've also indicated that the impact from environmental products in 2017 should be considered a balancing factor to the downside that we may see on the capital order side.

With that said, obviously, we've taken -- as you've seen among others in the Korea numbers, we've taken a substantial decrease on capital equipment ordering already in our books. If you look at the running-rate now, I think we are just top of EUR800 million on a yearly pace. We are over 30 percent on service, so obviously by the sheer numbers, and given that I think we were up at the pace of EUR1.4 billion -- over EUR1 billion in capex (orders) only on the marine side two years ago, it starts to get to a level where you have to think a bit carefully in terms of, you know, how dramatic assumptions you can make going forward. But of course, we should probably expect that over a period of time now, into 2017, we may on specific quarters or over a couple of quarters, see some further downward pressure on the CapEx order intake in the sector. I think that's reasonable.

Q: OK, and just my second question, just on marine services, did I hear it right that you were saying that the outlook on services could still be difficult because of downward pressure on merchant ship spending?

Thomas Thuresson: No, you did not hear that, nor will you hear a forward-looking comment on marine services specifically. What I did say was that we have pressure on the service volumes, particularly in the middle of the year, and we saw an improved level of orders in the marine service in the Q4 numbers, sequentially. It didn't make up for the total service revenue for the full year of 2016. So the full year went behind in service, above in PTD and equal on EQD, so our service revenue in absolute numbers was flat in 2016. But we have not given a guidance, only the fact that we saw an improved situation in Q4.

Q: OK, and just very last one. You mentioned within marine that we were -- potentially, ballast water and some of the environmental equipment could offset some of the negative impact across other parts of the marine business. Could you give us a little bit of feel about how the different margin profiles of those businesses might impact the overall mix of the division, i.e. if ballast water is coming in at a materially lower margin than the rest of the division, or than other OE within the division?

Thomas Thuresson: Well, qualitative comments on that, to repeat what we've said over the last couple of years -- ballast water treatment there, we recognize the full revenue but with the joint venture set-up we only get half of the profit, so it's certainly an adverse effect mix-wise on the bottom line.

If we look at SOX, this is of course CapEx at this juncture, basically, and there we're looking at margins comparable to other capital equipment.

Q: OK, thank you very much.

Q: Firstly, on the organic drop-through, because despite you had a 12 percent organic revenue decline, if we adjust for one-off charges in marine and diesel, it looks like you had a low organic drop-through of only 21 percent, which is significantly lower than what we have seen in Q1, Q2 and Q3. So I just wondered if you could quantify what the savings were in the quarter?

Thomas Thuresson: Well, the savings from the program -- we are not really seeing any savings in the cost of goods area from the reorganization and restructuring program. I mean, we're only in the starting of this. We have, of course, gone into implementation of a few of these individual situations, but not really any impact on cost of goods. We have benefitted from purchase price variances as I said, and we have had an adverse effect from lower load in certain factories. We've taken a big hit on the oil and gas-related factories in the United States, for instance. They are, if not empty, running at a very, very low pace at this juncture, so, we have swings and roundabouts in this context. But load is certainly a factor.

Q: And savings in SG&A?

Thomas Thuresson: Savings in SG&A, again, down sequentially some 2.7 percent like-for-like, and that is the first indication that the program is having an effect. We've held back on certainly adding resources. That has not happened in the entire organization, and we have also held back on replacement of people leaving the organization, so we have a decline of some 200, 250 FTEs quarter on quarter sequentially, so, because that is in effect. And then a general cautiousness on spending. That is what it takes when we see this kind of decline in revenue.

Q: Yes, OK, particularly saying that most of the sequential SG&A decline was related to the announced restructuring program?

Thomas Thuresson: That's certainly a contributory, yes. General awareness that where we are.

Q: Yes, and may I also ask, on financial net going forward, because this quarter you actually had a positive financial net, and if we look at interest income and interest cost they were almost net zero. Could you give any guidance on what to expect in financial net in 2017?

Thomas Thuresson: I think on the back of our net -- it's fair to assume an interest net in the order of, say, SEK30 million negative per quarter.

Q: Thank you. May I just lastly, on the one-time item in marine and diesel division, why do you not report that as a comparison distortion item?

Tom Erixon: Because it is a part of the regular business. This is related to specific product deliveries. It is not a matter of restructuring, it is a matter of deliveries that we have made, and where we faced issues relating to particular product.

Thomas Thuresson: There is also some changes in supply chain, which is influencing that number. What I'd like to highlight, that in the past and in the future, we will work with efficiency measures run as part of our ongoing business. You should assume, looking back and looking forward, that we are, as we go forward, taking some costs for that as we need, and we will see the benefits too. That is part of business. The fact that we took a SEK1.5 million charge was that the actions we needed to take now were so substantial, without it would not corrective in running the business that way, but we think that the measures that we are taking in Q4 are part of ordinary business, and you should consider it such. But of course, the effects are markable in this quarter, and therefore we point it out very clearly so you understand what's behind.

Q: Did you mention which product group this was related to?

Thomas Thuresson: We did not, and we stay (a bit low) on that.

Q: OK, thank you very much.

Thomas Thuresson: OK, so we take a last question and they we're going to have to go, so please.

Q: Yes, good morning from my side as well. If I may follow up on your comments on the cruise side of marine, I was just wondering if I look at the cruise market, the ordering activity for cruise vessels in the first and the second half last year was pretty similar. So the orders that you saw, would you be able to tell us that those were the cruise ships that were ordered in the first half, or were those ships from the second half? Just in terms of -- we were talking about the balancing from lower merchant orders this year by ballast water and scrubber, but I was wondering if there was still a tail of other cruise ships, that the order needs to be passed on to yourself?

Then I was just wondering, you mentioned also higher scrubber activity in Q4, which surprised me a bit. Do you see that now also coming as a more sustainable flow of orders, or was this kind of a one-off project there? Thank you very much.

Thomas Thuresson: Let me make a comment on the scrubber side. There is a SOX regulation that is potentially a bigger driver of the scrubber market in the future. We are not -- we don't see the order intake in Q4 as a result of that. We have on and off scrubber orders in our books, and as project business they are a bit unevenly divided, but they happened to come in Q4. I think the big question on the scrubber market going forward is how the regulation of SOX will impact that market, and we've talked about that extensively in the capital markets day, and cautioned you a bit in terms of how to calculate it, based on the fact that it's driven by legislation and not by underlying business. So there are some uncertainties on how the volume development will look there, but obviously it is a big legislation issue when it comes to the potential demand in that area. It's not visible in the Q4 books.

On the cruise -- I mean, this is back to the question of how mathematical you want to be on when the ship is signed, and when the order is coming. We record those orders when down payments are being made. Today, if you book an order for cruise in Europe, you will have deliveries probably 2023. (Oil is 2022). So there is a four, five year order backlog on the shipyards.

So I think you need to be a little bit cautious in terms of how you look at the six-months order -- the contracting level for cruise versus our order intake. There is a healthy cruise business pipeline in the shipyards' order book at this point in time. Q4 came in well, we have not given you a specific forecast on how our order will look, but our indication on marine as a whole is similar or somewhat lower, and that's where we stand on that.

Q: OK, thank you.

Tom Erixon: We are unfortunately forced to close. We'd like to thank you, thank you for the years in our PTD and EQD structure. We look forward to -- and maybe you want to give a comment on the preparation for the next quarter report.

Thomas Thuresson: Yes, well as I mentioned already at the Capital Market Day, we will make sure that you have some historical proforma data well ahead of the quarter one report in order that you can prepare for the quarter one report coming in late April. But we will certainly come back to you with details of when this information is available on our Web site, so thank you for now.

Tom Erixon: Thank you very much.

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