Lars Renström

Good afternoon and most welcome to our presentation. I will start by giving you my three highlights.

The order intake came in, as expected, on the same level as in the previous quarter. Furthermore, we expect Q2 to be on about the same level. The second highlight is that order intake for the Marine & Diesel Division grew 20 percent sequentially, driven by stronger base business and large orders within environment and offshore. Official statistics for Q1 have shown an increase in contracting to the shipyards. It is too early to say if this is a trend but, if it continues, it could represent opportunities for Alfa Laval towards the end of the year. Finally, we continue to deliver on the savings programme and sales and admin costs were down year-on-year and like-for-like.

Let’s take a look at the key figures. Orders received declined 9 percent to SEK 7.2 billion, net sales dropped 4 percent to SEK 6.5 billion and adjusted EBITA declined 5 percent to SEK 1.1 billion. Adjusted EBITA margin reached 16.3 percent versus 16.5 a year ago.

Moving over to orders received, orders received on a rolling 12 months reached SEK 29.6 billion. The decline was 5 percent year-on-year at constant exchange rates and we have now had three consecutive quarters with the same order intake.

Next slide. From the order analysis, you find that year-on-year acquisitions contributed 3.2 percent and organic (growth) was -8 percent. We had negative FX effects of 4.5%, giving a total of -9 percent. Sequentially, acquisitions contributed with 1.7 percent and organic (growth) was -0.7 percent. Negative FX effects of 2.3 percent give a total of -1.3 percent.

On the next slide we see the adjusted margin that reached 16.3 percent and the operating result was SEK 1.1 billion.

Moving over to highlights in the quarter, here we see that the Process Technology Division booked three large orders in oil and gas processing and one order for heavy oil treatment in a power plant. The Marine & Diesel Division booked an order for heaters to an FPSO vessel and an order for ballast water treatment systems. Also a minor acquisition of a gas combustion activity was made.
Let's move over to the development per segment. We see that year-on-year, in the quarter, we had growth in the Sanitary segment and Marine & Diesel Parts & Service whereas five segment declined and four were unchanged.

Let's take a closer look at the divisions and please note that all comments are sequential. We start with the Equipment division where our order intake was down somewhat. Sanitary was negative and was affected by non-repeats of larger projects. Industrial Equipment was somewhat lower as rising demand for refrigeration did not compensate for a slow development in district heating. OEM was unchanged as the long winter led to lower demand for airconditioning units while demand for boilers (from boiler manufacturers) grew. Parts & Service had an overall good development.

Next slide. In the Process Technology Division order intake was down somewhat. Despite strong growth for vegetable oil, Food (Technology) declined, affected by brewery and beverage and viscous food. Energy & Environment was boosted by large orders primarily in oil and gas exploration. Power also contributed to the positive development. Process Industry declined due to fewer large contracts. The base business had a stable development, reflecting the underlying good activity level in the end markets, and Parts & Service had a stable development.

Next slide. The Marine & Diesel division grew with 20 percent. Segment Marine & Diesel Equipment reported growth for the traditional marine portfolio as well as diesel power plants and, in particular, environmental solutions. Marine & Offshore Systems was boosted by a large offshore order in Korea. The base business was stable. Parts & Service rose, mainly due to good offshore repair activity.

Next slide. Our commitment and belief in the marine market is evidenced by our decision to build a new test and training centre in Aalborg, (Denmark). The centre is primarily focused on testing of scrubbers, heat recovery boilers and ballast water systems. In this centre we will be able to evaluate and test integrated systems and also provide training.

Now we move over to the geographical development. Order intake in the quarter shows that year-on-year Western Europe grew 9 percent. Latin America was almost unchanged and all other regions declined since they are compared with a very strong quarter.

Let's take a closer look at Asia and now all comments are sequential. The region declined 1 percent. Marine & Diesel Division performed the best. Parts & Service was unchanged while Process Technology Division declined due to fewer large projects. China declined somewhat, affected by a continued ‘wait and see’ mode among customers. South Korea, Malaysia and Japan were among the best performers.

Next slide. Western Europe and Nordic declined 5 percent and 8 percent respectively due to fewer large contracts. It is interesting to note that both Parts & Service and base business had a positive development. Central and Eastern Europe grew 33 percent, driven by oil and gas and refinery in Russia. The base business was stable and Parts & Service saw a very good development.
In North America we grew 11 percent following large contracts in the US and Canada. The base business also grew. Energy & Environment did particularly well. Latin America grew 4 percent due to project orders in the Process Technology Division. Orders for capital equipment declined in Equipment and Marine & Diesel Divisions. Parts & Service saw an overall good development.

Moving to the next slide, here we have the Top 10 ranking in 2012 and the yellow bars show the LTM development in Q1. The US continued to strengthen its number 1 position. All other markets declined, except Mid-Europe and Adriatic, since we had a very strong quarter in 2012.

Now we will move over to Thomas and the financials.

**Thomas Thuresson**

Good afternoon all of you. Let’s get into the details of the financials and we will take the first slide. Lars, of course, covered orders, so let’s talk a bit more about sales. In the quarter we realised sales of SEK 6.5 billion and let’s already now confirm that this was somewhat below our own expectations. To be more precise, the outcome was a shortfall of approximately SEK 300 million to our expectations. There are two main reasons for this shortfall. Deliveries of equipment to certain shipyards were pushed back by the yards. They delayed the delivery of equipment so to say. We also had a slightly lower than expected level of revenue recognition in certain Process Technology projects. We are, however, confident that most of this shortfall will be recovered during the course of Q2. The backlog is there to be shipped, as you know.

Sales were organically some 3.2 percent down compared to Q1 last year. Acquisitions then added 3.5 percent to sales but please note that the strengthening of primarily the Swedish krona gave an adverse translation effect of more than 4.5 percent. This will give a very substantial number on a whole year basis if the SEK stays on this level. In absolute terms sales were, as you have noticed, 4.3 percent down year-on-year. A sequential comparison is not really relevant, considering that we have quite some seasonality to the benefit of sales in Q4 every year. Parts & Service finally represented 28 percent of total revenues in the quarter against 27.7 percent a year ago.

Let’s then move on to gross profit margin. Gross profit margin ended at 38.2 percent in the quarter, representing a decline of 0.3 percent year-on-year and an increase of 1.2 percent sequentially. Let me remind you that with the Q4 report I said: “in the near term we expect a relative reduction of capital sales to have somewhat of a positive effect on gross profit margin, we do not foresee any price effects and, as far as load is concerned, we do not envisage any major effects.” I am happy to be able to say now that for Q1 we came out very much as predicted. Sequentially we were benefiting from better mix and, added to that, a slight price effect. YoY we were suffering from a limited adverse mix effect as well as the cost accounting adjustment in Alborg that you are familiar with since the latter part of last year. Factory levels and price gave limited positive effects.
Let me then move on to a forward-looking statement concerning gross profit margin. In the near term we expect a negative mix effect as capital sales is expected to increase and also negative FX transaction effects are expected to be turning to the negative. We do not foresee any material changes to load or any material effects from the gross margin in the backlog compared to what we have just reported. A slight positive price effect is expected to continue YoY.

If we continue to other parts of the P&L, R&D ended at SEK 170 million in the quarter, which is a YoY like-for-like increase of almost 11 percent. R&D spend represented 2.6 percent of sales in the quarter, which is in line with the guidance we have given. Moving on to sales and admin, it amounted to almost SEK 1.2 billion in the quarter, representing a like-for-like reduction of 2.5 percent. The savings programme launched at the end of 2011 is clearly generating the effect that we promised. The outcome in Q1 effectively means a saving of between SEK 50 and 60 million over last year if you allow me to exclude targeted revenue investments in sales and services resources.

We came out with an EBITA margin for the quarter of 16.3 percent, almost level with last year despite the shortfall in invoicing. Profit before tax was, following the above, SEK 927 million, which is a decline of 9 percent over last year, largely again explained by the lower sales volume and to some extent also due to more of step-up on amortisation coming out of recent acquisitions.

Before leaving the P&L, let me just point out that taxes ended with a charge of SEK 224 million, representing 24 percent of profit before tax. This lower than guided tax charge is coming partly from deferred tax assets on pension insurances in Sweden, but our long term guidance remains 28 percent based on profit before tax. However, on the back of these deferred tax benefits, we may come out a bit lower for 2013. EPS for the quarter SEK 1.67 and SEK 1.94, excluding amortisation on step-up; a slight reduction as for P&L but a slight increase adjusted for step-up. Return on capital employed almost 26 percent; return on equity 21.5 percent.

If we then move on to the cash flow statement, we have a reduction in cash flow from operations. This is, of course, reported due to lower profits and higher tax payments compared to last year but then partly compensated by a bigger reduction in working capital compared to Q1 2012.

Acquisition – on acquisitions we spent almost SEK 70 million in the quarter coming out of the delisting in India where we continue to buy shares from minority shareholders and then also the acquisition of the gas combustion activity, as Lars commented on before.

Finally, a free cash flow of SEK 935 million, just above what we generated in quarter one of last year. So I think it is fair to say again another good quarter in terms of cash generation.

Moving on, I am sure you are all aware that there is a change in accounting standards when it comes to employee benefits, known as IAS19. In brief, the changes meant for Alfa Laval that we made a restatement of the closing balance
sheet as per end of December 2011. This caused a reduction in equity for the Alfa Laval Group of SEK 791 million. The changes to this standard means that any unrecognised actuarial gains or losses from January 1, 2012 are to be charged to the P&L account as other comprehensive income. That is below net income and, as a consequence, obviously influences equity. The impact under this restatement effort was a negative SEK 164 million for 2012, which totally means a reduction of equity because of this accounting change totalling SEK 955 million in the opening balance sheet for 2013.

Let’s move on to FX. We had a negative effect in the quarter of SEK 32 million. Obviously, we have updated our forecast for the full year on the back of, among other, the strengthening of the Swedish krona. With the rates as specified on the slide, we expect for the full year a negative effect of SEK 195 million mainly coming from translation. This is, of course, deterioration from the 140 we predicted with the full year report. Applying the same rates into 2014, we calculate an adverse transaction effect to the tune of SEK 100 million.

Let’s then look at our order backlog. As per the end of March, we had a total backlog of SEK 14.7 billion, representing about six months of LTM sales. Looking at the backlog by division, we have had an increase in Process Technology and Equipment and a reduction in Marine & Diesel. Looking at the part of the backlog to be shipped during 2013, it was just over SEK 10.9 billion. Excluding acquisitions, so like-for-like, this means a slight increase as per end of March.

Having said that, let’s move on to the bridge of whole year sales 2012 to 2013. Starting from last year sales of SEK 29.8 billion, let’s look at the knowns and unknowns. The order backlog for January 1 was about SEK 100 million lower on a like-for-like basis. Applying the exchange rate as per end of March, the translation effect has obviously grown, so we are estimating, on the back of these exchange rates, an adverse translation of SEK 1.2 billion. As for the acquisitions completed during 2012 and to date 2013, we estimated additional sales of SEK 700 million, so a sub-total for known parameters of SEK 29.2 billion, some SEK 600 million lower than the number that we showed you with the full year report, of course all coming from the FX translation.

Of course, there are two unknowns: the demand going forward and the demand translated into invoicing in 2013, in-for-out orders. Please consider the order pattern over 2012, the first quarter of 2013 and our outlook when you assess the in-for-out orders. Then, finally, price of course. We have adjusted prices on standard products going into this year but still on a very limited scale so that, of course, plays a role.

With that, I hand back to Lars for the outlook and closing remarks.

**Lars Renström**

The outlook is as follows. We expect that demand during the second quarter will be on about the same level as in the first quarter. For each division our demand expectation for the second quarter is as follows. Both Marine & Diesel and Process Technology will be on about the same level, whereas Equipment will be somewhat higher due to seasonality.
That completes our presentation and now we hand over to the operator for the Q&A session.

Questions and Answers

Q Hi gentlemen. Just to begin, Lars, on your outlook, any day effect in your outlook or is that in addition? You normally talk about sort of daily activity in the order intake, right?

A What do you mean day?

Q We had a tough quarter working day wise in the first quarter. Is that taken into account in your outlook or should that be added?

A That is taken into account. You shouldn’t adjust for any invoicing days – sorry, any working days.

Q Okay. And a detail question on the order release today, on the scrubber orders. Are those sort of retrofits or are they to new ships?

A These are for two new cruise ships.

Q Could I as a follow-up just ask you there, have you put out any sort of – or do your solutions work well for the retrofit market for the cruise ships do you think or do you offer your products to those?

A Absolutely. The order that we communicated in the end of December, that was pure retrofit and we are in close discussions on a number of retrofits. It is perfectly suitable for both retrofits and newbuilds.

Q Okay, thank you. I will get back in line with further questions, thank you.

Q Good afternoon gentlemen – a couple of questions from my side. First one is also on the scrubbers. I was just wondering if you could give us the number of scrubbers that you sold in the first quarter. I guess Wärtsilä has said 10, so I was just wondering if your number was any higher or lower than that.

The second question is, you also mentioned the impact of the cold weather on the equipment and airconditioning business. Can you quantify the impact on the orders or is it rather relatively meaningless in your view?

Then just finally on the Marine, here also Wärtsilä has been stating a bit of an uptick in the merchants market which they refer to some ship-owners cherry-picking low prices rather than a genuine recovery. I was just wondering if what your sense of that uptick was – do you agree that it is a phenomenon of the low pricing or any other colour that you would have. Thank you.
A We were lower than Wärtsilä in the first quarter and it does not make sense for us to quantify the impact of the cold weather. Finally, when it comes to the official numbers stating the higher activity level or the higher order intake at the yards, of course, it is an opportunity for ship owners since prices are favourable right now and we are following the situation closely. If this is a trend, it represents an opportunity. We just have to watch what is happening in the second quarter.

Q Can I just also ask a final question? You talked about slight price increases. Well, lately the metal prices have obviously come off. So what would you see that having quite a net positive impact I would guess for yourselves? Thank you.

A Well, again we have adjusted list price base type of products with the beginning of the year. You are, of course that correct that metals have gone down and that will, of course, have an impact on the alloy surcharges for stainless mainly. The effect of that I think it is still early to comment on. With OEM, of course, we have clauses that will have an influence on the price out, as we have a benefit on the price in, but for the rest the outlook in the short term stays, as I mentioned before, a slight positive price effect YoY.

Q Thank you.

Q Hello – a small detailed question. If you add up the other operating income and other operating costs, it was quite low in this quarter, -75 versus the -118 for Q1 2012. Are there any specific explanations why those costs were quite low in this quarter?

A No. I think if you look at our history, there are swings in the other cost and quarterly income. There are no particular items that represent extraordinarily high or extraordinarily low in this or last year’s quarter. I think if you look as an average, we tend to be in the neighbourhood of ±SEK 100 million.

Q Okay, thank you.

Q Good afternoon everybody – two questions please. First on Marine & Diesel, I was surprised to see the service orders moving up, Parts & Service, because of the slower steaming we are still seeing in marine. Is this more because of other end markets maybe offshore that’s doing well? Is that the reason that it’s going up?

The second question: on the mix comments that you made, it seems that a lot of that is linked to large order share within the revenues in the quarter. Can you give us a more longer term a sense of where you see the large order mix heading? It stepped up a year or so ago to a newer level. Is this what we should expect if you average it out because I understand there’s volatility quarter-on-quarter, but what is your expectation for large order mix over a more medium term?
If I start with Parts & Service in Marine & Diesel, the main reason for the very good development in the quarter was that we saw high repair activity offshore. It’s offshore customers like Petrobras for instance, so it’s offshore vessels.

Then moving on to the mix and the larger order impact longer term, if we look at Alfa Laval over say the last 10 years or 10 plus years, no doubt we have seen the average order value and even more so the relative part of orders with a value above €500,000 - that has clearly gone up. We have acquisitions like, for instance, Packinox having a definite impact on this. Another one would be Ashbrook Simon-Hartley recently and also ACE. So yes, if we look at the mix, we have a larger portion of our business represented by orders above €500,000 in value. At the same instance, we have maintained or rather increased the portion of after-sales of the total. So a bit more of larger contracts but also an increase of Parts & Service.

And do you see that remaining more or less stable, that these two effects offset each other?

We do not see any material changes between capital sales and aftermarket sales. You have, of course, swings between quarters in a year. You have a seasonality where you tend to have a lot more of capital sales relative to the total in fourth quarter and you have quite a bit more of aftermarket to the total in quarter one.

Great, thank you.

Closing Comments

That completes the Q&A session. So thank you very much for your attention and your interest. Thank you and goodbye.