Lars Renström

Good morning and most welcome to the presentation. I will start by giving you my three highlights. The order intake improved sequentially and was up 5 percent organically and we came in somewhat higher than we anticipated, and we expect the third quarter to be on about the same level, which means somewhat higher than the corresponding quarter a year ago.

The second highlight is that order intake for the Marine and Diesel division grew 11 percent sequentially, mainly due to large orders for exhaust gas cleaning, and this means that the first half of 2013 is up 21 percent compared to the second half of 2012. Official statistics show that the increased contract to the shipyards, that started in the first quarter, continued in the second, triggered by low yard prices and increased fuel efficiency of modern ships. Finally, after serious or stable quarters in China, we achieved a broad-based double digit growth sequentially, since the wait and see mode seemed to have eased somewhat.

Let's take a look at the key figures now. Orders received declined 4 percent to 7.6 billion and net sales dropped 3 percent to 7.5 billion. Adjusted EBITA declined 4 percent to 1.2 billion and the adjusted EBITA margin reached 16.4 percent versus 16.5 a year ago. For the first six months, orders received declined 7 percent to 14.7 billion and net sales dropped 4 percent to 14.1 billion, and adjusted EBITA declined 5 percent to 2.3 billion, and the adjusted EBITA margin reached 16.4 percent versus 16.5 a year ago.

Now we move over to orders received and margins, and you see that orders received on a rolling 12-month reached 29.3 billion and the increase was 1 percent year-on-year at constant exchange rates. After three consecutive quarters with the same order intake we achieved growth.

Moving over to the next slide, you see from the order analysis that year-on-year acquisitions contributed with 2.2 percentage units and organic growth was -1.4 percent. We had negative currency effects of 5.2 percent, bringing a total of -4 percent.

Sequentially acquisitions contributed with 0.1 percent and the organic growth was 4.6 percent. Positive currency effects were 0.9 percent and it gives a total of plus 5.6 percent.

Moving over to the next slide, the EBITA margin reached 16.4 percent and the operating result was 1.2 billion and we can see that we have now had six consecutive quarters around 16.5 percent.
Moving over to highlights in the quarter, Process Technology booked a large order for heat exchangers to a petrochemical plant in the Middle East, and in the US we acquired Niagara Blower Company. The company adds about SEK 400 million in annualised sales with profitability well above Group average. The company supplies air-cooled heat exchangers, especially suited for the oil and gas processing industries. The Marine and Diesel division booked two large orders for exhaust gas cleaning; one for two new cruise ships with a value of 55 million and the other for a retrofit installation worth 170 million. We expect new orders for exhaust gas cleaning during the second half of 2013.

Now we move over to the development per segment. We see that year-on-year in the quarter six segments grew or were unchanged, whereas five declined. Let’s take a closer look at the divisions and please note that all comments are sequential. We start with the Equipment division where order intake was up 10 percent. Sanitary saw good demand from beverage and dairy applications, and both Industrial Equipment and OEM had significant growth due to seasonal demand. Also, successful introduction on new products contributed to the growth of OEM.

Moving over the Process Technology division, we see that Food reported growth for base business and large contracts alike. Energy & Environment was down partly due to non-repeats, partly as the very high activity level in the oil and gas industry resulted in lack of industry resources, leading to projects being postponed. For the Process Industry segment, base business supported growth.

Moving over to the Marine & Diesel division, which grew 11 percent on top of the 20 percent growth in the first quarter. Marine & Diesel Equipment saw base business growth reflecting an increase in yard contracting. Marine & Offshore Systems was lifted by a strong base business as well as large exhaust gas cleaning contracts. Demand for Parts & Service declined as large repair orders were not repeated.

On the next slide we see that for the half year, Marine & Offshore Systems is the only segment up, supported by exhaust gas cleaning. Process Industry and Energy & Environment are down due to non-repeat large orders. We, however, maintain our positive view on demand for the refinery and oil & gas industries, as the activity level is high.

Now we move over to the geographical development. There we see that order intake in the quarter year-on-year North America grew 11 percent, followed by Latin America with 10 percent and Nordic at 7 percent. Central & Eastern Europe declined 12 percent due to non-repeat large orders.

Let’s take a closer look at Asia and now all comments are sequential. The region grew 5 percent and base business was strong in all three divisions. As a rule, Marine & Diesel and Equipment Division grew, while Process Technology declined somewhat due to non-repeats. Marine saw a positive impact from new ship contracting in general and from oil & gas transportation vessels in particular. After a series of stable quarters in China, we reported broad based double digit
growth from base business and large orders alike, as the wait and see mode seemed to ease somewhat.

Next slide, Western Europe and Nordic increased 4 and 29 percent respectively. There was a positive development for both base business and large orders. The large exhaust gas cleaning order boosted the growth in Nordic and we saw growth in most countries and sales regions. The 10 percent growth in Central & Eastern Europe was explained by the very good base business development. Russia was unchanged as a decline in large orders was compensated by growth in the base business.

Next slide, we see that North America declined 10 percent due to non-repeat large contracts as base business and Parts & Service were unchanged. We see that in oil & gas, customers are delaying projects due to lack of resources. Latin America grew 10 percent since we received large orders in the food and oil & gas sectors. The base business also reported growth.

On the next slide we see that for the first six months Latin America delivered 5 percent growth year-on-year, while North America and Western Europe, including Nordic, were unchanged. Central & Eastern Europe and Asia declined due to non-repeat large orders.

Moving over to the next slide, here we have the top 10 ranking in 2012 and the yellow bars show the LTM development after the second quarter. The US continued to strengthen the number one position. All other markets declined except Mid Europe and Adriatic, since we had a very strong first six months last year.

By that, we move over to the financials and Thomas

Thomas Thuresson

Thank you Lars, good morning all of you, so let’s take a look a bit more into the details of the financials. Let’s move onto the next slide.

Lars has covered the orders in a good amount of detail so let’s move onto sales. In the quarter, we realised sales of SEK 7.55 billion. Let me confirm that this was in line with our own expectations, including that the delays commented after quarter one were largely recovered. Sales were down 2 percent organically compared to last year, acquisitions added 3.7 percent in the quarter. Please note that we had as much as 5.1 percent adverse translation effect. However, given that the weakening of the Swedish krona remains, we expect translation effects to be less significant in relative terms on a whole year basis.

In absolute terms, sales was down 3.4 percent year-on-year. Sequentially we enjoyed a like for like increase in sales of 14.3 percent, mainly explained by a combination of seasonality and delays from quarter one. Looking at parts and service, it represented 27.4 percent of total revenues in the quarter against 26 percent in quarter two in 2012. Parts & Service represented 27.7 percent during the first six months, an increase from 26.8 percent last year. With that, let's move
onto gross profit margin. Gross profit margin for the quarter was 37.9 percent. This represents an increase of 0.9 percent year-on-year and a reduction of 0.3 percent sequentially.

Remember, with the first quarter report I said in the near-term we expect a negative mix effect as capital sales is expected to increase and FX transaction effects will be turning to the negative. I also said we do not foresee any material changes to load or any material effects from gross margin in the backlog compared to the just reported. A slight positive price effect is expected to continue year-on-year.

I would argue that the actuals for quarter two that was just reported, came out as we predicted three months ago. Sequentially we were benefitting from better factory results, which is then mainly a combination of load and lower metal prices, but we were then suffering from worse mix, FX, and still some accounting adjustments of some of the Alfa Laval standards at Aalborg. Year-on-year, we were mainly enjoying a better mix, factory results, and a limited quarterly price effect, partly reduced by a slight negative FX effect.

Let’s then come to the first forward-looking statement. In the near-term we expect a slight negative mix effect, FX transaction effects are expected to be limited but negative. We do not foresee any material changes to load or factory results as a whole and finally gross margin in the backlog is not expected to present any material change to the just reported.

With that, let’s move onto look at overhead costs and other items in the P&L. Starting with R&D, R&D ended at 191 million in the quarter, which is an increase year-on-year, like-for-like, of 6.4 percent. R&D spend, looking at the first six months, represented 2.6 percent of sales and that is of course in line with our guidance for R&D in relation to sales.

Moving onto sales and admin, sales and admin amounted to 1.27 billion in the quarter, representing an increased like-for-like of 0.9 percent year-on-year. This effectively means continued effects from the savings programme initiated late 2011, taking salary inflation and selective revenue investments in presence into consideration. We have, as I’m sure you’ve noted, adverse FX effects totally impacting EBITA of 63 million in the quarter then giving us an EBITA margin of 16.4 percent and in absolute terms 1.24 billion.

Moving onto profit before tax, we ended with a profit before tax of 969 million in the quarter, a decline of 12 percent over last year. This included exchange differences in the financial that of 103 million and total FX effect including the effects in EBITA of 166 million, so actually profit before tax was some 28 million higher excluding FX in a year-on-year comparison. Of course this has a lot to do with the weakening of the Swedish Krona, as far as the exchange effects in the financial net is concerned.

Before leaving the P&L, taxes ended with a charge of 325 million, the higher than guidance tax charge is coming from a few non-deductible items. Our long-term guidance remains 28 percent taxes based on profits before tax. EPS for the
quarter SEK 1.53 and SEK 1.81 excluding amortisation on step up. This is a slight decline compared to quarter two of 2012. Again it’s broadly explained by FX effects.

Moving onto return on capital employed, we reached just over 26 percent, an increase sequentially of 1 percent and a decline of just over 2.5 percent year-on-year. Return on equity 22 percent against 22.9 percent last year, but then an increase of 0.6 percent from quarter one.

Let’s then move on to look at the cash flow statement. We can summarise the cash flow statement in the following way: we enjoyed a substantial increase in cash flow from operations, this was reported thanks to a reduction in working capital to compare with a fairly substantial increase in the second quarter of 2012. This reduction is to quite some extent coming from an increase in customer advances in our Process Technology contract business. Acquisitions of SEK 441 million is largely coming from the acquisition that Lars commented just before of Niagara Blowers in the US. Free cash flow reached SEK 876 million. This is to be compared with SEK 450 million a year ago. I think it’s fair to say that we had another really good quarter in terms of cash generation so let’s then take a look at FX.

As mentioned earlier, FX effects in EBITA were 63 million negative, coming from a translation of 56 negative and 7 transaction negative. We have, of course, updated our forecast for the full year on the back of, among other, the weaker Swedish Krona. With the assumed rates as specified on the slide, we expect a net FX effect of a negative SEK 125 million in EBITA for the full year, mainly coming from translation as specified. This is an improvement of 70 million compared to the projection as presented with the quarter one report. Then applying the same rates into 2014, we estimate an adverse transactional effect of a mere SEK 15 million to be compared with a negative 100 million three months ago.

Moving on to look a bit at the order backlog; we had a total order backlog as per end of June of almost SEK 14.9 billion, representing approximately six months of LTM sales. Looking at the backlog by division, you find an increase in Process Technology and Equipment, and a reduction in Marine & Diesel year-on-year. However, it’s worthy to note that sequentially Marine & Diesel backlog grew for the first time in a very long while in quarter two. Looking at the order backlog to be shipped during 2013, this amounted to SEK 9.79 billion. Having said that, let’s move onto the bridge of whole year sales 2012 to 2013.

Looking at the known and the unknown parameters for full year sales, we had a like-for-like backlog as per January 1st that will cause reduced sales with SEK 100 million for 2013. Based on the closing exchange rates as per June 30th we expect negative translation effects to sales of SEK 0.9 billion, a reduction of this effect with some 300 million compared to the last report on the back of, again, this weaker this weaker SEK. The acquisitions in 2012 and 2013 we estimate will give additional sales of SEK 700 million in 2013. This might be lower than you expected. The reason being that acquisitions exposed to oil and gas are also expected to be influenced by the delays among customers commented earlier by
Lars. This gives a sub total for the known parameters of SEK 29.5 billion, an increase from the situation after Q1 of 300 million due to less of translation effects.

As far as the unknowns are concerned, it is always up to you to form an opinion about demand. Please consider our outlook and the order trends over 2012 and through quarter two of 2013. To provide you with a reference point in-for-out orders amounted to 5.1 billion in the second half of 2012 at current exchange rates. With regard to prices, we made small adjustments to prices for standard products at the beginning of the year giving limited effect to the total.

Then metal prices are expected to have somewhat of an adverse effect on particularly the OEM segment and with that I give the word back to Lars for the outlook and the closing remarks.

Lars Renström

The outlook is as follows, we expect that demand during the third quarter will be on about the same level as in the second quarter, which means that it is somewhat higher than the same quarter the previous year. For each division our demand expectations for the third quarter is as follows, Marine & Diesel somewhat lower since the large exhaust gas cleaning orders are not likely to repeat in the third quarter, Equipment on about the same level since the positive seasonal effect remains and finally Process Technology somewhat higher due to large orders expected.

That completes our presentation and now we hand over to the operator for the Q&A session.

**Questions and Answers**

**Q**
Thank you. I wonder if maybe you could give us a little bit more colour on your comments on the oil and gas market in the US. You obviously say there are some delays there. Is that in kind of upstream or downstream segments, onshore/offshore, just a bit of colour there? Have you seen cancellations and then maybe how long do you think it will take the industry to work through this capacity issue I guess that they have. Thank you.

**A**
You can see it is among end customers and also among contractors it is a shortage of human resources competence, and that means that the delays are not the investments. It is hard for us to judge how long it will take, but the activity level is high, but we can see that for the large contracts there are delays, and we cannot give an assessment how long it will take.

**Q**
From your perspective is it more that you stay at an elevated level as opposed to these markets coming down in terms of your business?
Absolutely, we stay on an elevated level. It is the large contracts that we see are being delayed.

Then a follow-up question on the exhaust gas systems. Can you say how many scrubbers you sold in the quarter and just give us an update on tendering, whether there is any change in your expectations for that market now relative to earlier in the year. Thank you.

We see good...we are in discussions with several ship owners and we made a couple of hundred quotations and quite a few of the quotations are with customers that are getting close to making a decision. The number of scrubbers is...

I am sorry Ben we can’t give you the exact number at this juncture, but obviously the two large orders that we landed in the quarter represents several individual systems. I am sorry we can’t provide the exact number at this juncture.

Firstly you mentioned in a lot of places about the seasonality helping, especially Equipment and maintaining that high seasonal activity into Q3. On a broad Alfa Laval basis are we normally seeing a weaker season in Q3 and also is it normal to see the service being slightly lower in the second quarter over the first on seasonality reasons.

When it comes to seasonality, what this refers to is really that during quarters two and three typically you have an exchange of systems for heating as well as air conditioning in the northern hemisphere, it is really relating to the Equipment Division business. As far as service is concerned, this has nothing to do with seasonality; it is merely a question of when customers actually place orders, or as Lars stated, major overhaul contracts, service contracts for power plants or other installations.

To follow up on Ben’s questions, on ballast water system, maybe you could try to accumulate a number of systems in the backlog and also about the activity there. Finally on the gross margin, 37.9 percent, to me a rather strong figure despite the negative mix sequentially. You mentioned that it was in line with your expectations on a net basis so to speak, but could you please quantify the positive effect of load and raw material more in detail or on the other side I guess the negative mix which I think you withhold for yourself.

If we start with ballast water treatment, we see a good activity level, and for the first six months compared to last year we are up more than 90 percent, so we are having an order intake around SEK200 million for the first six months, so a good activity level.
As far as gross margin development is concerned, I have to make you disappointed you will not get the data in terms of percentage units when it comes to a bridge between last year or sequentially but what I can say is that there is a fairly substantial mix effect year-on-year, and we were enjoying not only a good load, a somewhat better load than we anticipated also sequentially, but of course we were also enjoying some positive effects from the lower metal prices, so that is really the bulk. Then sequentially of course we did have as we predicted a somewhat of a negative mix effect.

Q
Good morning, thanks for taking my questions. Firstly on China on your commentary, could you tell us whether you believe you’re taking share in China or is the broader market development that you’re seeing the improvement.

A
For a number of quarters order intake was moving sideways in China and we saw now that we had a double digit uptick in order intake and it was broad based for Alfa Laval, and the wait-and-see mode that has been prevailing for quite a while seemed to ease somewhat, and to draw on a further conclusion from that we don’t want to do, we see the same, we read the same newspapers as you do about the macro statistics in China.

Maybe just to add to your comment Lars when it comes to the breadth of the uptick in China, one conclusion that I think we can draw is that the investments that we have made during the last 12 to 15 months in going west and further increasing our presence is paying off because it is not really coming from the very large contracts. We have it across pretty much all segments and then also from local component businesses.

Q
Just another question on the acquisitions pipeline, how is it looking right now, could we expect another few deals like you have announced.

A
Well our target is to add 3-4 percent annual sales growth from bolt-on acquisitions and we continue to believe that we will deliver that and we have a number of discussions on-going.

A
Then if I may add to come back to Ben’s question about EGC or exhaust gas cleaning orders, I can provide the following detail, including the order that we announced in December we have landed 18 systems for 13 ships and that is a combination of new ships as well as retrofit orders, so 13 ships 18 systems.

Q
Good morning, a couple of questions from my side please. The first one is on the shipyard order recovery; it seems that this has already arrived at your order book. Does that mean that the six to nine months period has now shortened a bit, I guess Wärtsilä levels also just making that comment, but are you now seeing this period shortened. The second question would be just on the project pipeline, I
guess son a pre-close conference call Thomas you said that the pipeline for big
tickets was a bit smaller going into Q2 but the midsized projects below the radar
screen of the 5 million was actually developing quite fine. I was just wondering if
you could give us an updated picture on that. Then just finally on the raw
materials you already mentioned you had a small positive impact when I look at
the raw material development we have already had quite a significant decline. Is it
that you have to pass on most of the benefit to your clients? Thank you.

A
The marine orders yes we see the lead time has decreased so the orders are
coming in faster than historically, so we saw base business picking up in the
second quarter and when it comes to the pipeline of small, medium and large
contracts you could see that in the second quarter we had a good order intake of
small and medium sized since we delivered growth despite fairly few large
contracts and when it comes to the pipeline going forward with large contracts we
have commented that we see some large contracts coming in the Process
Technology division and that will generate growth for them in the third quarter.

Then finally Sven on raw materials, if we look at the alloys and also the copper
and the aluminium prices, let me start off by saying that this most recent reduction
in prices only started say eight weeks ago, eight to ten weeks ago and of course
there is a bit of a lag before this has an effect, you know without any hedging,
then on top of that of course we have some of our next 12 months exposure
hedged, which means that we are pushing the effects forward and are getting less
say instantly or with the limited non hedged lag, so I would not agree with you that
we are passing on the bulk to customers, it is merely a matter of the hedging and
the fact that there is a bit of a lag before it really kicks in. As I commented for the
sales bridge, of course we will see some adverse impact, particularly in the OEM
segment, where we do have raw materials clauses pretty much in all of the OEM
contracts.

Q
Can I just one follow up question on the marine business, obviously we have seen
quite a strong development in the environment area and to new equipment orders.
How should we think about profitability of the Marine division going forward so I
guess especially on ballast water you share the profit with Wallenius, scrubber is a
relatively new product, so should we assume that to have somewhat of a
depressing effect on margins or what is your guidance there.

A
Well Sven I appreciate that you are trying to get a forecast for profit in the Marine
division but we are not providing any forecast on the profit line, but to give you a
bit of a sense we do not see any drama in either direction. I think you should
recall as well if we go back, I think it is now almost two years we have seen what
we then called a normalisation of price levels in the marine area, so the situation
that we were used to before the boom, say going back to 2003 and 2004, but of
course that has kicked into our P&L as well at this juncture.
Q
A couple of questions please. First of all I just wanted to go back to your discussion of the food business within PTD, just wondering generally how sustainable you see the growth that you saw there in Q2, whether we should expect more good momentum for the rest of the year, just generally how you feel about that business. The second question I wanted to ask you how you feel about GEA’s slightly surprising decision to put the whole of their heat exchangers division up for sale. What I am thinking particularly is the risk to Alfa Laval in terms of a new owner of that business either adopting different pricing strategies or depending on who it might be being able to bundle products in a way that you can’t bundle products. How should we feel about either of those risks when we think about GEA’s exit from heat exchangers.

A
First of all when it comes to the food segment, we have generally a positive view on the food segment and we have the product with applications like vegetable oil and so on, however between the quarters the business comes often fairly big contracts and they come in a little bit lumpy, so therefore between the quarters it is hard to tell how it will develop, but overall we have a positive view on the food segment.

Then when it comes to GEA and the risk of a new owner, well let’s say short-term it of course opens opportunities for Alfa Laval since uncertainty among customers and among GEA’s organisation will fore sure open opportunities for us. Then in the longer perspective a new owner, well we have great respect for GEA as a company and they have been a very tough competitor, so we are prepared whoever will be the new owner at the end we are prepared to take them on, and when it comes to bundling I would say that GEA has had good opportunities to bundle so we don’t see any threat there.

Q
Good morning, I just wanted to come back to the marine exhaust scrubber business, if I understood it right you said that you aren’t expecting any large orders in the third quarter, but you are expecting more orders in the second half of the year, so does that mean you’re expecting a strong fourth quarter, are you changing your outlook on the market or is it just the timing of some of the larger orders coming through.

A
It is timing or large orders; you have drawn the correct conclusion.

Q
Secondly just on the larger picture, you have obviously had several years now of the, two years of the margin coming down on a year-on-year basis, as you said it seems to have stabilised in around about 16.5 percent. Is that now you think a sustainable level going forward or is it really dependent on volume developments. Can you get the margin back up to where it used to be if you have a more positive volume environment?
Well to begin with I don’t think we have commented on the margin as such, but of course it is a fair conclusion that we have reported half a dozen quarters consecutively on about the same level. Going forward the only thing I can say is that I have to remind you have of our target of being above 15 percent operating margin as often as ever possible. We will do our best to overshoot our target as often as possible.

Sorry for that coming back to the outlook Lars, and Thomas I totally hear what you’re saying about year-on-year and also sequentially, but given the higher activity in investment willingness, it seems that a slight growth year-on-year with the effects that we are flattening out on translation at least in orders feels a bit cautious. Is there something I have missed here, is there something else that is expected to maybe come down a bit or that you are more uncertain about the direction than what is typically given about your very detailed outlook.

We have commented on each of the divisions and we say that as we do not expect a repeat in the very short-term of large contracts in Marine - we expect marine to be somewhat down, we expect Equipment to be on about the same level, high level due to seasonality and finally Process Technology as we believe we will land some large contracts will be up somewhat, one down one flat and one up, I think the average of those is pretty much the same and that is really what we are saying.

And for you about the same level is sort of +/-3% in your mind-set right?

Again we are dependent on customer’s individual customers’ decisions for contracts and also component orders, so we’re in the hands of our customers to that extent, we cannot predict whether they take the decisions on 30th September or 2nd October. We can’t do it any better than this.

That completes the Q&A session, so thank you all of you that have attended and we are wishing you a nice warm and relaxing summer wherever you are. Thank you and goodbye.