Alfa Laval AB
Tues, 29th October 2013
08:30 Hrs CET
Chaired by Lars Renstrom

Lars Renström

Good morning and most welcome to the presentation. I will start by giving you my three highlights. Orders received continued on the higher level established in the second quarter, supported by an all-time high in the Process Technology Division. And year on year we were up 2% organically. The second highlight concerns Asia that grew significantly and China's growth continued due to large orders and marine. And finally, we are very pleased to report that service grew 10% year on year, excluding currency effects.

Let's move on to the key figures. Orders received rose 2 percent to 7.4 billion. Net sales increased 2 percent to 7.2 billion and adjusted EBITA grew 2 percent to 1.2 billion. And the adjusted EBITA margin reached 16.6 percent. Year to date, orders received declined 4 percent to 22.2 billion. Net sales dropped 2 percent to 21.3 billion and adjusted EBITA declined 3 percent to 3.5 billion. And finally adjusted EBITA margin reached 16.5 percent.

Now we move over to orders received and margins. Orders received on a rolling 12 months reached 29.5 billion. The increase was 4 percent year on year at constant exchange rates. The somewhat higher order intake that we reached in the second quarter also continued in the third. We expect that to be the case in the fourth quarter as well.

Next slide; from the order analysis you find that year on year acquisitions contributed with 2.1 percentage units and organic growth was 2.2 percent. We had negative currency effects of 2.1 percent giving a total of plus 2.2 percent. Sequentially negative currency effects of 1.2 percent led to a total of minus 1.5 percent. On the next slide we see that the EBITA margin reached 16.6 percent and the operating result was 1.2 billion. We have now had seven consecutive quarters around 16.5 percent.

Moving over to the highlights in the quarter; Process Technology had a record quarter and we booked an order of 185 million for a petrochemical plant in India. In the US we booked an order of 50 million to a plant processing shale gas. In the food application we booked 60 million for a brewery in Ireland and 70 million for a vegetable oil plant in Brazil. In Marine & Diesel we received an order of 80 million for a waste heat recovery system to a diesel power plant in the Middle East.

Moving over to the development per segment; we see that year on year in the quarter six segments grew, three were unchanged and only two declined. Let's take a closer look at the divisions. Please note that all comments are sequential. We start with the equipment division that was down 4 percent partly due to vacation in Europe. Sanitary was unchanged with good demand for products going to beverage, pharma and personal care. Industrial Equipment was effected by a drop in demand for refrigeration, whereas HVAC had continuous good demand. And finally OEM declined due to non repeats.

Moving over to the process technology division, they delivered an all time high quarter and grew 11 percent thanks to several large orders. In Energy & Environment, oil and gas had a continued positive development. Power had a strong development from pent up demand for nuclear power. Food was down due to non repeats, however, we had growth in brewery and vegetable oil. Process Industry was lifted by refinery and finally demand for parts and services rose with large orders contributing.

On the next slide we see that Marine & Diesel was down as expected due to non repeats for ballast water treatment and SOx systems. The decline was 15 percent. Diesel power had a strong development following a large order in the Middle East and we had continued good demand for boilers.

Next slide; year to date four segments have grown, among them parts and service within the Process Technology division, which is one of our most important segments due to size and profitability. Also Marine & Offshore systems has grown, driven by exhaust gas cleaning and all boiler systems that come early in the order cycle and has benefited from increase bookings at the yards. Four segments are unchanged and three are down, mainly due to non repeats.

Moving over to the geographical developments; order intake in the quarter shows that year on year, Asia stands out with 20 percent growth. Latin America grew with 9 percent and Nordic with 8 percent. Central and Eastern Europe was down due to non repeats. It is interesting to notice that Latin America, Asia and Central and Eastern Europe made up 50 percent of the order intake. We haven't seen that for quite some time.

Let's take a closer look at Asia. Asia was up 9 percent as all three divisions reported growth, lifted by investments in refinery, oil and gas projects, pent up demand for nuclear power, as well as rising demand for products to LNG and product carriers. China had a positive development driven by large projects and marine. The base business in China declined somewhat, however, reflecting a continued wait and see mode.

Moving over to Europe; Western Europe, including Nordic, declined due to vacation impact on component businesses. Non repeats contributed to the significant decline in Nordic. However, year on year, we achieved growth, which is more relevant. We had continued growth in Mid Europe and the UK was boosted by large projects in brewery and process industries. In Central and Eastern Europe the drop is explained by decreasing base business and non repeats. Russia reported good growth, especially for the Equipment Division. And the service business developed well all over the region.

Moving over to North America; in North America the continued growth in the US was mitigated by a decline in Canada. And we are pleased that both base and service business grew. Food technology did well, but strongest development was in Energy & Environment where oil and gas grew despite the continued lack of execution resources in the industry. In Latin America, Brazil and Mexico had a very strong development. Brazil was boosted by large contracts for oil and gas, marine and vegetable oil and service developed well throughout the region.

Next slide; year to date, Latin America has grown with 6 percent, the rest of the regions have been unchanged, or had a modest growth, except for Central and Eastern Europe where we had non repeats in Russia and we have to bear in mind that Russia had an exceptional growth last year.

On the next slide you see our top ten markets 2012 and how they have developed. The yellow bar is LTM and the green bar is whole year 2012. And as we can see that the US has continued to grow thanks to acquisitions. China is almost keeping up with last year after a strong recovery. South Korea has declined due to lower activity at the Korean EPC contractors. The growth in Mid Europe reflects the good development in Germany. Russia is down, but I expect Russia to reduce the gap in the fourth quarter. And remember last year was exceptionally good. Adriatic should have recognition for the growth supported by successful Italian contractors on export. And finally, Canada's gap is caused by two large oil and gas non repeats. And it is interesting to notice that seven out of the ten markets were unchanged or grew.

And now I hand over to Thomas for the financials.

Thomas Thuresson

Good morning all of you. So let's dive a bit deeper into the financials then. If we move onto the next slide; Lars has covered orders in detail so let's talk a bit about sales. In the quarter we realised sales of 7.2 billion and let me already now confirm that that was marginally below our own expectations largely due to phasing of revenue recognitions in the Process Technology division.

If we look at the statistics sales was up 2.4 percent organically compared to last year. Acquisitions added 2 percent and then of course we continued to have substantial adverse translation effects. In the quarter we had 2.2 percent negative. This is of course due to the development of the Japanese yen and the Indian rupee generating substantial elements of this translation effect. In absolute terms sales were up 2.2 percent year on year; sequentially a reduction of 3.3 percent, like for like. Looking at parts and service revenues, they represented 26.2 percent of the total in the quarter against 27.2 a year ago, so a slight decline. Parts and service represented, however, 27.2 percent during the first nine months which is an increase of 0.3 percent against last year.

If we then move on to gross profit margin, we ended the quarter with 36.7 percent gross profit margin. This represents a decline of 0.3 percent year on year and a reduction of 1.2 sequentially. Let me then remind you what I said with the quarter two report. I said 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. And finally gross margin in the backlog is not expected to present any material change to the just reported.

The actual for Q3, came out slightly below our expectations sequentially. The main reasons being a somewhat larger than expected adverse mix effect, and a seasonal load impact in manufacturing of course due to the fact that we have a substantial amount of value delivered out of West European factories with a vacation period in the third quarter. So sequentially an impact; compared to last year a decline of 0.3 percent and this boils down to a negative FX and a tiny adverse mix effect.

So let me then get onto the first forward looking statements. In the near term we expect again a negative mix effect, mainly from an increase in capital sales. The FX transaction effects are expected to be negative. And then finally we do not foresee any material changes to load or factory results. With that let's look further down the P&L account and look at the overheads on the next slide.

R&D ended at 177 million in the quarter, which is an increase year on year of 8.9 percent. R&D spend representing 2.5 percent of sales for the first nine months; again in line with our guidance for R&D spend. Sales and admin amounted to 1.22 billion in the quarter, representing a like for like increase of 3.7 percent year on year. This effectively means that full effect from the savings programme initiated late 2011 was reached in quarter two and that salary inflation and the selective increases of resources to increase presence is behind the increase now in quarter three. We had adverse effects from FX of total 47 million, so all in all that gave us an EBITA margin of 16.6 percent.

Looking at profit before tax, we ended at 1.075 billion in the quarter, against last year's 1.230. This is a decline of 13 percent over last year. This, however, includes a difference in financial net due to exchange differences of 266 million; a positive 233 last year, a negative SEK 33 million this year. If I allow myself for a moment to exclude the effects of the FX differences in the financial net, profit before tax was actually SEK 111 million higher as far as the underlying business is concerned. That is compared to last year.

Before leaving the P&L, taxes ended with a charge of 253 million. This is clearly lower than the guidance of 28 percent of profit before tax. The background is of course a reduction in corporate income tax in Sweden, but also the fact that we have made a detailed review of deferred tax accounting for pension benefits as well as a step up amortisation in the United States following from acquisitions. This gave a non recurring effect to the tune of 30 plus million in the quarter. Year to date we are at about 27.5 percent tax on profit before tax and again let me confirm that going forward our guidance for tax is 28 percent of profit before tax.

EPS for the quarter, SEK 1.95 and 2.14 excluding step up amortisation, a slight decline compared to last year, again broadly explained by the FX differences in the financial net as I commented on before. With regard to returns, return on capital employed, 26.1 percent by September 30, return on equity 21.4 percent. Limited changes from quarter two as far as these return numbers are concerned.

If we then move onto the cash flow statement, I think we can summarise the cash flow statement as follows: cash flow from operations ended on the same high level as quarter three of last year, almost a billion. Lower tax payments in the quarter supported this year's outcome. Free cash flow reached 850 million compared with 912 million last year. The decline is basically explained by differences in the financial net. I have said it on many instances before and I can say it again now, I think we had another really good quarter in terms of cash generation.

Let's move on to foreign exchange then; as we commented already FX effect in the quarter were negative 47 million mainly coming from translation. We have updated our forecast for the full year on the back of not least, as mentioned earlier, a weaker Japanese yen and Indian rupee. With the assumed rates for euro/dollar and euro/SEK as stated on the slide and applying the closing rates as for end of September for the remaining currencies we expect net FX effects of negative SEK 265 million and then again mainly coming from translation. I think it is important to point out in this context that the big reductions for the Indian rupee and Japanese yen are not expected to generate any material transaction effects due to the fact that we do have not only imports to the two countries, but we do also have substantial exports. In the case of India manufacturing of own products, in the case of Japan exports of own products as well as procurement of not least titanium. Applying the same rates into 2014 we expect an adverse transaction effect of a mere SEK 15 million.

Then let's move onto the backlog. As per the end of September we had a backlog of almost SEK 15.1 billion representing 6.1 months of LTM sales. If we look at the backlog development by division; we have seen an increase in the backlog for all three divisions. You find that book to bill has been above one in the Process Technology and Marine & Diesel and 0.97 in Equipment in the quarter. And let me stress that we had another quarter of book to bill above one in Marine & Diesel. I think that confirms our projection of hitting the trough in marine as far as revenues are concerned in the mid 2013.

Looking at the backlog to be shipped during 2013 it amounted to SEK 6.7 billion, almost the same as last year. And that is including acquisitions of course, but also including a substantial adverse translation effect. So like for like it is actually up a mere 0.2 percent.

Having said all that let's move onto the bridge from whole year sales 2012 to whole year sales 2013. We started this year off with a backlog for shipment in the current year, about SEK 100 million below the level going into 2012, so a negative 100 million. Based on the closing exchange rates as per September 30 we expect a negative translation of some 1.4 billion this year. This is an increase of 500 million compared to the last report. The acquisitions completed in 2012 and 2013 we estimate will generate additional sales of SEK 800 million, an increase of 100 million compared to the estimates of the quarter two. This gives a sum total for the known parameters of SEK 29.1 billion; a reduction from the situation, after quarter two, of 400 million, entirely due to the increase in translation effects.

Then finally the unknowns; as always it is up to you to form an opinion about demand. Please remember that the opportunity to land orders in quarter four for shipment before year end is largely limited to the aftermarket and the equipment division. With regard to prices, again we made minor adjustments at the beginning of the year for standard products.

So with that I give the word back to Lars for the outlook and closing remarks.

Lars Renström

The outlook for the fourth quarter is as follows; we expect that demand during the fourth quarter will be on about the same level as in the third, which means that it will be somewhat higher than the same quarter the previous year.

For each division our demand expectation for the fourth quarter is as follows: Process Technology, unchanged, due to continued high activity level for large orders and brisk tendering activity. Equipment, unchanged. And finally Marine & Diesel, somewhat higher, thanks to expected development for exhaust gas cleaning. And that completes our presentation and now we hand over for the Q&A session.

Questions and Answers

Q
My first question relates to the outlook, Lars and Thomas. You mentioned, Thomas, that there were some seasonality affecting especially the short cycle business of equipment. Are you talking about sort of daily rates when you talk about the outlook? That is my first question. The second question relates to the savings programme, which now has got the full impact during the summer and I mean we are not seeing demand falling but still I guess there are some efficiency opportunities in the group. What do you say about the need for another sort of programme to be launched? That is my two first questions. Thank you.

Could you clarify your first question?

Yes. The outlook, you mentioned—Thomas mentioned that seasonality, I mean the summer shutdowns effected the equipment division somewhat, is your outlook based on daily activities or should we expect somewhat better seasonality Q on Q in the fourth quarter on top of the flat outlook so to speak?

A
Well, you know my comment was relating to the factory load or the factory output as we have a vacation period in quarter three. Of course that was an adverse impact as opposed to quarter two and then you know year on year there will be no difference in quarter four. So it is not at all relating to equipment or any specific division. It was generally for the operations division.

Q
Okay, but in the comment on the equipment division OEM and Industrial Equipment it was down around 4% mainly due to seasonality effect was the comment during the presentation.

A
Yes, well it was—yes it was seasonality in Europe and also lower demand for refrigeration. And we expect that we will be on the same rates for the rest of the year.

Then I think you had a second question relating to the need of another savings programme I guess you were touching upon. And you know if we look at the load, year to date, for the operations division, we are at a somewhat higher rate than last year, so if we look at that as a measure, no. And again let me remind you that the operations division is on a weekly basis watching the load and adjusting capacity as far as resources are concerned. So you know that is continuously adjusted for. And if we look at the overhead resources we take every measure we can to rationalise where we judge that feasible in order to accommodate revenue investments, more resources in faster growing areas.

Q
A couple of questions from my side; first on the P&L, you kind of compensated the decline of the gross margin by the other expense line, which decreased quite a bit to 136 million SEK. I was just wondering what was behind that reduction? The second question relates to your guidance, if you say stable demand, does that include everything, so also including big tickets and currency? And then thirdly when I look at the marine order intake sequentially down 270 million, which was quite a bit more than the change in the big tickets. I am a bit surprised by that given that shipyard orders were still rising in the month during Q3. So was that an effect from lower power plant demand or how would you explain that sequential change? Thank you.

A
Should I start off with the first question, maybe? Yes, a better outcome on other and you know other cost and other income is exactly that, other cost and income. So what you find there is non-recurring items like project initiatives that come and disappear. We of course have commissions, royalties to third parties, where we can have swings depending on individual contracts, so no particular item to really comment on. You will inevitably have swings on this line. I think if you look over a longer period of time you tend to see a net of others in the order of 100 million SEK.

And then, Sven, your question about our outlook is that the demand will be on about the same level. Then of course, I mean, we don't give an outlook for the currency. That comes on top. We only talk about the demand as such. And your third question was really about marine and the sequential development and on top of the big tickets that you can of course calculate as a deviation. We had underlying a lower order inflow for ballast water treatment systems from quarter two to quarter three, substantially lower. So in our internal vocabulary, large orders above half million euro but not €5 million items, so ballast water was a main explanatory factor for the balance.

Q
And do you see anything specific behind that or is it just…?

A
No, those—I mean both SOx and ballast water, they come in a bit lumpy, so it is nothing particularly behind it. As for example when it comes to SOx, we are expecting good order intake in the fourth quarter.

Q
And maybe just finally, a follow up question on the marine margin sequentially, which were down. You have been mentioning mix; has that to do with a greater share in the revenues from environment products? Or how should we look at the mix impact sequentially?

A
Well I think what you should see is that we have—we are at the trough as far as we see it and our expectations, when it comes to revenues, so there is a leverage element if you look at the operating margin obviously.

Q
Just a quick question on pricing if I could, if you could just give some colour on how you see the pricing environment overall and maybe where in your portfolio is pricing toughest? And then maybe just a follow up on the last question; I think your comments on the marine margin talk about price and mix being negative. A specific reference to the pricing environment in marine and whether this is just weaker orders in the backlog flowing in and things are better going forward or whether there is a new price level in marine which is just tougher?

A
Okay, if we look at pricing overall, I think if we look at products that are considered to be more of a standard nature, of course there is a more severe price pressure and of course that is to some degree supported by the declining metal prices that we have seen some time ago. But you know for contract orders no change in the pricing environment. Then you had a particular question about marine and prices and we have talked about a normalisation of the price levels for products to the ship building industry for a couple of years already. We were at an extraordinary level if we go back to the peak and we have seen a gradual decline of prices over the last few years. Our belief is that we have found this normalised level now so you know this is the base level for now as we can judge and as far as our colleagues, being close to this market, can judge.

Q
It is just a couple of quick follow ups; firstly on the marine margin, what you were just talking about, the normalisation and reaching the finally normalised level. So should we think about 15% as normalised given that sort of revenue level of activity of 1.5 billion? Or was there anything of a sort of one off nature in there, maybe a seasonal manufacturing load or something like that? And then just on the other line, sorry to labour that, but I mean was there anything in there that the IT spend levelling off that points to that other line running at a lower level than—a lower run rate than in previous quarters on a more sustainable basis or should we just model it as before at around sort of 1.7, 2% of sales and stick with that? If you could give us some help on going forward on that, that would be great.

A

Marine, when I say normalised, I referred to price levels. I think that is important to note. You were talking about the 15% operating margin and there I commented that of course we have an adverse leverage effect as revenues have been declining, we have less of revenue, less of gross profit margin, to cover the overhead. We have seen overheads come down, they have done savings, they have implemented savings in marine, but at this what we expect to be the trough, there is not enough of volume to sort of generate the kind of margins that we have seen if we go back a year or so of 20%. So in order to get to higher levels of operating margin, of course a larger volume is required. And remember book to bill has been above one for the last couple of quarters, so there is a trend in the right direction.

Then other cost and income, no special items to comment about and going forward, again I mentioned on Sven's question, you know we have been at about 100 million as an average per quarter over a number of years. And that is the kind of level that I think you should model with going forward as well.

Q

Just a follow up please on oil and gas markets; I think you said at Q2 there were delays that were stopping the orders coming through and I guess that seems to—your commentary suggests that has reversed a little bit in Q3. Maybe just a little bit more colour on what you are seeing in oil and gas markets and how a big a kind of pipeline or pent up level of work do you see in those markets that could be executed if resources became available in the industry?

A

Yes, we see a very good activity in the US coming from shale oil and shale gas and both for—to prepare for the export of the shale gas and also for refining the products and we see a good, very good activity level offshore, for the North Sea for instance. And so in general we see a good demand and somehow it seems that the industry manages to launch a number of projects even though they are using their full capacity.

Q

You mentioned Asia now together with the other emerging markets being half of the order intake and Asia in particular were quite strong I guess due to large orders. How should we see Asia and maybe China in particular ahead, as the base business is somewhat of a wait and see mode? Do you expect this to come back? The base business to reaccelerate? There is a certain hesitation going on that will ease a bit or are you sensing that? Or is it more that you expect continuous large orders and sort of the base business to be running at this level?

A

If you go one year back in time, China was moving sideways when it came to order intake for quite a number of quarters. Then we had in the second quarter this year, we had double digit growth in China, so there was an uptick and we could see also now in the third quarter that the growth that started in the second it continued at a good rate also in the third quarter, boosted by large orders and marine. And when it comes to marine we expect continued good demand based on the good order intake to the yards. And your question regarding base business—base business was up in the second quarter and it was down the third now, so it reflects a wait and see mode and— But in general we have a positive view on Asia and on China.

Q
A couple of questions; first of all interested to understand the dynamics by segment within your marine and diesel division. Am I right in understanding that all of the decline, sequentially, is really in the environmental segment? Or are you seeing softness in particular your ship building and your diesel segment sequentially?

A
When it comes to…diesel has been slow for quite some time. And the diesel end customers, the diesel power plant end customers, they have been cautious in making investments and that has held back the demand. But when it comes to the diesel power plants, we had this good order intake, this large order in the second quarter and we see that there are some potential projects that could come in also going forward. And when it comes to the decline in the marine and diesel division, you can say it is basically coming from non repeat large orders in ballast water treatment that is booked under the marine equipment segment and the SOx plants that are booked in the marine and offshore systems segment.

Q
So your ship building and offshore segment is growing sequentially and by what order of magnitude?

A
We see—it varies between the products, but if you take for instance the marine—the boilers that come early in the ordering cycle, they started to go up in the second quarter and we had a very strong third quarter for the marine boilers. So we see that the good order intake to the yards, there we have benefited from it and we expect to see positive effects from the order intake to the yards also in the coming quarters.

Q
That is clear. Secondly, if I can just ask to some granularity on your divisional outlook for Process Technology; what is that predicated on in terms of the base order business in emerging markets ex China? You talk about large orders coming through expectedly in Q4 but if you look at particularly your South East Asia exposure, Russia, Brazil, India, the bigger emerging markets outside of China, what do you see here in light of currency volatility and some macro uncertainty in the base order business in those markets?

A
Well we can see it is a mixed picture. In Russia we saw a good order intake and also for the base business. Whereas if you take India, it is struggling a bit and so it varies. You cannot simply answer with one general statement, but Russia fine, India struggling, Brazil looked fine in the third quarter and China there we said that

base business was declining but large orders and marine gave us good growth. So it is a varying picture.

Q
I have got two slightly bigger picture questions if that is okay with you. And the first one is just looking at environmental marine regulations, so ballast water and SOx/NOx regulation. I know that on the capital markets day maybe a year or so ago we were all calculating you know number of ships times unit price, etc. and got to quite large numbers spread out over the next few years. How are you feeling about this opportunity if you think sort of going into '14, '15, '16? Do you see this as a meaningful—and with that I mean you know taking up sort of maybe a third or a quarter of your total marine division sales over the next few years? Or should we more think about this as the occasional order that is sort of dripping in over the next two to five years? And my second question, if I may, actually just relates to the sort of general demand level. If I sort of organically link your order intake back since 2007, we are still hovering around sort of 10% below the demand level you saw pre crisis and this is you know a good six years ago now. So I am just thinking do you think, when you talk to your customers, when you talk to industrial customers, both outside the marine and within the marine environment, do you think '14, '15 you will actually start to see some decent growth? Or should we expect to see sort of continued—or do you expect to see continued more or less flat lining of demand?

A
Well when it comes to '14 and '15 we don't give any forecasts.

I think, Aaron, there is one important—or a couple of important elements to remember if you look at the peak in 2008. If we look at metal prices we were at the situation where for instance nickel was priced at $55,000 a tonne. We are now at 13, 13,500. And of course that, combined with you know copper being at 9,000 plus dollars a tonne against say six or something right now that had a fundamental impact on say the monetary volume. Then again we had an extraordinary cycle, generally speaking we can leave that aside, but we had an extraordinary cycle in marine with contracting to the tune of 5,500 ships. And we said that and we said it then and we have said it ever since. It was extraordinary and should not be expected to come back, but for the rest there is not a vast difference in terms of for instance tonnes of stainless steel sold to make it very simple. So I think it is a bit dangerous to look at it the way you just did.

Q
But, Thomas, just to clarify, I am not talking about your profitability here, I am just talking about your organic volume order intake.

A
I was as well, Aaron, and so orders and sales were inflated with for instance the metal prices and most certainly the extraordinary peak in marine. And you know, again, it starts with orders and continues with sales and then eventually of course it had an impact further down the P&L as well. But I think it is very important to have in mind if we measure it in terms of tonnes of steel there is not a vast difference.

Then coming back to your questions about the environment regulations in marine and what we expect. Let me remind you all that when we had our capital markets day almost a year ago, what we tried to provide to you was on the one side what are the regulations that will kick in or are expected to kick in eventually as far as ballast water is concerned? We painted our picture of what we thought the market was. For ballast water we said 30,000 ships, which is less than half of the total number of ocean going ships. We talked about a few thousand as the total opportunity for SOx cleaning for instance. We were talking about the opportunity, we outlined the guidelines as they are to be applied, but we did not sort of commit to any specific revenue number as far as we are concerned. I think the general experience is that you know new markets they evolve at a somewhat slower rate than well you would like to see and we would like to see, but you know the opportunity is there. And coming back to Lars' questions about quarter four, we have some expectation that we will see orders in SOx in quarter four. So you know it will be lumpy, the opportunity is there, but the timeline is maybe not what you would have expected and what we would have liked to see.

But it is important to stress, the trend is positive and so it is on its way.

Q

Just a couple of more questions please; firstly on the factory loads comment into Q4, you said you don't expect a significant change. Should we think about it as kind of adjusted for seasonality that was a negative in Q3? And secondly on the gross margin comment that you are seeing no significant change coming through from backlog at the group level, would you say that is true for the marine division as well, marine & diesel division?

A

My short answer to both of these questions would be yes; yes, the factory load, no major change, of course considering seasonality. And backlog margin, no material difference; that applies for all of the three divisions.

Q

Great. And can I just one final question; on the new product momentum in the marine and diesel division, if we exclude the environmental product portfolio and ()()() and look at it as a kind of standard product, or standard product basis, how would your characterize the new product momentum this year compared to a year before or three years before that? Are you launching more or less of more standard products apart from the environmental product portfolio and PureDry?

A

In the product development, we are focusing on products that either increase the energy efficiency of the ship or that takes care of an environmental challenge for the ship owner. And I would say that we have a higher rate—we have more new products introduced today than what we had three years ago. And that also goes for products outside SOx and ballast water. So we are constantly renewing our product portfolio and for instance increasing the efficiency of the fuel line for the ship owner.

Q
Just quickly finally perhaps on services, pretty good momentum; any particular efforts you have made or areas of improvement that you have seen in parts and service? And do you expect this double digit rate to be sustainable over the next couple of quarters?

A
It was unusually good, the 10%. And we had a couple of—we were very successful landing large orders for the process technology division. So it is—but we have a focus to— We want to increase our focus on the aftermarket and we have during the last six years increased our number of service centres with 50%, so we are slowly, steadily improving the growth of the aftermarket. But you can say the 10% that was unusually good due to large orders.

Closing Comments

Okay, so thank you very much for your attention and wishing you a good day. Thank you and good bye.