Alfa Laval AB
Wed, 05th February 2014
Chaired by Lars Renström

Lars Renström

Good morning and most welcome to the presentation. I will start by giving you my three highlights. First of all both orders received and invoicing reached all time high. Orders received came in at SEK 8.2 billion and large orders were the main driver behind the record. The second highlight is that Marine & Diesel grew significantly both year on year and sequentially driven by the increased contracting at the yards earlier in the year and environmental solutions like Pure SOx and Pure Dry. And finally, Process Technology reached all time high when base business and especially large orders grew. The growth was well distributed both geographically and in applications.

So let's move over to the key figures. There you see that orders received rose 13% to 8.2 billion. Net sales increased 6% to 8.6 billion. Adjusted EBITA grew 5% to 1.4 billion and adjusted EBITA margin reached 16.3%. For the full year orders received were unchanged at 30.3 billion. Net sales unchanged at 29.9 billion. Adjusted EBITA unchanged at 4.9 billion. And finally adjusted EBITA margin reached 16.4%.

On the next slide you see that the Board of Directors proposes a dividend of SEK 3.75, an increase of 7%. Further the board proposes a mandate to buy back up to 5% of the number of outstanding shares. And now we move over to orders received and margins.

Orders received on rolling 12 months reached 30.3 billion. The increase year on year was 16% at constant exchange rates. The significant increase sequentially was mainly driven by large orders but also the base business developed well and we reached an all time high level. And here I have a forward looking statement. Compared to the fourth quarter we expect demand in the first quarter to be in line with or somewhat lower due to fewer large orders.

Now we move over to the next slide. From the order analysis you find that year on year acquisitions contributed with 1.3 percentage units and organic growth was 14%. We had negative currency effects of 2.9% giving a total of 12.7%. Sequentially organic growth was 9.5% and 0.2% positive currency effect gives a total of 9.7%.

Next slide; the EBITA margin reached 16.3% and we have now had eight consecutive quarters around 16.5%. The operating result was 1.4 billion, the highest absolute value in more than two years. Let's take a look at the highlights in the quarter.

Process Technology reached all-time high in large orders; SEK 820 million. We are very pleased that the orders are well distributed geographically and there is a good balance between food and energy. In Marine & Diesel we booked a large repeat retrofit order for exhaust gas cleaning confirming that our system is reliable and well proven. From another customer we booked an order for 40 ships that will be equipped with Pure Dry that saves 1-2% of the fuel oil. This significant order confirms that ship owners are prepared to install the equipment on a large scale.

Next slide... We have opened a new test and training facility in Aalborg, Denmark that shows our commitment to the marine industry. The full scale engine room is equipped with a diesel engine and ten different products supplied by Alfa Laval. All equipment is integrated and managed by a control system that enables us to test, monitor and control the complete system from remote. We can test and evaluate innovations in full scale before we run the tests onboard ships. This reduces time to market and increases precision in R&D.

Next slide; for the full year you see that large orders exceeded SEK 2.1 billion, somewhat less than in 2012. In absolute value year on year food is up significantly whereas environment and energy are down. We are very pleased with the distribution between the three areas.

Next slide; we are also pleased with the distribution between the geographical areas, which well reflects the actual market sizes for Alfa Laval and confirms our excellent global presence.

Now we move over to the development per segments and there you see that—we had 14% organic growth in the quarter and you can see that year on year seven segments grew, two were unchanged and two declined. Let's take a look at the development per division and now all comments are sequential.

In equipment, Sanitary was lifted by good demand from personal care and food. Industrial Equipment saw a slight decline due to seasonally lower demand for HVAC. OEM was unchanged as demand from boiler manufacturers grew, while demand from HVAC declined due to seasonality.

Next slide; in Process Technology division, Energy & Environment saw Oil & Gas rise, boosted by large orders. And Power booked a large nuclear order following increased activity. Large protein and brewery orders contributed to the growth in Food. Process Industry declined due to non-repeat orders in refinery, whereas other areas in the segment grew.

Let's take a look at Marine & Diesel. In the division the equipment segment saw overall higher demand following ship contracting growth throughout the year. Marine & Offshore systems grew significantly with a positive development across the board. A large exhaust gas cleaning order contributed to the growth. Demand for Service was down due to lower repair activity.

Next slide; for the full year five segments are up, three unchanged and three down, reflecting that we had 1.6% organic growth like for like. The Service segments in Process Technology and Equipment grew giving a total growth, like for like, of 5.8% despite the decline in Marine & Diesel Service.

Now we move over to the geographical developments. Order intake in the quarter shows that year on year Central & Eastern Europe stands out with an outstanding growth of 89% boosted by Russia, followed by Latin America with 29%. All regions delivered good growth except Western Europe.

Let's take a closer look at the regions and please note that all comments there are sequential. Asia was unchanged. The base business did very well while Service was unchanged and large orders were affected by a non-repeat. Marine & Diesel had a strong quarter lifted by a high activity level among shipyards in South Korea, China and Japan. China grew lifted by Marine, Food, Process Industry and Service. Equipment was at a slightly slower pace than previous quarters and we have now had three consecutive quarters with growth (in China).

Next slide; Nordic grew 12% and Western Europe grew 3%. Both base business and large orders had a positive development. Sanitary, Marine & Offshore Systems and Energy & Environment did particularly well and service demand rose. Central & Eastern Europe grew 35% due to a very positive development in Russia and Poland, Baltics. Russia reported a record quarter boosted by three large orders for nuclear power, starch processing and protein processing.

Next slide; North America grew 15% and in both US and Canada we booked large projects and Service contributed to the growth. Sanitary, Industrial Equipment, Process Industry and Food contributed to the positive development. Latin America grew 4% and Brazil did particularly well with growth for both base business and large orders. Argentina was lifted by a strong base business in the Process Technology division.

Next slide; for the full year Latin America delivered 12% growth. All other regions delivered a moderate growth except Western Europe that was unchanged. And we are pleased with the good balance between the regions.

On the next slide we have our top ten markets. The US continued to grow, supported by acquisitions. China has delivered three consecutive quarters of growth supported by the recovery in the marine industry. Nordic grew supported by oil and gas investments in the North Sea and marine environment. In South Korea the recovery of Marine & Offshore almost managed to compensate for the decline of the EPC contractors.

After several consecutive years of growth, South East Asia was hampered by political, as well as financial instability. Mid Europe reflects the good development of the German economy. After a strong fourth quarter Russia reached the record level of 2012. Adriatic, which is mainly Italy, did a very good year and we have good momentum in our local organisation. Brazil delivered good growth despite challenging a business climate. Petrobras contributed well to the growth. And finally, thanks to oil and gas investments, Canada almost managed to compensate for the large SEK 300 million environmental order we booked in 2012.

And now we move over to Thomas for the financials.

Thomas Thuresson

Thank you, Lars. Good morning all of you, let's get right to it. Let me jump right into sales as Lars has covered orders received in debts. The quarter realised sales of SEK 8.6 billion, a new record level for Alfa Laval. We were of course supported to some extent by a weakening of the Swedish krona but still let me confirm that sales ended some 300 to 400 million above our own expectations. The Process Technology division as well as the Marine division managed to ship somewhat above expectations. The shortfall that we talked about in quarter three was obviously recovered as expected.

To emphasise the record, sales was up 7.5% organically compared to quarter four of 2012. Acquisitions added 1.6 to sales and in absolute terms sales was up 6.5% year on year. Sequentially we report a like for like increase in sales of 19.4% an outcome consistent with earlier years i.e. a seasonality pattern similar to earlier years.

If we look at the Service component it represented 25.7% of total revenues in the quarter against 25.8 in quarter four of 2012, so a small variation. The same goes for the full year, 26.7% against 26.6% in 2012. Let me then finish the comments about sales with the first forward looking statement. Sales is expected to come in substantially lower in quarter one than what was achieved in quarter four.

With that, let's move onto gross profit margin. Gross profit margin for the quarter ended at 36.4% representing a decline of 0.6 year on year and 0.3 sequentially. Let me then remind you what I said after the quarter three report. Then I said in the near term we expect a negative mix effect mainly coming from an increase in capital sales. FX transaction effects are expected to be negative and finally we do not foresee any material changes to load or factory results.

The actual for quarter four came out slightly below our own expectations. This is mainly due to a somewhat worse factory result than expected. The mix effect was negative as anticipated and that was not only because of the split between capital and service but also within capital sales. To finalise comments about gross profit margin let me give you the second forward looking statement. In the near term we expect a positive mix effect mainly from a reduction in capital sales relatively speaking. FX transaction effects are expected to remain negative.

If we then move on to look at overheads and the rest of the P&L; R&D ended at SEK 194 million in the quarter which is a reduction year on year, like for like, of 7.5%. The explanation being phasing of individual cost items such as tooling of new products. The increase in R&D for the full year was 3.5%, i.e. we had a slight increase in R&D in real terms. The R&D spend represented 2.4% of sales for the full year 2013, which is in line with our guidance for R&D spend.

S&A amounted to 1.4 billion in the quarter representing an increase like for like of 3.4% over 2012. Salary inflation and selective increases of resources to increase presence is behind this increase of 3.4%. The full year increase was 1.5% like for like.

The net of other cost and other income compared to 2012 is somewhat higher in the quarter, which reflects charges for certain restructuring measures amounting to a couple of euro million. We had FX effects, adverse FX effects to the tune of 45 million on the EBITA line. This gave us all in all an EBITA margin for the quarter of 16.3%.

Let me then just give you a few short comments about operating margin by division. The Equipment division came out below average for the year and below quarter four of 2012. An important factor was cost related to the build up of web based sales and other channel development activities. The Process Technology division was benefiting from an increased sales volume still having higher sales costs. And finally the Marine & Diesel division was benefiting from reductions in overhead costs, measures that were initiated already towards the end of 2012.

Profit before tax was just over 1.2 billion in the quarter, an increase of 2% over last year. This includes a difference in financial net due to exchange differences being 83 million worse than last year.

Before leaving the P&L, taxes ended up with a charge of 330 million, which is somewhat below our guidance for taxes of 28% of profit before tax. EPS 2:07 and 2:2,9 excluding amortisation on step-up; a slight decline from quarter 2012. And finally the return numbers; return on capital employed, 26.4%, return on equity, 20.4. Limited changes from where we were at by the end of quarter three.

Let us then move on to the cash flow statement. The cash flow statement can be summarised as cash flow from operations well above quarter four 2012 reaching 1.2 billion. The main contributor is a refund of prepaid taxes in Sweden. Free cash flow reached 970 million compared to just over 700 in quarter four of 2012. I said it on many instances before but I say it again, to conclude I think it is fair to say that we had another really good year as far as cash flow is concerned.

Let's then talk a bit about FOREX. FX effects in EBITA were, as I stated before, 45 million negative; 17 from translation and 28 from transaction. We came consequently out at the bottom of the range that I indicated at the capital markets day in November. An important contributor was of course the weakening of the Swedish krona. We have, as we normally do, updated our forecast for 2014. With the rates stated on the slide as far as transaction effects are concerned and applying the end of December rates for calculating translation effects, we expect a net adverse FX effect for the full year 2014 of 60 million.

Let's then take a look at the order backlog situation for end of December. We had a total order backlog of almost 14.6 billion, representing just under six months of LTM sales. On a like for like basis the order backlog to be shipped in 2014 is then some 200 million below the situation for end of '12 for shipment in 2013. From the slide as you see the absolute difference is SEK 130. The balance is of course the impact of our acquisition of Niagara Blower during 2013.

Having said that let's move onto the bridge for whole year sales 2013 to 2014. Looking at the known and unknown parameters the following can be said: As stated just before like for like the backlog for January 1 will force reduced sales of approximately 200 million compared to 2013. Based on the end of December exchange rates we will have a negative translation effect of just 100 million, so substantially less than in 2013. The acquisition of Niagara Blower we estimate will give a boost to sales of 100 million, so summarising the known parameters we should expect to be at a sales level of 29.7 billion.

Then of course it is, as always, up to you to form an opinion about demand for the coming 12 months and its implications on sales in 2014. As far as prices are concerned we have, as we normally do at the beginning of the year, made small adjustments to prices for standard products and that of course is anticipated to give a limited effect to the total sales number for the group.

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

Lars Renström

And the outlook is as follows: We expect that demand during the first quarter will be in line with or somewhat lower than the fourth quarter. And remember that we are now comparing with an all-time high quarter. For each division our demand expectations for the first quarter are as follows: Process Technology, somewhat lower since we expect less large orders, even if tendering activity continues to be high. Equipment unchanged and Marine & Diesel unchanged.

And that completes our presentation.

Questions and Answers

Q
Firstly just on the quarter operational gearing effect, your sales have obviously grown and as you said faster than you expected. Historically that resulted in an operating profit margin effect, while it basically stayed flat. Could you just give some colour on what the headwinds within the quarter that offset that 200 million operational gearing effect that I estimate entirely and how they are likely to pan out over 2014?

A
Yes, I commented, a somewhat worse factory result than anticipated and that relates to a more uneven load among factories than we anticipated. Which means a few factories, they were having a load substantially below the expectation towards the end of the quarter. Then of course we had increased sales, but as we have seen a growth in contract based sales over the last several years we have also seen a growing application of the percentage of completion method for revenue recognition and that of course does not automatically mean any impact on the factory load as such. This is rather sort of accounting on the back of completion of contracts, so there is not such an obvious relationship as

you normally have if it relates to say straight forward manufacturing of parts or product.

Q
Got it. And would you say, given sort of the broad based pickup in demand that you saw in Q4 and the guidance, would say that sort of unevenness of the factory load could normalise in 2014?

A
You know it is impossible to tell at this juncture whether we will have—what the load will be like over this year. We have a backlog, which is like for like, as I stated before, somewhat lower, but you know to be a bit specific about the short term, we do not see any material changes in load as far as the short term is concerned.

Q
Got it. And the second question just on environmental products; on SOx, could you just update us on how many ships you have installed your systems on and what is your current market share or kind of the share over 2013? And on ballast water whether you are maintaining the assumptions you gave at the CMD or whether you are more or less confident in them?

A
When it comes to SOx, we have by the end of the year we have booked orders for 18 ships and in total 23 scrubbers. And going forward we expect continued positive development for SOx and we see good activity level in the markets.

Yes, as far as ballast water is concerned, we have not seen a ratification of the convention as I am sure you are aware, and that of course means we are not seeing anything happening in the retrofit market. There is a very high percentage of new build or newly ordered ships that are sort of ordered with ballast water system, but as far as retrofit, no change because no ratification.

Q
Three questions if I could from my side; just on the order delays from Q3. Can you give a sense of what the order of magnitude of that was? And also on your outlook into Q1 I wonder what your assumption is for base orders in some of your key emerging markets and whether you have seen any signs of potential visitation here in the early parts of Q1? Secondly if I could on your other operating cost of 257, that is about 100 million above the level you have been running at in the past, can you give us a sense of what is driving that? And whether there has been any operating costs shifted out of the divisions into other? And then thirdly if I could just on your seasonality in your division margins, we don't have much pro forma history here, particularly on marine and diesel. They are up 500 basis points quarter over quarter, they were up 400 basis points in Q4 last year. How should we think about the seasonality in margins here? And also if you could talk a little bit about the seasonality in PT margins here? They are obviously seasonally lower in the second half, now we are seeing a very big quarter in Q4. That will be my three questions.

A
Okay, if we start with emerging markets. There we, in the fourth quarter we didn't see any impact from the financial instability in the emerging markets. And going forward of course higher interest rates will dampen let's say the willingness to invest. However, you should bear in mind that we are active in three areas: energy, environment and food that are prioritised areas in all emerging markets. And what the net balance of that becomes that remains to be seen.

You started off by asking about order delays from quarter three, and well you know we had expectations when it comes to customers' decisions about individual orders but as we all know the customers decide at the end of the day. So I mean I don't know whether it is really meaningful to give you a number but I guess we could say that we are talking about in the range of a couple of 100 million that could have come in, in quarter three, but actually came in, in quarter four. And then, as Lars stated earlier, we had a bit of a similar situation in the other direction towards the end of quarter four. I.e. customers made decisions already in quarter four instead of in quarter one.

Other costs, well, let me point out that operating income for others was 581 on a full year basis, 541 in 2012. So I think level as far as that is concerned. I mentioned before a few millions of charges for restructuring measures that is of course one thing that plays a role. When it comes to margin seasonality in marine and process technology, you have implications from well the usual main parameters of volume of course and price. I think when you were worried, pretty much all of you, about the margin marine reported in quarter three, I said we are oscillating at what we believe is the trough of the cycle. And the intention with that statement was of course to give you comfort that this was well the very trough. I think the outcome in quarter four is evidence of just that. I think it is incorrect to talk about seasonality. It is more about cycle as far as marine is concerned. It is inevitable that we have oscillation at a trough as well as a peak. As far as PTD is concerned, margin is of course influenced to a great extent by mix.

Q
One follow up if I just could, on your operating(?) cost, I appreciate they were level year over year for the full year, but obviously in Q4 quite high even if I take the two to €3 million out of that that you talked about in restructuring charges. There is still a good 100 million or so in the quarter. I just wondered whether you could give us any sense for that might have been?

A
There is no further detail to be provided at this juncture, no.

Q
Let me start to ask you about your view of how much of your orders today or say revenues, which is exposed to upstream oil? That is my first question. Secondly, tied to the marine and diesel profitability, if it is not about seasonality more the cycle, would you dare to sort of comment on a very, very high profitability level, is this a level that you sort of expect on a more longer term horizon ahead? Finally, the buyback mandate, if you look at history from what you are now and what you

see, are you expecting to use parts or the mandate in the upcoming year? That is it for now.

A
Okay, if we take our exposure to oil and gas, if we start with that one. If you take up and midstream, and that means drilling, production, transportation, there it is around €300 million on the rolling 12 months. And downstream that is refinery and petrochemicals, in this band, 250 to 300.

Q
And how much—sorry, on the up and midstream, how much of those are actually gas? It is the oil part I would like to—?

A
Oil is roughly 60% of the combined sum of oil and gas up and midstream. So it is 60% of the total numbers I mentioned.

Q
That is great. Thanks for clearing that up.

A
Okay, then you had a question about margins in marine. Well I think you will have to live with swings between quarters depending on what we are actually shipping in the individual quarters. As we have stated before, we expect it to be at the trough of the cycle mid to late 2013. That is what we still think you have seen, a build up of backlog during 2013 is maybe not so obvious from the report but remember there is a substantial adverse translation effect. So in like for like terms there is quite an increase in order backlog in marine which is evidence that we are moving upward again in marine. And on the back of the contracting from the yards we anticipate orders to be at least on the same level in the short term.

Then buyback finally, we do have a mandate. There is a proposal for a renewed mandate to the AGM. There are no decisions whatsoever to actually make use of the buyback mandate. And of course to the extent a decision is taken by the Board of Directors to execute under the mandate this will be made public according to the rules of the stock exchange.

I have to correct myself. The 60% oil that is for up and mid stream; that is the 60% of the €300 million.

Q
A couple of questions please. The first one is for Thomas on the gross margin slide. You have given quite a lot of comment about the impact that mix has had on that slide over the last 12 months. Could you talk in a little bit more detail about the impact which price has had on that if any? Are prices stable currently across your businesses? And are there any businesses where they are more stable than others if I can put it that way? And then a question perhaps more for Lars, your balance sheet, despite the payout of just over 50% for 2013, your balance sheet remains pretty generously funded and it is quite some time since you made a major acquisition. Should we expect one in 2014?

A
Well, Colin, let's start with prices then. We did comment for quite some time after the earlier peak about normalisation of price levels, particularly in marine. With sales in 2013 we dare to say that we have seen the normalisation. As stated earlier we are back to price levels and () gross margins that we recognise in capital sales since the time before the earlier peak. For the rest a great deal of stability when it comes to the components business in the equipment division. For process technology of course you have variations between the different segments depending on scope of supply and the competitive situation in the individual bids, but for the underlying component business, the base business, no change. We did as I stated in my presentation, we made minor adjustments to prices on standard products and parts with the beginning of the year, so no drama in any way.

And then coming over to the acquisition question, as we have many times stated, you can assume three to 4% bolt-on acquisitions per annum. And yes we have the financial muscles to make a major acquisition and of course we are actively looking for that but it takes two to tango and it is impossible to predict when it will happen. And that is all.

Q
Three questions from my side please. The first one refers to your comments on the marine service having been a bit weak in Q4 and lower repair activity. How do you look at that structurally? Is that just a one off or is that what you see as an impact of the new tonnage coming to the market? At the same time you still have a high level of anchoring and scrapping, so do you see that improving quickly again or what kind of outlook would you give on that? The second question is, if you could please remind us about the order delay you see between the yards and Alfa? Is it correct to assume that for your old Alfa marine business it is still nine months and it is only much shorter for Aalborg? And you know combined with that wouldn't that mean that your order intake should go up further given that you know the shipyard orders have improved quite strongly also throughout last year? And then lastly in terms of what you said of percentage of completion accounting the impact of large orders, I think you also mentioned in the past that you have quite a different margin mix between larger orders. And given what you had last year in terms of large orders, would that imply any change in terms of the mix of the large orders or is that no impact for this year?

A
When it comes to—we said that in marine service we had lower activity in repair. That is very much related to lower repair activity on offshore platforms. We had a number of large service orders in the past that didn't repeat and we also had one cancelation so I would say it is not a structural change. And then when it comes to the delay or the lead times from order at the yards until we see it in our books, the nine months that we mentioned at the capital markets day is still valid and for our, let's say traditional products. And when it comes to the boiler side it is more like six months. And so we—our best estimate is that the high order intake level that we had in the fourth quarter for marine and diesel that we would remain at

that level in the first quarter as well. We will not see any further increase from the fourth quarter.

Then finally, on percentage of completion, well there are variations in gross margin between various contract orders. An important factor there is of course the scope of supply. The amount of third party products and engineering involved in the delivery plays a role when it comes to the gross profit margin. But on the basis of the backlog we had as per end of December we cannot say that we foresee any major variation for contract based sales in terms of margin in the short to medium term. There is no basis for that. It is of course maybe influenced by demand of components, base orders, but at this juncture we cannot foresee any major implications from the backlog as such.

Q
Thank you. Maybe one follow up question regarding the M&A comment you made. Is there in terms of your end markets any preference for larger acquisitions or do you have the scope for doing large deals in all the end markets that you serve?

A
We are interested in all our three technologies; separation, heat transfer and flow.

Q
Three questions please. Just firstly on currency; I think your guidance was based on the end of December rates. We have seen some kind of fairly large moves since then in emerging markets. Would it be different if we used end of January rates? That is the first question. Secondly on the equipment division margins, I may have heard it wrong, but I think you said you had some extra costs in the quarter. Whether you could quantify that and just give us a bit of colour on how long those extra costs will last for, if it is a one off or if it runs for a few quarters? And then just—because coming back to percentage of completion, I was just wondering to what extent this contributes to the quarterly volatility we see in margins, in process and maybe marine. Where in the early stage of the contract you know you are prudent in terms of the earnings that you recognise and I mean you get a big delivery quarter like Q4, you get you know contingent provisions released, profit catch up and it drives a spike in margins, just to understand how that affects the numbers and margins quarterly.

A
If we look at FX end of January compared to December, I think what is important to remember here is the balance between the SEK and other currencies. And you know the main exposure we have is the fact that we are long in dollars and short in Swedish krona. Some difference of course, some implication from what we have seen in some of the emerging markets, but remember that for quite a few of these markets most of capital sales is actually happening by means of letters of credit in euros or US dollars. So we are not exposed to the full extent or nowhere near the full extent in most of these emerging markets.

Equipment and costs for channel development, well this is a process that has been ongoing for some time and will continue. Of course there is an expectation in this programme to generate more with less or more with the same but it will be an evolution over time and we are likely to talk about years rather than anything else.

Finally, revenue recognition in percentage of completion, differences over time. Well, we do tend to take a prudent approach in the early stages of revenue recognition and one hurdle that we typically apply is that we do not start to recognise revenue before we have complete at least 50% of the contract in terms of delivery. Then we start recognising revenue and we try to do it in a prudent manner not to get any surprises at the end. So, well there might be a bit of an impact from that approach, but I think it is the right approach to take applying percentage of completion.

Q
Again, with apologies, three questions. The first one, just going back to guidance, I mean I note that Q1 seasonally was the weakest quarter in '12 and it was the weakest quarter in '13. So I guess I am trying to work out that if you are flat to slightly down on Q4 I guess that means you are going to still be quite nicely up on Q1'13? The second point is in terms of—with apologies coming back to this operating cost question, would it just be prudent to assume that they go up you know slightly from the 581 annual level? And then the final question is, just coming back to environmental opportunities, we know that the ballast water ratification has been slightly delayed. Is that changing at all your quantification of either the opportunities for ballast and the opportunities for scrubbers or do those numbers very much stay as you outlined at the CMD? Thank you.

A
The first question, was that relating to orders?

Q
Just generally in terms of demand levels I think in terms of seasonality you said flat to slightly down you know Q1 on Q4. But I am just checking that you know Q1 seasonally has been the weakest quarter for the last two years anyway. So I am just wondering whether that just reflects normal seasonality or whether there is anything to bear in mind over and above that comment?

A
I think, remember Lars' qualification by division. We anticipate a lower level of demand from process technology mainly explained by less of large orders despite high tendering activity. For marine, on the back of the contracting 2013, about the same level of demand and for equipment division also the same level of demand, so sequentially that is the comment. We stick to a sequential comment. I think that is the most meaningful in our view.

Then as far as other costs are concerned, 581, I am sorry, Nick, but I will not be providing you with a forecast on the total of other costs outside the divisions for the full year 2014. So I pass on that one. Then finally, ballast water ratification or lack thereof, with the lack of the ratification and the high percentage of contracted ships being equipped with ballast systems, with no change we do not see any change in demand for ballast water systems really. So: no ratification, no change in demand in the short to medium term. That is our prediction.

Q
Yes, so it was obvious that the large orders were strong in the quarter, but it looks to me that also base orders had a bit of a trend shift going up by about 10% after having done very little earlier in the year. So would you attribute that to any specific end markets and would you expect that trend to continue?

A
Well we can say it is—base orders grew in the process technology division and you could see that that came from for instance oil and gas end markets. But to give any forecast on base orders going forward, we will not do that. We stick to our overall forecast for the first quarter.

Q
Okay that is fine. And just as follow up, the marine and diesel aftermarket still seems to be pretty slow. Any update you can give there?

A
Yes, you can say it was flattish in 2013 and at least we would—global trade will grow with let's say 4% in 2014 and if the rates that the ship owners are earning, if those rates are going up we will see an increase in order intake for service, at least for service for equipment. So it is very much linked to how the rates will develop.

Closing Comments

Thank you very much. Thank you, all of you, for the attention and we wish you a good day. Thank you.