Lars Renström:
Good morning and most welcome to our presentation. I will start by highlighting three matters.

Firstly, order intake was excellent and we reached a record order level in the quarter, both with and without Frank Mohn. Order intake rose 19 percent year on year to SEK9 billion, and we are pleased to state that we expect demand in the third quarter to remain on about the same high level.

Secondly, in the quarter, the demand from the marine industry exceeded our expectations, with a particularly strong demand for boilers. The consolidation of Frank Mohn, which added roughly SEK0.6 billion to both orders and sales, developed very well and in line with our expectations.

Finally some words on profitability. The operating margin declined year on year, partly due to a negative price mix. Also, the market has not taken off the way we had expected when selectively investing for growth during the past 18 months. Consequently, costs have been rising faster than revenues. Hence, we have initiated a review of the costs and our structure to rectify that. However, it should be noted that earnings per share rose 24 percent, and that profit before tax rose 20 percent compared to the second quarter last year.

And now we move on to the key figures for the quarter. Orders received rose 19 percent to SEK9 billion. Net sales grew 12 percent to SEK8.4 billion. Adjusted EBITA increased 9 percent to SEK1.35 billion. And adjusted EBITA margin reached 16 percent versus 16.5 percent a year ago.

For the first six months, orders received rose 12 percent to SEK16.4 billion. Net sales increased 7 percent to SEK15 billion. And adjusted EBITA advanced 5 percent to SEK2.4 billion. The adjusted EBITA margin reached 16 percent.

Now we move on to orders received and margins. There you see that orders received on rolling 12 months reached SEK32.1 billion, and the increase year on year at fixed currency was 18 percent.
We move on to the next slide. There you see from the order analysis that year on year, acquisitions contributed with 9.3 percentage units, and organic growth was up 9.1 percent. Positive currency effects were 0.8 percent, giving a total of 19.2 percent. Sequentially, acquisitions contributed 10 percent, organic growth 8.1 percent, and positive currency effects with 1.9 percent, giving a total of 20 percent.

Next slide. The EBITA margin reached 16 percent. The operating result was SEK1.35 billion, which was the second best quarter in two and a half years.

Now we move on to highlights. In Process Technology, we booked an order in the U.S. for a natural gas liquids export terminal. This is an example of investments driven by the shale gas boom. The order from China reflects the Chinese Government's high priority to convert coal into liquids in order to reduce CO₂ emissions. From the Netherlands, we received an order for our largest caustic soda installation to date. And from Russia and U.K., we received orders for oil and gas production.

In Marine & Diesel, we booked orders for in total 10 exhaust gas cleaning systems, and accumulated, we have booked commercial orders for 50 systems. And we received two significant orders, one from Finnlines, and one from a German ship owner. We also closed the acquisition of Frank Mohn in May.

Now we move over to the development per segment. We had 9 percent organic growth year on year in the quarter. And you see that seven segments grew, two were unchanged, and two declined. And we are very pleased that organic growth for service was up 11 percent, with all the three service segments contributing.

Let's take a look at the development per division, and now all comments are sequential. Equipment reached an all-time high order level, driven by seasonality in Industrial Equipment, as well as good demand in the food sector. Sanitary saw an increase in demand for products going into personal care, dairy and food. Especially, U.S. and China had a positive development.

Next slide. In Marine & Diesel, equipment saw overall higher order intake following ship contracting growth. Marine & Offshore systems saw very strong demand for boilers. Marine and offshore pumping systems, previously Frank Mohn, saw high order intake, reflecting contracting of chemical and product tankers late 2013/early 2014.
Next slide. Process Technology had a very strong base business, with added support from large orders. Segment Energy & Process saw higher demand, while Food & Life Science was affected by non-repeats. Water & Waste grew, mainly due to larger orders. Finally, we are very pleased that Service had a strong development.

Next slide. For the first six months, five segments have been growing, three were unchanged, and three have declined.

Now we move over to the geographical development. You see that year on year Asia has been growing by 39 percent, boosted by the recovery in the marine industry. Then follows North America with a solid 24 percent. Both Western Europe and Central & Eastern Europe had good growth, while Latin America and Nordic declined.

Let's take a look at the development per region, and now all comments are sequential. The strong development in Asia was supported by growth in both the base and project business. Marine & Diesel division did very well as it continued to benefit from an earlier surge in yard contracting, as well as an increased demand for crude oil and LNG carriers. China enjoyed a broad and positive development following growth for all three divisions.

Next slide. In Western Europe, including Nordic, we had a good development across most countries, where both base business and large orders grew. In Central & Eastern Europe, we had a significant increase following a positive development for the base business and large orders alike. We are very pleased that Russia recovered to normal levels after very weak first quarter.

Moving over to Americas. Growth in North America came from both the base business and large orders, and the growth was broad based. Service also performed well. In Latin America, we had a slight decline due to fewer large orders. We are very pleased that Service developed very well across the region.

Next slide. Here you see orders year on year. For the first six months, we had Asia and North America having double-digit growth. It's interesting to notice that Asia and total Europe are equal in size.
Now we move over to the next slide, top 10 markets. The green bar represents whole year 2013, and the yellow rolling 12 months. The U.S. has continued to grow, following a broad-based demand and one acquisition in May last year. China has been boosted by the marine industry, and the same applies for South Korea where Frank Mohn makes a significant contribution. The growth in mid-Europe reflects the strength of the German economy. Russia is still impacted by the very weak first quarter. In Brazil, we see fewer large orders. Finally, the growth in Benelux is impressive, and it’s driven by domestic customers, as well as local contractors working on the global markets.

And now I hand over to Thomas for the financials.

**Thomas Thuresson:**

Good morning, all of you. Let's move into take a look at sales, as Lars has covered orders in depth already.

In the quarter, we realized sales of SEK8.4 billion, an increase of 12.1 percent year on year, of which the organic element was 3.9 percent. After quarter 1, you may recall, we commented that we had a shortfall of some SEK200 million to SEK300 million of sales. With the level of revenues in quarter 2, this shortfall has been recovered.

In comparison with quarter 1 of this year, sales was up just over 26 percent, with an organic increase of 17.5 percent. Quite an increase, I must say. This was partly a regular seasonal variation, and as mentioned just before, partly recovery of the shortfall in quarter 1.

As you may have noticed from the report, Frank Mohn, the acquisition, has added SEK552 million to sales in this quarter.

Then looking at Service, the service activities represented 27.2 percent of total revenues in the quarter against 27.5 percent a year ago, of course giving a slight adverse mix effect; in the quarter, year on year then and more substantially, a mix effect sequentially. So a more substantial mix effect sequentially than that year on year.
Now let me give the first forward-looking statement: I guess it goes without saying, but based on having Frank Mohn in the Group for the full coming quarter, it is, of course, reasonable to expect an increase in sales also in quarter 3.

With that, let's move on to talk a bit about gross profit margins. Gross profit margin for the quarter was 36.3 percent. This represents a decline of 1.6 percent year on year, and a decline of 3.1 percent sequentially.

With the quarter 1 report, I said in the near term we do not expect product mix to be as favorable as in quarter 1. We expected very limited positive price effects, no material change to (factory) results, and transaction effects were expected to continue to be slightly negative.

The actual for quarter 2 came out, I have to say, slightly worse than anticipated. This is mainly due to a worse price/mix variation within capital sales. In addition, gross margins are lower in Frank Mohn than in already established Alfa Laval businesses.

That brings me to the second forward-looking statement: In the near term, we do not foresee any material change compared to the outcome in quarter 2 with regard to gross profit margins.

Let's then move on and take a look at overheads and the rest of the P&L account. R&D ended with SEK201 million in the quarter, which is an increase year on year, like for like, of 8.1 percent. The explanation, as in quarter 1, is being certain increases in resources as well as other costs related to individual projects, individual R&D projects.

S&A amounted to almost SEK1.4 billion in the quarter, representing an increase like for like of 5.9 percent year on year. Salary inflation, selective increases of resources locally to improve presence, as well as – and this is, of course, a further addition – additional resources for central application product support for local sales. These are the main reasons for the increase.

Let me also comment that we had adverse, limited adverse FX effects, a negative SEK10 million this quarter to EBITA. All in all, we reached, as you have seen from the report, an EBITA margin for the quarter of 16 percent.
Profit before tax was almost SEK1.16 billion in the quarter, an increase of 20 percent over last year. This includes a difference in financial net to exchange differences being (SEK117) million better than last year.

Before leaving the P&L, let me point out that taxes ended with a charge of SEK363 million, somewhat above our guidance for taxes in percentage terms. However, we maintain 28 percent of profit before tax as our guidance.

EPS SEK1.89 in the quarter; SEK2.24 excluding amortization on step-up; an increase of 24 percent compared to last year as far as EPS is concerned. The increase, of course, explained by FX differences in financial net, increased operating profit, where of course Frank Mohn contributed.

With regard to return on capital, we ended at 22.9 percent. Of course, return on capital was adversely impacted by the acquisition of Frank Mohn adding substantial goodwill amounts. For return on equity, we reached 19.4 percent.

Let's then move on to take a short look at divisional performance. Equipment came out below quarter 2, 2013, as well as quarter 1 of this year, mainly due to a negative price mix effect, but also increased R&D efforts, and small increases in sales and admin. The increased sales volume had a limited positive impact on operating profit.

Moving on to Process Technology. Process Technology was suffering from a negative price mix as well as increased sales and admin costs, more so year on year than sequentially.

And then finally, Marine was adversely impacted year on year by increased sales and admin due to the high level of activity generating a buildup in order backlog. The development of gross profit margin was also negative due to an adverse price mix effect. And, of course, Frank Mohn, had a positive effect on operating margin. Sequentially, Marine was adversely impacted by price mix, compensated in its entirety by Frank Mohn.

As you can see from the slide, we've experienced a decline in operating margin for all three selling divisions year on year. The development, as Lars has already mentioned, led us to initiating a review of cost and structure in the cost of goods, as well as in the
overhead areas. And I would like to remind you that in connection with the quarter 1 report, we said an increase in overheads higher than the increase in revenues is not sustainable. Conclusions from this review can be expected to be communicated earliest with the third quarter report.

Let's then move on to the cash flow statement. In summary, cash flow from operations amounted to SEK1.17 billion, and well above quarter 2 of last year, the reason being both increased earnings as well as reduced working capital.

Free cash flow was almost SEK1.1 billion compared to just under SEK0.9 billion in quarter 2 of last year. The reason for the improvement, in addition to the just commented, is a better net from the financial elements of the cash flow. And, of course, Frank Mohn did contribute to the generation of cash flow.

Then we're coming to FX. As mentioned before, FX effects on EBITA were negative SEK10 million, so not substantial at all. We have, as we always do, updated our forecast for 2014 with the assumed exchange rate as specified on the slide for open exposures, and applying the closing rate as per end of June for calculation of translation effects. We expect a net FX effect for the full year of zero, nothing, a change for the better compared to our forecast communicated with the quarter 1 report. The explanation is, of course, the weakening of the Swedish krona against most currencies.

As you can also see on the slide, the expected transaction effect in 2015, given of course stability in exchange rate, has changed for the better, again due to the weaker Swedish krona; a positive of SEK55 million.

Then we're getting to the order backlog. We had a total order backlog as per end of June of almost SEK21.7 billion. If we look at the backlog excluding Frank Mohn and (LTM) sales excluding Frank Mohn, this represents 6.3 months of sales. Including Frank Mohn, the backlog, we estimate, represents approximately 7.5 months of sales.

On a like-for-like basis, the order backlog to be shipped in the current year is about SEK100 million above the end of June 2013. In monetary terms, and then including acquisitions, as you can see from the slide, the backlog for shipments in 2014 is almost SEK2.6 billion above the level end of June last year.
Having said that, let's move on to the bridge for full-year sales 2013/2014. I'm sure you noted already last time the change in full-year sales 2013 due to changes in IFRS, so it's about SEK100 million. Like for like, the backlog as of January 1 was SEK200 million smaller than the beginning of 2013, so an adverse impact with SEK200 million.

Based on the closing exchange rate as per end of June, we expect a positive translation effect of approximately SEK500 million. This is an adjustment compared to last report of a positive SEK600 million.

Then finally, the acquisition in 2013 of Niagara Blower and the acquisition of Frank Mohn in May we estimate will give additional sales of SEK3 billion in 2014. This gives you a subtotal for the known, if you like, parameters of SEK33.1 billion. And as always, it's up to you to form an opinion about demand and shipment of in-for-out orders, as well as price effects 2014 over 2013.

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

**Lars Renström:**
Yes. 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. And bear in mind that we are comparing with a record quarter.

For each division, our demand expectations for the third quarter are as follows.

Process Technology unchanged, with continued high tendering activity. Marine & Diesel unchanged, based on earlier contracting at the yards. And finally, Equipment unchanged, since the high season in HVAC applications still prevails.

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

**Q:**
Thank you. Morning. A few questions, please, firstly, just on Frank Mohn. Can you give us any sense as to what the EBIT margin was for this business during the quarter? And if you can't, then is there any seasonal pattern as to how that margin develops through the year that we should be aware of? That's the first question. Thank you.
A:
Well, we have, of course, discussed disclosure with the sellers and with management of Frank Mohn, and we are not prepared to provide any further detail as far as the EBIT margin is concerned.

Looking at seasonal pattern of earnings for Frank Mohn, you have to accept that we are still early. It's still early days for us. So we are in a learning mode still when it comes to the business. If we look at history, there has been stronger earnings in the second half, and even more so in the last quarter for Frank Mohn, but of course, historically, the company has not applied, for instance, percentage of completion for revenue recognition. So at this point, I would say normally not any large seasonality, but we're still learning, so we have to come back when we know even more about the company.

Q:
Got it. And then just I remember when you bought Aalborg that you did change the accounting, and there were some volatile quarters around percentage of completion, and so forth. Would you --? The learning curve you're going through, would you expect Frank Mohn to be fairly volatile, or you're not making big accounting changes?

A:
There will certainly be accounting changes. It's been a privately owned company, very profitable, where I would say that owners and management have been watching more the bank balances than getting into too many details of accounting. So there will be changes, absolutely, and it is impossible to predict now what the implications will be.

We've had substantial resources to dig into the accounting over these first six weeks, and I think they've done a great job, but I'm sure we will see some changes.

Q:
Thank you. The second one is on -- the comments suggest that through all the businesses, price mix is negative or is putting pressure on the margin. Is there any way you can give us a comment as to whether that is all mix; large projects, less service? Or are you seeing some areas where pricing is tougher, competition is more difficult, and it is actually that that is pulling down the gross margin?
A: Well, if we look at it, this is really mostly to do with contract-based sales. And I’m sure you appreciate from earlier that depending on the scope of supply that we have in different businesses, there are large variations in gross profit margin.

And then, of course, there is a price effect. It is not material but, yes, there is a price effect. And just to take an example, if we look at ballast water treatment systems, we’re now in a situation where the retrofit market has not opened up; there is a large amount of competition. We believe that Alfa Laval is almost the last European supplier, substantial supplier. And in these systems, there is a price pressure, significant price pressure. But we are fortunate in that we had a new version of the product launched not too long ago. But that’s an example I can give. For the rest, nothing material.

Q: OK, great. And the final one, if I can, just on the cost that you’re talking about. Can you give us any sense as to the breadth of it? Are you just talking about pulling back some of the SG&A that you put in there to drive growth? Or is this broader thinking about factory footprint more structural?

A: Well, I said that you have to wait for conclusions until earliest quarter 3 report. What we both said in our comments was that we are looking at structure as well as cost or spending, both in the supply chain area, as well as in the overhead area. So I think there you have the response.

Q: Got it. Thanks, Thomas. Thanks, Lars.

Q: Three questions from my side, please. The first one is just housekeeping on Frank Mohn, if you had the full order and sales numbers for the Q2 so that we get a sense about that.

Second question regarding your margin in process technology. If I follow your gross margin guidance for Q3, the more negative mix you had in process technology relative to Q1 seems to be more sustainable.
And then the last question just on the shipyard orders which have been more weakening recently. Going by your usual delay, that's probably then something for Q4.

A:
Right. Looking at Frank Mohn and the third quarter too, of course, we know the very details of what happened from January 1 until May 22, but we do not have a sense of what was actually happening in January/March and what happened between April 1 and May 21. So I'm sorry; we cannot provide that kind of detail, but of course, we will have 12 weeks rather than 6 weeks in quarter 3, so hopefully there will be something coming out of that.

Looking at gross profit margins and PTD in particular, I said as an overall forward-looking statement that we do not foresee any material change in quarter 3 to what happened in quarter 2. I think that is as far as I'm prepared to go when it comes to gross profit margin. Of course, there are movements depending on what we are actually shipping, what we are actually recognizing of revenues and the scope of supply in Mohn, so I'm not prepared to go beyond that general statement.

And when it comes to ship contracting, 2013 was a peak in the order intake to the yards, and we have already earlier said that (2014) will be lower, but it is still a good level as we see it. And when it comes to the actual numbers, there is always a lag in the reporting, so therefore, we wait for the full year's figures. That's all we have on ship contracting.

Q:
Just one question from me. Just on the Frank Mohn business, given that we've seen some new ship orders slightly weaker in the last couple of months and last quarters, and I think from conversations before, the lag between Frank Mohn products and new ship orders is a lot shorter. So is it still strong marine orders coming through that supported Frank Mohn orders? Or is it also the other areas of the business, the offshore and servicing, that's supporting order levels where we are now? Or is still you're seeing strong activity for Frank Mohn from new ship orders? Thank you.

A:
In the third quarter, we expect good order intake from both Frank Mohn and our traditional Alfa Laval marine products. So the third quarter looks good.
Q:
OK. Just perhaps one follow up. On the gross margin year-on-year to date, are you able to try and quantify or give us a sense of how much of that was as a result of Frank Mohn being consolidated; the year-on-year decline in gross margin?

A:
We are talking about a number of (tenths) of percent.

Q:
On Frank Mohn, can you give us an idea if the gross margin relative to your margin historically has been relatively – the difference has been relatively stable? And on PureDry, can you give us a sense of how you're progressing with orders and sales?

A:
Well, when it comes to historical gross margins in Frank Mohn, I'm terribly sorry, but the kind of accounting that we've seen in Frank Mohn, from that it is very hard to view any sense if we look at shorter periods than full year. And even so, the principles that have been applied, it makes it very difficult to compare even year on year to Alfa Laval. But as a general statement, gross profit margins are lower than those of Alfa Laval. But then with a small organization, lower smaller overheads, so a substantially higher operating margin.

And when it comes to PureDry, we have to remind you last year we had an order intake of around 100 systems, and that is the rate that is prevailing right now. However, we see that there are quite a number of ship owners that are evaluating the system. So you can say it is at a plateau right now. But going forward, of course, our expectations are higher than this once they evaluate it and if they decide to put it in a whole fleet.

Q:
I just wanted to clarify a little bit on your guidance on why do you guide for the same level of demand in Q3 versus Q2 given you saw a positive sequential evolution in Q2 versus Q1? Is it just that Q1 was (structurally) – was lower by the shortfall that you mention and Q2 was simply compensation for that, the improvement? Or are there really underlying sequential improvements in your end markets?
A:
If you take the three divisions, we could see that Equipment was up – if we talk sequentially now – it was up 10 percent plus, and that is due to seasonality, seasonality between the Q1 and Q2. PTD, Process Technology, was up 3 percent. So there we have a slight growth. And when it comes to Marine & Diesel was up 19 percent, and that was – that – and there we could see that we had a surge in order intake for some of our products.

And to summarize, it was Marine & Diesel that exceeded our expectations for the quarter, and we believe that we will remain on that level also in the third quarter. So that's – I hope that satisfies you the question.

Q:
Yes. I was wondering. Why don't you expect it to continue that rate of improvement and just remain at the same level?

A:
I think it's quite optimistic to say that we have – the order intake took Alfa Laval to a new level and now we are pleased to state that we see that this level will prevail also in the third quarter.

Then you have to realize as well that when it comes to contract-based sales, it's also a matter of when customers are actually making their final decisions, when they're actually signing the purchase orders, and when we're getting the advance payments in our account. So there is a number of criteria that have to be fulfilled before we're actually booking orders, and that can play quite a big role when it comes to the outcome from one quarter to the other.

Lars Renström:
OK. Thank you very much, and I want to thank everybody for attending, and wishing you all a nice summer wherever you are in the world. Thank you and goodbye.

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