

ALFA LAVAL

Q4 Earnings Conference Call February 3, 2015 8:30 a.m. CET

Lars Renström:

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

Firstly, both sales and operating results reached new record levels. Sales increased by 25 percent to SEK10.8 billion, and the operating result of SEK1.94 billion means an increase of 37 percent compared to previous year. Secondly, the focus on service that was launched in 2013 continues to deliver results. Organically we grew 6 percent excluding currency effects, and in total 25 percent compared to previous year. And finally, order intake reached SEK10.5 billion, with the revaluation of Frank Mohn's backlog contributing SEK1 billion. The balance of SEK9.5 billion is what our outlook refers to.

Let's move over to the key figures. Orders received rose 29 percent to SEK10.5 billion, net sales grew 25 percent to SEK10.8 billion, and adjusted EBITA increased 37 percent to SEK1.94 billion and the adjusted EBITA margin reached 18 percent.

For the whole year, orders received rose 21 percent to SEK36.7 billion, net sales increased 18 percent to SEK35.1 billion, and the adjusted EBITA grew 20 percent to SEK5.9 billion and the adjusted EBITA margin reached 16.8 percent.

Now I hand over to Thomas for comments regarding the integration of Frank Mohn.

Thomas Thuresson:

Good morning all of you. The integration of Frank Mohn got into a new phase in quarter four. That was particularly the case when it comes to the implementation of IAS and IFRS in the daily accounting as well as the regular reporting. The transfer from earlier accounting practices to IAS/IFRS revealed a number of variations specified in some

detail on the slide you have in front of you on the screen now. You find some of these details in the column "Framo certain items" in the slide.

To start off with, orders in foreign currency in the backlog were traditionally in Frank Mohn not valued at current rates but historical or hedged rates were applied. Applying current rates has led to a substantial increase in orders and order backlog that will eventually be turned into sales. Only a small part of this revaluation was actually realized as sales in quarter four, and that is to say SEK50m.

Secondly, working capital items had traditionally not been revalued at closing rates after each reporting period. Adjustment again to customary practice of using closing rates has led to an adverse effect of some SEK89 million to gross profit. A number of other adjustments have given positive effect to EBITA in quarter four. These other adjustments, they've been reported as a positive net in other costs and income of SEK34 million.

Then finally, I have to say that the hedging practices at Frank Mohn have neither been consistent with effective hedge accounting as defined by IAS 39, nor have they been based on operational exposures, to some degree. This has led to a substantial adverse effect to the financial net in quarter four, a negative of SEK440 million, of which SEK200m are still unrealized as per end of last year.

It is important to note that these effects have largely arisen during quarter four as a consequence of the weakening of the Norwegian krone against primarily the dollar and the yen. You see the effect of bringing things in line in consistence with IAS/IFRS in the financial net for quarter four.

To finish off, please note that despite all of what I've just said, Framo is, as a company, at least as good as we thought when we made the acquisition. And with those comments, I give back to Lars for a continuation of the presentation.

Lars Renstrom:

And we move on to the next slide. The Board of Directors proposes an increase of the dividend with 7 percent to SEK4.

And now we move on to orders received and margins. Orders received on rolling 12 months reached SEK36.7 billion. The increase year on year was 22 percent at constant

exchange rates. If we deduct SEK1 billion corresponding to the revaluation of Framo's backlog, then we reach SEK9.5 billion for the quarter, which should be compared to the previous record quarter of SEK9.7 billion.

Moving to the next slide, there we see from the order analysis that acquisitions contributed with 22 percent and the organic growth was up 0.7 percent. Currency effects were 6.7 percent, giving a total of 29 percent. Sequentially, the organic growth was 6 percent, and we had positive currency effects of 2 percent, giving a total of 8 percent.

Let's move over to the next slide. There you see that the EBITA margin reached 18 percent and the operating result was over SEK1.94 billion, was the best quarter ever. The previous record was set in the fourth quarter 2008 when we were in the boom before the financial crisis.

Moving over to highlights in the quarter. It was a very good quarter for large orders, and in total we booked SEK780 million, exactly the same as in quarter three. We had a good mix of end-customer industries like oil and gas production, both on and offshore, petrochemicals, power generation, pulp and paper, and food.

In Marine & Diesel we enjoyed a continued strong order intake for exhaust gas cleaning systems, with 12 systems booked. And for the whole year we booked 47 systems, which confirm our leading position and the competitiveness of our system.

Now we continue with the development per segment. We had 1 percent organic growth year on year in the quarter. And you see that all segments in Marine & Diesel grew or were unchanged, while it was a mixed picture in Process Technology and Equipment. We are very pleased that the organic growth for service in total was up 6 percent.

Let's take a look at the development per division. And now all comments are sequential. And we start with Equipment. Industrial Equipment was down due to seasonality, while Sanitary saw generally higher demand from food and pharmaceutical industries. OEM was lifted by good demand from boiler and air-conditioning manufacturers, while service was unchanged.

Let's move over to Marine & Diesel. Equipment declined mainly due to lower demand for environmental solutions, while demand for traditional products going into new ships

was unchanged. Marine & Offshore Systems was boosted by exhaust gas cleaning systems and boilers for offshore. Pumping Systems, excluding backlog revaluation, was down due to non-repeats as well as weaker yard contracting. Service was up significantly as ship owners increased their maintenance activities.

Let's move to Process Technology. Energy & Process booked the Group's largest order ever in oil and gas. Power, petrochemicals and refinery also did well. However, the oil and gas base business declined due to lower demand. Food & Life Science was up, with good activity in protein, vegetable oil, brewery, and life science. Service declined somewhat, affected by lower activity in Energy & Process.

Next slide. For the whole year you see that all Marine & Diesel segments had been growing, all Equipment segments had been stable, while there is a mixed picture in Process Technology where we are very pleased with the growth in service.

Now we continue with the geographical developments. And you can see that year on year Asia stands out and it is inflated by the backlog revaluation. Excluding that, Asia is still up 18 percent. Western Europe is boosted by the large oil and gas order of SEK290 million. The underlying business was unchanged. North America is up, boosted by large orders in oil and gas and petrochemicals, while base business was unchanged. We are very pleased that Central & Eastern Europe grew 5 percent on top of a very strong 2013. The other regions declined somewhat.

Now we will take a look at the regions, and now all comments are sequential. Excluding the backlog revaluation, orders were slightly lower mainly due to lower contracting at the yards earlier in the year. Marine and offshore projects remained on a high level. In Process Technology, both the base business and large orders grew. Equipment was slightly down as continued weak construction industry affected industrial equipment.

I will move over to Europe. Western Europe and Nordic as a whole increased as both base business and large projects grew. Western Europe was boosted by the SEK290 million order in oil and gas booked in the U.K.. We are very pleased that in Central & Eastern Europe both base business and large orders grew, contributing to the 40 percent growth, with Russia being the main driver.

Moving over to the Americas. Both the U.S. and Canada declined due to non-repeat large orders, and base business declined somewhat. Sanitary and Marine developed

favorably. The strong growth in Latin America was driven by Brazil where a number of large orders were won in the food and oil and gas industries. Base business across the region had a generally good development, thanks to food, dairy and marine customers.

Next slide. For the whole year, Asia stands out, thanks to the high demand from traditional marine and offshore. Frank Mohn was also a major contributor to the growth. North America has grown 18 percent, and we've had a generally good development, in particular from oil and gas and the reindustrialization of the process industry.

The 11 percent growth in Western Europe comes from a number of large orders and exhaust gas cleaning. Central & Eastern Europe has only declined 2 percent, despite the political crisis around Ukraine. In Latin America, the impact from lower raw material prices and internal problems at Petrobras caused a decline of 5 percent.

And we move over to the next slide now. Here you see the top 10 markets in 2013 and how they have developed in 2014. The U.S. has had a generally good development, supported by one acquisition. In China, where you see a significant growth, there we've had two years of solid broad-based growth, coming from our investments in increased local presence, topped up by strong demand from the shipyards. South Korea's boost came from strong demand from traditional marine and offshore industries, and here Frank Mohn has been a major contributor. Russia and Brazil have declined and will be replaced by Japan and U.K. next quarter. And now I hand over to Thomas for the financials.

Thomas Thuresson:

OK. Thanks, Lars. So let's move on to the next highlights slide directly and get on to the sales development. After quarter three we commented that we expect that sales will increase in quarter four compared to quarter three in accordance with the seasonal pattern. In the quarter we realized sales of SEK10.8 billion, an increase of 25 percent year on year, with an organic increase of just under 1 percent. In comparison with quarter three, sales was up 16, a good 16 percent, including an organic increase of 14.5 percent.

The higher-than-expected outcome on sales came from three main elements. Bigger shipments of boilers, that is the Aalborg product family, and pumping systems out of

Framo, as well as somewhat bigger than expected FX translation effects, not surprising. If we look at Frank Mohn, they contributed with almost SEK1.5 billion of revenues in the quarter.

Looking at sales, the Service activities represented 26.2 percent of total revenues, almost on the same level as in quarter three and an increase of just under 13 percent sequentially. Having said all this about sales, let me then deliver the first forward-looking statement. We expect that sales will decrease in quarter one compared to quarter four, in accordance with, I would argue, a known seasonal pattern.

Let's then move on to gross profit margin. In the quarter, gross profit margin ended 34.3 percent, representing a decline of 2 percent year on year and a decline of 1 percent sequentially. To start with, I would argue that the actual for quarter four came out largely as expected in all material respects but for one element.

Let's move on to the next slide and get in to some more details. With quarter three I said in the near term we expect gross profit margin to get a limited positive influence from FX transaction effects. However, gross profit margin in quarter four will be adversely influenced by the seasonal increase in capital sales. No further adverse price mix effects within capital sales are expected.

Again as I just said, the actual for quarter four came out largely as expected in all material respects but for one element. Sequentially, gross profit margin was adversely influenced by unrealized FX effect in Framo to the tune of 0.8 percent of sales on an Alfa Laval level, so basically all of the sequential decline is to do with the unrealized FX effects, the revaluation of working capital in Framo. For the rest on this slide, I tried to show to you that we're only looking at none or very small variation sequentially as well as year on year, including the small predicted positive transaction effects on FX.

Let me then wrap up with the second forward-looking statement. In the near term we expect gross profit margin to get a positive influence from price mix as invoicing is expected to decline sequentially, and as a consequence, improve the mix, i.e. more aftermarket relative to total sales. In addition, and this is something that will be valid for the total year, I would like to point out that the Framo backlog revaluation alone will have a certain adverse effect on gross profit margin during the course of 2015 as there is still hedging of revenues in place.

If we move on to the next slide, let's look at the development of overhead costs. R&D ended at SEK221 million, an increase year on year of 4.8 percent. I think I'd like to point out here that the whole-year increase has gradually, during the course of the year, come down and ended 6.4 percent up on a like-for-like basis. In percent of sales, R&D ended 2.3 percent as opposed to 2.4 percent in 2013.

Then sales and admin, SEK1.55 billion in the quarter, representing a reduction like for like of 4.3 percent year on year. Of course this year-on-year reduction is the first evidence of the effectiveness of our sales program. With this reduction, we've undoubtedly delivered, the anticipated saving of SEK50 million from the savings program in 2014.

Then to other cost and income. These two items came out with a small positive net in the quarter, SEK19 million to be exact. This is of course an anomaly. We normally anticipate to come out about SEK100m negative. This is thanks to, among other, the mentioned positive net from accounting adjustments in Framo of SEK34 million as well as for instance refunds from pension plans in Holland and Sweden, partly to be considered as non-recurring. If we adjust that up, these three items, Framo and the two pension plans, they represent approximately SEK80 million positive.

Profit before tax, SEK1.177 billion, as well as the financial net was very much influenced by the FX charge of SEK440 million related to Framo that I commented on initially.

But before leaving the P&L, taxes ended with a charge of SEK266 million in the quarter, below our guidance. However, we maintain our guidance of 28 percent taxes or profit before tax. And if you look at the full-year outcome, we actually ended up 28 percent.

EPS was up 5 percent year on year in the quarter. If I allow myself to exclude the FX charge of SEK440 million in financial net on the basis that it is, say, non-recurring, EPS would have been up approximately 40 percent.

Return on capital employed and return on equity, they are of course both impacted by the acquisition of Framo, particularly as the numbers are not presented pro forma.

Moving on to the divisional performance, just the usual comments on operating profit and margin by division.

Equipment came out above quarter three of 2014 and also better than quarter four of 2013. In relation to 2013, the sales increase and reduced sales and admin (gave a) contribution, partly offset by an increase in R&D.

But Process Technology operating income was up substantially compared to quarter three due to volume. Year-on-year operating income was down due to price mix, and an increase in R&D, partly compensated by volume and FX.

Marine, finally, was benefiting from the sales increase of course very much to do with Frank Mohn, and then offset by higher costs and, not least, the increase in step-up amortization, and again coming from the acquisition of Framo.

Let's move on to cash flow then. To summarize cash flow, cash flow from operations amounted to SEK1.69 billion in the quarter and well above the year before and slightly above quarter three. The contributor is of course the increase in sales, taxes paid being up and then a certain increase in working capital, as a consequence of the increase in invoicing. Financial net paid is coming with a negative of SEK320 million, and of course SEK240 million have to do with the realized FX contracts in Framo. Free cash flow in the quarter SEK1.16 billion compared to SEK1 billion a year ago. The sales increase in Frank Mohn of course contributed. If we look at the full year, free cash flow was almost SEK4.1 billion and SEK450 million more than in 2013.

So then, a bit more about FX. We had positive effect of SEK97 million in the quarter, including a change to positive in transaction. We've of course updated our forecast for 2015. We have applied the range stated on the slide for EUR/USD and EUR/SEK for open transaction exposures. We have applied closing rates (after) December for calculating translation. And on that basis, we estimate a positive SEK280 million on EBITA level, 2015 compared to 2014. So, quite substantial positive if things stay where they are right now.

Then order backlog, we had a total order backlog for end of the year of SEK22.3 billion, representing, that is including Frank Mohn, approximately 7.5 months of the last 12-month sales. Excluding Frank Mohn, about 6-plus months of LTM sales. But what is more important is that, on a like-for-like basis, the order backlog to be shipped in the current year is about SEK1 billion above the end of December 2013. So, an improvement in backlog year on year.

Having said that, let's move on to the bridge for whole-year sales 2014 to 2015. Starting with SEK35.1 billion in 2014, the order backlog like for like provides an opportunity for an increase in sales of SEK1 billion in 2015. FX translation we estimate to be positive SEK1 billion, 2015 over 2014. And we estimate that Frank Mohn will add SEK1.6 billion on top of the sales of SEK3.3 billion in 2014, giving total sales of SEK5 billion for Frank Mohn in 2015. If I add it all up, there's a subtotal of SEK38.7b.

Then of course, as always, it's up to you to make up your minds when it comes to the unknowns. The orders coming in and shipped before year end, the orders in-for-out, and then price effects. When it comes to prices, I can confirm that we made small adjustments to prices for standard products at the beginning of 2015.

That finalizes my presentation, and I hand back to Lars for the outlook and the closing remarks.

Lars Renström:

And the outlook is as follows. And please note that our reference point is SEK9.5 billion. We expect that demand during the first quarter will be somewhat lower than in the fourth quarter. And for each division, our demand expectations for the first quarter is as follows. Process Technology to decrease somewhat due to non-repeat large orders. Equipment somewhat lower. And finally, Marine & Diesel to be unchanged.

Q:

Sorry to belabor the point about oil and gas, Lars, but I just wanted to understand what happens here to your orders outside your direct exposure. I'm thinking about the scrubbers, the heat recovery systems. Obviously you could argue that fuel's now become cheaper, which could be negative for scrubbers longer term.

And (incidentally to that) that heat recovery could go (away here) with the falling oil price. So are we seeing any weakness here as of yet, or is this a potential issue further out?

A:

Not at all. We do not see any weakening. On the contrary, when it comes to scrubbers we have – we had a very strong fourth quarter. And we have a long, very active tendering backlog. So we expect growth 2015 over 2015 when it comes to the scrubber

systems. And when it comes to waste heat recovery, we see a continued, high interest in those applications. So no concern from our side when it comes to that.

Q:

OK. And then my second question is really on Process Tech in the service business. I think last time when you highlighted some sequential weakness, it was due to lack of large repeats. It seems like you left that commentary out; you talk about the (energy) division potentially seeing some aftermarket pressures. Is that the case and is that impacting the margin negatively?

A:

You can see that in the fourth quarter, base business and service declined for the parts addressing, let's say, for drilling, oil and gas drilling. That was – whereas when it came to large orders, it continued on a high level in the quarter.

Q:

Hello. I had a question on the service business. I think you said service grew 5 percent organically in Q4 year on year. Looking forward, is there any reason to believe that wouldn't be sustainable, thinking about the focus you have on this business and the increase we have seen in the installed base.

A:

We expect continued growth in 2015 for service. We can see that when it comes to ship-owners, that there's been a higher activity when it comes to maintenance. So for some of the ship owners the lower oil prices means better revenues. And we have seen, as I said, some – a decline when it comes to service going into oil and gas drilling. But if we sum it all up, absolutely we will see a continued positive development in 2015.

Q:

Good morning Lars, good morning Thomas. Thomas, you alluded to the savings program now have (inaudible) the expected effects. What's still to be captured here from the initiatives taken? And also have you more initiatives ongoing. That's my first question, thank you.

A:

Well, we stick to our plan. We realized the (fifty), as I alluded to. And of course we expect to realize SEK150 million during the course of 2015. And then, as we get the

effects of the factory closures, we expect another SEK100m in 2016, adding it up to the SEK300m or the total effect that we presented with the launch of the program.

Q:

OK, so that's still valid. And you mentioned also the gross profit margin effect from the backlog revaluation, affecting first quarter but also the entire 2015. Is this gradually diminishing or is it flattish over the year? And could you also help us to understand the magnitude here. Thank you.

A:

Yes. Well you alluded to the backlog revaluation for the effect in quarter four. The 0.8 percent adverse effect in quarter four has to do with revaluation of working capital items. And of course, if exchange rates stay about where they are today, that will not re-occur.

Going into 2015, the revaluation, the increase in the order backlog will mean that we, if you like, inflate the topline but there is no corresponding, or not the corresponding effect on gross profit as there is still hedging in place. And that, of course, with a bigger denominator, you will have a lower margin as a consequence.

Q: I'll get back in line; thank you.

Q:

Morning Lars, morning Thomas. Firstly, Framo, I think, as you said, Thomas, it has stronger revenues than you guided for in the quarter, I think around SEK300m better than you suggested at the Capital Markets Day. Could you just give us a sense – and I know you won't give us a margin, but just what's the seasonality on Framo as we go through the year?

Was Q4 particularly strong in terms of the margins, so that extra SEK300m of revenues would have had a disproportional positive effect on Group EBIT or is fairly flat? What's the profile, because I guess if we don't get that right, we'll just start extrapolating the wrong number. That's the first question; thank you.

A:

Honestly we cannot see any seasonality in the business of Framo. This is simply a matter of delivery schedules to the shipyards. That's really what decides the level of revenue. Then, of course to the extent we're looking at the offshore business, we're

applying percentage of completion. And there, of course, you have a smooth revenue recognition.

There is no particular impact on – in the margin as such, in the gross profit margin in Framo. But, of course, with bigger volumes there was a good drop-through, particularly considering the very low overhead levels you have in Framo and being very much a kind of OEM business, if you know what I mean.

Q: Yes, I know, so I was more getting at EBITA margin here than gross margin.

A: Yes. So, it was a large amount of drop-through. The increment becomes quite substantial to EBITA.

Q:

OK. But you can't give us any help as to the level of the margin?

A:

We are not specific as far as the operating margin in Framo is concerned, no, but an negative gross effect, but a positive operating margin effect.

Q:

Great, thank you. And then on the order intake for Framo, it looks like, if you strip out the SEK1 billion of revaluation, the orders were about SEK730 million in Framo for the quarter; so run rating SEK3 billion and you've guided SEK5 billion of sales, I think, for 2015. Was there anything exceptional in that order intake in Framo; are there any cancellations? That's the first question.

And then if the Framo order rate carries on at this level, at what point would you expect revenues in Framo to start to be negatively affected? Thank you.

A:

There were no cancellations in the order intake of Framo. And the nature of the business in Framo is very much project related so there are big swings in the order intake between the quarters. And they have very solid backlog for 2015 and 2016.

Q:

So you need a prolonged period of order weakness for Framo revenues to start to be under pressure?

A: Correct.

Q: OK, thank you.

Q:

Hi there. Morning everybody. A couple of questions from my side, please, both on the regional comments. You talked about orders in Asia, saying they were slightly lower on the effect from shipyard contracting. Obviously we saw quite a lot of downside in shipyard contracting as we went through 2014, and I guess that would hit your order book, as a tier two supplier, with delays. So should we expect declining orders from – for that same reason as we go through 2015, or at least the first half of 2015? That's my first question.

And then my second question, please, again a regional question. That was on Russia where you were talking quite positively and obviously that's running counter to the flow of most things we hear about Russia nowadays. So I'm just wondering how you see the outlook for the Russian business in 2015. Thank you.

A:

When it comes to the order intake for marine, we will see a somewhat lower level in 2015 compared to 2014 when it comes to (orders for) capital sales. However, you should notice that we say in the outlook for the first quarter, we expect the order intake to be unchanged between Q4 and Q1. So we see a good backlog of orders for the first quarter.

And when it comes to Russia, we had a very strong quarter in Russia. And it's a very mixed picture. You can see that for customers that rely on public financing, there seems to be plenty of funds available. For instance, if you take district heating, it has a fantastic quarter. Whereas it's a bit tougher for customers that rely on foreign financing. So for the full year Russia came out significantly better than what we anticipated in the beginning of the year. However we expect to see a decline in Russia, 2015 over 2014.

Q: OK, thank you.

Q:

Hi, good morning. Two quick questions from me please. With apologies, coming back to the gross margin, if I just want to recap maybe the three moving parts. So potentially there's a price/mix effect which you said in the near term is a positive. Then we've got obviously the underlying FX effect which at the Capital Markets Day looks like a positive impact on the gross margin. And then offsetting that obviously is the Framo impact which you've tried to outline. So, I guess, my very simplistic question is, in the mix, in your view, do you think that gives you either a higher or lower gross margin 2015 on 2014, just in terms of the scale?

And then the second question on the cost savings, you've been very predictable and managed to achieve, very nicely, your Q4 expected savings. As you work through the program, is there any opportunity actually for the program to deliver slightly in excess of what you are expecting or are you very much still sticking to SEK300m potential yield?

A:

Well, your first question on gross profit margin, I commented on one item that really was to do with the entire 2015 and that was the Framo order backlog revaluation that inflates the denominator. That's a negative, as you rightly said. That was a comment for the full year 2015; that would be valid for the whole year. Then quarter one, you're right, we expect a positive effect from mix as we anticipate capital sales will go down sequentially. And of course there's a positive transaction effect in FX as well. You see the magnitude for the full year as – on the slide. So there are two positives; we expect them to happen in quarter one. As far as the negative one, we will have an adverse effect throughout the year, as it looks now.

Then on the cost savings program, well, as you all know we try to do our best and we try to do better all the time. But we cannot, at this juncture, promise that we will come out with a saving bigger than the SEK300m. So, yes, (those are) my comments.

Q: Thank you.

Q: Yes, morning Thomas, morning Lars. Just two housekeeping questions left. The first one is just on the EBIT impact of the Frank Mohn revaluation and the pension. If I'm getting this right, you have a net negative impact on your adjusted EBITA of SEK9

million, because you said SEK80 million for the pensions and positive other operating costs, and SEK89 million for gross profit, so I guess net it's SEK9m.

And then I was just wondering if you could give us the full year sales and order intake number for Frank Mohn for last year. Thank you.

A:

OK. I wasn't quite sure if I understood you correctly on the EBITA impact of the other cost and income items. What I said was Framo accounting adjustments that did hit the other costs, other income lines, was a net positive of SEK34m. In addition to that, we have further positive effects coming out of two pension plans in the Netherlands and in Sweden, giving another say SEK45m about positive.

That gives three items being positive to other costs and income, starting with a net positive SEK19m, the (SEK80m) deducted, then with negative SEK16m. Of course we still have some further positive effects compared to say a normal of a negative about SEK100m. That's what I meant really. And, of course, some of these elements they are to be considered non-recurring, for instance the Dutch pension plan issue.

Q:

You said in the bridge that the negative impact from Framo on EBIT was minus SEK55m.

A:

SEK34m positive on other costs and income and a negative SEK89m on gross profit.

Q: But if I would subtract from the minus SEK55m, the SEK45m/SEK46m from the pensions, that would bring me to a net negative impact on EBIT of around minus SEK10m.

A: Yes but it's – I – now you're – that's separate. It has nothing to do with Framo.

Q: No, but I'm just trying to get my arms around about your overall ...Net one-off effects, and I arrive – I still arrive at minus SEK10m despite the pension plan benefit.

A: Yes, that's one way to look at it. I agree to that.

Q: OK.

A:

Then full year sales SEK3.3 billion for 2014. And in my bridge I said another SEK1.6 billion, so SEK5 billion full year 2015; SEK3.3b and SEK5b.

Q: And that was also the sales number for 2014, for Framo.

A: It was – for seven and a half months it was SEK3.3 billion.

Q: But you won't provide us with the 12-month number?

A:

Simply because I don't know it by heart. I'm sorry, I don't want to give you a number because I'm not totally sure and I want to provide you with the right details.

Q: But the SEK1.6 billion for this year from Frank Mohn is not just simply the pro rata share of last year, so it's really based on your specific backlog.

A: It's based on our specific backlog and valued as per end of 2014.

Q: OK, understood.

Q:

Hi, good morning. Just two questions from me. Firstly on the Equipment margins, obviously the Q4 result was strong there. Could you give us a bit more detail as to why that was so strong, given organic growth didn't appear to pick up hugely.

And the second question was just on the Frank Mohn margins historically. If the order environment is getting a bit tougher, as it is likely to do with marine getting a bit softer, could you give us an idea of how the margins have performed historically in that business, now you've spent more time looking through the numbers. Thank you.

A:

When it comes to Equipment, there was a sales increase that of course contributed. Equipment has done well when it comes to the savings program and then a slight increase in R&D. And, of course, equipment is putting a lot of focus in increasing its channels to the market, making more use of e-business. And they put a lot of effort on

service, as Lars has alluded to earlier on. So that's really the combination of all of these effects that has given them a good result in the quarter.

Then moving on to Framo, remember that this business is, as I commented before, a kind of an OEM business, so a very, very low level of overhead. So of course, a high level of drop-through when you have good sales but then again, eventually, when sales goes down, of course, you have the opposite effect. I think it's very important to remember that the backlog today in Frank Mohn will mean that there will not be any material impact to revenues even if there's a decline in orders received until, I would say, towards mid 2016. As far as capital sales is concerned, the backlog for full year 2015 and well into 2016 is in the books today, so with no other changes, we are well taken care of. But the way that the company is set up, very low level of overheads and OEM business.

Q:

OK. Maybe just one follow-up on that, would you say, if I looked at the seven or eight-year margin history of Frank Mohn, at any point in that has the margin fallen below the Alfa Laval margin, the current Alfa Laval margin?

A:

That is – we have not seen that in the historical records that we looked at in our due diligence. And, of course, that goes back a number of years. Even if we did not go back seven years, we went back a number of years and we've seen a very good level of margin, even in drops, in Frank Mohn.

Q: OK, that's great. Thank you very much.

Q:

Good morning Thomas, good morning Lars. Maybe I could just ask to the demand outlook and, Lars, for you to perhaps give a little more granularity divisionally here. I'm particularly interested in PTD and Marine & Diesel.

On PTD, you've talked about it slowing down sequentially due to (non-recurrential) last orders. You also talk in the report about the base business declining somewhat, particularly North America, as customers are slowing down their activities following the lower oil price. I wonder whether you could give us a sense of what you see in the underlying base business in PTD as you move into Q1.

And then secondly on Marine & Diesel, keeping your outlook flat, I guess I would love to understand what's holding up Q1 here. Is it still large orders coming through and is that more so on the boiler side, perhaps the aftermarket?

Q4 order intake in Framo was down 50 percent sequentially on an underlying basis, perhaps unsurprisingly, given the shorter – lag here to vessel contracting. But what are you seeing in your boiler business and your legacy Alfa business? You talked about marine and diesel you're seeing somewhat lower in 2015; when do you expect that weakness to come through? Thanks.

A:

Well, talking about the first quarter and Marine & Diesel, we see a good backlog of orders on its way to come in from FPSO vessels, from LNG ships, from – yes, to take two examples. And so we see a good level of activity. And, of course, over the year we will see a somewhat lower level.

And then when it comes to Process Technology, we see a – we still see a good level of activity in most areas. And, as I already mentioned, it's a given that oil and gas drilling goes down swiftly and that we have already seen in the fourth quarter, both for base business and for service. And that we have recognized from previous downturns, so it's no surprise to us.

And when it comes to – we see a continued good activity level in petrochemicals, for instance, where the re-industrialization in the U.S. when it comes to petrochem is going on at a continued good pace.

So – and as you could see on the large orders in the fourth quarter, that we had a good activity level in food-related business. We had one larger order for starch. We had another large order from pulp and paper for toll oil distillation; so that's a good thing. The strength of Alfa Laval is that we are present in so many end markets and so many geographies. That gives us a good stability in both order intake and in invoicing. I think that's as far as I can take it for the time being.

A: OK, thanks.

Q:

Good morning Lars, good morning Thomas. Thank you for the good report. I have two questions. The first one, in the Capital Markets Day, you mentioned that in your oil and gas exposure the upstream or (drilling) exposure 4 percent is the key risk area, while you said that the midstream and transportation, I think it was 9 percent, was – you didn't see as any larger risk to that with the lower oil prices. Have you changed your view on that, or do you feel the same, that is the 4 percent that is still at risk. That was the first question.

A:

Well, our view from the Capital Markets Day is still remaining and we can see also in the fourth quarter that our view, that we expressed, has also been confirmed by reality in the fourth quarter. So we feel confident with our statement from that point in time. And just to give you a little bit of flavor, this what we call processing and transportation, I just mentioned that we expect good order intake from LNG vessels now in the first quarter of 2015.

Q:

Thank you. And the second question I had on the Equipment division. You have had two quarters now with negative organic sales growth there and you have talked for one or two quarters about the growth initiatives foremost in the distribution channels. Could you give some just color on what you do and when do you think that could start to show in the numbers?

A:

Well with the activity, so when we are increasing the number of distribution channels, of course we build a better local presence. That, over time, will give us an organic growth. And then what has held back the growth in the last two quarters is, let's say, the slowdown in the construction industry in East Asia and to some extent also here in Europe. But we maintain our view that this will start to pay off in the future, that's it, during 2015 we expect that to pay off.

A:

I think it's important to remember the seasonality effect here. We have the heating and cooling installations that typically major in the warm season towards the heating season. And that, of course, had a negative impact on quarter four as well.

Q:

OK. Lars, let's make it a (forced) question then. You mentioned the base in oil and gas being down in sales during the quarter sequentially. Could you please help us with the magnitude in numbers. You talked about it as significant in the Americas, but on total. That's my first question.

The second, Thomas, very briefly on FX, looking into 2015, are you still having a significant net negative transaction exposure into euro? Is that one of the reasons why the effect is rather limited, or have you prolonged your hedges even further?

A:

Well, remember as far as FX is concerned, the main element of our exposure is being long in dollar and short in Swedish kronor. And, of course, with the strengthening of the dollar and then applying our hedging practices of 12-month revolving forward, this is the number we're coming to, given what we have of contracts and given the amount of open exposures. So as the dollar continues to strengthen, if we assume that that would be the case, eventually there will be further effects, obviously, from transaction.

A:

All right. And then on the – when it comes to drilling, it's too early to make an assessment of what the magnitude of the downturn could be, but remember in total it's only 4 percent of Alfa Laval.

Q: Yes, I hear you. I just wanted to get the feeling for the size of the downturn sequentially in the fourth quarter. Was it double digits; is it ...

A: I will say around 25 percent.

Q: Yes, that sounds logical. Thank you very much gentlemen. Have a good day.

Thomas Thuresson: We thank you all so much for the attention.

END