

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

Lars Renström:

Thank you very much. Good morning and most welcome to our presentation. I will, as usual, start by highlighting three matters.

Firstly, both sales and operating results reached new record levels for a second quarter. Sales increased by 21 percent to SEK10.2 billion and the operating result of SEK1.8 billion meant an increase of 35 percent compared to previous year. This gave a very good operating margin of 17.9 percent. Secondly, despite weak demand from oil and gas customers the order intake for the Process Technology division declined only 2.5 percent, and we believe that we can see a stabilization of the demand within oil and gas on the current level. For the other capital sales segments the development was stable to positive. And finally, the order intake reached SEK9.1 billion which meant a 3 percent decline sequentially when the revaluation of the backlog in the first quarter, due to currency fluctuations is eliminated.

Let's move to the key figures that I have basically covered for the quarter, and further down on the slide you see that this is the best first half year ever in absolute terms.

Let's move on to orders received and margins. Orders received on a rolling 12 months reached SEK39.2 billion, and in the quarter we saw a decline of 7 percent at constant exchange rates.

Let's move over to the order analysis. From the order analysis you find that Framo contributed with 3 percent, and organically we declined with 10 percent. Currency effects were 9 percent, giving a total of plus 2 percent. Sequentially, the organic development was minus 7.6 percent, and we had positive currency effects of 0.5 percent, giving a total of minus 7 percent. When we adjust for the revaluation of the backlog in the first quarter, the organic decline sequentially is 3 percent instead of 7.6 percent.

Next slide. The EBITA margin reached 17.9 percent and the operating result of SEK1.8 billion was the best second quarter ever.

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

Now we move on to highlights in the quarter. In process technology we booked large orders for air coolers to a power plant and a separator module for an FPSO to be moored off the coast of Brazil. It is unusual with large orders in Equipment and we were very pleased to secure an order for heat exchangers for a district heating network in China.

In Marine & Diesel we signed a frame agreement with Mediterranean Shipping Company, one of the world's largest container shipping companies, for supply of ballast water treatment systems to be retrofitted during 2015 and 2016. And finally, Framo won an order for fire water pumping systems to be installed on four oil platforms to be operated in the Johan Sverdrup field in the North Sea.

Now we move on, and we enter development per segment. There you can see that we had 10 percent negative organic growth year on year in the quarter, and you see that in Equipment all segments except one were unchanged or grew, and the same applies for Marine & Diesel. Hence, the major impact comes from Process Technology, where the three largest segments declined.

And now we take a look at the development per division, and remember that all comments are now sequential. And we start with equipment division that grew 11 percent. Industrial Equipment was up on seasonality and the large district heating order in China. Sanitary was lifted by dairy, brewery and pharma, and OEM was lifted by seasonal demand.

Let's move over to Marine & Diesel. Marine & Diesel declined 23 percent. (Marine & Diesel) Equipment grew thanks to increased demand for retrofit installations of ballast water systems. Marine & Offshore declined due to fewer orders for SOx as well as inert gas systems. Marine & Offshore Pumping Systems declined due to lower yard contracting and fewer large offshore orders. Service saw somewhat lower activity for parts sales.

Let's move to Process Technology that declined 2.5 percent. Energy & Process was affected by CapEx limitations in up- and midstream oil and gas. Petrochemicals also declined amid continued uncertainty as to the implications of the drop in the oil and gas

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

prices. Food & Life Science saw stable development for base business and large orders. And finally, Water & Waste performed very well.

On the next slide, year to date our decline is 7 percent for the first six months, and here you see that all segments in Equipment have been stable. Marine & Diesel has a mixed picture, and in Process Technology the three large segments have declined.

Now we continue with the geographical developments. Here you see the development year on year in the quarter at constant exchange rates. Latin America has had a significant decline reflecting the geopolitical situation in Brazil and the continent's dependence on raw material prices. The decline in Central & Eastern Europe reflects the challenges in Russia and some of its neighbors. The decline in North America is due to the drop in oil and gas prices. In Western Europe, the decline comes from fewer large orders, mainly in oil and gas, and lower demand for exhaust gas cleaning aboard ships. In Asia, lower demand from the shipyards is the main reason for the decline. In Nordic, Framo has boosted the order intake.

And now we will take a look at the regions. And now all comments are sequential. The decline in Asia came from lower yard contracting that impacted Marine & Offshore Pumping Systems. Excluding that the region had a positive development with growth in both Equipment and Process Technology. In absolute terms it was the best quarter ever for Service. In China we saw growth in all capital segments and most service segments. Korea declined somewhat due to Marine & Offshore Pumping Systems.

Now we move over to Europe. To begin with, Western Europe, including Nordic, saw slight growth thanks to favorable development for both base business and large projects, while service remained unchanged. In Central & Eastern Europe the good growth came from base business and service, while large orders were unchanged. In Russia, the focus on local food production lifted food related business.

Moving over to the Americas, North America was down, due to fewer large projects in the oil and gas sector, and also base business and service was affected. The US held up quite well, thanks to segments outside oil and gas. In Latin America, the geopolitical

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

situation in Brazil and Argentina continued to dampen the business sentiment, while other markets performed well.

Moving over to the next slide, there you can see orders received year to date at constant exchange rates. Latin America is the low performer for reasons already mentioned, and in Central & Eastern Europe you see the impacts from lower oil and gas prices and the Russian sanctions. The boost in Asia and Nordic is thanks to the acquisition of Framo.

Moving over to the next slide, here you see the top 10 markets in 2014, and the yellow bar is the last 12 months. There you can see that the US has strengthened its number one position, thanks to currency effects. China, South Korea, Nordic, Japan and South East Asia have all benefited from the acquisition of Framo.

And now I hand over to Thomas for the financials.

Thomas Thuresson:

Thank you Lars. Good morning all of you. So, let's get into the details of the P&L and the cash flows then. Let's jump right in to sales, and let me start off with what I said after quarter one. The first forward-looking statement at that point was we expect that sales will increase slightly in quarter two compared to quarter one.

We realized sales of SEK10.2 billion in quarter two, as you have seen. In comparison with the quarter one sales was then up almost 13 percent at constant rates, and compared to quarter two of last year we were up 11.5 percent compared to last year. Frank Mohn contributed with just under 11 percent, so like-for-like an increase of not quite a percent. We were not surprising, correct in our expectations, I would like to add.

Moving on to service. The service activities represented 25.8 percent, compared to 27.2 percent in Q2 of last year and 27.6 percent in quarter one of this year. This obviously means an adverse mix effect year on year as well as sequentially on gross profit margin, but I'll get back to that in a moment.

Let me then deliver the first forward-looking statement for this presentation. We believe it is reasonable to expect a slightly lower level of sales in quarter three, compared to

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

quarter two. The reasons being the limited reduction in orders received over the last few quarters, and the vacation period in quarter three in many geographies.

With that let's move on to gross profit margin. In the quarter, gross profit margin reached 36.3 percent, meaning exactly the same level as in quarter two of last year and a decline of 0.4 percent sequentially. I would argue that we've actually delivered as predicted after the Q1 report. But let's move to the next slide, and look at some further details.

Let me start off by reminding you that after the Q1 report I said, literally, in the near term we expect gross profit margin to be negatively influenced by a somewhat increased invoicing and, as a consequence, a worse mix. In addition, we see a risk of an adverse impact from load and we expect a continued positive and reinforced impact from FX transactions. The actual for quarter two, as I just said before, came out as expected, I would argue, in all respects. Sequentially, gross profit margin was negatively influenced by mix, mainly between capital sales and service, and then positively influenced by transaction FX effects. In this slide you get an indication of the magnitude as well as the direction of the main factors influencing gross profit margins.

Now, let me then deliver the second forward-looking statement. In the near term we do not expect any material changes in gross profit margin compared to the outcome in quarter two. The risk of an adverse impact from load, we believe, can be compensated by lower metal prices and FX transaction effects.

Let's then move on and look at overhead costs and other items in the P&L. Let's start off with R&D. R&D ended at SEK186 million in the quarter, which is a reduction year on year, like-for-like, of 14.4 percent, a sizeable reduction. In percent of sales R&D then represented just 2 percent. The explanation for this decline to this relatively low level is mainly the efficiency program, or the savings program that we launched last fall, but it's partly also to do with phasing of individual projects.

Looking at sales and admin, costs amounted to just over SEK1.5 billion in the quarter, representing a reduction like for like of 3.7 percent year on year. Sequentially we saw an increase of just over 3 percent. With this outcome we would like to establish that the

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

savings or efficiency program has delivered the promised results earlier than we have anticipated, so a good, very good outcome as far as sales and admin is concerned in this efficiency program.

Other costs and income came out with a bigger negative than in quarter two of last year. In addition to what I would like to call normal variations between quarters, we have a couple of specific items in this quarter. We have costs for the closure of a small manufacturing operation in India, and we've taken a cautious view on certain receivables items in Greece.

Looking at FX. We had total positive FX effect of SEK182 million to EBITA in the period. And as predicted we saw more sizeable positive transaction effects than in quarter one.

Profit before tax ended at SEK1.46 billion, and, of course, profit before tax is year on year influenced by the acquisition of Framo.

Before I leave the P&L, tax has ended with a charge of SEK382 million. This is below our guidance for taxes, but still well within the range of normal variation. We maintain the 28 percent guidance for taxes in relation to profit before tax.

Then let me point out EPS was up 34 percent year on year in the quarter, and if I allow myself to exclude the effects of step-up amortization, EPS was actually up 45 percent.

Looking at the return numbers, return on capital employed and return on equity, we ended with 20.3 percent and 20.4 percent respectively, and I think, considering the goodwill added with the Framo acquisitions these are still quite attractive levels.

Then let's look a bit at the divisional performance, and a few short comments on that. Please note that my comments, my coming comments, they will relate to operating margin. The comments on the slide, they refer to operating profit in absolute terms, so that is to say you get it both ways.

To start off with, Equipment came out somewhat higher than quarter one 2015, and about as quarter two in terms of margins, quarter two last year, that is, in terms of

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

margins. The sequential improvement is largely thanks to FX and non-repeat of restructuring charges for our products.

For Process Technology operating margin was on the same level as in Q1 of 2015. This is based on adverse price/mix effects compensated by positive FX. And then finally, Marine improved further sequentially in terms of operating margin from 20.1 percent to 21.7 percent, and this came from a combination of the sale increase and positive FX effects.

Before I leave this slide, as some of you may be concerned about swings in EBIT margins or profits in the divisions, let me again repeat some of my earlier comments. We will also, going forward, have swings in the divisions because of variations in load in the various supply chains having a varying effect on the different divisions. We will also continue to have variations on the basis of the mix in sales, particularly in Process Technology and in Marine. And Marine must be considered being at the higher end of its cycle right now in terms of sales, and that is likely to remain for still a few quarters to come.

Then, let's get on to cash flows. I think we can summarize the cash flow statement as follows. Cash flow from operations amounted to SEK1.5 billion, an increase, year on year, of 28 percent. The explanation is of course mainly the increase in sales and the following increase in profits, and this despite quite an increase in taxes paid, a reduction in working capital was delivered this year to the same tune as last year quarter two.

As far as regular CapEx is concerned, they ended at the same level as last year.

Financial net paid came out negative SEK82 million against a positive of SEK52 million last year. This difference is entirely explained by negative realized exchange differences. The free cash flow ended at SEK1.29 billion compared to SEK1.09 billion last year. The year-on-year increase is of course very much coming from the addition of Framo.

Before I leave this slide I would like you to note that we're already below 2 in terms of debt to EBITDA. We ended at 1.96 at the end of June, despite dividends of SEK1.7

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

billion paid in the quarter, so this really means we're well ahead of the earlier expressed expectations as far as deleveraging is concerned after the Framo acquisition.

Then let's get on to FX. FX effects, as I stated before, were positive SEK182 million in the quarter. Of course the strengthening of the US dollar is the main contributor to this rather substantial effect. The forecast for the full year 2015 remains on exactly the same level as after quarter one. We expect total FX effects of a positive SEK545 million on an EBITA level. We've also maintained the same indication of possible transaction effects in 2016, a positive SEK450 million.

Then, let's look at the backlog. We had a total order backlog as per end of June of SEK23.3 billion, representing approximately 7.1 months of LTM sales. For shipments in 2015 the backlog amounted to SEK13 billion as per end of June. To be considered for whole year sales 2015, note, please note that on a like-for-like basis the order backlog as per end of June was around 1.2 percent smaller, or about SEK150 million smaller, than at the end of June last year. This of course means somewhat less of support for sales in the second half of this year compared to last year.

Having said that, let's move on to the bridge for -- to whole year sales. We then, as we normally do, walk through the known and the unknown parameters, projecting a full year sales, or, if you like, look upon it as the third forward looking statement.

Starting with year-to-date sales of SEK19.2 billion we can add the two known parameters, the backlog for shipment this year of SEK13 billion, and then I have added the orders that we got during the second half of last year and shipped and invoiced before the end of last year. They amounted to SEK7.7 billion. So everything the same you could add SEK7.7 billion, of course, for this year as well. Then you end up with a subtotal of SEK39.9 billion. But, then the unknowns - will there be a change in in-for-out? With regard to demand you know that we've seen a limited decline in the last couple of quarters, and that we, as you may have seen, expect the same level of demand in quarter three as in quarter two. This sets the scene for in-for-out orders, at least in the first half of H2, but of course it is for you to judge. And then, finally, when it comes to price effects you know we've only made small adjustments for standard products at the beginning of the year, so nothing material to report in that regard.

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

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

Lars Renström:

And 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 for each division our demand expectations for the third quarter is as follows. Process Technology somewhat higher, thanks to expected large orders, while the underlying demand is unchanged. Equipment, unchanged. And finally, Marine & Diesel somewhat lower due to lower contracting at the yards in 2014 and 2015. And that completes our presentation, and now we hand over to the operator for the Q&A session.

Q: Hi. Good morning. Just two questions from me. Firstly, on the marine and diesel margin, if I try and back out of that the profitability of Frank Mohn, assuming normal quarterly developments for the rest of the Alfa Laval business, it looks significantly higher than the previous two quarters of this year. Could you just give us any guidance on whether there was anything unusual in the Frank Mohn margin this quarter that made it particularly more high than the previous two quarters?

And then the second question was just on the Frank Mohn orders. If I have a look at the quarterly number it looks like there was around SEK900 million of orders. Based on the end market demand is that the kind of run rate that we should be considering, going forward for this business over the next three to four quarters? Thank you.

A: Well, as far as the margin in marine and diesel is concerned, let me repeat what I said during my presentation. The improvement in margin is to do with the increase in sales for the division and the positive FX effects. There is nothing particular to report other than that.

And then, when it comes to the level of orders for Framo, let me remind you of the qualification that Lars just delivered for orders in marine and diesel. On the back of lower contracting to the shipyards we anticipate a somewhat lower demand for the marine division.

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

Q: OK, thank you. Maybe just one follow-up on the process technology guidance. Could you maybe elaborate a little more on what is giving you the confidence that large orders will be coming back in Q3, and what you're seeing in the market that has allowed you to give that guidance for process tech being somewhat higher in Q3? Thank you.

A: Well, really, there are a few large orders where we have a good visibility and we have good reasons to believe that they will be booked in the third quarter. And as you know, large orders come in a bit lumpy.

A: But what I think is important to remember is what Lars qualified as well, we believe that the underlying demand remains unchanged.

Q: OK, so the guidance up is to do with the orders that you're seeing for your business, rather than any change in the underlying market demand, is that fair?

A: Correct.

Q: Correct. OK, thank you very much.

Q: Yes, good morning, gentlemen. Let me follow up with the marine and diesel margin there. I heard the comments on load and FX. Could you please share with us on how does it look on mix? Would you say that this is above average, given the backlog, or below? I'm thinking product mix to begin with, but also mix between capital sales and after market.

A: Well, again, let me remind you of the qualification as far as margin in marine and diesel is concerned. Marine and diesel was benefiting from an increase in sales volume and the positive transaction FX effects. There is nothing in particular other than that. Then of course you do have a slight effect from mix between capital and after market, but that is still compensated by mainly the volume.

Q: OK, and if we look ahead here, would you agree that these parameters would be slightly the same? I'm not talking about load and FX, because that you have been very clear in your guidance, but I'm talking about mix. Within the different parts in marine and

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

diesel, i.e. all the Alfa and Framo and Aalborg and also on service versus capital sales, is that heading up or heading down, or neutral sequentially ahead?

A: In our generosity we have provided you with a forward-looking statement on gross profit margin as a whole. I said we do not expect any material changes to gross profit margin compared to the outcome of quarter two. We are not providing any individual comments by division.

Q: I hear you, but it still the fact that marine and diesel margin was very, very strong, at least compared to my expectations and I would like to understand if that is sustainable or not, but I hear you.

OK, let's move then to the outlook for oil and gas. On your belief that the demand for you in oil and gas is stabilizing could you please share some light on that? I mean, discussions with your customers, is it only on large orders? Share some more light on that, please.

A: Yes. We believe we see a stabilization within oil and gas on the current level for the process technology division and upstream and midstream we are down 70 percent in volume and that corresponds well with the decline in rig count. And further, we saw that we had a positive development for service for oil and gas related customers in the second quarter. And finally, we see good tendering activity for downstream; however, if that will materialize into orders that's another thing, but at least it's a good sign.

Q: That's very clear. Thank you for that. That's it for me. I'll get back in line.

Q: Yes, good morning. A couple of questions from my side. The first one being on what you said on the sanitary business, and I was curious if you could remind us of your dairy exposure, because I was a bit surprised that this business was doing better in Q2. We've now seen dairy prices at a 12-year low, so I was just wondering if you could give us some color on that probably a little bit smaller part of your business, and how you see that developing. Then, on the scrubber side of things, how do you evaluate the business here now, after the oil price fall and the difference between heavy fuel oil and marine gas oil having come down quite substantially? So do we have to re-evaluate the opportunities for that business?

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

Then thirdly, a question on your exposure to Daewoo shipyards. You've probably seen the share price decline there, and some of the concerns relating to their offshore backlog. And then, just lastly, I was just curious if there was also a revaluation effect on the backlog in Q2 or if this has been really, really minor? Thank you.

A: OK, I start with SOx, and there we see lower demand 2015 versus 2014. And of course the lower cost for the fuel impacts, and also you can say the gap between the clean fuel -- the gap in price between the clean fuel and the heavy fuel oil, that gap has also been reduced and that means that the payoff time becomes a bit longer than previously and that has made some ship owners being hesitant whether they should proceed or not. So it's -- but we still see it's a good activity level, but lower than last year, and we continue to believe that this is a good business to be in.

A: Then when it comes to exposure to dairy, what we've seen is a sequential uptick in sanitary and a flat development on total level for food and life science. If we start with the sanitary segment where we really have the dairy exposure through Tetra Pak, we've seen a good increase in orders from Tetra Pak and that is really our exposure to dairy. For the rest we're looking at other application areas in food and then of course personal care and pharma in the sanitary segment. So it was really –

CROSSTALK

...it's Tetra Pak, yes, it's Tetra Pak, a contributor to the positive sequential development in sanitary. And for food, the development is strong in olive oil, food solutions, vegetable oil but has been weaker sequentially in brewing for instance.

A: But in the end you have no real exposure to dairy processing firms or farmers, milk that is packed to the Tetra Pak.

A: Well, we do have through channels in the sanitary segment.

A: But that is too small to really comment on the demand in those channels ...

(CROSSTALK)

ALFA LAVAL

**Q2 Earnings Conference Call
July 16, 2015
9:30 a.m. CET**

A: There is an uptick sequentially for food outside of Tetra Pak as well in the sanitary segment. But it's still only part of the sanitary segment.

If we then move onto our exposure today with shipyards, yes, Daewoo is of course an important customer of ours. We are not aware of any issues related to say any orders we have in our backlog to Daewoo at this juncture so I cannot qualify further.

Then finally as far as revaluation of backlog is concerned, there was not any material effect coming out of revaluation of the backlog in the quarter. So that's why we are coming to the conclusion a decline of 3 percent organically like for like.

Q: Yes. Understood, thank you both.

Q: Yes, good morning. It seems like your marine and diesel equipment orders were helped by ballast water treatment systems. So I remember you said you had a run rate of SEK45 million in order intake from ballast water treatment systems in Q2 -- in Q1 I mean. Could you please share with us what the run rate or the quarterly order intake was in Q2?

A: Well, if we look at the ballast water treatment systems in the quarter they represented about SEK170 million of orders received.

Q: And may I ask if you expect this to be a new run rate or do you expect it to come down in Q3 and Q4, because I suppose this was part of the frame agreement you announced during the quarter?

A: We have seen orders under the MSC agreement come in during the quarter, so that is certainly a part of the SEK173 million. This MSC order we communicated as this was we think a strong indication that the retrofit market for ballast water treatment systems is really starting to open up. And I think you can see that from articles in marine-related papers as well. But, we are not providing a forecast for quarterly orders in a specific application.

Q: No, no, I can understand.

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

A: So we had SEK173 million in quarter two, we are happy with that but that's as far as we go.

Q: And then on cost savings, because you said that SG&A cost savings are coming through faster than you had planned. So can you please give us an update how much of the SEK300 million you aim to take out in costs have you now materialized?

A: If we look at the sales and admin part I would say that we are done with the program that we put in place. As far as our R&D is concerned this is a reduction of the R&D limits for the various product centers for 2015 over 2014. So we've realized, well, basically, 50 percent. And for the cost of goods we have seen parts of it. I'm not prepared to give you an exact number because the closure in the Netherlands for instance will only be complete by sometime mid-quarter four. So I think we are as far as operations related or supply chain related is concerned, in line with our plans.

Q: Perfect, thank you very much.

Q: Hi. First just two follow-up questions. Firstly on -- you mentioned that Daewoo and I guess there are more shipyards that have some kind of problems now, do you see an increased price pressure from the shipyard industry for marine and diesel?

And secondly when it comes to ballast water treatment we are approaching now 35 percent, I think it's 33 percent, of the (five) countries that has ratified their convention. What do you see here? Have you heard anything as we are getting closer to a full ratification yet?

A: We do not see any change in the price picture when it comes to the shipyards. And when it comes to ballast water treatment I think in reality more and more of the ship owners take -- they are taking the decisions to go ahead regardless of if the documents are signed or not, because people expect that it will come through. And there is still some missing before it formally becomes valid, the regulation. But we can see from the activities that it's moving ahead anyway.

Q: OK. And then secondly ,you said in Q2 and on the call that the order pipeline for big projects are shrinking, but still you see an increase for PT in Q3. Has anything

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

changed? Or what do you see beyond Q3? Is that when we are going to see that effect from shrinking order back -- orders and tender activity for big projects?

A: Well, we take one quarter at a time and the large orders tend to come in a bit lumpy.

Q: OK, thank you.

Q: Yes, hello good morning. Can I just ask you, sorry for coming back to this subject again when it comes to vessel contracting at the yards and if you look at the Clarkson data so far this year, it looks to be down quite dramatically even though we know that it's continuously being restated of course, but it's a drop of over 50 percent year to date. And surely that must be much steeper than your expectations by the second half of last year when you launched your cost saving program which you are executing very fine on as you said. But do you feel that this drop is -- are you prepared in terms of your cost base for this or could you give us some -- shed some light on that?

A: Well, you are right of course that we have a decline in contracting. Let me remind you that Lars commented in his qualifications of the outlook that we see a somewhat lower demand for marine and diesel following lower contracting. So I think we try to reflect what we see in the very near term of ramifications in the outlook.

Then as far as capacity is concerned, in most of our product groups let me again remind you that we have common supply chains for the three selling divisions. And it's the combined demand of the three divisions that decides the capacity in the supply chain. To the extent there is a need to adjust capacity, I can only assure you that we will take action. Our colleagues in operations they are really on the ball, and they are watching this not on a quarterly basis as you do but they look upon it on a weekly basis and they take action.

Q: OK. Because this will of course not be that much affecting you guys in Q3 will be really rather towards the end of this year and start of next year, but OK.

Can I just also then ask you, you mentioned the savings program and the realization of savings in R&D but you also said earlier during this call that the fact that R&D spend was down 40 percent year on year was also partly on the back of phasing of projects.

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

Does that mean that R&D spend savings will be less in the coming quarter? Or could you shed some more light on that?

A: That's reasonable to expect. The phasing has a lot to do with things like receiving bills for models of new products, first sets of tools for testing production and things like that. And that inevitably, to use one of Lars's expressions, they come lumpy that's why, so yes.

Q: Yes. So it's fair to assume that the realization of savings in Q2 on R&D was abnormally good?

A: Yes, absolutely the expectation as far as we are concerned is a reduction of 10 percent, nothing more.

Q: Thank you.

Q: Good morning, gentlemen. I have a couple of questions. The first one on the process technology margin the 13 percent number for EBIT, is it a new normal given the volumes that you have right now or are there any latent fixed costs that are able to be adjusted to these new volume levels?

And then also I wanted to ask you about the elimination, corporate eliminations that have been now quite low three quarters in a row. Is this also something that is the new normal now that you have completed, for example, the Frank Mohn acquisition?

A: Well, as far as the profit technology margin is concerned well it has become the normal for the last two quarters at least. But we have the parameters, we have all of the parameters influencing PTD going forward as well. We are not providing forecasts, as you know, on a divisional basis for margins on any level. But we are right now in the range of 13 percent to 13.5 percent plus. That's where we are right now. And I think we tried to describe the reasons why in margin as well as in absolute terms.

As far as corporate eliminations are concerned, well, things like acquisitions may have an impact on the size of these eliminations. But I'm sure you agree with me they are quite small and, well, under normal circumstances they should remain quite small.

ALFA LAVAL

**Q2 Earnings Conference Call
July 16, 2015
9:30 a.m. CET**

Q: And just a last one regarding the outlook, I think you already said that but just to clarify. The majority of the large orders are foreseen in the PT division is that correct?

A: Yes, that's correct. But the underlying demand remains unchanged for the PT division.

Q: Yes, thank you.

Q:

Yes, hi, good morning, Lars, good morning, Thomas. Just a couple of questions from my side. First of all on offshore, can you remind us how much of your order backlog is offshore today? And within that perhaps can you give us your assessment of what you think is the risk of delays and cancellations here?

And secondly if I could just on slide 28, sorry I was a bit late on the call. It wasn't clear to me whether the comments are sequential or year over year. But on your 300-basis-point decline in PT margins year over year if that's only price mix can you give us a sense for how much is price and how much is mix?

And perhaps if you could give some comment around pricing generally in PTD in your backlog, particularly on the oil and gas orders that you've taken in the last few quarters that would be very helpful. Thank you.

A: Well, as far as offshore is concerned I can't give you a sort of sizing of the offshore backlog. But let me just remind you that the offshore share of marine and diesel was 11 percent LTM per March. So that gives you a size a magnitude of say the offshore exposure. Of course, there is some in product sales in PTD.

As far as process technology margin is concerned you'll find the comment in the slides in the divisional performance slide, and you have comments to the operating profit underneath on that very slide. As far as margin is concerned the sequential comments were adverse price mix compensated by FX effect as we were on the same level as in quarter 1. And then I think we missed your further questions, can you repeat those please?

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

Q: It was more that if it's only price mix that's negative offsetting the positives from volume and FX. And I appreciate it's a sequential comment. But the comment was more -- or the question was more around pricing generally in the backlog within process technology and particularly if you could comment on the pricing on your oil and gas orders taken the last couple of quarters what we should expect from a pricing standpoint as that gets invoiced in the next few quarters. Thanks.

A: Well, we provide a forward-looking statement as far as gross profit margin is concerned for the coming quarter. And that is of course a strong indication of what we have in the backlog. And there we say that we do not expect any material change to gross profit margin in quarter three over quarter two. And other than that there is nothing in particular to comment as far as the margin content of the backlog is concerned.

Q: Thanks.

Q: Three quick questions on regional trends please. The first was you write on slide 18 I think it is that you saw growth across all capital sales segments in China, which sounds quite encouraging and couldn't be more different from SKF's assessment yesterday. Perhaps you could just remind us what the big capital sales segments are for you in China. I guess we think of probably construction and shipbuilding but is there anything else that's significant in the mix there?

Secondly, Russia, it's all over the place I think up 17 percent sequentially this quarter, down 44 percent sequentially last quarter. You continue to sound a bit more optimistic than some companies do when they talk about Russia. So how do you see things developing there?

And then the final question is on South America which seems just resoundingly awful. And I just wondered whether things -- volumes are low enough there now that you have to think about additional restructuring measures. Thanks.

A: Well, starting with China, except the very obvious marine exposure we have, we have process industry, we have food, food and beverage is important for us. And we

ALFA LAVAL

Q2 Earnings Conference Call July 16, 2015 9:30 a.m. CET

also have a good exposure, I would say, in China we have a good exposure of almost all of our business segments. And we had a -- and sequentially we had a good demand, a good growth in the second quarter. However, you should still bear in mind that there is a wait and see mode among many of our customers. They want to see the impact from the stimulus measures that have been launched or will be launched. So it's still wait and see to a large extent.

And then when it comes to Russia you can -- there we are positive when it comes to food-related business, because with the decision in Russia to be more self-sufficient on food processing there are significant investments going into that sector. But in general Russia still is facing a challenging period.

And when it comes to Latin America we don't see any need for the time being for any restructuring measures based on the order intake so far.

Q: OK, thank you very much.

Q: Yes, one follow-up question given that nobody has asked it on metal prices. You kind of indicated a bit of a windfall here in Q2. We all can see nickel and so on; maybe you can also give us a taste on how the titanium prices have developed for you because that's a less visible market for us I guess. And if your expectation would be that next time in your pricing adjustments that you have to pass on some of that windfall, or are you confident to keep it for yourself. Thank you.

A: Yes, we didn't say that we've had any windfall on metal prices in quarter two. But what I said was I believe that we -- some of the possible risks we may have in load we can compensate by lower metal prices going forward. Remember that we are hedging a bit of the exposure on nickel and copper in particular to reduce the swings and give ourselves time to make adjustments. But we see following the phasing of the hedging that we have some tailwind going forward.

As far as titanium is concerned, you're right, titanium is less visible. And of course we've gotten better deals when it comes to titanium over the last several years, so there has been a gradual decline in titanium prices really from the peak as far back as in 2008.

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

And that, of course, we have seen reflected in price levels for these kinds of products as well. Remember there was a scarcity situation for titanium as well when we go back. Will we be forced to pass on? Well, our ambition is to drag our feet as much as we can when it comes to that. And we'll continue to have the same approach.

Q: So is it fair to say that your clients at the moment have other worries than to track raw material prices on a daily basis?

A: Let's express hope that that is the case.

Q: OK, that's clear. Thank you, Thomas.

Q: Yes, may I just ask on the currency impact on orders and sales, because I was a bit surprised that the currency contribution only was 8.9 percent. Of course, it's high from a historical perspective, but compared to Q1 where it was 13.1 percent. Did you have abnormal order exposure geographically this quarter and that we can expect good or even higher support in Q3 or what -- can you say anything about the currency impact on orders in this quarter?

A: Well, there are inevitably variations between quarters what are we receiving in terms of orders, are we receiving larger contracts denominated in euros or dollars. Of course that can play a role. And of course that applies for sales as well. So it's something that is very difficult if not impossible to project. I'm very sorry. We've given indications of what we anticipate of translation effects for the full year, (remember the SEK2 billion). And we have nothing other than that to add at this juncture.

Q: Thank you.

Q: Hi, it's just one quickly on that others line. I know you mentioned it earlier in the call, but I just want to come back on that and clarify whether you gave guidance for the full year on how that should step up in the second half of the year versus the first half because obviously on a year-on-year basis we are running considerably low -- below last year. Did you qualify that earlier?

ALFA LAVAL

Q2 Earnings Conference Call

July 16, 2015

9:30 a.m. CET

A: No. We did not provide any specific forecast for the other cost and income line in quarter 3, no. The only thing is that I qualify that we had some out-of-the-ordinary items inside of the charges. We had the closure of a small manufacturing plant in India. And we had a charge for, well, prudence when it comes to receivables related to Greece.

Q: OK. But just in terms of if this number was minus SEK200 million in the second half of last year should we be thinking around that kind of level for the second half of this year? Is there any reason it should be different?

A: There will still be charges on the other cost line and there will still be income in the other income line. I'm sorry, Max, we are not providing a forecast for the individual P&L lines.

Q: OK, thank you.

Lars Renström: All right, thank you. And that completes the session. Thank you very much for your attendance and interest. And have a nice summer wherever you are.

END