

ALFA LAVAL

Q4 Earnings Conference Call February 2, 2016 8:30 a.m. CET

Lars Renström:

Good morning and most welcome to our presentation. I will start by highlighting two matters. Firstly, the order intake was SEK9.4 billion, a sequential upturn of 9 percent, mainly explained by an exceptionally strong order intake from marine pumping systems, driven by the ship owners pre-ordering. This is expected to influence the first quarter negatively concerning demand for pumping systems with about SEK1.2 billion compared to the fourth quarter. The other marine business is expected to be unchanged.

Secondly, the full-year 2015 was a record year in many aspects. Invoicing and operating result increased with 13 percent and 16 percent respectively to new record levels. And earnings per share rose 30 percent. Further, Alfa Laval continues to deliver very strong cash flows that took down the ratio net debt to EBITDA to slightly above 1.5.

Let's take a look at the key figures. Orders received in the quarter declined 10 percent to SEK9.4 billion, net sales was unchanged at SEK10.8 billion, adjusted EBITA dropped 10 percent to SEK1.8 billion and the adjusted EBITA margin reached 16.2 percent. For the full year, orders received rose 1 percent to SEK37.1 billion, net sales grew 13 percent to SEK39.7 billion, adjusted EBITA increased 16 percent to SEK6.8 billion and adjusted EBITA margin reached 17.1 percent.

Next slide. The Board of Directors proposes a 6 percent increase of the dividend to SEK4.25.

Now we move over to orders received and margins. Orders received on rolling 12 months reached SEK37.1 billion and in the quarter we saw a decline of 11 percent at constant exchange rates. You see that the level of large orders is quite high, SEK815 million, since some orders were pushed from the third to the fourth quarter. You should also bear in mind that in the fourth quarter 2014 order intake was inflated by SEK1

billion coming from the revaluation of Framo's backlog due to the weakening of the NOK versus the US dollar. If we adjust for that, order intake was unchanged.

Moving over to the order analysis, there you find that year on year we declined with 11 percent organically. Currency effects were plus 0.7 percent, giving a total of minus 10.3 percent. Sequentially the organic development was plus 11 percent and currency effects were minus 2.4 percent, giving a total of 8.5 percent.

Next slide. Adjusted EBITA margin reached 16.2 percent and in absolute numbers it is our third best quarter ever.

Let's move on and take a look at the highlights in the quarter. In process technology, large orders of in total SEK615 million were booked, with a good mix of applications, like food, beverage, power, gas processing, refinery and petrochemicals. In marine and diesel, Framo booked two offshore orders for the North Sea. Only one SOx order was booked since the low oil price has reduced the willingness to invest. Order intake for SOx for the whole year 2015 fell 60 percent compared to the previous year and in 2016 we expect demand to remain on about the same level.

Moving over to the development per segment, we had 11 percent negative organic growth year on year in the quarter. In Process Technology and Equipment, Service was stable, while we had a minor decline in Marine & Diesel.

In Process Technology, the capital sales segments, Food & Life Science and Water & Waste had double-digit growth, while Energy & Process declined. In Marine & Diesel, capital sales segment Pumping Systems had an exceptional growth thanks to a pre-buying effect due to the new NOx emission legislation that is implemented from January 1, while the other segments were affected by lower yard contracting during 2015. In Equipment, Sanitary and OEM were stable, while industrial equipment declined.

Let's take a look at the development per division, and now all comments are sequential. We start with Equipment; that was unchanged. Industrial Equipment was affected by Russia as well as the ongoing transfer from direct to channel sales. Sanitary saw good growth from customers in both food and pharma. And OEM saw order growth for traditional products while demand for products for construction equipment declined.

Moving over to the Marine & Diesel division, there we see that segment Marine & Diesel Equipment was affected by lower yard contracting earlier in the year. Marine & Offshore Systems saw higher marine demand. And Marine & Offshore Pumping saw extraordinary growth for cargo pumping systems due to pre-buying, as already mentioned. Service saw higher spare parts activity and demand for pumping systems service grew as well.

Moving over to Process Technology, there segment Energy & Process was affected by the oil and gas sentiment and we had some cancellations. Demand from petrochemicals remained on a good level. Food & Life Science was stable on a good level, with strong growth in protein and brewery, while vegetable oil and food declined. Service was stable. In the hydrocarbon chain, up and midstream declined, while downstream demand was strong.

Next slide. For the full year, in Equipment all segments except Industrial Equipment were unchanged. In Marine & Diesel division the capital segments were down due to lower yard contracting in 2015, while service was unchanged. In Process Technology, Food & Life Science as well as Water & Waste were up, while Energy & Process declined significant, mainly due to the subdued demand from oil and gas that also affected service.

Now we move over to the geographical development. Here you see the developments year on year in the quarter at constant rates. Four regions had significant declines, and the drop in oil and gas prices is the common denominator. In Western Europe, the decline in SOx retrofits contributes as well. The macroeconomic challenges that Brazil and Russia are facing significantly affects their regions. In Nordic, we had a substantial positive impact from two large offshore orders. Asia remained stable, supported by Framo cargo pumping systems.

Let's take a look at the regions, and now all comments are sequential. In Asia, there was an extraordinary demand for Framo pumping systems. Excluding pumping systems, orders were unchanged. We were pleased to see that base business grew. Energy & Process was lifted by a large petrochemical order and Marine & Offshore Systems did well. South Korea and Japan did the best, while China declined due to a non-repeat order. Demand in China was mixed, with customers still in a wait-and-see mode. We are pleased to see the India grew 15 percent for the full year.

Moving over to Europe. In Western Europe, including Nordic, we had a positive development for large orders as well as base business and service. In Central & Eastern Europe, Russia continued to be negatively affected by oil prices and the sanctions. In the region both base business and large orders declined. We were pleased to see that our focus on service generated strong growth.

Moving over to the Americas, in North America there was a positive development in the US for both large orders and base business. In the hydrocarbon chain there was a generally positive development in mid and downstream. In Latin America, Brazil had a weak development mainly due to cancellations in oil and gas.

Next slide. For the full year the regions with double-digit decline had a drop of oil and gas prices as common denominator. Macroeconomic challenges of Brazil and Russia have resulted in an order decline of 50 percent and 30 percent respectively. The acquisition of Framo has affected Nordic and Asia positively. Oil and gas prices as well as lower demand for SOx systems has negatively impacted Western Europe.

And now I hand over to Thomas for the financials.

Thomas Thuresson:

Good morning all of you. As Lars has covered orders in depth, let's talk a bit about sales.

To begin with, let me remind you what I said literally after quarter three. I said we believe it's reasonable to expect a higher level of sales in quarter four compared to quarter three. However, the sequential decline in orders during 2015 is expected to result in lowering in for out orders in quarter four compared to last year. In addition, I would also like to mention that the likelihood of delays in deliveries initiated by customers we believe is somewhat greater this year compared to a year ago.

As I'm sure you've seen from the report, we realized sales of SEK10.8 billion in the last quarter. That is an increase of about 12 percent compared to quarter three at constant rates. It's also a decline of about 2 percent at constant rates compared to quarter four of 2014. We were, I would argue, coming out slightly better than our prediction as there were no material delays in deliveries demanded from customers and as Process Technology and Framo delivered somewhat above expectations.

If we look a bit deeper at Service, the service activities represented 27 percent of revenues. That is compared to 26.2 percent a year ago and 26.1 percent in quarter three, that is to say causing a certain positive mix effect. However, the content of service, understood as service hours versus parts, was higher than earlier, having a counter or an adverse effect.

Let me finish off my comments on revenues with a first forward-looking statement. We believe it's reasonable to expect a lower level of sales in quarter one compared to quarter four. That is due to a seasonal variation and of course a smaller backlog going into 2016 compared to when we went into 2015.

Let's then move on to gross profit margin. We delivered 34.2 percent in gross profit margin in the quarter. This is almost exactly the same level as a year ago and a decline of 1 percentage unit sequentially. Let me then again remind you what I said after the quarter-three report. I said in the near term we expect adverse effects from mix due to higher capital sales and from a somewhat lower load in some factories. We expect positive FX effects and lower metal prices to provide some compensation. In our view, gross profit margin came in almost but not quite as expected and consequently almost as we predicted after the quarter-three report.

Let's move on to the next slide and dig a bit deeper. As I just said, quarter four came in almost but not quite as expected. However, gross profit margin was negatively influenced by further adverse FX effects coming from revaluation of foreign currency denominated items in working capital. Effectively the positive transaction effect was smaller than we expected three months ago. The referenced adverse effect corresponded to about 0.4 percent on gross profit margin level.

As for Process Technology engineering activities, there was not any further overspend in customer projects. The measures taken to improve productivity, they will gradually have effect. The engineering-related comments that I just gave are reflected in this slide as load/volume. EQD was primarily influenced by somewhat lower load in certain factories, with a heavy production of course of equipment-type products.

Regarding mix, we saw a slight positive influence from a bigger share of service sales. However, the mix was influencing gross profit margin negatively within both service and capital sales. What do I mean with that then? Well, we had a bigger share of service hours compared to parts in our service revenues, which gave an adverse effect. We also had an adverse mix effect from a different content of the different end-user industries in capital sales.

Let me then give you the second forward-looking statement. In the near term we expect adverse effect from volume/load. We expect continued positive FX effects and lower metal prices to provide compensation.

With that, let's move on to overhead costs and the remainder of the P&L account. R&D ended at SEK200 million in the quarter, which is a reduction year on year of just under 10 percent. In percent of sales, R&D represented 1.9 percent for the full year. The explanations for this reduction is mainly the efficiency program initiated. But another effect is also that we've seen a substantial positive translation effect on the denominator, the revenues, but a very limited one on R&D cost, the nominator.

Sales and admin amounted to SEK1.54 billion in the quarter, representing a reduction like for like year on year of just 0.2 percent. Sequentially there was an increase of 9.3 percent, a normal seasonal variation, I would argue. On a whole-year basis, sales and admin is down 1.1 percent like for like, so quite a good saving on sales and admin.

Other cost and income came out with a higher negative net in the quarter, minus SEK192 million compared to SEK131 million in quarter three. Just as a reference, let me say that the average per quarter for net of other income and other cost has been about SEK165 million in 2015, so slightly higher of course due to variations between quarters on certain initiatives.

Profit before tax was ending SEK1.39 billion. The year-on-year comparison is of course influenced by the one-time charge we had a year ago of a negative SEK440 million due to the derivatives in Framo.

Before leaving the P&L, let me talk a bit about taxes. As you may have seen, taxes ended with a charge of SEK455 million in the last quarter. This is clearly above guidance for taxes. This is explained by some one-time effects.

We've seen a reduction in corporate income tax rates in certain countries. That has led to a revaluation of deferred tax items. We have also taken a further cautious approach to the valuation of temporary differences, other temporary differences, such as loss carryforwards in some countries. This totally amounts to a non-recurring effect of about SEK90 million. Going forward, however, our guidance stays at 28 percent of profit before tax.

Finally, EPS up 30 percent, of course explained by increased operating profit and a non-repeat of the non-recurring charge in the financial net, as I just mentioned.

Return on capital employed and return on equity ended 21.6 percent and 21.7 percent respectively, still very competitive in the engineering arena according to our view.

Let me then move on and give you a few short comments on performance by division. My comments, they will relate to operating margin. The comments that you have on the bottom of the slide, they are relating to profit in absolute terms. So we try to cover this both ways, if you like.

To start off with, Equipment came out lower than last year as well as quarter three. The sequential decline is due to a combination of load, as I commented earlier, price/mix, partly compensated by lower overhead costs.

For Process Technology, operating margin came out higher than both last year and quarter three. Sequentially the improvement in margin is explained by what I would like to call a normalized performance on delivered customer projects, so no new substantial overspend. Volume contributed as well as lower costs in the overhead. Mix had a certain adverse effect. The measures to improve productivity in engineering will only gradually have effect on performance.

And then finally, Marine was lower sequentially in terms of operating margin, with 19.4 percent. This is explained by a negative mix and higher costs in the overhead, partly compensated by volume.

With that, let's move on to the cash flow statement. In short, Lars has already given you the conclusion on cash flows. It was a very good quarter and we have a record in terms of free cash flow for the full year 2015. Cash flow from operations almost SEK1.9 billion, an increase compared to a year ago of 11 percent. The explanation is entirely a release of inventory based on the high level of shipments. Regular Capex ended some 10 percent above last year's level and of course that is partly to do with the full-year effects of Framo. In this context, let me remind you, for 2016 remember to add about SEK200 million coming from the Kolding and Pune Capex projects that we talked about, for instance, at the Capital Markets Day. Financial net paid was positive, explained by realized positive exchange differences.

For the quarter free cash flow was almost SEK1.7 billion compared to just under SEK1.2 billion a year ago. The year-on-year improvement is, in summary, due to the release of working capital and the positive financial net paid.

This tremendous free cash flow, a positive free cash flow of SEK4.85 billion, means that we're already at the debt to EBITDA of 1.56, almost one turn down from a year ago. That is of course a continued fast deleveraging after the Framo acquisition.

Then let's talk a bit about FX. FX effect in EBITA in the quarter was positive with SEK80 million, an outcome worse than anticipated. And the reason, as I commented earlier, is attributed to non-realized revaluation effects on working capital items. And this is basically to do with a continued weakening of the Norwegian krone against the US dollar, where we get the bulk or in which currency we get the bulk of the advances in Framo. The forecast for 2016 has been updated and expected translation effects have been included. The translation effect of a negative SEK200 million has been calculated based on using the closing rate as per December 31, 2015. The estimation of transaction effects in 2016 has been updated to reflect realization of the revaluation effects that have arisen during the quarters three and four. The full-year net effect on FX is estimated to positive SEK350 million at this juncture.

Then we're getting to our order backlog. The backlog amounted to totally SEK20.6 billion at the end of December. That is representing approximately 6.2 months of LTM sales. For shipments due in 2016, the backlog amounted to SEK15.6 billion. As you can see from the yellow part of the bars, that is SEK1.7 billion lower than when we started 2015, really important to have in mind.

Having said that, let's move on to the bridge into whole year sales for 2016. As always, let's talk about the known and the unknowns. As I just showed you, SEK1.7 billion smaller order backlog going into 2016 than we went into 2015. Everything else the same. Secondly, using the closing exchange rates for end of December, we expect a negative translation effect on revenues to the tune of SEK1.2 billion. The very small acquisitions that we completed during 2015 will only provide an immaterial increase to sales. This gives a subtotal for the known parameters of SEK36.8 billion.

For the rest, as always, it's up to you to form an opinion about demand and its implications on sales for 2016. With regard to prices, the second unknown, we have made small adjustments to prices for standard products just now at the beginning of 2016, as we normally do.

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 first quarter 2016 will be somewhat lower than in the fourth quarter, excluding a substantially lower demand for pumping systems.

And here comes our demand forecast for each division. Marine & Diesel division significantly lower due to Framo, while demand excluding Framo will be unchanged. Framo had an exceptionally strong quarter for marine cargo pumping systems due to the pre-buying effect. Framo also booked two large offshore orders that will not repeat in the first quarter. In total, this means an expected decline for Framo between the quarters of SEK1.2 billion. Process Technology, somewhat lower as we expect fewer large orders. And finally, Equipment, on about the same level.

And since this is my last quarterly report, I want to thank all participants for the trust you have shown in the management of Alfa Laval during all these years. Thank you very much.

And now we hand over to the operator for the Q&A session.

Q: Thanks very much. Good morning, Thomas. Good morning, Lars. And Lars, congratulations on, well, almost 12 years on a job well done. Good luck. Three quick questions from my side, if I could. Demand pull-forward into 2015 in pumps, can you just confirm we're talking about SEK1.2 billion in Framo sequentially and what you see in the ex-Framo business within marine and diesel?

Secondly, just on cancellations, can you give us a number for that? I think you mentioned SEK300 million on the media call earlier. Is that all oil and gas, and is that the right number?

And then thirdly, just in Equipment, you talk in the report about a changed structure within the sales organization. I thought that was behind us, but apparently not. Can you talk about where we are there. As we move, I presume, from indirect to direct, where are we in, shall we say, a normalization of that cost curve as that reorganization gets completed? Thank you.

Lars Renström: Well, when it comes to your final question, we are in the later stage of this transition from direct to distributor sales.

Thomas Thuresson: Then if we take the other two, demand in marine exclusive of pumps, we believe that demand for the rest of the marine operations will be unchanged.

And as far as cancellations are concerned, the SEK300 million concerned, they relate to oil and gas and predominantly relating to customers in Brazil. And of course there have been certain cancellations in marine as well but that is something that is there on a certain level continuously. But the SEK300 million oil and gas and really to do with Brazil.

Q: Understood. Thank you.

Q: Yes. Good morning, Thomas. Good morning, Lars. Two, three questions please. Firstly, you expect a significant sales decline in 2016 before unknowns. And, as you have said a couple of times before, we have seen decline in demand throughout 2015, so it's likely that in-for-out orders will be down in the beginning of 2016. And at the Capital Markets Day you mentioned that you have a detrimental margin of around 50 percent. So can you explain what you're doing now to lower this impact that we will see on EBITA from the detrimental margin, from the lower volumes? Thank you.

Thomas Thuresson: Of course we are continuously adjusting the capacity in our supply chain following a decline in certain product groups in the backlog. As, for instance, two weeks ago we announced certain adjustments of capacity in our decanter facility north of Copenhagen, as an example. And of course we are reducing the amount of temporary staff in our supply chain. So there is a continuous tweaking and adjustment of the supply chain in order to adjust. And of course we continue to run a tight ship when it comes to the overhead as well, with well-established routines for replacement and expansion of overhead resources.

Q: OK. Thanks. But you don't think it's necessary with a new cost savings program?

Thomas Thuresson: When -- if and when, then of course we will all let you know at the same time.

Q: Yes, OK. And then on your outlook, you expect somewhat lower demand if we exclude the advance orders you had in Q4. What to use as a base here? Is it SEK9.4 billion? Because you had some cancellations and then you had all those advanced

orders as well. Is it SEK9.4 billion that is the base for your guidance of somewhat lower demand and then after that we have to adjust also for the advanced orders?

Thomas Thuresson: What we're trying to say is that starting from SEK9.4 billion we take off SEK1.2 billion for the extraordinary run on pumping systems and in addition to that we say Equipment is expected to be unchanged, the rest of Marine is expected to be unchanged, and Process Technology is expected to come out somewhat lower due to fewer expected large contracts. So the starting point is SEK8.2 billion and then we believe there will be somewhat less of large contracts in Process Technology. Remember they had about SEK600 million in quarter four. If we look at quarters two and three, they came in just under SEK200 million on large contracts.

Q: OK. Perfect. And then lastly on your comment on the gross margin, where you expect adverse effect from lower volume/load, but you said that FX and lower raw material prices will provide compensation for this. But do you expect this to fully offset the negative effect from lower volumes and load?

Thomas Thuresson: I did not qualify in the forward-looking statement and that was intentional.

Q: OK. Thank you very much.

Q: Hi. Good morning. Two questions from me. Just firstly on the process business and the outlook for oil and gas, I think you've mentioned before that last quarter from here we were expecting the mid and downstream oil and gas base business to be broadly flat. You've talked about process being lower due to less large orders. Could you talk a little bit about how you're feeling on the base business in oil and gas within process technology?

Lars Renström: Well, we can see in petrochemicals we have seen a continued strong demand both for service and capital sales. And when it comes to -- when you go upstream to drilling, of course there it has been impacted by the cancellations that Thomas mentioned. And when it comes to refinery, we see a good activity for retrofits and, let's say, debottlenecking. However, we don't see any large greenfield projects in the near future.

Thomas Thuresson: To complement the picture on drilling, we were of course negatively affected by the cancellations but we were also positively affected by the two offshore contracts in marine, so on a total level the drilling was not that bad. We do not expect a repeat on cancellations of course in PTD but then again we do not foresee the same amount of large contracts in offshore drilling for Framo either, as reflected in the negative SEK1.2 billion.

Q: OK. Thank you. And just one follow-up. Given where rates are across most of the marine segments versus history, how confident are you in being able to keep your marine aftermarket business broadly flat in 2016 or do you see risks of this going lower as we go through 2016? Thank you.

Thomas Thuresson:

We continue to work hard in our aftermarket activity. We have invested in presence very much of course to do with onshore applications but also to further enhance our abilities on the marine side. And I think we've seen that has paid off during 2015 with a good increase on the service, that is to say the service hours element of aftermarkets. And we continue to believe that we have good opportunities. I think that is what there is to say at this juncture.

Q: OK. Just a final question on Frank Mohn. Could you give us how much of this year's order intake was Frank Mohn? And then could I just qualify whether I heard rightly; did you say on an annual basis in 2016 Frank Mohn demand should be broadly flat or did I hear that wrong?

Thomas Thuresson: You heard that wrong. We said a decline of SEK1.2 billion sequentially and then a gradual pick-up from that low level towards the later quarters in the year. When it comes to Frank Mohn totally, I think orders in 2015 were in the order of SEK5.5 billion.

Q: Great. Thank you very much.

Q: Yes. Good morning and thank you. First of all, a question on the outlook again. Sorry for this. But given your outlook comments there, Thomas, and no more cancellations expected in the oil and gas, normally very high large-size orders in Q4 for process, but still no cancellations in Q1, so the delta there shouldn't be that large, or do I read you incorrectly?

Thomas Thuresson: Well, what I said literally before, was the starting point is SEK9.4 billion. We take off SEK1.2 billion for pumping systems. Then for the rest, marine, rest of Marine is expected to be unchanged, Equipment is expected to be unchanged, and we expect a somewhat lower level of demand in process technology because of the fewer large contracts.

Q: Yes, but on the other hand you don't expect any cancellations. They were SEK300 million. So the net of those two might not be that negative.

Thomas Thuresson: I started with SEK9.4 billion, which is the net of cancellations. And what I'm saying is SEK9.4 billion minus SEK1.2 billion gives you SEK8.2 billion, and from that we have had SEK600 million of large contracts in quarter four in Process Technology. If we take as a reference, we had about SEK200 million in quarters two and three of last year.

Q: Yes. OK. On the others, there were larger impact there this quarter and you talked about around SEK165 million per quarter in 2015. First of all, could you talk about more in detail what those effects were? What did you actually do in order to take down the cost base and is the SEK165m-ish by quarter a good proxy for next year?

Thomas Thuresson: There is no better approximation for next year than the average of what we've seen on other cost and income in quarter five. We will not qualify that further. What are we doing to adjust?

As I commented on the earlier question here, we are continuously adjusting the various supply chains for the different product groups and, as one example, we had an initiative launched in our Söborg factory for large decanters two weeks ago as one example. And of course that is ongoing continuously in order to adapt to variations in demand and as the backlog for delivery is varying over time.

When it comes to overhead, we continuously monitor the amount of resources we have in sales and admin, so we will continue to run that on the basis of individuals.

Q: OK. Thank you. Final question. On the exceptionally strong orders in the fourth quarter from Framo, could you please comment something about the profitability since they were pushed into last year?

Thomas Thuresson: Well, in terms of price levels there is nothing outside of what we've seen historically, not at all. The only thing is of course the exchange rate. Given that we are having a fair amount of cost in Norwegian krone, of course there is a benefit, but that is also reflected in our projection for FX transaction for 2016.

Q: Anything left in FX from 2017?

Thomas Thuresson: Well, we'll let you know once we get a bit into 2016. We have no projection for that at this juncture.

Q: Yes. And predictions for SOx systems for 2017, flattish this year, but I guess you expect something to happen in 2017. Anything, any data there?

Thomas Thuresson: That depends on the oil price. If we see a recovery in the oil price we will for sure see a recovery also in SOx. And we continue to believe it's an interesting area to be in and we are constantly developing new products to improve our position even further.

Q: OK. So from me also, Lars, thank you for all these years and good luck.

Lars Renström: Thank you very much. Same to you. Bye bye.

Q: Yes, good morning. A couple of questions from my side. First one on the cancellations. Did you actually book that as a negative order intake in Q4?

Second question. When we look for the backlog for delivery in 2016 and 2017, did you also have some push-out from 2016 delivery into 2017 delivery?

The third question just on your latest stance on ballast water regulation. There has been some noise about it. On the other hand there were some issues with US Coast Guard, so maybe you could give us an update on that?

And then what you said on the NOx effect in Q4, if I deduct the larger orders SEK1 billion, so did I understand you correctly that obviously in Q1 that goes to zero, but it will recover by the end of the year, obviously probably depending how the tanker market develops? And that would be it from my side. Thank you.

Thomas Thuresson: If we start with the cancellations, yes, of course they have been reflected as an adverse orders received.

If we look at the backlog 2016 versus 2017, well, in the graph we show you of course we reflect the delivery schedules as they are today. We're not speculating; we are merely reflecting the delivery schedules as we have agreed with our customers.

When it comes to ballast water treatment regulations, yes you know that IMO has recalculated how many -- how much of the tonnage was now ratified and they are just underneath the hurdle of 35 percent so we're still underneath. US Coast Guard, yes, US Coast Guard has made up their minds about the testing procedures for the efficiency of the system and the choice they went for will cause certain delays in ordering from ship owners, as US Coast Guard, they did not go for the kind of testing procedure that we anticipated and we were hoping for, with others, I would like to add.

Then the final question, I didn't quite get that. But when it comes to pumping systems and demand we were enjoying orders to the tune of SEK1.7 billion plus in quarter four for pumping systems in capital sales. And we expect a decline of SEK1.2 billion in quarter four -- in quarter one compared to this SEK1.7 billion. And from that to further into 2016 we expect a gradual pick-up in orders for pumping systems. We do not provide any full year forecast for pumping systems. And of course we are watching the Clarkson forecast, for instance, very closely to gauge our expectations.

Q: OK. But if the tanker market demand was flat in 2016 over 2015, would that mean you're back to go at the end of 2016 or would you still be at a lower level than at 2015?

Thomas Thuresson: It is fair to expect that the level would be somewhat lower in 2016 than 2015 because of this pre-ordering effect which, as we judge it, has to do with the new regulations for NOx kicking in at the beginning of 2016.

Q: OK. So it would be somewhat lower but in Q1 you have a bit of an extreme situation?

Thomas Thuresson: Absolutely, yes.

Q: And then on ballast water, I think on the pre-close call you said that the issues with the Coast Guard should be sorted relatively swiftly; you're still expecting to get type approval in the coming months. Is that still the case or is that further pushed out?

Thomas Thuresson: We have not said in the coming months but we expect to get type approval. But of course, as the US Coast Guard is going for a new, for a different testing methodology, there is a delay.

Q: OK. Thank you.

Thomas Thuresson: Thank you.

Q: Yes. Hi, Lars. Hi, Thomas. The first question please on marine and diesel where we haven't yet seen any revenue drop; it still had 5 percent, 6 percent organic growth, sales growth in Q4. At what point in 2016 would you expect revenues to start to decline based on the backlog? And maybe you could separate that between pumping systems, equipment and offshore, just the phasing of the backlog? Thank you.

Thomas Thuresson: To start off with, across the board there is a bit of a seasonal variation between quarter four and quarter one. I think that is important to remember and to have in mind. Outside of that, we have differences between the three main product groups. As far as traditional Alfa Laval equipment is concerned, we start to see a decline during this spring. We will see a decline of Aalborg products when we're getting towards late spring or mid 2016, and we will only start to see a decline in Framo when we're getting towards the end of 2016.

Q: Got it. Thank you. And then as a follow-up, given, as I understand it, there are much higher gross margins in marine and diesel, should we expect more of a negative cross-divisional mix to pull the gross margin down as we go through 2016?

Thomas Thuresson: I don't think we have qualified the gross profit margin in marine by product group. So I'm sorry; there will not be a response to that one.

Q: OK. Thanks. And then a final one, just on working capital where you've obviously had a very strong reduction over the year, just what scope do you see to improve the ratios from this level in terms of inventory to sales or working capital to sales? How much further can you squeeze cash out of the business? Thank you.

Thomas Thuresson: A very important factor in this context is what will the inflow of advance payments be. To the extent that we can have a reasonable flow of advance payments coming in from customized solutions orders from customers, of course there is an opportunity to reduce working capital, as we see a decline in revenues, as I've shown you, from the lower backlog going into 2016. So given that we continue to get orders for customized solutions generating advances, then there is an opportunity to

reduce working capital based on the lower level of activity. But, then again, let me remind you that net working capital in relation to revenues is not that shabby in Alfa Laval to begin with, right.

Q: No, exactly. OK. Great. Thanks a lot and best of luck for the future Lars. Thanks.

Lars Renström: Thank you very much.

Q: Hi. Good morning all. Just a couple from me on Framo again. I'm just trying to understand how much of that SEK1.2 billion decline and that SEK1.7 billion is a change in the underlying level of demand and how much is pull forward. I understand that you're saying that a lot of it is down to new regulations, but if you just have some idea what you think the underlying market is doing.

Thomas Thuresson: I think the best way for you to get a sense of what the underlying market is like is to look at the Clarkson statistics and see the evolution of product tankers, chemical tankers. I think that is absolutely the best stance to see what is happening in the market and what is expected to happen when it comes to demand for these types of vessels.

Q: OK. Sure. And then just another one on those orders in Q4. Given that you were saying that they were in response to some regulation coming in at the start of this year, should we expect them to convert to sales perhaps sooner than normal or is it just your normal order conversion timeline?

Thomas Thuresson: Well, the order conversion is of course reflected in the order backlog to be delivered in 2016 and what remains to be delivered later on. So I think you have the answer in the backlog specification that we have provided.

Q: OK. But just in terms of within the H1, H2 seasonality, should there be any difference?

Thomas Thuresson: Well, as far as Framo pumping systems, as I just commented, we are only foreseeing a decline in revenues from Framo towards the latter part, towards the end of 2016. The backlog or the delivery capacity is completely utilized since quite some time for Framo in the first half year.

Q: Got it. Thank you.

Lars Renström: Thank you very much and that completes the Q&A session. So thank you for your attention and thank you for all these years. So thank you and goodbye from all of us.

END