

**ALFA LAVAL**  
**Q2 Earnings conference call**  
**July 17, 2017**

**Tom Erixon:**

Thank you and welcome to Alfa Laval's second quarter conference. I'm Tom Erixon and with me is Thomas Thuresson. We will go through the quarter together with you. And before going into detail, let me hit on maybe three of the main topics on this quarterly report.

First, orders in the quarter were strong and better than expected. And apart from large orders being solid, we had positive end markets and geographies almost across the board. Second, in terms of the order intake, it was particularly nice for us to see that the environmental products in Marine grew. We doubled order intake to about SEK 420 million in the quarter, taking it to almost SEK 2 billion on an annualized level. Both scrubbers and ballast water contributed. And thirdly, I just want to highlight that our net result was impacted in the quarter from nonrealized currency effect on the debt portfolio. Thomas will touch base on that item later.

So with that, let me go to some of the key figures. Both the quarter and the first half of this year is reflecting a very strong order intake trend for us. And apart from that, we have a stable situation for sales invoicing as well as the profitability in the group. And those are maybe sort of the main takeaways on the key numbers.

Going to the highlights. Large orders again ended just above SEK 500 million, signaling that end markets, driven by larger capex, has recovered since a very weak period during a number of quarters in 2016. Out of the large projects, I want to touch base on one, being the vegetable oil project in Brazil, which was a very positive indication for us. The vegetable oil sector went into a bit of overinvestment and overcapacity, especially in Southeast Asia, during last year. And so this was the first larger investment in veg oil for some period of time.

We also announced the frame agreement for ballast water, as indicated to you earlier. We expect frame agreements coming in before turning into orders later in time when individual vessels go into dry dock. And so this frame -- these 2 frame agreements, totaling SEK 200 million, is an indication on the market activities that's been going on in ballast water for some period of time

Lastly, relating to the ballast water side, there has been a change at IMO. As you know, the schedule is postponed with two years for the retrofit side. It will not, in our

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judgment, affect the total market size going forward. However, it will push and slow the ramp-up process for ballast water further into 2018.

With that, let's take a look at the order trends. As you can see from the chart, 2016 clearly marks a low point for us. We've seen three consecutive quarters with a very good development. And the last two ones with a positive book-to-bill, both of them incidentally at 1.08.

In terms of the order analysis, both the sequential and the year-on-year figures show a good development. The year-on-year comparison, to us, was not a surprise. In fact, if you consider our guidings, it indicated that the year-on-year comparison would remain positive in Q2 and indeed, it was. On the sequential side, however, it came in better than expected. And I'd like you to keep this in mind because when we come to the forward-looking comments for the Q3, we will be back to the question of sequential versus year-on-year and we are still very optimistic when it comes to our year-on-year comparison going into Q3. We will give you some light to that comment later on.

The profit margin, the EBITA margin, although invoicing has been a bit under pressure, we stayed stable throughout. We had, from a sequential point of view, a small improvement. I wouldn't make too much of it, but if anything, I think it certainly signal a very good cost control over a period when our invoicing hasn't been so strong. And again, Thomas will come back to the various aspects that affect our EBITA margin, both positively and negatively.

Let's go to the business units and their development. And these are year-on-year comparisons. And as you might expect, they are positive, with few exceptions. And I figured, rather than talking about the positives, let me deal with the exceptions so you understand what they are. Starting with Greenhouse. Greenhouse is going well. The -- and it grows sequentially. The reason for a smaller order intake compared to last year is structurally related to some of the decisions we've made regarding the Greenhouse. Otherwise, it's good.

On the Boiler side, the boilers are reflecting the lower contracting at the shipyards. It's directly driven by that and an anticipated effect from continued low order

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intake at the shipyards. And while the scrubbers are booked in the boiler business unit, it doesn't compensate fully.

Lastly, Fluid Handling had a very strong second quarter 2016. So the comparative numbers are demanding and we are a little bit behind the Q2 '16, but we still feel that the order intake for Fluid Handling had a very solid quarter in the Q2 '17 and met our expectations by far. So there are 3 out of 12 that show a negative sign on the year-on-year comparison, but all in all, we feel very good about how they developed, essentially, all of them.

Now let's look at the divisions a bit more in detail. Starting with Energy division, sequentially up 17%, strong across the board. Let me comment on 2 of the business units in the division. Brazed heat exchangers continued a longer period trend towards stronger order intake. We are building market position in that area. We do have, for the second quarter, a little bit of element of seasonality, but the underlying trend for brazed, as you know from the earlier OEM business from last year, has been on a growth trend for a period of time.

The Welded also had a very positive quarter. And I'd like to just give you the heads up that this is probably some volatility in the order intake for welded that is driven by projects and larger projects and consequently, we will see both ups and downs on that. However, it's been a couple of positive quarters now with good order book for welded. And there is a focus, which has been successful in the quarter, to also build the base business for welded to a larger degree. We're on track with that.

Let me go to the Food & Water division. An excellent quarter with plus 7% in order intake and this is after a strong quarter 1. So this was a very positive development for the division. And if I would highlight one of the units in Food & Water, let me talk about Food System. Food System took over from what earlier was called PFL in the PTD division, for those of you who were with us at the time. And we have been, for some period of time, struggled with nonperforming projects; and consequently, one of the key actions to take in the new Food System was to define the applications and the scope more narrow and focus on projects which we feel we can execute according to plan in a profitable way.

With that as a starting point, we anticipated, if anything, a stable or maybe even a slightly decreasing portfolio in order to get more profitable. However, although we are

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keeping with that strategy, the order intake, for the first time now with the large VOT projects but also on the smaller projects that you don't see in the range of EUR 1 million to EUR 3 million, has been very good 2 quarters in a row. And we are very comfortable with how the Food System is developing as part of the Food & Water division.

Let me go to the Marine division. Orders and sales, well, they were neutral. Book-to-bill, around 1, despite the fact that the contracting at the shipyards remain low at this point in time. So a stable quarter for the Marine division. Regarding the contracting at the yards, as Clarksons has indicated earlier, there is an expectation that the contracting will increase this year compared to the low last year. So far, in the first half, to some degree, that holds true. The number of ships is increasing somewhat until end June. We are still a little bit behind the official forecast or public forecast of about 800 ships for the year, but anyhow, it's going in the right direction. What is maybe more important is that the ship mix is developing well. So the big negative deviations when it comes to a normalized market at this point in time is, to a large degree, driven by the container side and the bulk side. So tankers, chemical tankers, cruise, among others, have a fairly decent first half and the mix is important for us.

Partly as a consequence, if we look at the quarter, we did have strong order intake for Pumping systems, which had a solid quarter from that point of view. The Separation & Heat Transfer unit also had a good quarter, but this is also clearly supported by the increase in ballast water orders, which was about 2x the level of Q1. As I indicated earlier, boilers was down as expected, but scrubbers had a good pickup with good and strong market activities. The order intake in the quarter was again about 2x what it was in Q1 and the market activity remains strong.

A few words around the Service and the Service portfolio. In 2016, as you know, we were negatively affected by a weak market in oil and gas and a decline on the Marine side. At this point in time, the situation is better. Growth year-on-year was at 7% and sequentially we were just below 4% in organic growth. So we have returned to a more normalized picture on the -- situation on the Service business. On the picture that you see, the only negative number is Marine division, sequentially. But in sequential terms, the Q1 was a strong recovery quarter in Service for Marine and consequently, we are not alarmed by the Q2 numbers from Marine. All in all, a good quarter in terms of our service business.

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Let me then go to the Greenhouse. The Greenhouse has developed well and maybe even a little bit better than we anticipated. Order intake remains good. We had sequential growth. We have limited order intake in parts of our business compared to last year where we were doing changes and those structural decision are affecting us negatively in order intake, positively in profitability.

At this point in time, we feel we have addressed most of the low-hanging fruit. We've got it to a positive bottom line for the first time. And going forward, we can't anticipate the same speed of improvement. We are about 11% to 12% better in margin in the Greenhouse compared to mid-2016. However, we continue on the long-term plan. And last week, we announced the closure of a facility in Michigan in the U.S. and that will be completed end Q3. We have earlier announced the closure of an air facility in China and we will continue with measures as we deem fit and within the scope of the restructuring plan that we announced end last year.

If you allow me at this point in time then also to make an additional comment on the structure, this is in the context of the footprint for Operations where we also, a couple of weeks ago, announced the closure of production in Søborg, Copenhagen. The production that we are having there right now will move to Aalborg when it comes to ballast water and to Krakow, Poland, when it comes to decanters. And that will be happening over the next year related to investment that needs to be made in order to complete the transfer. Søborg, Copenhagen, will, for us, remain a very important center when it comes to engineering, not the least in Food & Water, where we are also investing in a technology center for the development of the Food & Water division going forward.

In terms of geographies, it is, of course, a positive take on this, too. Europe was down sequentially. That's mainly due to nonrepeat in some good cruise orders that were booked in Europe in quarter 1. Otherwise, sequentially and year-on-year, we are up in all regions. I think from our point of view, the nicest part is that we have turned that development in Asia positive after a period of taking major reductions of the order intake on the Marine during 2016 and to a degree, beginning of '17. We had a good development in Asia in the quarter. And let me comment on that a bit further when we look at our top 10 markets.

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There, you will see that there is one market with negative development on the 12 months LTM and that's Japan, where still we have effects of low contracting at the shipyards. But other than that, things are going well. It's especially nice for us that South Korea, that took the major hit when it came to the contracting side, is back to positive numbers and growing again after a terrible 2016. Our 2 largest markets, China and U.S., recording good growth pretty much across the board. And other than that, our other markets are growing nicely on the 12-month rolling trend.

So that completes the review of the order and business situation. And with that, I'd like to hand over to Thomas Thuresson, our CFO, for some further comments on financials. Thank you.

**Thomas Thuresson:**

Thank you, Tom. Good afternoon, all of you. As Tom has elaborated on orders received, let me give you a few comments on sales in the quarter.

To start off, let me remind you of what I said after quarter 1. Then I commented that we believe it's reasonable to expect a slightly higher invoicing in quarter 2 than that of quarter 1, largely because of normal seasonal pattern and despite a smaller backlog. As you've seen, we realized sales of SEK 8.9 billion in the quarter. Comparison to quarter 1, that means an increase of 10% at constant rates. If we compare to last year quarter 2, we were flat in prevailing rates and down 4% at constant rates. I would say that in terms of invoicing, we really ended up in line with our own expectations. The lower backlog was somewhat compensated by translation effects looking at the outcome and then, of course, also a good development of the faster-moving orders.

And talking particularly about Service, Service was up 3.3% year-on-year in the quarter; of course, on the back of orders (being) up 7% year-on-year. Service activities represented 31% of total revenues in the quarter. That was a decline sequentially with just 0.4% but quite a substantial increase year-on-year, 2.3%. That effectively means that we would have a slight negative mix effect sequentially on the margin and a positive mix effect year-on-year if we look at capital sales in relation to after-sales.

Let me then deliver the first forward-looking statement. We believe it's reasonable to expect an invoicing in quarter 3 about on the level of the one in quarter 2.

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Having said that, let's move on and look a bit at the gross profit margin. Gross profit margin in the quarter ended 36.4%, an increase of 0.2% compared to last year and a decline of 0.7% sequentially. Again, let me remind you what I said a quarter ago. I said, in the near term, we expect adverse effects from mix within capital sales, load will decline only in a few factories and we expect continued positive transaction effects and positive purchase price variances. [The actual], I would argue, means that gross profit margin came out largely as anticipated. For some further detail, let's move on to the next slide of the presentation.

Year-on-year, we were suffering adverse effects from a negative mix within capital sales in Marine as well as a weaker load in certain factories. We had positive purchasing variances and FX transaction effects that supported gross profit margin. The purchasing variances, however, were relatively small following the development of prices for certain metals until recently. Sequentially, we suffered negative mix effects within capital sales as well as between after-sales in Service and capital sales. That is, of course, different to what I just said about the year-on-year development.

Before we conclude on gross profit margin, let me give you the second forward-looking statement. In the near term, we expect continued adverse effects from mix within capital sales. We expect continued positive FX transaction effects and positive PPVs. Added to that, load in some of our factories are foreseen to improve somewhat on the back of the increased order levels.

Then let's look at the overhead costs and the rest of the P&L account. R&D ended at SEK 220 million in the quarter, which is an increase of 1.1% like-for-like. In percent of revenues, R&D represented 2.4% this year, which is almost the same as last year when we had 2.3%. This limited increase is, of course, further evidence of the support of focused efforts in R&D for certain product groups.

Moving on to sales and admin. We had a total for sales and admin in the quarter of SEK 1.535 billion. That represented a reduction like-for-like of 4.3% year-on-year. This reduction is, of course, mainly explained by the change program, including employee reduction. And then, of course, the reduction is somewhat countered by salary inflation. This is evidence that the savings program has basically been implemented with regard to the overhead part, but I'll come back to that in a moment.

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If we look further down the P&L, profit before tax ended at SEK 733 million, a fairly substantial reduction or quite substantial reduction and that is to be entirely attributed to unrealized FX differences in the financial net. These unrealized FX differences in the financial net, they are almost entirely related to revaluation of loans in foreign currency as we've seen a decline of the Swedish krona to some of our major currencies.

Before leaving the P&L, let me talk a bit about the tax line as well. We had a total charge of SEK 254 million in the quarter. This relatively high level is explained almost entirely by, again, the FX differences and the mix of countries when it comes to profits and losses. To be really specific, Sweden took the hit of these unrealized FX differences, which gives us only credits of 22%, the corporate income tax rate in Sweden and of course, that is substantially less the average for taxes of 28% that we're using. And this mix effect really explains the high tax charge in percentage terms.

EPS, of course, because of -- sorry, I should say one more thing about taxes. You should also, in quarter 3, expect a somewhat higher tax rate and that is because of dividend distribution taxes being charged in India. We've taken substantial dividends out of India in the early part of quarter 3. We have taken these dividends as we now have Alfa Laval India Limited as a 100%-owned company. We maintain, of course, our longer-term underlying guidance of 28%.

EPS ended, of course, lower than last year at SEK 1.14. And again, it's, of course, due to the FX differences.

Return on capital employed and return on equity, both, of course, very much influenced by the one-off charges in quarter 3 and quarter 4 and of course, return on equity influenced by the FX differences in the quarter as well. They were ending at 15.3% and 8.9%, respectively. Excluding the one-off charges, I would like to add, return on capital employed would be well above 17%.

So let's then talk a bit about the results of our savings and reorganization program. Since end of June last year, which was the baseline for the program, we have reduced our headcount with totally 874 full-time equivalents. Of this reduction, some 600 FTEs are attributed to the program and then, of course, the balance involves regular adjustments of capacity and other changes that were ongoing or are ongoing next to the change program. I would say that we are very well in line with the program when it comes to the reorganization and capacity adjustments. As for savings from the

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program, we realized some SEK 79 million in the quarter and almost all of that came from savings in the sales and admin area.

Looking at the outcome for sales and admin in the quarter of SEK 75 million, it can be established that the level on an annualized basis meets the target set of SEK 300 million of savings per annum. As a consequence of that, we consider the savings and reorganization program as being closed when it comes to the overhead, the sales and admin part.

For the footprint side of the program, we have delivered limited savings so far, but that is according to plan. Under the footprint initiative, we have, as Tom touched upon as well, during the quarter announced relocation of decanter manufacturing from Søborg to Poland and the closure of a shell and tube factory outside Chicago. Of course, this is part of the Greenhouse division at this point. These 2 changes, they involve a headcount impact of just short of 150 FTEs. The full implementation of the program will involve a reduction of headcount with 1,000 FTEs and savings on an annual basis of SEK 500 million. So we hold on to the original target for the program as a whole.

Then a few words about the performance by division. Before I get into the details by division, let me remind you that we are comparing with pro forma numbers. The orders, the sales and the gross profit numbers, there are hardly an element of allocations; but of course, when it comes to overheads, there is clearly an element of allocations in the 2016 numbers.

Having said all that, Energy came out -- came in higher than last year, thanks to mainly an increased sales volume but also lower costs. Marine ended lower than last year, mainly due to lower volume but also due to a negative mix in capital sales and lower load. Of course, the negative mix is to do with a declining sales number for -- from pumping systems. FX provided support to the operating profit. Food & Water, finally, came in somewhat lower than last year, basically due to a difference in mix within capital sales. More revenue recognition for wider scope contract sales.

With that, let's get to the cash flow. Cash flow from operations ended well above SEK 1 billion, a reduction of roughly SEK 200 million compared to last year and this is explained by an increase in working capital. And that is, of course, mainly attributed to the increase in activity level following the increase in orders received. And

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then, of course, there is no doubt an element of cash-out from the change program as well. Regular CapEx ended somewhat higher than last year at SEK 140 million. Cash flow on the finance side was also influenced by an outflow from the acquisition of the remaining outstanding shares in a company named Chang San Engineering in Korea, a former joint venture of Framo in Korea. And then, of course, financial net paid was negative with some SEK 86 million.

If we look at free cash flow, it was somewhat above SEK 0.8 billion in the quarter compared to SEK 1.2 billion a year ago. This cash flow has brought us to a debt-to-EBITDA of 1.91 and that is compared to last year 1.74 and last year-end, 1.81. And of course, the cash flow means we continue the deleveraging of our company.

Then FX. FX effects and EBITA in the quarter were positive with some SEK 96 million, an outcome that was as expected for quarter 2. The main contributing factors are the strength of the euro and the realization of hedging, not least when it comes to dollar against Swedish and Norwegian kroner. The forecast for 2017 has been updated as well and reduced considerably. A negative adjustment of SEK 100 million from SEK 280 million to SEK 180 million. And this is, of course, due to the weakening of the U.S. dollar as we've seen in the last several weeks and its expected consequences on translation effects.

Then let's look at our order backlog. We had a total order backlog as per end of June of SEK 18.7 billion, representing 6.3 months of LTM sales. That's an increase of -- from 6.1 to 6.3 compared to end of quarter 1. And of course, this improvement is thanks to a book-to-bill above 1; in fact, at 1.08. For shipments in 2017, the backlog amounted to SEK 11 billion per end of June. This means an increase of SEK 0.25 billion compared to the end of June last year.

Having said that, let's move on to the bridge to full year sales for '17. If we start with year-to-date sales of SEK 17 billion, a decline of SEK 100 million compared to last year, the backlog for shipment this year, as I just said, amounted to SEK 11 billion, so we can add that. We, in addition to that, received orders second half of 2016 that was actually invoiced before the end of the year, amounting to SEK 7.7 billion. If we add these 3 numbers up, we end up with a subtotal of SEK 35.7 billion. As usual, it's for you to think about the 2 unknown factors: What will the level of in-for-out orders be like in

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the second half of this year, more or less - than the 7.7 of last year; and have a view on the effects of the limited price increases that we've made at the beginning of this year.

That's all for me. With that, I give the word back to Tom for the outlook and the closing remarks.

**Tom Erixon:**

Thank you, Thomas. So regarding the outlook, we expect the demand in Q3 to be lower than Q2. And let me again then, as I indicated earlier, detail this a little bit. As in Q2, in Q3, we see a significant improvement compared to Q3 last year. So our guidance sequentially is based on the fact that we believe that Q2, indeed, was a very strong quarter, not necessarily to be fully repeated.

And you should also expect an element of seasonality in the Q3, which is -- tends to be somewhat weaker than Q2, just so you see where we are coming from in the guiding quarter. Then per division, we believe the Marine division will be on about the same level as in quarter 2, whereas Energy and Food & Water will be lower compared to the quarter 2 order intake numbers.

And that completes the forward-looking statements. Thank you for your attention. And with this, we'll open up for questions.

**Q:** First one is, again, on your order intake in Q2. I guess it was a pretty broad-based strength there and beat against expectations in all the divisions and in all of the -- almost all of the sub areas. So I was wondering if you could just maybe take, again, out the 3 major highlights also in the end markets and what has actually surprised you so much that it was so much better than you had guided for, because it really doesn't seem to be one individual area there. The second one is on Marine. Basically, is it fair to assume that you've seen some of the tanker orders already, as you mentioned, but given the lead times, normally you will unlikely have seen the full effect of that? And on ballast water, I guess, do you now expect the complete pause in the ballast water orders until next year? Or do you see activity continuing at a reasonable level also in the near term?

**Tom Erixon:** Okay, thank you. On the order intake versus guidance, I mean, again, let me say that when -- although we express ourselves sequentially, obviously, we were looking at last year's comparison when we thought about where we

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might go on the Q1. With that said, in hindsight, maybe we underestimated a bit of the market recovery.

We may be underestimated the amount of hit rates on some of the larger projects that actually came through. So I guess I would caution to make any major conclusions out of a sequential number that came in a bit stronger. We were set for a year-on-year improvement regardless and we certainly did that. And sometimes, it's difficult to nail it on the percentage point. But we clearly came in stronger.

I would say on the one area -- of the few areas that we maybe would note driving the difference between our forecast and what happened, we came in a bit stronger on the larger orders that were announced at SEK 510 million. I detail the change in Food System, where we were significantly up in the quarter as opposed to a more focused approach where we were driving the business more from a profitable point of view and we still came out with significant growth. So that was maybe something that we didn't necessarily plan for or expect, but it was a reflection of the good hit rate [and] many products that came through.

I think those 2 are maybe the ones -- if I would give a third one, maybe to a degree, of course, we've been not 100% sure in how to handle the environmental product ramp-up situation. We have indicated to you all along that we will see a gradual improvement during 2017. And gradual didn't necessarily mean the doubling from Q1 to Q2. It's not a shocker, but it was a solid quarter for these 2 areas. And I'd like to say at this point in time that on those 2, it's nice for people who've been working with this for 10 years to see these things coming through in a market and in real customer demand. It's not -- this has not been a [quick it]. It emphasizes the need for long-term R&D.

We continue with that. So that's on your first question. On the marine tank quarters, you are correct. I don't see that we have a big effect from the tanker orders coming in, in the latest quarters. So to the degree the 2017 contracting levels for tankers is improving, we've seen small effects of that so far. There's been some other -- and that doesn't necessarily give you a trend line that is continuous in the coming quarters. It's just that there are always projects outstanding from earlier contracting that hasn't been materializing full-out and in this quarter, some of those came in on pumping systems specifically. So don't just draw a smooth line going forward. But with some patience, we'll see that the market for tankers and pumping system is okay.

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**Thomas Thuresson:** We could add on pumping systems as well, that is not just the traditional Marine. We've also seen an increase in activity level on the offshore side and that contributed as well in the quarter.

**Tom Erixon:** That's right. And then finally, the ballast water, it's a very relevant question you're asking as to what's going to happen with that market. We -- I think how we are expressing this is to say that the ramp-up process will be delayed. We don't necessarily think that orders will go down to 0 for a couple of reasons. Number one, already now, about 1/3 of our order intake is related to newbuilds.

We hold our position in the newbuild market and that one will continue as normal. Of course, we have to win the projects, but the projects will be there. Number two, the U.S. Coast Guard's regulations for the original time schedule remain in place. And while they can give exemptions largely, there's a reason to believe that transatlantic and transpacific shipping will, to a degree, follow through with their original time schedule in order not to put their U.S.-based business in jeopardy. So we don't think this is going to be a down to 0 and -- but I think it's the right approach to say that we will see a slowdown for a number of quarters. In our expectations, I don't think the time line is moving 2 years from now. It's maybe moving about a year, 1.5 years now. So towards the end of 2018, I think we are back to the situation we are -- we were expecting now. And in the meantime, we will see a slightly more hesitant market, but nevertheless, we think a number of shipowners will decide to move forward.

**Q:** Then I guess on the other hand, you could argue that at least now you seem to have greater certainty behind it, because it is unlikely that there's going to be more bargaining around it, right? So...

**Tom Erixon:** I do think that is correct assessment. And I think I would add to your comment that, at this point in time, when there is no Asian supplier approved by U.S. Coast Guard, there also are some concerns among shipowners about moving into the full implementation without the supplier structure being fully in place. We have argued all along that we expect to see maybe around 10 suppliers, maybe 15, not 50, that will actually make it into being a credible supplier. And obviously, we are still at a very low number when it comes to U.S. Coast Guard approvals, which I think has also put some pressure to that. Now I think we have a firm deadline. We're comfortable with that.

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**Q:** A couple of questions. Firstly, on Framo pumping systems, could you please update us on the delivery schedule? Because now, demand has clearly turned around in the beginning of this year compared to 2016. But should we still expect revenues to continue down from the Q2 levels in Q3 and maybe also Q4 and going into 2018?

**Thomas Thuresson:** Yes. This does not mean -- the improvement in orders for Framo does not mean any change to the short-term delivery schedule. We will have a further decline in revenues in quarter 3 and there will be a decline also in quarter 4, so second half decline as predicted before. Remember that the time from order to delivery for Framo pumping systems is very often well above a year.

**Q:** Yes. Perfect. And then secondly, could you just give us a sense, what's the difference between an expected order intake to be lower and somewhat lower is?

**Thomas Thuresson:** Lower is a larger deviation to the current (inaudible). We are not yet being more specific than -- no, nice try, but...

**Q:** Okay. Okay. And then lastly, on the updated currency guidance, do you have any numbers to give based on today's spot rates or yesterday's rates, because they have moved quite a lot since the end of Q2?

**Thomas Thuresson:** You are absolutely right. They moved quite a bit since the end of June and I guess that they will move again tomorrow and the day after. But of course, this means quite a bit. It means something for the operational part as well as the financial net. And the Swedish krona has strengthened in recent days. So it helps on the financial net, but it doesn't really help on the operations side. But to give you a forecast as of today, no, I'm sorry, I can't make that in a credible way.

**Q:** Okay. And then lastly, maybe on ballast water treatment systems and scrubbers, can you give us a split how much related to ballast water treatment systems and how much to scrubbers, of the SEK 420 million?

**Tom Erixon:** Yes, I think it was 50-50.

**Thomas Thuresson:** 50-50, yes.

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**Q:** Just a quick one for me to start with, just on the Energy business and looking at the oil and gas business specifically, I think in 1Q is still very cautious, the end market and the outlook for the next 12 months. Just wanted to understand, has your view changed since oil has come down a bit further, had anything in the market caused you to change your view there? Let's start with that one.

**Tom Erixon:** Well, if I make a first comment, maybe you want to complement me, Thomas. I think what we feel -- we may have missed the guidance a little bit, but certainly, on oil and gas I think we hit the spot or the nail on the head. We have anticipated that we will see a strengthening this year on the oil and gas business, especially upstream, from a low level and that's exactly what we're seeing.

It's -- in percentage terms, it's relatively high numbers, but that's, by definition, when you start from a small number. But we have across the board in our portfolio a growth and it's percentage-wise higher upstream, just as we expected. We don't see any -- the demand trends are not that responsive to the daily oil price changes. So I think the fact is that people have found a way to believe in the oil price at around \$50 -- a way to make money on the current or close the current level. And consequently are -- we've seen a small increase in rig count and a healthy environment there. So I think we are exactly where we thought we should be. And Thomas, do you want to add...

**Thomas Thuresson:** Well, just to gauge it in numbers, we had orders received in the quarter of almost SEK 1.4 billion from the complete hydrocarbon supply chain. And we have been well below SEK 1 billion in some of the quarters in recent times. So a good recovery, as Tom said, in percentage terms, but we're still looking at fairly small numbers. And I would like to point out as well that we see more -- we see actually business coming on the offshore side in Marine and that is -- has been basically 0 for some time.

**Q:** Okay. Perfect. And then just on Greenhouse, again, I think that the expectations conclusively, is your forecast or your assumptions for what you think this business can deliver in the immediate 12 to 24 months, is that getting better? Just because the performance, I think, is impressive in the first 2 quarters alone. I just wanted to know, had the time line of where you want to get this business to, had that changed at all?

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**Tom Erixon:** No, it hasn't changed substantially. I think we saw 2017 as a turnaround year, a year for trying to complete most of the actions that we knew that we had to take. And I think we are reasonably on schedule for that. The -- I think we indicated that some of this business, some of them are acquisitions and others and we acquired them at the profitability level of 6%, 7%. I think in that range has been our target level for getting there at some point in time. I think we've come a long way, but again, the low-hanging fruit is sort of gone now. We are looking at structural measures and more definite decisions to move very far from where we are. Some of those are taken now and some, for various reasons, need to be planned for the future. So I think we are good where we are.

I wouldn't change very much our view on -- in terms of a big program that we launch. Sometimes you are marginally ahead and might be a quarter when we are marginally behind, so let's not get too carried away. I don't know, Thomas, you want to...

**Thomas Thuresson:** No, no. I think the market for these products is not getting better. I think all the people that are working with this, they've done a great job so far. They have delivered on probably the easier lower-hanging fruits and it will be harder. But I mean, so far, so good. But our target remains basically the same, so yes.

**Q:** Okay. Perfect. And just sorry, one final one, just on Food & Water. The mix impact, I think, in 2Q, Thomas, is that -- was that temporary or was that something you expect for the rest of the year, just so I can understand?

**Thomas Thuresson:** Well, we have variations in what we deliver within capital sales and we've seen more revenue recognition from the wider scope of contract orders. And that has an adverse effect on margin. And that will vary. And eventually, you will see a positive mix effect within capital sales.

**Q:** Just following up on that question from Peter, maybe, Thomas, you can help us in understanding what are the kind of like good or negative moving parts in Food & Water and where should we get excited for the outlook when we see improvement in demand in some areas, if there is any difference. So that would be question number one, please.

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**Thomas Thuresson:** Yes. I think there are 2 comments to be made about that. One is that we've seen a very strong improvement in demand for Food & Water. They've had a very good outcome when it comes to orders received, the first 2 quarters. That's the first one. The second one was something that Tom touched upon in his comments.

We've been more selective when it comes to what we actually go for in the Food Systems business unit to safeguard that we don't go for things that we're not sort of really equipped for or not experienced for, we're less aggressive, let's put it that way, in terms of application and in terms of the scope of supply in Food Systems. So those are the 2 main things, I think, that you should be excited about when it comes to Food & Water.

**Q:** Got it. So in the quarter, we should, I mean, basically, see the performance in that division more as of a kind of stabilization in the mix or a normal mix effect rather than any project issue that you might have had in the past?

**Thomas Thuresson:** We will have a benefit from the improved activity levels, so there's a volume impact. And then there will inevitably be variations of what we deliver from one quarter to the other. That's mix within capital sales. But underlying that, we are more selective when it comes to what we actually go for in the Food Systems business unit.

**Q:** Good. My second question is on Marine. If I look at the development in product, we can see the pumping system being better sequentially in Q2 versus Q1. It was already better in Q1 versus Q4. This is your kind of like short cycle type of product within the division. We've seen contracting activity improving sequentially as well. Why are you not maybe a bit more constructive in demand for Marine in the third quarter if the contracting is supportive and you are seeing that -- those better volumes coming through in your business as [I explained] by pumping in Q2?

**Thomas Thuresson:** But please, let me remind you that we do have a lag between contracting and when the yards actually order equipment with us. And please let me remind you that there's a great deal of uncertainty when it comes to the implications of what IMO concluded 10 days ago. And in addition to that, as far as exhaust gas cleaning systems, we got 25 systems in quarter 2. That is more than we got in the entire year of 2016. So I think -- we try to be realistic and make our best assessment of what

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is going to happen in the short term. The contracting helps, but it helps in a matter of 2 or 3 quarters.

**Q:** Okay. So maybe a bit lower environmental product demand going forward, but offset by better demand in the traditional and pumping systems.

Last question, please, maybe for Tom. I think about a year ago when you did your first assessment on the business, you were highlighting sales that were not as dynamic as it should be. Since then, especially over the past 2, 3 quarters, you delivered pretty well in terms of orders, at least against the market expectations and against your own expectations. Can you maybe just tell you -- tell us a bit of an assessment in terms of how much has been driven by the markets, which has been improving, or how much has been driven by maybe improved market share as a result of, like, a more dynamic organization or innovations coming to the market? And if you haven't seen much of the latter, when we should see the positive impact from the new organization and from the innovation in separators and gasket heat exchanger, for example?

**Tom Erixon:** I understand your question. It's difficult for me to give you a clear assessment and a clear feedback on it. Let me give you some reference points instead, not trying to avoid the questions by any way. If we start with the technology side, we have a big technology program ahead of us over the next 3 years, not only in gasketed and high-speed, but all in all, we are going through a fairly big change in our product offering. It's an exciting period. It hasn't started yet. It is -- whatever outcome we will get from that is 2018 and beyond. Let's see where it takes us.

Regarding the reorganization, I think any big change in a big group like this is linked to upside, yes, but certainly downside. And I think we can say with certainty that we've gone through this restructuring, this downsizing of the sales force, the repositioning of resources from one area to another. We've gone through that without lost focus on the market and kept the steam in the order intake. I think that is an obvious conclusion that we can make.

My last observation is that it would be silly to say that the new organization is bringing all the new results. We've clearly had a better market. We are fortunate to do this change with a bit of tailwinds after a period of headwinds and it makes it easier for all of us to keep momentum. We might have been -- and on the margin, we may have

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some positive effects coming in. But I would still say that you have to realistically say that it takes a little bit of a time for an organization to land, to deliver, to get results.

I'm a bit open-minded as to how to judge the degree of success we have on our own making. But I think the organization has done a hell of a job in doing this quickly, to the point, getting on with it and I tried to keep focus in the markets. So I'm pleased, but we are not done.

**Q:** Very good. So hopefully more to come.

**Tom Erixon:** I certainly hope that, yes.

**Q:** Just a couple from me. Another one on Food & Water. I was wondering if there's anything we need to be aware of in terms of trends in Service, because you mentioned a strong quarter in spare parts and upgrades. Is there anything regionally or by end market that should change or is worth us knowing? And then just secondly, on the Greenhouse businesses, the improvement in profitability is running a bit ahead of schedule. Does that mean the time line for when you make decisions about what you do -- what you ultimately do with those business, is that moving forward as well?

**Thomas Thuresson:** When it comes to Service, we've seen an uptick of 7% in the quarter compared to last year. And that goes pretty much across every individual business. If we look at Marine, as you saw from Tom's presentation, we had a sequential slight decline from a very strong quarter 1. But across the board, a good development.

And I think that is evidence that our large presence is paying off when demand and utilization improves among our customers. When it comes to Greenhouse, well, we have, as stated, picked some of the low-hanging fruits when it comes to improvements. And to the extent that there is any change to the direction for Greenhouse, of course, we will let you know. But there is no further information at this point around Greenhouse.

**Operator:** There are no further questions at this time. Please continue.

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**Tom Erixon:** Okay. With that, thank you very much. I know it's a busy day for you as well. Thanks for spending the time with us and I look forward to talk to you later as we close the third quarter in beginning November. Thank you very much.

**END**