

Alfa Laval Q3 earnings call  
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**Tom Erixon:** Thank you very much. And good morning everybody to the third quarter earnings call. And Thomas and I, we will share this presentation. Let me start as usual with a couple of upfront comments before we go into the presentation.

Firstly, we felt we had another solid quarter in terms of order intake with year-on-year plus 15 percent. It was clearly a quarter with strong base business for us across the board. And as you noticed in terms of large orders relatively weak compared with the latest quarters where we've been on a high level.

In terms of the divisional order intake it's clearly the Marine division that stands out, driven by both solid demand for Alfa Laval's environmental products in both areas as well as a positive shift mix with effects on both pumping and boilers.

And lastly when it comes to the profitability margin we are pleased with the slow but still steady margin improvement that we saw in the quarter ending at 16 percent, despite somewhat weak invoicing, supported by the restructuring programs that we're going through and clear improvements in profitability in both Energy division and in the Food & Water division, more than compensating for the somewhat expected decline on the Marine side.

And with that let me go to the key figures. And just reflecting on the year-to-date numbers our order intake year-to-date is plus 15 percent just as in Quarter 3. So a stable growth trend that we've seen this year and with a marginally positive book-to-bill again for the third quarter in a row. We see a small decline in the sales for year-to-date as well as in the quarter. And despite some pressure on the sales line reflecting the weak order book from last year the profit margin goes in the right direction.

In terms of the large orders there were two announced in the quarter, both are really good projects for us, one important biotech order in India and another one is waste heat recovery which is a strong hold of Alfa Laval. So, two good orders on the value of EUR 11 million -- clearly a bit lower than we've seen in the last few quarters.

I also like to highlight the order intake side on PureBallast which is continuing on a relatively strong level and way above last year's and pretty much flat compared to last quarter with EUR 192 million (sic) (actually SEK 192 million). And as we indicated to you earlier when the implementation was delayed on the PureBallast side we still expect the business to continue to do a degree and we certainly see that in the market. And PureSOx also delivered on a good value and a good number for the quarter of SEK 170 million.

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So let me go over to the trend chart on the orders received. And as we indicated to you after Q2 that the Q2 was really a significantly strong order intake quarter for us. And in fact you see that clearly on the chart. We feel we pretty much ended up in our guidance comments to you where we said that we expect a significantly better order intake than the Quarter 3 last year but not on the same level as the brutally strong Q2 and that's in fact exactly where we ended up.

I will come back to the guidance for the fourth quarter but let me already now mention that we expect a somewhat higher demand in order intake in Q4 compared to Q3.

On the EBITA margin as indicated we see a stable to stable positive development. In this year we are 15.9 percent year-to-date, up a little bit compared to last year. And we are on 16 percent in the quarter alone. And we feel we are having a good development on the cost side, we had a good development in productivity in this quarter, well -- a job well done in operations. And all in all a solid development on the profit margin side.

If we look at the orders on a business unit level and compare year-on-year, obviously we're 15 percent plus, most of the areas, almost all are, of course, positive. Let me mention that the Greenhouse order intake which is declining in Q3 is mainly related to the shutdown in one of our Greenhouse businesses in the U.S. that has been loss making for a long period of time.

And we obviously stopped order taking in that unit already during Q1. And that has affected the order intake in Greenhouse together with some other minor effects. There was also a result effect on the Greenhouse on the shutdown in the U.S. in Quarter 3 and Thomas will come back to that on the profitability description.

Marine -- it's nice to see positive across the board. As I indicated this is partly a reflection of the good progress on environmental products, but we've seen a better ship mix developing this year than expected on both crude tankers and product tankers and that has a good effect on our order intake for pumping system as well as for boiler systems.

So, Marine -- we've seen an improved situation. I remind you that we already at the Capital Markets Day last year indicated that the environmental products should be considered a balancing factor to the rather weak contracting at the yards that was done in 2016 and is in fact exactly what we have seen.

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All in all, we had in this quarter for the first time in a while a positive book-to-bill situation in the Marine division, and in that sense there has been questions on when we hit the bottom and I think now you see a little bit the results on that.

I would strongly at this point encourage you to join us at the Capital Markets Day in our Technology Center for the Marine division in Aalborg. And I know it has a bit of a traveling complications for you, we realized that when we booked it, but if ever want to understand what we are doing in the Marine side and you're interested in this part of the business you should really be there.

Now let me go to the sequential comparison and given that we are 11 percent below the order intake in Q2, which was really strong across the board, we obviously see mostly negative sequential comparisons here. In terms of the Energy division, if we start here it is some effects both in terms of seasonality and in the amount of large orders, but the base business as such remains strong in Energy division in the quarter.

The brazed unit which has been growth driver for us for quite some time had a very exceptionally strong Q2. So the Q3 level there is still a very, very good level for us. So while it does look a little bit tough with the minuses we feel it's pretty okay in terms of its underlying performance.

The Food & Water had a decline, but again they remain on a high level. We've been having a good growth trend in food for quite some time and we do see some sequential decline there to some degree related to nonrepeats, but nevertheless it is a good level. And the one unit that has been performing very well for us for some period of time in the fluid handling business unit is also sequentially stable. So all in all relatively strong quarter from the Food & Water division.

And then finally again back to the Marine division, we touched on it. There are good drivers in the Marine division with a good quarter so we are pleased with that. And I will not go further into that at this time.

In terms of the development of our service business I would say it's a little bit of a mixed picture. All in all, year-to-date we are 3 percent up, that's good, we are on a growth trend. Sequentially we are down a little bit from a strong Q2 but we are making progress. With that said, in the growth period that we are in we would like to see and have slightly high ambitions for the years for the service growth.

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So that 3 percent is perhaps not the stellar number that we want to see, but it was still for us year-to-date a reasonable situation and development on the service side.

Then let me touch on the Greenhouse. And I think the one number that you see there in terms of Greenhouse making loss is the decline compared to Q2, and that is totally related to our shutdown procedure. There are shutdown costs that we take over the P&L in Q3. The shutdown is completed. We've been able to handle that process well when it comes to employees and to customers, but we're also taking a cost. And the deviation you see compared -- sequentially compared to Q2 is entirely related to the shutdown of the unit in the U.S. period. There is no other change in the underlying performance of the Greenhouse businesses sequentially.

Looking at the regions. Obviously the one number that stands out is the growth situation in Asia. And again, the recovery in the Marine side has a big impact on our Asian business. We've see some big minuses in the past when we took the decline and we see obviously very strong development in Asia, overall -- not only Marine, I would say, but it is supporting the very big number of 47 percent versus last year. In fact, in the quarter Asia accounted for 40 percent of the Group's total order intake, which is a high number for us than the current situation.

The numbers in North America overall was very solid. We have a good growth situation. It was supported by a recovery -- a continuing recovery I should say in the oil and gas business, primarily in the upstream activities. Canada had a great quarter and to a degree so did the U.S. on that note. So the slow but steady recovery that we were expected in oil and gas from an oil price somewhere in the region of \$60 continues pretty much as we have expected and commented to you earlier.

The European order intake shows some minus signs. There we've been having a good development in Western Europe for a period of time so we think that the comparison is on a relatively high level. We think Europe remains solid for us. And the two areas where we see some weaknesses in the quarter is Latin America, which has been a weak year for us all in all, although it's only four percent of order intake, but nevertheless. And in Eastern Europe we've seen a weaker situation now in the quarter.

So that gives you pretty much the picture. Strong Asia, solid U.S., Europe OK on high level and some weaknesses in Latin America and Eastern Europe. And let me with that go to the final slide.

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So let me then round this off with our top 10 markets. And in this picture I would like to make two positive comments first. The first one is South Korea which used to be our third largest market and we had a significant downturn in Korea related to the Marine situation. We had -- we were 70 percent down very quickly during last year and now we see a comeback in the Korea number. They are back on number four, and that they will really be shooting for position number three, again. So that's a very nice development.

The other aspect is that if you look across all of our top 10 markets, except Japan, we have stable growth year to date. And in fact our two largest markets, United States and China, is developing well this year. And that's obviously very positive to us. So the only negative slip there is Japan where we haven't for our order book seen the positive development on the Marine side, yet.

So with that let me hand over for Thomas for some further details on the financial development. Thank you.

**Thomas Thuresson:** Thank you, Tom. So let's talk a bit about sales to begin with. Let me start off by reminding you that my forward-looking statement for sales of Quarter 2 was that we believe it's reasonable to expect an invoicing on about the Q2 level in Quarter 3. We realized sales of only SEK 8.2 billion in Quarter 3, which is of course a decline of five percent like-for-like compared to Quarter 2 and it's also decline of two percent compared to last year. So, in terms of invoicing we ended up somewhat below our own expectations. The explanations being a lower invoicing -- mainly in the Marine division and also slightly in the Energy division. The vast majority of the shortfall is explained by a delay in delivery or revenue recognition for contract orders and will be recovered in the coming couple of quarters. I think it's very important to note here that it is not lost in any sense. The orders are obviously there. It's merely a delay of either the delivery, on the request of customers, or a delay in revenue recognition for project orders.

Let me move on to a couple of comments on service. Service activities represented 31.2 percent of revenues in the quarter, a slight increase quarter-on-quarter or sequentially that is, and year-on-year a 1.2 percent increase. So we are getting support, a mix support from a higher proportion of aftermarket sales in this quarter.

With that let me then give you the first forward-looking statement. We believe that a higher invoicing should be expected in Quarter 4 compared to Quarter 3, a familiar seasonal pattern, as I'm sure you can recall from previous years.

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With that let's move on to a couple of words on gross profit margin. We ended 37 percent -- an increase of 1.3 percent compared to last year an increase of 0.6 percent, sequentially. Then again let me remind you what I said three months ago. Then I said in the near-term we expected continued adverse effect from mix within capital sales. We expect continued positive FX transaction effects and positive PPVs. Load is foreseen to improve somewhat in the number of factories on the back of the increased order levels. The actual means that gross profit margin, I'm happy to be able to say, came out somewhat better than our expectations -- the main reason being a better mix in capital sales, in Energy and a somewhat better project execution in Food & Water, more than compensating the expected negative mix in capital sales in the Marine division.

A few more words on that, on the next slide. Year-on-year we were benefiting again from a better mix after sales vs capital sales, as I mentioned before. Certainly a better load in certain factories, and as Tom said, giving a productivity improvement -- the FX transaction of course contributing. Purchasing variances however, they were relatively small following the development of the prices for certain metals until recently. Sequentially basically the similar development as year-on-year, with positive mix effects and so on. Let me then give you the second forward-looking statement. In near term we expect adverse effects from mix, following expected higher capital sales revenues. We expect continued positive FX transaction effects. Load is foreseen to at least remain on the current level on the back of the increased order levels, but that with a caveat for the effects of Christmas and New Year.

Moving on to the rest of the P&L. R&D just over SEK 200 million in the quarter, an increase like-for-like of 6.3 percent, totally in line with our planning to support focused efforts in certain product groups. In percent of revenues R&D ended at 2.5 percent and uptick with 0.2 percent compared with a year ago. For Quarter 4, I think I can say already now that you should expect an absolute increase in R&D cost in Quarter 4, a typical let's call it seasonal effect when it comes to R&D projects are completed, tools are delivered and so on.

Sales and admin ended just under 1.4 billion in the quarter, a like-for-like reduction of 3.8 percent year-on-year, which is of course largely explained by the change program. And I think it's important to bear in mind that of course this includes salary inflation. So the like-for-like resource and activity reduction is more like I would

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say somewhere between 5.5 percent and 6 percent. So clearly evident that we are realizing the effect of the change program and even more importantly we are holding on to the effects of the change program.

Profit before tax, of course a very significant increase compared to last year, almost entirely explained by the one-off charge last year, but also somewhat reduced by negative FX differences in this year's financial net.

Finally, taxes. There I mentioned with the Quarter 2 report that you should expect a one-off in Quarter 3 relating to dividend distribution taxes from taking dividends out of our main subsidiary in India. That actually happened of course. And we're talking about a one-off of SEK 100 million. The underlying tax charge is corresponding to our guidance of 28 percent.

Obviously the bottom-line of all of what I've said is a significant improvement in EPS to 1.59. And finally, on the returns, return on capital employed and return on equity, 17.3 percent and 12.7 percent, respectively. If we exclude the one-offs we would have reported a return on capital employed in excess of 18.5 percent.

So then a few words on the change reorganization and capacity adjustment program. Totally since end of June last year we've reduced the headcount with 921 FTEs, some 700 of those are attributed to the program, the rest is of course regular adjustment of capacity. As for savings, we realized SEK 90 million in the quarter and that means we are at 72 percent of the target of SEK 500 million on an annualized basis, so we are certainly very well in line with our plan.

Looking at the outcome for S&A, SEK 80 million in the quarter means we are actually overshooting the target if we annualize the SEK 80 million. But we are anticipating to add some overhead cost in completing the footprint, the remainder of the footprint initiatives. We will be adding resources with the relocations to build up structures, to build up organizations and that will add some cost on the S&A side.

Footprint, so far limited savings, but its ramping up as we had expected. And another comment on the footprint, we closed the plant in Germany for welded heat exchangers the end of September. And as you heard from Tom, we closed the shell and tube factory outside Chicago as per the end of September as well. So two loss sources are with that closed down. We maintain the overall targets of SEK 500 million and 1,000 FTEs.

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Then a few comments on the divisional operating profits. Energy came out higher than last year thanks to better mix and of course benefits from the change program that I just talked about, that is to say lower costs.

Marine ended lower than last year, mainly of course due to volume and that of course combined with a negative mix due to less deliveries of pumping systems, that's where we had the vast majority of the declining revenues in the quarter.

FX and lower costs supported the operating profit on the other hand for Marine. Finally, Food & Water came out somewhat higher than last year, a combination of slight volume increase and lower cost basically explained by a better outcome for project execution. And then let me also repeat some of what Tom said about Greenhouse.

We had to wind down the factory outside Chicago. Of course substantially under-absorption arose. We went from just under 100 people to zero in the quarter. And of course we've also had to realize some bad debts as we were closing down. So this closure is more than explaining the negative profit in -- or the loss in the quarter for Greenhouse. Underneath there is a profit on the level of Quarter 2.

Then cashflow. Cashflow from operations ended well above SEK 1 billion, an increase with some SEK 130 million compared to last year. It's explained by better working capital development basically and that is of course when you exclude the effects of the nonrecurring charge in provisions and accruals in last year's number.

Regular CapEx just under the level of last year. Cash flow was influenced on the investing side from the acquisition of the remaining outstanding shares in a company named Chang San Engineering in Korea, a former Framo subsidiary.

And then finally, financial net paid, negative SEK 145 million, a negative some SEK 125 million larger than last year, of course to do with realized FX variances and interest payments. Free cash flow just under SEK 0.8 billion, almost exactly as last year. All-in-all, this cash flow has brought us to a debt-to-EBITDA of 1.6 compared to 1.9 a year ago. So a continued stable deleveraging of our balance sheet.

Then FX, a small positive in the quarter, SEK 19 million, SEK 40 million plus on transaction as expected, and also as expected a beginning negative translation due to the decline, the weakening of the U.S. dollar that we started to see in Quarter 2.

And if we look at the full year forecast, slight increase from last quarter, SEK 20 million, from SEK 180 million to SEK 200 million on the back of the FX variations we have seen from end of Quarter 2 to end of Quarter 3. So for the last quarter, continued positive transaction effects and an increasing negative translation effect.

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Backlog, on the next slide, SEK 18.7 billion as per end of September, representing 6.4 months of LTM sales, an improvement of course on the back of a book-to-bill just above 1. For shipments, before year end, a backlog of SEK 7 billion compared to just over SEK 6.9 million last year, so a slight increase there as well.

With that let's move on to the sales bridge. Year-to-date sales SEK 25.2 billion. As you just saw backlog for delivery this year SEK 7 billion. And I think it must be noted that there is of course a risk of delays for some of this backlog into 2018. Please remember what I have said on my first slide when it comes to the lower invoicing in quarter three. We expect a recovery over the next couple of quarters.

Then finally, orders in-for-out Quarter 4 last SEK 3 billion, with that you get a subtotal of SEK 35.2 billion, a number some SEK 500 million smaller than after end of Quarter 2.

And of course it is up to you then as always to think about what can be expected for in-for-out orders this year compared to last year and consider any price effects.

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

**Tom Erixon:** OK. Thank you very much, Thomas. Well I already gave you a heads up on where we are on the guidance for Q4. We believe all in all as a group that we will have a somewhat higher order intake in Q4 compared to Q3.

And let me give you the divisional outlooks as well. For the Energy division and the Marine division we expect somewhat higher order intake. For the Food division, which I indicated before, where we feel we are on a reasonably higher solid level, we expect approximately the same level of order intake as in Q3. And with that we have concluded our presentations and we are open for questions. Thank you.

**Q:** Hi, good morning Tom and Thomas -- three quick ones for me if I could. First of all on oil and gas, Tom, I thought I heard you say recovery is continuing as expected.

I am looking at an oil and gas segment which is down at the lowest level in four quarters and I appreciate obviously particularly the petro chem side is very lumpy, but I'm looking at an upstream business -- the drilling part -- which did move sideways now really since early 2016, that surprises me a little bit given your big exposure to the U.S.

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onshore market. Can you help me understand a little bit what you see in your oil and gas market particularly on the upstream part that makes you more constructive?

**Thomas Thuresson:** Well, if we take into consideration the sizable, very sizeable orders that we've got in Quarters 2 and 1, we have underneath an increase -- we had an increase in the quarter sequentially of some 13 percent. So I think as far as the base business is concerned, we continue to see increases in activity.

**Q:** But you haven't though, not on your drilling business, that's what surprises me a little bit.

**Thomas Thuresson:** But as you said yourself there is a lumpiness and when individual orders are coming in. But if we look at the total and exclude the very sizable orders that must be considered as nonrepeat we do have an increase in the oil and gas activities.

**Q:** Understood. Secondly on Greenhouse, what was the revenue impact from the shutdown of the U.S. shell and tube line and how much more is there to go here in terms of discontinuing business within -- and closing down as you say product lines within Greenhouse?

**Thomas Thuresson:** If we look at the Wood Dale activities outside Chicago, we're talking about an activity that generated revenues last year in the order of \$15 million plus. And for the rest of course we are still in process of adjusting the supply chains and the presence in the Greenhouse, so there are certain adjustments still to come. But major adjustments like this one or closing down product lines there we were done with this I would say. But still adjustments ongoing as far as supply chains are concerned and as far as presence in certain markets is concerned.

**Q:** That was helpful, Thomas. So you -- just to be clear, you're done also on your industrial heat exchanger business as far as shutdowns are concerned?

**Thomas Thuresson:** I'm not quite sure what you refer to when you say industrial heat exchanger business.

**Q:** No, the air heat exchanger business. No, if I look at back at (inaudible)...

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**Thomas Thuresson:** Pardon me?

**Q:** No, if I look at back at what you were looking to (prune) and what went into Greenhouse, at the time of the announcement of course there was a quite sizable component that related to industrial air heat exchanges in Europe in particular. I just wonder where you were there in terms of shutdowns.

**Thomas Thuresson:** Yes. Well, that is certainly not going to be shut down, that is the vast majority of the Greenhouse activities, and it's certainly there, and it continues for industrial applications, it continues for commercial applications and it continues for Marine application.

**Q:** That's helpful. Finally just on Food & Water, could you help us understand a little bit where you are in the process of becoming more selective on projects? You have done that very well, particularly I think in food systems, an area where you would say historically with non-performing projects. This move towards more narrow scope and the impact on profitability -- how far into that are we?

**Tom Erixon:** Well, you are right in the comment that we have in the past as we moved from PTD to the new organization already before that change, we've gone through a cleaning up process on some projects that didn't go as planned. We are working with a more narrow scope on the Food Division since January. You have not seen us comment on any bad projects for a while. So that is an indication I think on where we are. We see an improved gross margin in that business including having an effect, and impacting the operating margin in the Food & Water division as you see. I'm not going to give a forecast on what is to come on that, but we certainly feel we've done good progress. And the encouraging thing is that we've perhaps expected that we would have to shrink the Food Systems business to profit. That in fact has not happened. We had a significant increase of the business despite the narrow focus. So we -- our hit rate on projects is good, gross margin is going in the right direction. So we are pleased with where we are.

**Q:** That's helpful. Thanks, both. See you in Aalborg.

**Tom Erixon:** Thank you.

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**Q:** Yes, hi, Thomas, hi, Tom. A few questions if I can. Can I just start with the outlook comment? It might seem a bit silly, but just "somewhat higher," can you quantify that? And then, just on the pipeline for large orders as well in 4Q? That's the first question.

**Tom Erixon:** Yes, well, you're not going to get a great answer on that. We used the language otherwise we would have used a percentage term, so you have to go back in history and take a look. But it's a cautiously optimistic outlook as you can understand.

The large order we will see where we go, we announce them as they come in the quarter. I think -- and without going into detail on that -- obviously we did comment that the Q3 large order intake was relatively low compared looking back. And you might expect that to be somewhat higher. But let's leave it with the guidance as it is and we'll as the quarter progresses.

**Q:** OK. Thank you, Tom. And then on, if I could ask on the margins in Energy, the 16 percent, I mean how do you view that Tom now going back through history? Is that a level you think this business can do or is it an exceptional quarter, I'm just trying to think how we should think about it going into next year for that business?

**Tom Erixon:** Let me make one comment first and then I'll leave it to Thomas to comment on further. As you know we have financial progress in the group that are communicated externally and we're not encouraging any of our units and divisions to, over any long period of time, run below that. So obviously our expectations are that we are owning and developing and working with businesses that can meet, I hope, our corporate targets. We had a very significant change in, from the quarter before. So before we take that as a steady state let's hand over to Thomas for comments on that.

**Thomas Thuresson:** Yes, as you very well know there are many moving parts giving us the operating margin, but a few comments. I think very important is discipline. We touched upon that with Food Systems. But of course discipline when it comes to what orders what opportunities are really the right ones for us, discipline there is important -- and then of course the execution when it comes to project orders. Mix also plays a role depending on application area, depending on the industry. Of course, we have a different scope of supply, so mix certainly plays a role as well. 16 percent -- it is not, I would say, exceptional in any way. You will see variations from one quarter to the other also going forward, but there are a lot of good efforts going on when it comes to

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productivity, when it comes to selectivity, when it comes to discipline in execution. But you will continue to see variations also going forward.

**Q:** OK. Thank you, Thomas. And then just final one, I just wanted to ask about backlog margins and prices. How have they developed through the year? How have they developed this quarter? I presume that they are higher year-on-year but I just wanted to understand the backlog --is the mix and price in your favor now going into 2018?

**Thomas Thuresson:** Well, as far as the margin in the backlog is concerned there is nothing specific to report other than that. Of course, we are now -- we believe that we are will now be oscillating on some kind of a trough level when it comes to deliveries of pumping systems in the Marine division. We did take a big decline in deliveries of pumping systems as I commented in Quarter 3. And now we believe we're oscillating on the trough level as far as that is concerned. When it comes to prices we have seen for some months an increase in metal prices and we have demonstrated historically that we do have pricing power, we do have a good amount of pricing discipline. But we, as the escalating metal prices, you in certain cases end up behind the curve a bit. So if there is any effect it should be that one but we're certainly ambitious when it comes to managing these variations.

**Q:** OK. Thank you very much, Tom and Thomas.

**Q:** Yes, hi Tom and Thomas. Firstly on the guidance in Marine. Pumps are flat quarter-on-quarter and Framo has the shortest lead time to contracting. If my model is right you should see a further accelerating momentum for Framo in the fourth quarter given previous contracting. And these boilers are also seeing strengths. And Framo and the boilers together should drive a bit stronger growth here than just "somewhat higher," I would have thought. So if you could comment on why you're guiding somewhat higher, I thought the demand could be higher?

**Tom Erixon:** When you mention Framo, I suppose you refer to pumping systems and --

**Q:** Correct.

**Tom Erixon:** We had a good level of orders in pumping systems and in boilers already in Q3. We have a positive book-to-bill (in Marine). And whether that will continue to

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strengthen in Q4 or not I would leave that as an open question at this point in time. We obviously have been cautiously optimistic overall in the project portfolio. So we have taken some height on that. But we feel that the ship mix effect of contracting this year already have spilled over in Q3 in our order book, and I don't think we want to be more specific on that going into Q4.

**Q:** OK. My second one is on mix and maybe looking into 2018. So mix is obviously already improving in Energy. We have a solid margin here. Looking ahead, you had previously I think, Thomas, said that you have managed to keep the gross margins in Framo at the high level in the downturn and same thing for Energy. So if we start with Energy, the stronger, larger orders that you booked in the first half not this quarter, I would think this is more for invoicing the first half of next year which can drive a positive mix further and for the Framo deliveries maybe to drive a positive mix later in the year. Is that the right way to think about it?

**Thomas Thuresson:** Well, the large orders in Energy, they are to be delivered in 2018 and in early 2019, and what they involve is of course delivery for products in demanding applications. So that's good. But then again of course it means an increased share of capital sales to total revenues. So that's a negative, assuming everything else is about the same.

Then when it comes to Marine, well, we've seen a good run in orders a couple of quarters now in pumping systems. And the lead times from order to deliveries they are everything from 12 months and up, depending on the schedule of the individual vessel. So certainly some of the orders we got in quarter 2, they are going to be delivered during the late spring, early summer of 2018.

**Q:** Good. My final one is coming back to Greenhouse. The factory shutdown in the U.S. weighed on numbers. Do you foresee more closures like this or was this just a true one-off? I know you are on track to still to achieve high single digit margin here back in 2018. It looks a bit more difficult now.

**Thomas Thuresson:** Coming back to the last question from -- or my response to last question from before. This was a substantial adjustment as far as Greenhouse is concerned. We are still working on adjustments when it comes to individual supply chains, we are working on adjustments when it comes to presence in certain markets for certain products. The target as far as Greenhouse is concerned remains --we

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expect to, and we are targeting to achieve something that is certainly north of five percent operating margin as a result of these activities. That means we are in the same neighborhood as the (better) suppliers in these markets. Remember that these are products with basically no aftermarket whatsoever.

**Tom Erixon:** Let me reinforce Thomas' comments on that too. You answered before, Thomas, that we are not exiting or shutting down I should say any of the other Greenhouse businesses. This has been a company that has generated substantial losses over a long period of time. We did not see how we could turn this business profitable in the foreseeable future, and consequently, we looked for ways to exit it. And the reason why we didn't do it immediately was that we were hoping that we would find some other way to find an industrial solution for the company. We were, in effect, partly able to secure continuous work for part of the employees and handle some of the customer demands and requests in the process. But now as of this quarter this business is out of our books, we have eliminated the sources of losses that we didn't see that we could fix. As for the rest of the businesses, we are running them and they are on the right track and we are working on the plan as Thomas said. There are some changes that are within the footprint program that is related to the Greenhouse. And so there are still actions on the table but not of this magnitude. And so this is done, completed and out.

**Q:** Thank you.

**Q:** Yes, good morning from my side, as well. Three questions from my side -- first one on the Marine margin of 15.5 percent and what you said in terms of some sales now oscillating at low levels -- so is it fair to assume that should be to an extent reflecting the trough margin of the business?

The second question, the usual one and following up on the previous one regarding the order delay between the yards and yourself. If I bear in mind the average delay of three to nine months, I'm not sure about Q4 but in general it's probably fair to say that the fully extent of the recovery has really been reflected in your Q3 orders if I'm not mistaken.

And last point is also on M&A side. I think you've been looking for something in foods U.S. component type area for some time, I was just wondering on your updated thoughts on the M&A and is it simply that everything is too expensive at the moment to close the deal? Thank you.

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**Tom Erixon:** Let me start perhaps in the tail end. We do not have a specific food - U.S. acquisition program --that's going a bit too far. We are still open for business when it comes to the M&A side. It is true that most of those are high in the market and it's true that it affects our interests in certain circumstances. So we are cautious with shareholders' money but we are still both opportunistic and strategic when it comes to how we look at the M&A going forward over the medium term.

I think on the demand on the Marine side, we are now or last month in terms of yard contracting approximate at the same level as we reached full year last year. So we will see what the growth rate on the yard contracting is by the end of the year.

It looks like the original growth estimate of some 20 percent, 30 percent when it comes to contracted ships maybe with a slightly more favorable ship mix added to that does create somewhat of an upside for the marine going forward, that is partly reflected already in Q3 as I said, it's partly reflected into the Q4, somewhat positive order outlook, and we will refrain from starting to give guiding comments to further away -- that has to be on your own account.

**Thomas Thuresson:** Yes, then you had another two questions. When it comes to whether the reported Marine margin is the trough margin. Well, let me comment like this. I think we've seen Marine handling a very, very substantial decline in oil and gas basically going from a billion plus in pumping systems for oil and gas to nothing. And that has been compensated for within the 15.5 percent reported operating margin.

We have seen a decline of some 20 percent year-on-year in terms of revenues which represents a gross margin loss of close to SEK 200 million and certainly a contribution loss that is even bigger than that. And then you have this kind of decline in operating margin. I also said earlier on the call that we believe we're now oscillating on a (trough) level as far as revenues are concerned. But again we will continue to see variations in margins from one quarter to the other. But as far as revenues are concerned, we believe again we are oscillating on a trough.

As far as ordering is concerned, you claim that the up tick in contracting is not fully reflected in our up tick in orders in Marine. And we provided you with a forecast qualification or an outlook qualification and we did say that we do expect a somewhat higher demand in Quarter 4 compared to Quarter 3. So assuming that we are right I guess that confirms that you are right in your statement as well.

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**Q:** Makes sense, maybe I can follow up with one question Thomas, and that's on the currency. You didn't give a guidance for the translation effect next year, but I guess it's going to be a negative one, so should we expect an update on that after Q4 or already at the Capital Markets Day?

**Thomas Thuresson:** Well, I think let's wait until we pass the year end because it becomes quite speculative given the size of the movements between the various currencies. And if you go back the last couple of years I refrained from providing any forecast on translation before the yearend report.

**Q** OK, makes sense. Thank you very much, both.

**Q:** Yes, thank you. Good morning, Tom and Thomas. On the service side you mentioned, Tom, that although it's sort of steady you have higher ambitions. There was a pretty vast, large section of this at the Capital Markets Day, last year. Maybe you could give us some pointers to your actions here in order to drive that growth higher? That's my first question.

My second question is just an (itty-bitty). You mention, on Greenhouse you mentioned that in the fourth Quarter last year these revenues from the U.S. business were starting to go down. Are we meeting the right comp already in Q4 now or is that into the first part of next year?

And, finally on FX, any transaction comment on 2019 given the hedges?

**Tom Erixon:** It's a broad -- it's a good question, but it's a broader question on a service. As you know, we have started a number of changes in, let's say, how we work commercially with product as well as with service in order to drive organic growth. And I think we feel all in all we are making good progress clearly on the back of a stronger business cycle as well. But nevertheless we think we're going in the right direction. We obviously don't have the target to decrease the share of service. So over time with some cyclicity the service number should stay on par with the development of our capital sales business and hence my comment we would like to see a little better.

There were some effects on the service side related to commissioning work on pumping systems that make the comparison a little bit tougher for us in that sense. We do see in several areas growth numbers that are on a much better level. So I think this is not a generic issue for us, it's related, right now the way we see it, to a number of specific areas and we are trying to tackle them best we can. We are focused,

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energized around it and we hope we will have the three as a basis and move forward from there.

**Q:** Yes, but your view, given the market position, the type of products, taking Greenhouse out of the equation is (all based and all that). Is it fair to assume that your view is that a business like this should generate a growth of north of five percent on service over time?

**Tom Erixon:** Well, if you remember Thomas' presentation at the Capital Markets Day in last year, we had a picture reflecting the history -- historic growth all from a smaller level of course at the time. But we have been achieving the five percent growth historically. I would say that in the process we've be going through we sometimes say that service is not cyclical but of course it's been tough in the shipping sector and among ship owners with limited profitability and also in some other areas including the oil and gas sector where I would say it would be naive to say that there were no cyclical effect on the service business on these two.

So I think as we start to return to a normal state we may have some tailwinds coming into those sectors. And with that said I think if you walk out of those 2 areas we see a pretty healthy development on the service business on a more detailed level. So I think there you have a little bit of the answer for why we feel we are, we are not super happy with the number, but we think there is opportunity.

**Q:** That's great. Very good, thank you.

**Thomas Thuresson:** Then you had a couple of questions, one on Greenhouse and whether we had the right comparison for Quarter 4 year-on-year. And my answer to that is, no. I mean basically a stop to taking new orders, that happened towards the end of Quarter 1 2017. So we are getting square with comparison more like in Quarter 2 of 2018.

As far as transaction effects, I think you answered or you asked about any effect in '19. And I think that's too far out into the future. Who knows where the dollar will be, which is the main factor when we get to 2019? You have an indication for 2018 and that's as far as we're prepared to go at this point.

**Q:** OK, thank you very much.

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**Q:** Good morning, gentlemen, thank you for taking my question. Let me start with a few questions about the growth. So when you are giving guidance for growth in Q4, especially in the Energy and say Marine, can you please give us a bit more color where this growth is going to come from? And also Q4 2016 was already pretty solid, so how do you see Q4 2017 on year-on-year basis?

**Tom Erixon:** I understand your question. We are little bit hesitant to be over-specific in our guidance which we've been trying to do paint the general view of where we are. And then once we close the quarter let's see. I think on the Marine side we already had a fair amount of discussions in this call on the contracting situation and the underlying demand in some segments relating to -- some segments, environmental products and such. So I think actually there you have the answer.

On the Energy side it is maybe a bit less transparent, but nevertheless we do have a certain belief in the oil and gas sector as we've seen underlying developing reasonably well, oil price being stable for now. And so, all in all, I think that gives you some basis for the guidance that we've seen.

We did an exception last quarter in terms of our guidance in referring to the previous year. But we felt that given the extremely high order intake level in Q2 and we didn't want our guidance for Q3 to be taken as a more pessimistic view than it really was. So we just took the opportunity to remind you that compared to Q3 in 2016 we really wanted to give you the sense that this is not a new market situation, a negative situation developing -- it's just we came off of a super-hot Q2. We don't feel that comparison is very useful at this point in time.

We have an okay Q3 on orders. We expect it to be somewhat better next quarter. So in that sense I think you see the direction of the arrow a bit clearer than perhaps if we would have left you in the dark after the Q2 situation.

**Q:** OK, that's appreciated. Moving on to Greenhouse, what is that like-for-like order intake and revenue performance excluding the plant you closed?

**Thomas Thuresson:** Pardon me once more, please?

**Q:** On the Greenhouse.

**Thomas Thuresson:** Yes?

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**Q:** Well, you said that the decrease in order intake that this was partially caused by plant closure, if I heard you right. So...

**Thomas Thuresson:** No. I did not say it was to do with order intake. The profit or the loss rather, the loss was more than explained by the closure in Chicago -- the Wood Dale factory outside Chicago. So the operating loss reported was more than explained. The loss in the Wood Dale plant represented more than the SEK 34 million negative of operating income that we report in the Quarter 3 for Greenhouse.

**Q:** OK. Perhaps I misheard it. So then on the higher level, we have seen quite a bit of consolidation and capacity removal, especially in the heat exchanger area, both from your side and from your competitors like Kelvion.

And so recently we have seen that, well, Triton, the owner of Kelvion -- one of your main competitors -- has acquired Rocore, so one of the heat exchanger manufacturers in the U.S. Do you see more consolidation and more capacity coming out or being rationalized in the industry? And where do you see your role in this trend?

**Thomas Thuresson:** I think you should be cautious when you draw conclusions from this. You have to segment the various types of heat exchangers. What we are doing or what we did with the closure of the plant outside Chicago is that we -- we have now left the North American market for industrial shell and tube heat exchangers.

We continue, very much continue our focus on gasketed plate heat exchangers, brazed heat exchangers, welded heat exchangers. We do have significant improvement activities when it comes to air heat exchangers, certain makes of tubular heat exchangers, with a base in Europe and to some extent Asia.

So I think you have to segment very much when you sort of look at what is going on. The acquisition by Kelvion in the U.S. is certainly not a company that I'm familiar with. So I doubt that this is an operator of any significance in any area that we are operating within. Remember that the Kelvion scope of supply of heat exchanger is in cooling towers and alike markets where we're not at all active in.

**Tom Erixon:** I would perhaps add to that, if you look at our Greenhouse, you can say that the heat exchanger business that Thomas referred to that we are committed to are areas where the concentration has gone fairly far. We made an attempt to consolidate and drive this in air heat exchangers and other areas which for us ended up

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not being high margin global business but rather a fair amount of regional fabrication units that where we didn't get the scale advantage.

And that's -- that's why we decided to walk out of it or separate it out from our operating model, because while we do believe that these are underlying profitable business as we already indicated and as we have proven in Q2 and presumably will return to in Q4, we didn't see that it could meet our margin objective overall.

So I think this question on how -- in shell and tube and in air heat exchangers to what degree family owned companies will consolidate the larger structure, I remain hesitant to such an investment hypothesis. If I were you as an investor I would not go into it.

**Q:** OK. Thank you for that. And last question for me -- can you please remind us what is the difference in general between, in profitability between the large projects and what you refer to as "baseline business?"

**Tom Erixon:** That is an impossible comparison to do. The only guidance I can give you is that because there are variations on the theme the issue that you have to be aware of there apart from any executional risk on the project is related to the fact that when we have a large scope of supply with a lot of purchased components we can typically not take a fitting and add 15 percent profit margin on it. And that makes typically our project business swing a little bit when that's a high share of our order.

**Thomas Thuresson:** You should be clear on that, the guidance we're giving as far as gross profit margin is concerned is only that the aftermarket gross profit margin is above average and capital sales is below average. And that is far -- is as far as we're going to go. And then as Tom rightly said, there are variations based on scope of supply.

**Q:** All right. Thank you very much.

Operator: And there are no further questions at this time. Please continue.

**Tom Erixon:** Thank you very much. With that again let me repeat my sincere invitation to all aboard. We almost sold out, so you better sign up quickly and look forward to continue the conversation on our markets at that point in time. Thank you for your time today and have a good day. Thank you.

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Operator: Thank you. That does conclude our conference for today. Thank you all for participating. You may all disconnect. Speaker, please standby.

**END**