Tom Erixon: Thank you very much, and again, welcome to the Q1 earnings call. Let me also, before starting, welcome Jan Alldén to the team and to the first earnings call. And you will hear from Jan in just 10 minutes in the presentation. Before going into the presentation, as usual, a couple of overall comments as introduction.

We had a positive demand development, especially during the later part of 2017 and that trend clearly continued into the first quarter of ’18. And we do expect demand to continue on approximately the same level into Q2 this year.

We had a positive development on both gross margin and the profit margin in the quarter, and largely, the effect was coming from improved productivity across the entire organization. We had, on top of that, I might add, a relatively clean quarter, so a lack of bad news, you could say, but also some unexpected tailwind from purchase price variances due to old hedging positions and others. So we came in well on the profitability in the quarter.

Finally, we are continuing the investment program into our supply chain with the already announced Footprint program that is running according to plan.

In addition, as a result of the increasing demands, we are taking measures to further make selective capacity investments during 2018/’19, and as a consequence, we will bring up our forecast for CapEx 2018 somewhat.

And with that, let me then go to the presentation mode, starting with the key figures. And essentially, obviously, it’s positive numbers this time on the year-on-year comparison. We are up on all dimensions. What is nice to see is that the invoicing is now showing a clear positive trend following, as expected, of course, the order intake growth that we started to see in ’17 and have continued in this quarter. It’s also good to see that the profits are growing faster than the volume, which means that we had reasonable drop-through in the quarter and getting some leverage out of the increased volumes that we are passing through Alfa Laval at the moment.

In terms of the highlights, we announced a large brewery order in the beginning of the quarter to the value of SEK 300 million, that project is up and running as it should.

Perhaps the biggest surprise for us was related to the number of large offshore orders, and as you’ve seen throughout the quarter, we announced a total of SEK 415 million of large orders in the offshore sector, orders that are totally referable to Pumping Systems and consequently booked in the Marine division. That came in perhaps a bit
higher than we expected and also account for the fact that our guidance was a bit on the low side, given where we ended up in the quarter.

You may also notice that we don’t have any explicit reference to the environmental products in terms of invoicing or order values for ballast water and scrubbers. And we will, in this quarter, cease with a detailed guidance on those numbers. We consider it, as of now, an integrated part of our product portfolio and we will talk about the progress in those areas as we do with the rest of our business in the context of our various business units. So I’ll be back with a few comments on that later on in the presentation.

In terms of the orders, you may see a quarter in Q4 ’14, which was, in fact, looks like the highest one in our history, but that numbers contained currency revaluation of the existing order book to a value of SEK 800 million. So excluding for the revaluation effects, actually Q1 ’18 was an all-time high. It’s all-time high for the group. It’s also all-time high in a number of specific product areas in the company. So it was a good quarter from an order intake point of view, well ahead of last year as indicated. It is relatively strong across most markets and most applications, so it’s not a specific area, which is driving the growth at this point in time.

In terms of profitability, we had a margin improvement at just below 17 percent, a bit higher than we were. I would say most of the effect, as I indicated to you, came from the improved gross margin. And all in all, of course, we are meeting an increased volume and increased load after we have finished the restructuring program in -- largely in ’17. So we have a good productivity development in the group, we have good control of headcount and we got good results of it. So from the entire organization, it was a well-executed quarter.

Looking at the business units. Again, it’s pretty much positive across-the-board. There are two business units with negative comparison in terms of volumes compared to first quarter ’17. It is business unit Welded and the business unit for Decanters. Those two are mainly affected by individual projects that are placed within -- or outside a specific quarter. So order books in both areas is strong and demand remains solid in those areas, so I don’t see it as a trend number.

But anyhow compared to the previous -- to the quarter in -- first quarter ’17, it is somewhat down. The rest of it is positive, and as I said, it mirrors the fact that we see a
fairly broad-based recovery in our markets at this point in time. I will be back to Greenhouse comments also later.

So let us cover then the divisions, starting with the Energy division. We had a strong development in the Energy division, especially given the fact that we didn't have any large orders placed in this first quarter whereas last year we had several large orders within the area. So the benchmarking numbers were tough. Year-on-year, they were positive across-the-board and in the sequential comparison it's still good. And perhaps the one area, which you should put some attention to is Energy Separation. That was on the weak side during 2017, but picked up significantly in Q1, a little bit, as expected I must say, given the fact that we see increased activities in the drilling sector and upstream energy markets in general.

Moving to the Food & Water division. We had a strong 2017 in the Food & Water division, and we continued on a strong level and improved level during the first quarter of '18. There are some variations between the end segments in Food & Water, but generally speaking, our end segments are developing well. And perhaps what is also nice to see in the first quarter is that we continue with a very solid execution of our large projects, which means that we didn't have any bad news coming from the product portfolio, which is currently under execution. And that was the trend that we highlighted to you during last year. It remained in this quarter and it's an integral part of the profit improvement that we've seen in the Food & Water division over the last few quarters.

Going on to the Marine division. We have a very strong order intake on a year-over-year comparison, somewhat down sequentially. The sequential downturn is entirely related to the fact that we had an exceptional order intake from the tanker market for Pumping Systems towards the end of '17, and as we guided you already at the last quarter, we did not expect that to be repeated in first quarter, which indeed it wasn't. On the other hand, we did book a number of offshore businesses, as you know, and that compensated to a degree for that. But all in all, it was a good order intake quarter for the Marine division.

Boiler & Gas Systems were flattish, but boilers were actually a bit up based on contracting volumes from end last year whereas the scrubber demand was a bit down compared sequentially to Q4.
The business unit Separation & Heat Transfer grew sequentially and that is entirely related to the improved contracting rates during '17, and we see those effects in our books in the first quarter of '18. And in addition, we had a very solid quarter on the ballast water side.

So all in all, if we look at our environmental applications for scrubbers and ballast water, we are sequentially relatively flat, which means that the business level of around SEK 2 billion on a running 12 months level during Q4 is repeated in Q1. Our indications to you in terms of the environmental applications for Marine, which we gave at the Capital Markets '16, has so far proven to be relatively accurate. The market has developed in line with those curves, you have them in our presentation material from the Capital Markets Day. And we, as a company, have developed well in line with that situation. Today, if anything, we are perhaps somewhat more optimistic around the business opportunities in these areas. But as I said, we will update you within the context of BUs going forward as opposed to providing specific numbers on each application.

Moving on to Service. I indicated to you with the Q4 report that the Service development in '17 was not entirely to our satisfaction. It was a black zero in terms of growth, a little bit positive, but really not on the level we want to see. We've been working hard in '17 and are continuing this year to develop our Service offering, the product offering and a number of support systems in the Service area. And I'm happy to say that at least in this quarter, we had a good development on the Service business order intake overall. We are 7 percent to 9 percent up sequentially and year-on-year, so it was, especially for the Energy division, a very good performance on the Service level now. I'm very cautious to make and extrapolate a trend on this. We've seen variations between quarters and expect also to see that, during 2018, but at least we are off to a good start in Service for this year and that feels good after all the work that we've been investing into this area.

And that takes us to the Greenhouse. You've seen us announce two transactions during the quarter, two smaller parts of the Greenhouse activities in heat exchanger systems and shell and tube products. We've signed agreements to divest those two. We expected to close those transaction in Q2. They will not have any major impact on the financial statements of the group. The impact from order intake point of view on an annual basis will be in the order of magnitude of SEK 400 million. Obviously, there is more like a half-year effect this year expected, so as I indicated it will not be a
major impact on the financial statements from the group. Other than that, from an operational point of view, the profitability on the Greenhouse activities has stayed with -- on the level we want to see it, approximately at the 5 percent profitability margin. We do have some restructuring costs still charged to that division so the public number is a bit lower, but we are comfortable in terms of where we are in the Greenhouse and its development.

So let's then round off with some comments on the different regions and top 10 markets. Asia remained strong. Last quarter, you might remember that we had 40 percent of the group intake coming from Asia. It was a very high number. We are still on a very good number, but perhaps at a slightly more normal level of 35 percent of the group order intake. Sequentially, Northeast Asia is affected by the reduction of orders in the Pumping Systems. But leaving that sequential development aside, especially China has been strong across-the-board in a number of application and the development in the Asian region, as a whole, has been positive.

North America, positive sequentially and year-on-year. Especially, I would say in the quarter, Canada came in very strong and made up for the entire growth of the North America, to a large degree driven by increased demand in the Energy division.

Latin America looked stronger than it is. Obviously, the large brewery order affects the numbers in Latin America, so they are good. Even without the order, we've been having a slightly better situation in Latin America this year so far than during last year, which was weak for us in general, we felt, so it's trending in the right direction from a relatively modest level.

Europe. Western, Eastern Europe, a bit of a mixed picture. Western Europe, strong last year, a little bit down partly driven by large orders and how they are booked, but not a big change -- a trend change in Western Europe and variations between individual markets, pluses and minuses. Eastern Europe, approximately the same situation.

Nordics, very strong numbers. But again, it was a good quarter for the Nordics, but it was also highly influenced by the big offshore orders and that gives the explanation for why the growth numbers are as high as they are.

So all in all, when we look across the globe, markets in general are developing still positively, good momentum in China, good momentum in North America, stable in Europe. So that was the quarter and that takes us to the top 10 markets.
I'd like to quiz you on which market has left the top 10. You might not remember, but if you don't, it's France. India, maybe as they should, have taken the position #10. They've been there before and we've been seeing a better business environment in India later. So that's a positive development. The other positive change that we have is that has actually appeared of time now. We finally have Japan in positive numbers compared to last year. And that's not only a Marine event, it's actually a more positive development in Japan in general in the quarter than we've seen in the past.

Other than that, there are some variations between markets compared to the full year 2017, but they are relatively minor. It remains strong in most areas.

The bigger deviations are more related to large order placements. So that rounds up my comments on the quarter, and with that, I will hand over to Jan for some further financial details on the quarter. Jan?

Jan Allde: Thank you, Tom. So let me just make some comments before I jump into the detailed numbers here. Well, first of all, I'm excited to be part of Alfa Laval and come back to Sweden after 23 years outside the country.

As you might know, I've been part of the ABB Group during the last 26 years in various global and regional roles. And during the last 2 months, I've met a lot of people and visited quite a few operations and really received a great welcome into the company. I can tell you the energy level in Alfa Laval is very high, and I can see the new organization have created a lot of positive momentum.

Some reflections on the first quarter. So we see a good volume growth driven by high demand in all our key end markets, Energy, Marine and Food & Water. And as we are coming out of the cost reduction program, this volume growth gives us a good leverage on our EBITA margin. This, in combination with the reduction of our tax rate, contributed to the strong net income and EPS growth of 35 percent in the quarter.

Secondly, although, we are investing in both our new product development, in our manufacturing footprint as well as increasing our working capital tied to our volume growth, we could increase our return on capital employed to 18.5 percent and further reduce our net debt-to-EBITDA ratio to 1.23.

So as Tom covered the order intake, I will make some comments on the sales figures. The guidance for sales after Q4 was that we believe that a lower invoicing should be expected in Q1 compared to Q4, a guidance based on seasonal patterns.
As you know, we realized sales of SEK 8.8 billion in the first quarter, which is down 12 percent sequentially at constant exchange rates. Compared to Q1 of '17, we were up 9 percent. All divisions were up, but sales were especially strong in Energy division at plus 27 percent.

And net sales in our -- in Service increased by close to 8 percent versus last year. Let me then deliver the first forward-looking statement. We believe that invoicing should be somewhat higher in Q2 compared to Q1.

Then looking at gross profit margin. So the margin for the quarter was 38.3 percent, an increase of 1.2 percent compared to Q1 of '17 and 2 percent compared to Q4 of '17. Historically, a strong margin level.

The guidance that we gave after Q4 was, in the near term, we expect adverse effects from somewhat higher metal prices. We expect positive impact from increased Service share of total revenues. And we expect FX transactions effect to be very limited and low, this was seen to remain on the level from Q4. That means with a gross margin at 38.3 percent, we came out somewhat better than our expectations.

Let's then move on to the next slide for some further comments on the gross margin. So if we start by looking year-on-year, we benefited from higher volumes and a better load in many of our factories and also positive PPVs. We saw a small negative mix effect within Service and capital sales.

Sequentially, we benefited from positive mix effects between Service and capital sales as well as strong margins on Service deliveries in Q1. We also had a positive impact from PPVs, meaning that the headwind from metal prices we expected did not materialize in Q1, but rather a net positive impact. Load and FX ended up as expected.

Now the second forward-looking statement. In the near term, we expect adverse effects from somewhat higher metal prices, negative FX transact effects due to the weaker U.S. dollar as well as a small negative mix effect within capital sales and Service. Load is foreseen to remain on the high level of Q1.

Then to some highlights for the first quarter. R&D ended at SEK 217 million in the quarter, which is an increase year-on-year of 8.7 percent and this is surely to continue the support -- the focused efforts that we've done in certain product groups such as high-speed separation and the gasketed plate heat exchangers.

S&A was at SEK 1,555 million in the quarter, which is up 8.2 percent year-on-year, but down about 0.5 percent sequentially.
Please note that other income included sale of a building in Peru with a gain of SEK 67 million, and secondly, we only had limited costs related to the footprint program in Q1, some SEK 20 million out of the SEK 150 million that we expect for the full year, and we expect these costs to come through mainly in the second half of 2018.

Taxes ended up with a charge of SEK 420 million, i.e., lower than last year as Q1 of '17 were impacted by a nonrecurring item of SEK 113 million, if you remember, related to the Framo tax arbitration case. Please note that also a small onetime negative impact on deferred tax provisions in Q1 2018 of about SEK 30 million due to the reduced tax rate.

And yes, we are sharpening our guidance on taxes. You should expect an average tax rate to the tune of 26 percent going forward as several countries had reduced their tax rate such as the U.S. and Norway.

And as I said at the start of this, earnings per share increased by 35 percent primarily due to the strong EBITA performance and the lower tax expenses.

And then let’s talk about the restructuring program. So we now consider the S&A part of the program closed after having realized the last SEK 15 million in savings.

The remaining part of the program on -- to be achieved in terms of people and savings relate to the restructuring of our manufacturing footprint - this runs, as Tom said, according to plan. And as I said earlier, it's fair to expect that the remaining initiative only will be implemented towards the end of the year. We maintain our savings target for the complete program of SEK 500 million with the remaining savings to have a gradual effect in '19.

A few comments on Footprint initiatives already completed. As you probably know, we have moved our PureBallast production to the marine center in Aalborg to enable the ramp-up of delivery volumes, and our automated distribution center in Kolding is fully up and running. Other projects already under implementation include the move of the decanter factory from Söborg to Krakow as well as the move of our factory in Qingdao. This latter move was triggered by local government in China, but it comes with an opportunity since it enables us to scale up the scrubber production volumes.

Separately, on regular capacity adjustments, it is important to point out that given the order volume development over the past year, we will eventually have to start adding people.
On the divisional performance, let me just give some short comments on the operating profit performance by division. Energy came in higher than last year thanks to much better volumes, as I said before, and despite a worse capital sales-to-service mix. Marine was also stronger than last year, thanks to better volumes and a positive price/mix in capital sales. Food & Water also came in higher, again thanks to better volumes but also thanks to good -- continued good project execution.

Then we'll move forward, talk about the cash flow. Cash flow from operations ended at SEK 666 million, a decline compared to last year coming from higher working capital due to the increased activity level partly then compensated by higher profits and lower taxes paid. CapEx ended above last year's level for the first quarter at SEK 181 million, an increase of roughly SEK 50 million. Please note the sale of real estate in Peru, which explains why investing activities are down versus last year.

We are investing more than previous years because of Footprint-related investments and investment to increase our manufacturing capacity, for example, in the brazed heat exchangers and in our environmental products. Financial net paid, excluding FX impacts, were minus SEK 5 million compared to minus SEK 27 million last year.

Free cash flow was at SEK 428 million, a decline compared to last year for positive reasons, meaning an increased level of activity in the company. The cash flow in Q1 brought our net debt-to-EBITDA ratio down to 1.23, as I said before, which compares to 1.31 at year-end.

And just to round up our cash flow comments, you should expect CapEx somewhat above SEK 1 billion, as Tom was commenting on earlier. And secondly, as we grow our volumes, we will build working capital in line with our sales growth.

Then let's talk a little bit about FX impacts in the year. And FX impact on EBITA in the quarter was positive, some SEK 35 million. Transaction effects were positive SEK 25 million due to the stronger euro versus SEK, while the negative impact from the weaker U.S. dollar could be offset by favorable hedges.

The translation effect in Q1 was a positive impact of some SEK 10 million. Now as we look at the projections for the full year we do expect a negative transaction effect from the U.S. -- from the weakening of the U.S. dollar, impacting open exposures of approximately SEK 65 million, offset by a positive translation effect of the same amount due to the weaker krona.
Then let’s talk about the order backlog. So, we had a total order backlog at the end of March of SEK 19.5 billion, representing approximately 6.5 months of sales, an increase due to a positive book-to-bill of 1.13 in the quarter. And if we look at the shipment in 2018 from the backlog, it now stands at SEK 13.4 billion again on March 31. This means an increase compared to the same period of ‘17 with SEK 1.4 billion.

And that kind of leads us to the sales bridge for the year. And if we start then with the sales that we achieved year-to-date, it stands at SEK 8.8 billion. Then, as I just talked about, the backlog of shipment for the remainder of this year amounts to SEK 13.4 billion, which again is an increase of SEK 1.4 billion compared to the same period last year.

We go then to the FX translation. This impact is, of course, very difficult to estimate considering the volatile FX situation. Now if we use the average FX rates during Q1, we would see a quite limited impact for the full year. However, if we use the closing rate at March -- at the end of March, we see a fairly large impact up to SEK 1 billion. In this analysis, we have basically taken a midpoint of SEK 500 million for this purpose.

Then thirdly, as you know, we expect to close on 2 divestitures within the Greenhouse division during Q2, which will take out sales of some SEK 200 million for the full year ‘18 and this should add up to SEK 22.5 billion.

Now, of course, then we have some unknowns, let’s say. If we start with, well, for your reference, the level of in and out (sic) (in-for-out) orders in remaining 9 months of year was SEK 15.2 billion in 2017, so should give you good reference there.

Finally, as you know, we had no acquisitions in 2017 to consider, but there’s obviously an opportunity for new acquisitions in 2018. So that concludes my part, and I hand over to Tom.

Tom Erixon: Thank you. So for the forward-looking statement, as indicated, we expect the demand and markets to continue on a good level in the second quarter. So outlook for order intake is on about the same level as in Q1.

We have variations between the divisions mainly related to large orders. Marine is expected to continue on about the same level. Food & Water is expected to be lower, primarily driven by a nonrepeat of the large brewery order booked in Q1.

And we have the opposite situation in Energy, which did not any large order bookings. The pipeline looks stronger for Q2, and consequently, our guidance
comment for order intake for the Energy division is higher. And with that, presentation is concluded and we are now open to questions.

**Q:** A couple of questions, please. First, on the Energy side, we had solid growth in Services, which we have been waiting for and this is boosting the mix there, but you still have the negative mix between capital sales and Services.

But I wonder what can happen to mix within capital sales going forward. You have built a nice backlog in the hydrocarbon chain where gross margins are typically healthy. We previously talked about that most of the orders in oil and gas last year will be invoiced this year and could improve the mix. But how will this be phased? Should we see the mix within capital sales improve already here in the second quarter? Or is that weighted more to the second half?

**Tom Erixon:** Well, we are a little bit hesitant to predict profit margin development over the quarter. We had, on a year-on-year basis, a good improvement of the margin on Energy. Clearly, Service orders tend to be in-for-out in the year so that gives us some tailwind, but we also see a steady growth from the capital sales period as well.

I think I'll leave my comments there. You're going to have to draw your conclusions as to how the mix are. You should, though, remember perhaps that the upstream oil and gas has -- it's good now in Q1. It's been a little bit subdued also in '17.

If you remember, when we, in Q4, talked about where are we in the oil and gas business, we said that at the peak we were about SEK 8 billion and we were at the running rate in Q4, if I remember correctly, of around SEK 5 billion to SEK 6 billion.

And a fairly big part of that was related to the upstream carbohydrate chain as opposed to the downstream petrochemicals, if I remember correctly. So opposite. I'm getting guidance here from my -- sorry, getting guidance here from my bad memory. But anyhow, we are not fully back on the level where we were, although, it's a healthy growth compared to Q1 last year.

**Q:** My second one is on the scrubbers, question on lead times. What kind of lead times are we talking about on your side? If someone orders scrubber today, when can you deliver it? We're hearing 6 months, but lead times can soon be extended to 9, 12 months as we approach IMO 2020. Could effectively lead to a bit more front end-loaded ordering of scrubbers, I'm interested to hear if this is the case, if you're seeing the quotations improving here on the scrubber side this quarter.
Tom Erixon: Well, the quotations have been high for a period of time and I don't see any big change on that. It's clear that if you look at the scrubber business, it is a business, which has its, let's say, bottleneck related to engineering capacity for the systems and to a degree perhaps welding capacity, in the fabrication. But it's not a very machine-intensive area, so it's not capital intensive in that sense and therefore relatively easy to scale as long as you have the people. That's where the bottom sits. I think it's fair to say that lead times are in the process of getting longer.

I will not give a definite number of months because it may depend on the size, the number of ships that are relevant for the installation. It's obviously, at this point in time, easier with quotations that are not for single-ship requiring engineering on one as opposed to ship class.

But I think you've seen in the market some announcement related to a longer order time and I think it's fair to say that, that's the direction it's heading.

Q: My final one is on Operations and Other. Are we still looking for SEK 150 million or more costs for the year? Or are you increasing this as well given your comments on CapEx? So you're increasing CapEx because of the strong growth, does that mean that we should see higher costs in Operations and Others?

Jan Allde: No, I think you should expect that we stick to our previous guidance. I don't see a reason to change that now.

Q: Just my first question would be around Marine margins. Obviously, you've seen pretty good development year-over-year in the last couple of quarters and I really wanted to understand sort of what was driving that, given the growth state sort of reason, where the growth has only just started coming through. So if you could give a little bit of color how we should think about the operational leverage of the division as we move into the next few quarters where the growth -- the top line growth will be accelerating given where the backlog is. So just a little bit on how we should think about that going forward.

Tom Erixon: Yes, we -- it's true there's been a bit of bumpiness in the Marine margin looking back. I think we are approximately where we expected to be at the current level and current activity level. On a gross margin level, we see the Marine side being relatively stable. We've also, I think, indicated to you previously that while pumping
system for us is a very good area, the Pumping System business for offshore is not on
the same level as it is when it comes to product tankers.

And the way you might want to think about that is that a system to a product
tanker is critical for the earnings potential of a ship as they go in and out of the harbors
whereas our offshore business is related to fire pumping water and other water
applications and typically doesn't have -- of course, it's critical should it be needed, but
is not in the immediate cash flow of the offshore operator and I think that reflects the
fact that the competitive level and the pricing margins in offshore are not on the same
levels. So I would give that as a slight caution. Then we are back to the normal
guidance that, as volume grows, of course, the mix between Service and capital sales
will be somewhat affected. So I think you will see some arrows pointing upward and
some pointing downwards in your diagram. I think that's as far as we can go in
comments.

Q: OK. And then just one follow-up would be around the balance sheet and
acquisitions. Just maybe if you could comment a little bit on sort of how you're thinking
about acquisitions at the moment. Is this taking up sort of more of management's time
this year than it did last year and perhaps also how your viewing valuations at the
moment for any potential targets out there at levels that you find acceptable? Or are
you still finding things on balance that are relatively expensive when you look at the
pipeline of deals?

Tom Erixon: It's -- I think the honest comment on if we look at what we did last year, we
ended up working a lot with our strategic agenda and perhaps we didn't have the
capacity to be as active on the M&A side as we normally would have been. It wasn't
that we didn't consider it important or had made any particularly strategies around it. It's
just that, I think, we probably honestly have to say that we ask for organic growth, we
got it and now we are where we are.

The pipeline on M&A is probably, if you look at it historically, reasonably strong
and that's driven by the fact that there is a lot of owners that find that opportune moment
to look for a divestment. And of course, as you are alluding to, the reason why the
transaction volume is going up is that the prices are good for seller. Whether they are
good for a buyer, totally a different thing. We've been walking out of a number of
processes based on price. We will not execute transactions that we don't feel are
appropriate for the company, but also for the shareholders and that has held us back in
some processes.
But of course, our balance sheet and firepower is in place and we are probably working a bit more actively with it now just because we've come through a very intense period internally, '16, '17. So let's see. I will not give you a commitment what's going to happen, but we are actively looking or working on it.

Q: OK. Is it fair to say that the things that you've -- the processes you've been involved were skewed towards any one of your divisions? Or are they sort of broadly across each of the divisions that what happened evolved?

Tom Erixon: Well, it's a relevant question. We realized that there is a fairly large element of opportunism in M&A and as it is up there and it's a yes or no and we can't control what the (lead flow) looks like. And we do consider that there are opportunities in all areas of business. So out of principle or out of portfolio management only, we will not say no to any given deal. But as I have indicated before, if we strategically are looking a bit stronger into any particular area, I would say, it is within the area of the Food & Water division covering water applications, food application, and to a degree, biotech applications. And after screening of M&A activities in Marine and Energy, it would be nice to be able to make some adjustments to the balance between the divisions, let's say. I think for long-term capital allocation, that is obviously has some importance for us.

Q: Three questions, please. Maybe you can ask them one by -- answer them one by one and the first one is a follow-up on scrubbers. I was just wondering if the quotations are still very much focused on new builds? Or do you also see a bit of a pickup in the retrofit? That would be the first one, please.

Tom Erixon: I think it's fair to say in both scrubbers and the ballast water, we see retrofit orders coming. And as you're correctly noting, initially that was a bit of a new build phenomenon, as expected. But yes, now there are discussions on existing fleets that are under dialogue or under quotation processes, yes.

And I might add to you in this context, that is perhaps also part of the reasons for why, if anything, compared to original estimates 2016, we might be on margin a little more positive to how we see the business opportunities going forward.
Q: OK. The second one is on offshore. The big ticket you saw, obviously, was quite crowding of orders towards the end of the quarter. And in offshore, I mean do you see that largely as pent-up coming through that has built over the last three years of the downturn? Would you take that for any initial sign of a pickup in offshore given that the oil is above $70 now most sustainably.

Tom Erixon: Well, I mean they come and go a little bit in terms of projects, so I wouldn’t over interpret the fact that we had a number coming -- of them coming relatively close. But with that said, it's clear that a lot of the boardroom decisions for new capital expenditures into offshore drilling, that was happening probably second half of ‘17 or something like that. So the pipeline was there. The leads were there. We have a problem sometimes to guess which one we are winning and which quarter they're going to come in, so it came in a little bit stronger.

But I think our read is that we will see a period now where the offshore will certainly be stronger than it had been for a number of years for good reasons and we see projects under dialogue, which are not exclusively related to the North Atlantic. We will see offshore projects in other parts of the world, too. So I will not give a prognosis for -- what that means for Q2 to Q3. But generally speaking, we are in a much better place with offshore now for a period of time than we were.

Q: And the last question is just on the cost savings, the remaining SEK 155 million to come mostly next year. Is there any divisional skew of those?

Tom Erixon: Yes, I'm thinking about whether I, in the back of my head, have a number. I would indicate that probably in ‘19, the effect should be biggest on the Energy division, if there’s any skew. If there’s any skew.

Q: On the leverage, Tom, you mentioned reasonable leverage in your opening remarks. You didn't sound entirely happy to that, given what you see in terms of raw material increase and also you need to add personnel to handle the order book. What have you done in terms of prices so far this year? And what are you looking at here?

Tom Erixon: Well, the raw material part is, as Jan said before, reasonably hedged so we are not driven by cost reasons internally to manage our pricing that actively this year for that reason to the degree we are pricing according to cost, which is not our main pricing philosophy, by the way. That is not a big pressure on us this year. The -- we
made some adjustment in the last year to our general lease pricing, as we always do, and that's really what we've done. When it comes to manning, yes, we are expected to increase. We are below the headcount, everything included, contractors and temps and all that in Operations. We are lower than we were in '16. And consequently, right now, we -- at some point in time, I think we are hitting how much can we get out of the existing team. We had a very good development now over the last 6 to 12 months. We see it in multiple ways in our books. I think we will expect to see additional resources, coming in some areas. And to a degree, that will be offset by divestments in Greenhouse, and to a degree, it will be offset by implementation on the new operation structure and footprint coming into play in '19. So I think, we hit the mark as of now and I think it's -- as long as we stay on the current production volumes or in the region, we are good for a year-plus.

Q: That sounds good. When it comes to the Energy division, it was quite lumpy when it comes to large-sized orders. But given what you talked about where we are versus the period and also the other signals that you have been particular in telling us, what do you think sort of is likely here? I mean, large-sized orders in my book should be at least to some extent correlated with the base business, which has been very strong. So do you see the quarter as sort of unusual in that sense? Or is that just large-sized orders in the Energy side is sort of extremely lumpy?

Tom Erixon: Well, it always is a bit lumpy when it comes to large orders. So it was, let's say, was not any surprise for management the way the large orders came through other than perhaps a little bit on the offshore side, as I indicated before. But it's true, as you say, the base business was indeed very strong. The orders booked in Q1 was a good mix, solid from a base business point of view, solid from a service point of view. So it certainly indicate in general strong end markets pretty much across-the-board.

And the one area, which is weak for the Energy division in the quarter is the petrochemical side, which is, as it should, normally be very dominated by large orders. And in absence of those, that was really the only end segment that didn't show significant positive growth year-on-year.

Q: All right, clear. Final one, you mentioned Greenhouse divestments not being a large sort of financial impact. But could you tell us whether it's dilutive or the opposite on the profitability? Although, I mean the profitability is not -- it's a couple of percent, but even though.
**Tom Erixon:** It -- well, what we see operationally right now is for the Greenhouse as a total, around 5 percent margin. There are some cost burden on that, that's why you see two point-something as opposed to the 5 percent. We don't have a guidance exactly how that hit, but let's say that they are not above average for the Greenhouse and so with the SEK 200 million of impact, the profit impact is relatively small. The margin impact is weak positive.

**Q:** So I also have three questions, the first one is on CapEx. You increased the CapEx guidance for 2018. I just want to make sure that you are confident that you will be able to return back to 2 percent or less in relation to sales going forward.

**Jan Allde:** Maybe I can start answering that question. I think the earlier guidance that we gave was that you would see an additional SEK 700 million coming through in 2018, '19 on top of the normal SEK 600 million kind of level. So I think you should look at the additional guidance that we gave to kind of follow that same pattern.

So meaning that if you look at about the SEK 1 billion level this year with some -- or should we say a couple of hundred on top of that, but not a significant, I think, change for 2019 at this point. But I think when you look at the capacity, again, I think you have to look at it from a kind of a stage approach.

I mean we have added the capacity in terms of adding shifts, adding some temporary people. Eventually, you have to start adding some more full-time. We have also announced capacity investments earlier, for example, in brazed some in the environmental products. So it is a continuous decision that we are taking here.

**Q:** OK. So it sounds like you're not confident that we will return to sub-2 percent CapEx-to-sales ratios in the longer term.

**Jan Allde:** Yes, I mean I think the guidance that we've given is for '18 and '19. I think, once we are further down the line we can give you more guidance.

**Q:** OK, that's good. And then I want to follow up on environmental as well. I think, Tom you mentioned during your presentation that the 2016 picture that you gave at your Capital Markets Day was valid. But I just want to make sure that you meant 2017.

**Tom Erixon:** No, I typically mean exactly what I say. The curve and projection that we gave was in the -- originally at the Capital Markets ‘16 and we didn’t make any
adjustment to that market in any major way. So I meant ’16, but I don't think that's (immaterial).

Q: There are actually quite big differences between 2016 and 2017. So it's now back to 2016 that we should look at?

Tom Erixon: No, that's not what I said. The ballast water projection was affected by the fact that we had -- okay, so here's the story. After ’16, the delay of -- the implementing the ballast water directive happened.

And of course all of us, including you, wondered so what's going to happen to the ballast water retrofit business given that there was a two year delay? Was it going to go to zero? Was it going to stay flat? Was it going -- where was it going to go?

And we said that we expect the market to be the same but it will be dragged out an additional two years, which, from my point of view, was not necessarily a bad thing because it will give us a longer period to actually meet the demand, which otherwise would be very tight and compressed when it came to the whole retrofit period. So I think the shape of the curve changed a bit, but the area under the curve was the same and that's where we've been standing by.

My comment today, just not to create a lot of unease or bad feelings around the financial community, was just to say that, if anything, when we look at those projections, for scrubbers and ballast market today, if anything, we are probably somewhat more positive in outlook. But I think as we go forward, you will see other people than us making predictions for where that market should be. It was very difficult ’16 for us as well as for you to judge what is this business, how should you look at it, what is the potential, where can Alfa Laval be. And we felt it was our duty to give you at least a scenario to the best of our knowledge for what it potentially could be, and of course, we still don't know. We just conclude that for these two years, we've been reasonably in line with that forecast that we gave to you. We still believe that, that is, to the best of our knowledge, how it will go. But as I indicated, maybe given the activities in the retrofit market that the upside overall is a bit larger than we thought during ’16. So I hope that clarifies the situation to you. That is -- that's the reality..

Q: Actually, we appreciate that you actually provided us with your forecast. I just wanted to make sure whether you were actually referring to 2016 or 2017. But that makes sense. And then may I ask you, maybe you don't want to give an answer to this, but looking at your projections, I mean demand is expected to more than double
basically this year compared to last year. But as far as I understand, those charts are actually talking about installations or revenues and not necessarily order intake. So when looking at your order intake in 2017, I think you had orders in combination of ballast water treatment systems and scrubbers of SEK 1.6 billion. Could we -- if your projections are right and you maintain your same market share, could we see a doubling in order intake for you also in 2018?

**Tom Erixon:** I leave that to your own analytical capability. We may -- come what, come may. At the moment, we are on a healthy level and we are -- and you can figure out where we are Q1 versus Q1 last year because we gave you those numbers back then. So the year started well. Let's see where we end up. I think, in general, we were still on an uptick trend in this area. That's our expectations. And I confirm in 3 quarters whether you were right.

**Q:** Just a quick couple. One, I wondered if you could talk a little bit about the visibility that you have, I guess, particularly in Marine and Energy in terms of the pipeline. I know you said you have a strong pipeline in Energy.

As you look forward, I'm just thinking more about what surprised you in this quarter and how that can -- or how that affects your outlook. So just a comment on visibility there. And then just a quick one on working capital.

I wondered, obviously a manufacturing business build working capital growth is so good and that's fine, but I just wondered if you could talk a little bit about how that develops over the next, I guess -- the rest of this year and then to next. That would be super helpful.

**Tom Erixon:** All right, thanks. I'll take the first one. I'll let Jan take the second one. In terms of -- the order situation for the quarter what surprised us well, as I indicated, the offshore strength was a bit of a surprise. If anything else, it was probably the base business in Energy. It was strong and we came in well in Energy despite no large order. We didn't necessarily know whether there would be an order or two of large or not in the quarter. But as it came out, the end number was good with a mix that was good. I guess our guidance into Q2 is driven by that to a degree when we're saying that the transparency on some of the large order discussions indicates to us that we are -- you might see a couple of announcements on large orders for Energy. And if not, tone down my guidance as we approach the Q2. But all in all, we think end markets and
demand levels in general are stable at this level for the quarter. That's how we feel about it.

Q: Very helpful.

**Jan Allde:** Well, I think I owe you an answer on the working capital side there, right? I think there is a couple of pieces here. I mean, if you look at the receivables side, I think that, that normally kind of develop along with your volume, your invoicing pattern. We haven't seen any extension of the terms in any way or reduce growing in any way. So I think that's quite natural that develops with your volume growth.

On the inventory side, the way we look at it is that we net out of the customer advances, so we are working very actively and I can tell you the cash culture here is very strong, meaning that you have a strong push for advances to net off the inventories. It doesn't mean that inventory won't grow, they will, you know that. That's part of manufacturing, but -- so I would say that's how I see it. So yes, it will grow as the invoicing grows and we are trying to, of course, do everything to control that in a good way.

Q: On the Greenhouse businesses, I mean, you're clear that you're expecting a margin of around 5 percent. Should we expect further disposals during the course of this year?

**Tom Erixon:** You shouldn't expect it. It's a possibility. I think the -- we have now divested three units from Greenhouse, one in the U.S. last year and two in this quarter. And that is three smaller units and we felt that they, in various ways, benefited from sitting in an ownership structure with a strategic owner with a vested interest specifically in those. So we are very pleased with the homes and we've taken great care when it comes to the processes for our existing customers as well as employees that would find a good way for these businesses to go forward.

The biggest unit that we have left now in the Greenhouse is air, that is the lion's share of the Greenhouse. It's, from our business portfolio and the size of it, probably the more strategic asset. And as we indicated before, we're going to have to make a decision there whether there's a way to reintegrate at a higher profitability than it was or to find an investment. And I should hope that towards the end of this year, we will have a good answer for you.
Q: And on the CapEx, the increase, is that -- you're saying that's because of growth. Are there any capacity bottlenecks at the moment that would prevent you from growing any of the elements of the business during the course of this year?

Tom Erixon: Well, yes, the increase is -- just to be -- so we are clear. The original increase of CapEx beyond our normal level of SEK 600 million, is SEK 700 million, that is the footprint program and that's a one-off program that is concluded in '19 and that's that. So if then any further investment decision-taking, they are on a separate program and under separate decision and we are not there. So what comes in addition now and we'll see where we'd be exactly during this year for the CapEx side are some selective capacity investments that we are making. One of them have been announced before, that was in the brazed unit for the U.S. There are some areas that we are now reviewing and making decisions on during this year for implementation with a lead time of about 12 months, I would say, in general for those. And they are across a number of the units where we see we will run out of capacity in the short term. There are ways to deal with capacity situation in the meantime, one of them is to go up in shifts, for example.

That's not necessarily great in our operations to run on a five shift basis, but we can and we will in some areas. In some areas, we have additional capacity within our footprint program because we are investing in new facilities for the footprint consolidation. And for the moment, we haven't closed any of the existing operations and we may look at temporarily for a quarter or two keeping some parallel activities going to match a high-demand situation.

So I think we are in a relatively good position, but the net answer that you're asking for is that, yes, we probably would have sold a little bit more if we were big on capacity in some areas and that makes us a little bit more selective, and maybe going forward, a little bit more conscious about the pricing situation.

Q: And finally on the Welded Heat Exchangers, you said the decline was the nonrepeat of the large downstream orders. If you exclude that, how much grace is there in the normal business excluding the large orders?

Tom Erixon: We're not too detailed on that, but we have a very good growth on the Service business in that area, and when it comes to base business, which has been historically the smaller part of Welded, I believe it's okay in the quarter. I'm waiting to get a different comment from the room, but I think that is my recollection. I have indicated to you when we formed the business unit structure that you should expect
Welded to be perhaps the most volatile unit of them all because they tend to go with a relative big share in terms of the large orders. And so obviously, with no large orders in the quarter that was a direct effect on Welded. So I hope that gives you sort of the...

**Q:** That's great.

**Q:** Short question, you mentioned raw material costs, that you expected that to be a headwind in Q1 but that your hedges saved you and actually were a tailwind in Q1. Is it possible to give some kind specification or how big the hedge has actually helped you in Q1?

**Tom Erixon:** I mean, not in euros, but maybe I'm expressing myself a little bit uncareful here. We, of course, are well aware about the hedges that we have and typically they run on the alloy side for 12 months. So when we do our standard costing at the end of every year, we were working with our material assumptions into the standard costing for 2017, and in fact, we had a positive carryover from ‘17 into Q1 ‘18 that was bigger than we expected. So I don't want to make it a major part of the results analysis, but I think my comment is more to be taken that sometimes you get a little bit of headwind in a number of the areas and it helps you to deliver a strong result and certainly this was on the plus side of the results analysis for the quarter.

For the rest of the year, we expect to be sort of more or less in line with where we were at the costing update in our standard costing for the year so we don't expect a lot of surprises when it comes to changes in material costs. That's the way it looks right now compared to our assumptions for the year.

**Q:** Actually, my question was exactly around the purchase price variances. But just to be clear, Tom, can I just ask how much of your U.S. sales is manufactured domestically? And how much of that steel and aluminum is sourced domestically in the U.S.?

**Tom Erixon:** Well, we did review on our manufacturing footprint and where we were in the U.S. Aluminum is not a big issue for us, not in the U.S. and not elsewhere. We have some exposure for steel imports, depending on where they come from and depending on who is exempt, but that will not have -- even if we implemented, it doesn't look like it would have a major impact for us for the year. So I would -- I wouldn't lose
sleep over the raw material situation the way it looks like right now. I think we got it under control.

Can I just also add then, we've got to have to take a last question here. We are having our AGM very shortly. You all are welcome, but I suppose most of you will not come so -- but we're going to have to run off here in a few minutes. So we'll take the last question now.

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

Tom Erixon: OK, wonderful. Thank you very much. Well, in that case, thank you all. And if not in the fall, we will meet up after the second quarter, in July. Thank you.

Operator: That does conclude our conference for today. Thank you all for participating. You may all disconnect. Speakers, please stand by.

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