Tom Erixon:
Thank you very much and good morning to you all. Welcome to the call. As always, a few introductory comments before going into the presentation.

As a first point, we had all our three divisions above our financial target of 15 percent again for the second quarter in a row. It’s an encouraging situation and resulted in improved profit margin of just above 17 percent for the quarter.

Secondly, the Marine environmental applications have accelerated in the ramp-up of order intake as we have indicated since two years back. And for the quarter, the environmental products, including PureSOx and PureBallast, recorded orders of just above SEK2 billion for the quarter. We are now firmly established as a major supplier into those areas, both for the retrofit and for the newbuilds.

Thirdly, we are encouraged by some good cyclicality tailwinds and retrofit periods in Marine. As a management team, we are firmly focused on the continuous improvement on our ongoing business irrespective of the cycles. Two examples of progress to date is related to the Greenhouse, where we now brought the turnaround to a level of 7 percent EBIT margin, where we wanted it to be when we started out a year and a half ago, and a somewhat improved situation in the service execution and profitability. And I'll come back to that later in the call. Let me go then to the key figures for the quarter.

As you noticed, order intake was strong compared to last year, an uptick of 35 percent. It should be noted here as you will, I’m sure, that we have a major currency impact on that. So net of that, we had a 25 percent organic growth, which is still a reasonable number given where we are in the cycle. The bottom line continues to grow faster than invoicing, resulting in a 33 percent growth in earnings for the quarter. And you should note that the currency impact of that is, relatively speaking, minor. So good progress on earnings as well.

Going to order intake with some further comments. We have the strongest -- second strongest order intake quarter in our history, where, I would say -- I put a judgment on it, Marine came in perhaps somewhat higher than we expected, whereas Food & Water and Energy were a little bit below where we thought we would be in the quarter. With that said, and let me already now give you a heads up on where we’re heading on the forward-looking comment, we expect the order intake to be somewhat high in the fourth quarter
compared to the third quarter, and that holds true in particular for Food & Water and Energy.

So going to the highlights. We had three announced orders in the quarter, both of them -- all three of them related to the Energy sector, two U.S. orders, mid, downstream, in the oil and gas sector and one significant offshore order in Europe booked in the Marine segment.

We have earlier guided you that when it comes to PureBallast, we thought we would see a tendency towards fleet agreements prior to booking orders as the implementation schedule carries over several years. That is indeed the case. And for that reason, we let go of a press release in the quarter indicating that fleet agreements are coming in for larger fleets, which will result in orders being booked gradually as we approach the implementation dates for those fleets in the years to come.

Moving on to profitability. As indicated, we were up in earnings 33 percent to about just above SEK1.7 billion. It’s clearly a volume effect to a degree where high invoicing is yielding result. But I would also say that in the organization and especially in our sales organization, the productivity numbers are very good, and we’re obviously getting good leverage out of the invoicing growth at that -- at this point in time.

Some divisional comments then specifically starting with the Energy Division. Demand remains firm in almost all segments, driven by a high oil price. We did have a sequential decline driven by some seasonality and the timing of some larger order bookings between the various quarters. So, the sequential change is not an indication for where the business sentiment in the energy sector is at large.

The activity level is very high in oil and gas specifically, and our running rate is now above SEK6 billion on a yearly basis compared to the previous peak where we were just above SEK8 billion. So we are three quarters to the previous peak. We have indicated to you we don’t necessarily expect to reach that peak again, it was an extraordinary time in the oil and gas business. But certainly, the way it’s going, we are approaching a level which is relatively close.

Food & Water Division. We had, as expected, a bit of a sequential decline after two very, very strong quarters in order intake for Food & Water, and several end markets in Food & Water were, in the quarter, a bit slower compared to Q2. We don’t interpret it as a
fundamental change of the market sentiment. We think the market remains healthy in these areas.

Increased invoicing and improved capital sales mix improved margins for the first time above 16 percent for the division, the first time in the two years that we have existed. I would say that apart from volume effect, as you know, we have worked with project selectivity and project execution in the food area during these two years, and that improvement is continuing to give stability to the earnings situation in the Food & Water Division.

Moving on to the Marine Division. Let me start by saying from a market point of view, as you have probably seen, Clarksons has revised the forecasting for 2018 down somewhat to previous levels, which in our world indicates to us that we would probably see an overall contracting in '18 being similar to what we had in 2017. The mix in terms of the ship contracting remains favorable for Alfa Laval. And consequently, we find that the market at this point in time is relatively stable after 2017 finished a bit higher than everybody expected. There is continued good demand for cargo pumping. And as I indicated earlier, especially strong orders for PureSOx. And that puts the Marine Division on a small sequential growth compared to the strong Q2. The order book is largely sold out for 2019 and is moved -- has moved into 2020 at this point in time, with some order bookings already into 2021. From an operational perspective, it was a solid quarter, well executed, lifting the Marine margin up to a level just above 17 percent.

Moving on to the Greenhouse. As indicated, the turnaround work as such is largely completed. We posted a profit margin in the Greenhouse at just around 7 percent. Our ambition all along has been to find a way to discontinue Greenhouse either by reintroducing part of that into our existing divisional structures or that we are finding a different parent and a better parent for the long-term development of these businesses. We are now at the stage where the profitability starts to be on the level where it should be, and you should expect that we find a solution to the Greenhouse structure going forward in the next couple of quarters.

Then Service. I have indicated a number of quarters that the Service growth is not where we wanted to have it. At this point in time in 2018, we have reached a year-to-date organic growth of 3 percent in the Service business. It is -- it remains lower than what we want to see. But at the same time, we have also walked out of a couple of service contracts that we don't find as attractive from a financial point of view that they should be.
So consequently, we have also lifted the gross margin in the Service business at the same time as we, at least, got back to a reasonable growth number in Service. And I'm happy to see that year-on-year, we actually have all three divisions on pluses in some instances, small but still on pluses across the board. A lot of work remain. We continue to strengthen and create focus on our Service business, but we start to see some positive results on the work we've been doing.

Turning to the business unit structure.
We are working on a broad-based organic growth strategy, as you know, and we continue to have positive year-on-year development in essentially all of them. The Greenhouse, for obvious reasons, is not on a positive note. But apart from that, it is really only high-speed separation that, after a number of very strong order intake quarters, find themselves on the small minors. Other than that, 11 business units show year-on-year organic growth. You may also reflect on the fact that in the quarter, Marine accounted for 45 percent of order intake, the highest share we've seen on Marine in modern days.

And with that, let's go to the next slide.
And we wanted to give you a little bit of a picture what is happening in our organic growth. And if you start with the numbers that you see there, we now have seven quarters. And as we -- our guidance indicates, we expect an eighth quarter of good, solid organic growth well above our organic growth rate over the cycle of 5 percent.

Now it may be interesting and relevant for you to note what is the like-for-like comparison exclusive of the Marine environmental pictures, and here you have that. As you can see, the Marine environmental had a major impact on the Q3 order intake. But taking that part of the growth out of the equation, we are still on approximately an average of 10 percent organic growth per quarter over the last seven quarters. That is clearly higher than our target, but we should be high in our target during the uptick of the cycles in order to handle the 5 percent average over the cycle. So I feel we are pretty much where we should be on the organic growth part.

And as I indicated in my forward-looking comment, the difference -- sequential difference between Q2 and Q3 is, in our expectations for the guidance, not the trend curve, it is just a phenomenal Q2 and a slightly weaker Q3.

Let's go into the regional orders.
Perhaps the most interesting part with the regional orders is the fact that Asia, Latin America and Eastern Europe account for 55 percent of order intake, which puts Western Europe, Nordic, North America as a minority in our pie chart. And that is also a big development for us that has been gradual over the last two years.

Looking at the rest of the pictures in specific geographies. We particularly enjoy the fact that Latin America has turned stronger, including Brazil, after a period that has been less attractive.

Looking at the rest of the pictures, we have perhaps a little higher expectation on North America in the quarter given the good business sentiment that we have there. So that didn't come through as strongly as we would like. And as for the rest, it was certainly, year-on-year, a very positive development, including Asia, of course.

And with that, I would like to hand over to Jan for some further financial comments on the quarter.

Jan Allde:

Thank you, Tom. So I'm going to start with some short reflections on Q3 result myself.

So as Tom was saying, we continued to see a strong organic growth year-on-year, evidenced by our orders being up 26 percent in Q3 at constant FX rates. This is driven by high demand in all our key end markets and especially Marine and Energy division. The high sales volumes, in combination with the improved productivity and cost control, is resulting in a high double-digit profit growth. The operating profit, in combination with reduced tax rate year-on-year, contributed to an EPC -- EPS growth of above 60 percent in the quarter and also year-to-date.

Finally, although we continue to invest in R&D and manufacturing footprint as well as our working capital to support growth, we could -- reported good cash flow in Q3 and increased our return on capital employed to 22.1 percent and reduced our net debt-to-EBITDA ratio to 1.08.

So as Tom covered order intake, I will move directly to sales. The guidance for sales was, we believe that invoicing in Q3 should be on about the same level as in Q2. We realized sales of SEK10.1 billion in Q3, including close to SEK600 million from a positive currency impact. And I would say this was on the level we expected at -- and at constant FX rates, sales were up 17 percent versus last year but down 3 percent sequentially.
Let me then give you my view on what to expect for Q4 sales. We believe that invoicing in Q4 should be higher than in Q3, a normal seasonal pattern.

Moving on to gross profit margin. So gross margin came in higher in Q3 compared to the previous quarter. The increase was mainly due to a positive FX impact and a smaller adverse effect from metal prices than expected.

Let's move on to the next slide for some further comments on the gross margin.

So year-on-year, we saw a significant negative mix effect with a Service share approximately 3.5 percent units lower than in Q3 2018 versus last year. And this was particularly in Marine and Energy.

We benefited from higher volumes and better load in many factories. However, the extra shift we are -- added in some of our factories to increase capacity have impacted our cost and margins.

Metal prices have been somewhat higher than last year, however those increases only gradually impacting our P&L and, to a large extent, have been offset by sourcing savings so far.

And finally, we did have a positive FX impact versus last year.

Sequentially, we ended up pretty much as expected, with the exception that the negative impact on FX were somewhat less negative than what we assumed. We had a positive FX impact in Q3 versus a negative impact in Q2, hence a large positive swing quarter-on-quarter. Both the mix and the load ended up roughly unchanged.

Now the second forward-looking statement. As the higher sales volumes in Q4 will come primarily from capital sales, we'll see a further negative capital sales service mix effect in Q4. However, the strong growth we are enjoying will continue to provide a good load in our factories. And we do foresee some headwind from somewhat higher metal prices.

Now finally, as stated earlier, metal prices are on a somewhat higher level than last year, and those (pieces) are gradually impacting our P&L. So far, we have managed this through sourcing initiative, but we have now also started to update our prices for our standard products.

So going to the highlights. As you know, we continue to invest in our product portfolio, and R&D increased by 10.2 percent year-on-year. S&A expenses were up 7.7
percent in the quarter, explained by the increased activity level. And one example of this is to support our environmental products in Marine and the launch of new product platforms.

Looking at other costs and income, came out with a negative net of SEK139 million in Q3, which is approximately on the same level as last year. However, it includes an income of SEK38 million from a litigation against the former owner, Ashbrook Simon-Hartley, where Alfa Laval has received a purchase price reduction. It also includes costs related to the footprint program of some SEK30 million out of the SEK150 million forecasted for the full year.

I'm pleased with the EBITA margin of 17.1 percent in Q3, which is some 100 basis points above last year despite a fairly large investment in, for example, R&D and our footprint cost and the much lower Service share versus last year.

The tax rate in Q3 were at 26.3 percent. And year-to-date, we are now at 26.8 percent. And we maintain our tax guidance of 26 percent going forward.

Earnings per share increased from SEK1.59 to SEK2.56 due to the stronger EBITDA performance, and the lower tax expenses. And as said earlier, we are pleased to see that the return on capital employed is up to 22.1 percent and hence above our 20 percent target.

Then some divisional comments.

Again, pleased to see that all divisions are reporting operating margin above our group target of 15 percent. Specifically, Energy came in at 15.1 percent with a positive impact from higher sales volumes, offset by a negative capital sales-to-Service mix and higher S&A costs compared to Q3 2017. Please note that the S&A cost in Q3 last year was unusually low.

The operating margin in Marine was higher, driven by higher invoicing but partly offset then by a negative capital sales and Service mix.

The margins in Food & Water came in higher than last year, again thanks to higher invoicing volumes and a favorable product mix despite the somewhat smaller Service share.

Then going to cash flow.

First of all, I'm pretty pleased with the cash flows development in the quarter. Cash flow from operating activities increased by SEK306 million in Q3 versus last year primarily due to the higher EBITDA levels. Our working capital increased slightly, and taxes paid was about the same level as last year.
CapEx in Q3 came in at SEK460 million, which is an increase of close to SEK300 million versus last year. This increase is well in line with our plans for the year and affect both initiatives in our footprint program and also the ramp-up in capacity that we have made in selected factories.

Financial net paid, excluding FX impacts, were at SEK24 million versus SEK21 million in Q3 ’17.

This means that our cash flow came in at SEK877 million, positively impacted by the strong operating cash flow, then partly offset by the higher investment and working capital levels. And this brought our -- us to a net debt/EBITDA of 1.08 at the end of September.

And just to round out cash flow, you should expect capex for the full year to be somewhat above our previous guidance of SEK1.2 billion. And secondly, we will build or continue to build working capital in line with the sales growth in the fourth quarter. We will provide more information on CapEx at our Capital Markets Day in November.

Then to FX.

So FX impact on EBITA in the quarter was a positive SEK50 million. The transaction effect was a negative SEK25 million due to the weaker U.S. dollar and could -- partly offset by our favorable hedges, and the revaluation effect in the quarter was minor. The translation effect in Q3 was a positive impact of SEK70 million due to the weaker kroner. Please note that we have corrected the transaction effect in the first half of 2018 from (zero), as previously reported, to a negative SEK40 million, and this is due to an error detected in our calculation.

Looking at the projection for full year 2018.

We expect a negative transaction effect from the weakening dollar impacting our open exposures of approximately SEK80 million. On the other hand, we expect a positive translation effect on the same amount, which means that the net currency impact in Q4 and the full year to be close to zero.

Then if we look at the order backlog.

At the end of September, we had a backlog then of SEK22.8 billion, which is an increase to a positive book-to-bill of 1.12 in the quarter. That means our order backlog have increased by 21 percent since end of 2017 at constant FX rate and now represents
some seven months of LTM sales. For shipments in 2018 -- or in Q4, the backlog amounted to SEK7.9 billion, an increase compared to same period with SEK1 billion.

Then move over to the bridge for the full year sales.
So then starting with the sales year-to-date at SEK29.5 billion, and then the backlog for shipment for the remainder of this year amounts to SEK7.9 billion. And because of FX translation, our best estimate is SEK0.3 billion for the fourth quarter based on the closing rate at end of September.

As you know, in Q2, we closed on two divestitures in Greenhouse, which will take out sales of approximately SEK100 million in Q4. And this all adds up to a total of SEK37.6 billion. And for your reference, the level of in and out for orders in Q4 last year was SEK3.1 billion.

And then I hand back to Tom.

**Tom Erixon:**
Thank you. And then finally, the forward-looking comments.

As indicated, we believe fourth quarter will be somewhat higher than the third quarter in terms of order intake. And on a divisional level, we expect Marine to be on about the same level as in Q3, whereas as we expect somewhat higher order intake in both the Energy Division and in the Food & Water Division.

And with that, the presentation is closed and we are open to question.

**Q:** Yes. Good morning. I just had a question first on the scrubbers. So, what you see with the frame agreements is that as part of this SEK2 billion order intake in the quarter, you have basically taken another X million of frame agreements on top of that, that will be recognized closer to the delivery of the scrubbers, I guess, during 2019. Can you sort of quantify the amount of this frame agreement that you haven't recognized yet?

Then secondly on scrubbers again. When do we see to -- a significant impact on the sales in the Marine? Was it already now in Q3? Or how does the pattern look like ahead of 2020?

And then finally, my third question. Net debt-to-EBITDA is going down to close to one times. What's your priorities going forward? You talked about the increased CapEx. But in terms of M&A versus potential dividends to shareholders, what's your priority right now? Thank you.
Tom Erixon: Well, let's start it here, our priority is to make a lot of money. And right now, we're still about -- we have a significant debt load, although, of course, it's manageable. So we don't have a commitment on that. Our CapEx program will not have any major impact on our debt or balance sheet position. So we can essentially disregard that our running pace is already higher than it was, and we don't foresee that's going to grow on a quarterly -- quarter-by-quarter level beyond where it is today.

While we all are a bit concerned when there are volatility in the stock market, I think to a degree, we've seen in the past on possible M&A targets that the pricing has been incorrect. And there, we have consequently moved out of a number of processes. Maybe the adjustments we see in the market right now from sellers' expectations will open up the M&A opportunities from our point of view a bit better than we've seen in the past. We, however, are very focused on staying disciplined when it comes to how we look at the M&A opportunities and what we are prepared to pay.

On the scrubber side, I think actually, our comment on fleet agreements, as we call them, has been focused on the ballast water market, which is the far larger market in terms of the fleets that needs to go that way. Whereas we have indicated 5,000 to, let's say, 6,000 ships, which is Clarksons’ current forecast for the scrubber market, we believe that the ballast water installations will be in the range of north of 30,000 ships. And consequently, the need for fleet agreements are substantially bigger in the ballast water. And that, with the addition that there's a five-year implementation program for ballast water, made it obvious that fleet agreements would probably be the natural way to deal with the retrofit period for fleet owners. And we just wanted to confirm that to you by doing that release.

It is true that we see that to a degree also in the scrubber market. But I have no forward-looking comment as to what we will see in the order book from that. I remain with the guidance we've been giving the general market before, which should basically make you comfortable to say that, well, that pickup that we've seen in '18 is well in line with that and we have expected an order and delivery situation going forward which is not all that different from what you've seen in the market in 2018.

Q: And may I ask in terms of number of scrubber installation what's your annual capacity right now?

A: We don't give the exact details when it comes to numbers and exact -- you can work yourself backward, obviously, a little bit in what we've been sharing with you, but I
don’t have a detailed update as to how those numbers look. We think we have the market position that we have been looking for. Let's put it like that.

Q: Excellent, thank you.

Q: Yes. Thank you for taking my question. I ask them one by one. First of all, thank you for providing the EBIT bridges for the divisions in the report. That's really helpful.

The first question is also on scrubbers actually. I remember you saying in Q2 that they have a very careful booking policy on the orders, and so there was probably a bit of an overlap from Q2 orders into Q3 once you get the final advance payments. So I was just wondering, should we assume that the general activity level on scrubbers was even higher than what you've shown and so there's still a bit of a tailwind for Q4? And also, maybe looking a little bit more out now that you're kind of booked out for next year, are you seeing ship owners as taking then a little bit slower approach when it comes to installations beyond the deadline? Or do you still see a good activity level also for installations past the due date? That would be the first question. Thank you.

Tom Erixon: Yes, it is -- I mean, it might be true that -- as you rightly point out, we don't know exactly how downpayments fall within the quarters. And some of those on the scrubber side, they are as individual ships, not large. But sometimes, shipowners decide on the number of ships at the same time. So in totality, it becomes a little bit unpredictable for us as to how we should expect the bookings to happen.

I don't have a special guidance. So maybe Q3 was a little bit higher than we thought. I still would caution you to overreact on the quarterly order bookings on the scrubbers. We think we will see variations between quarters. I've said that already, I think, six months ago. And sometimes, they might be a little bit higher and a little bit lower. I think the essence of the question here is your second part, which is how will the order pattern look like now that sort of the slots in the market are basically sold out out until the implementation date?

Our general feeling is that the financial attractiveness of doing a scrubber installation will remain the same in 2020, 2021 and 2022. So, I think there will be a continuous investment process into the scrubber side. So we haven't really changed our opinion since a couple of years ago on how that will play out. Whether we will see a bit of a slowdown after a period where actually the way is to get the date set as quickly as possible at or just before -- just after 2020 deadline, that could be. And you have to ask yourself at what point in time are actually shipowners interested to do down payments for
projects that's going to be implemented three years from now. We do have an order book already for 2020, and we actually do have, to a limited degree, an order book into 2021 as well. So we do see forward-looking order bookings happening, but I would be surprised to see that we have a filling up of 2021 already in the near term. So let's see where that goes, but that's as good a guidance I can give you.

Q: I guess now that this experience building period is not coming, as decided last night, that's probably reassuring for your clients then to move forward ahead on this, I would guess.

Tom Erixon: Right, I guess so.

Q: Second question, please. I think -- I can't remember you mentioning the impact of higher LNG carrier orders because I think that market has been also quite active. So has that influenced your Marine order intake yet? Or is this something that is still coming because you have also the inert gases and then things like that? I was just curious on LNGC.

Tom Erixon: I can't give you an exact answer on that, frankly, out of knowledge. What I would reflect on is that we are seeing a very favorable ship mix overall now. It has been true in -- already to a degree in '17 and certainly in '18. Our bookings in Pumping Systems is an indication of that, where I think we've been coming out stronger and ahead of actually the Clarksons' data when it comes to some of the cargo pumping solutions, as we have indicated in previous quarters, and that remained good for us in Q3. So if you look at the approximately 1,000 ships that is being booked, what is striking is that you'll see that dry bulk side is an unusually small share of the overall. And that's often where you have the large numbers. And so on container, on cruise, on wet bulk in general, and let's include the LNG side on that, the numbers are fairly reasonable even looking at the historic context. And I think that is an explanation why we can do a decent number on order intake in the Marine in general outside also of the environmental, because that's where our revenue opportunity is the best.

Q: And last question maybe for Jan just on the metal prices. Obviously, those have come down quite a bit since the peak. So should Q4 be the last quarter where you see a sequential kind of negative impact from the increase earlier this year and then it should start to soften from Q1? Or how should we look at metal prices?
Jan Alldé: Yes, as I said, we see a bit of a gradual impact coming from, I would say, the higher metal prices that came through in the beginning of the year. So without going into too much guidance of 2019, I mean, we will see some impact in Q4. But as I said, we’ve been managing the situation in a good way by really offsetting it by obviously by management savings. But we are taking the opportunity now to increase prices on our standard products, which, of course, is -- I think the timing is right for that.

Tom Erixon: I think if I may add to Jan’s answer. What I think we in general see, and I'm sure you see it in other companies that you're following, is that the metal -- the commodity price increases that we've seen in this year have taken some time for it to transfer into the overall supply chain. So we see cost increases in our supplier base in areas that are not directly commodity priced, let's put it like that. Then I think that is also what some of our customers will see from us. So we have a clear cost inflation in the supply chain today already, and I think it’s the market as a whole, driven by energy prices, metal prices and a number of factors. So I think that -- I'm not sure that the equation is as easy to just take the metal prices. But other than that, I'll take your comment on the commodity price that may -- there's certainly not a strong growth in metal prices in the cards right now.

Q: Yes. Thank you. That's it from my side.

Q: Yes. Hi, Tom and Jan. There are a couple of questions from me. First, also I want to start on the scrubbers. You are now taking orders for delivery into 2020, 2021. What are you doing on capacity in light of this? Obviously, fears of bottlenecks out there earlier, but the delivery pattern now stretches out beyond 2020 as the IMO enforcement is getting stronger. We're hearing this coming out from the meeting in London this week. The increase in CapEx for this year, that you flagged at the last Capital Markets Day. We understand that part of that was to increase capacity on the environmental side in Asia. Are you planning to add even more capacity? Or are you happy with what you have right now?

Tom Erixon: I think we are internally on a -- if I remember correctly, I think we're on supply plan number 4 compared to where we started. I'm not sure whether we're going to go to supply plan number 5 or 6. We also have to judge a little bit. Right now, let's put it like this, what is important, it's not a very CapEx-intensive buildup. So it's not a major driver on our CapEx change. And so the key part is actually to build the competence in the organization. There is a fair amount of the qualified welding
involved in this. So attention to quality and the people and the operators is very high. So that's one side of what we're doing on the environmental.

The other side that is not perhaps being talked so much about but is a huge task for us in industrializing this thing is that there is a need to build a global service organization around this as well, and there's going to be thousands of ships running around with this equipment. So we are in recruiting, training in a big way to industrialize it. You sort of have to look at this a little bit from the point of view that we are essentially building a new company around these things, from product to supply to service and sales to -- if you take the running rate of this quarter, which not necessarily is the fixed running rate, but anyhow, it is (SEK8 billion). It's not -- this is not a small thing to do.

So I would be a little bit hesitant to have the ambition to cover a full retrofit period over a limited period of 24 months and try to scale the capacity way above where we are right now. I think there are other bottlenecks in the system as we go forward.

The shipowners' own CapEx interest over the next 12 months will have some limitations. The repair yards' capacity for installation will have some limitations. So I think we found ourselves in a market position where we are for sure not able to take care of all of our strategic customers in the way that we would like in the short term. That is true. But at the same time, I don't think the answer is to go totally (haywild) the short-term capacity to try to fix an almost impossible industrial demand of putting 5,000 ships on a scrubber before 2020. It could never happen. It is not happening. And I think the argument for doing this in 2020, '21, '22 is as big as doing it for 2020. So that's the approach we are taking. We want to do it in the quality way over a period of years. That's what we need. That's what the industry needs. And I hope that our customers bear with us in a bit more long-term thinking on this thing.

Q: So obviously, you have capacity issues outside of Alfa Laval as well. But we're hearing that old yards are now opening up for retrofits as well. So it feels like the industry as a whole is adding capacity. But yes, not too much, obviously, yes, the balance.

My second one is on the mix there in Marine. A solid margin but could move even higher as you start to invoice the Pumping Systems more, I would have thought. To what extent did Pumping Systems help invoicing in the third quarter? Was that yet to come through? And also on the mix in Energy, I think you said before that the main reason for the margin falling from north of 18 percent at the peak to 13 percent at the trough was volume and mix, not price pressure. So it's high-margin oil and gas volumes that drove the mix. And obviously, that should work in the same way on the way up. So I'm just thinking,
if you could help us first on Marine mix going forward on pumping but also to discuss a little bit what you see on Energy.

Jan Allde: I think we can say on the Marine side that the -- I mean, the invoicing on the pumping side was strong in Q3. So that certainly was the fact. On Energy, what can we say there, Tom, to help them guide?

Q: Let me ask it in a different way, Jan. So obviously, very strong. We are not back to the previous peak when it comes oil and gas upstream, and midstream, LNG, et cetera, is still lagging. But is there any reason why this margin shouldn't go back to the previous peak? I mean, are we seeing any price differential compared to the previous upturn in oil and gas? And obviously, you've taken out costs that you at least in the past have said it's more structural. You have to add SG&A, of course. But the cost cut, the SEK500 million, that part that is within Energy, within that, obviously, should be retained. So my question is really thinking a bit out to maybe one or two years, if you could discuss the possibility to get back to that 18 percent.

Tom Erixon: Yes, I'd make the following reflection. If we go particularly upstream on the oil and gas side, it's clear that the drilling processes today are significantly improved compared to before. And you've had -- have sort of been able to follow that from the discussions on what is the breakeven level for the oil price in order to deal with the shale assets. And that's come down a lot.

And you can -- if you do a comparison and look at the rig count today on the land-based rigs compared to where they were at previous level, you will find that the efficiency of capital in the oil field is on a totally different level than in the past. So I think the efficiency gains and the improvements that the operators have developed during the low period, they are here to stay. And I think that is the structural reason for why we don't immediately expect to find a level nor -- on perhaps on margin nor on absolute volume that is going to match recent history. And there -- with that said, I think, as we also indicated, even on the Service side, we've been a bit slow to come back on upstream oil and gas. I think we have it confirmed at this point in time that the equipment overhang that was in the market after the previous peak helped operators run at lower service level and with equipment in the markets. So we see a positive development opportunities in the energy sector for the time to come. But I'd be a little bit hesitant to meet your hypothesis that we are racing back to the previous peak.
Q: All right. My final and a quick one is on the guidance there in Marine into the fourth quarter. I think you're saying same level. Are we then thinking Pumping Systems continue to be weak and Separation & Heat Transfer to continue to be weak following the weaker contracting but that the scrubbers would be more than an offset to balance that out? So strongest scrubbers fourth over third, is that the reasoning?

Tom Erixon: That is a more detailed guidance than we do. I think we are stretching ourselves to go in the divisional level. But I would like to point out that the Pumping Systems order intake for Q3 was very stable. We do have, obviously, in that area ups and down between the quarters. But if you would give me the Q3 numbers for Pumping Systems where it continues over the next two years, I would take them.

Q: Thank you.

Q: Thanks. Hi, Tom, Jan. Just a couple of quick more follow-ups from me really. Just on that last comment around your oil and gas business, in the upstream segment. I mean, I know that your drilling business has halved in order intake since the beginning of the year, Q1, where we were cruising well above SEK0.5 billion. Now we are half of that, including in the Energy segment, where you've also halved. You talk about more sort of structural pressures, which I understand. But we -- you're also more levered to a U.S. land market where we've seen some bottlenecks impacting activity, particularly in the Permian. So I just wonder whether when you talk to your customers, how much do you get a sense of this being a slowdown, more of a pause related to lower completions activity and broader slowdown in U.S. land, i.e., more of an air pocket versus, as you were suggesting, it sounds like much more of a sort of a structural headwind that's hitting your business?

Tom Erixon: Yes, I certainly don't -- I had the opportunity to spend some days in Houston just a couple of weeks ago, and my take from that is that there is nothing near a slowdown when it comes to activity. I think our variations between quarters on their upstream is not a reflection of business sentiments, it's more a reflection partly on just the number of orders that come in certain quarters; I think partly, at least right now, a reflection of long lead times from us when it comes to certain parts of our equipment.

And in the oil and gas sector, as you know, long lead times is not the favorable thing to work with. So the truth of the matter is that in some areas, we are simply part of a bottleneck problem in the Permian basis (sic - basin), and we are working hard to resolve it as well as we can. But that's the situation.
I think the other aspect that you should keep in mind is that in certain areas, there still is an equipment overhang, of equipment that went idle at the last downturn. And so we look fairly positive to the coming years when it comes to the underlying demand as new equipment is becoming older, as we would see us -- service requirements increasing again. So I think the time to stabilize the demand-supply situation in -- from the downturn we were in has -- we are not at the equilibrium yet. And so I look forward positively to the coming years in this sector despite what you see in quarterly comparison in 2018.

Q: And secondly and finally for me just on scrubbers. And forgive me, I appreciate you're getting 9 out of 10 questions from scrubbers, but I would just want to try and understand and, again, with the risk of preempting your Capital Markets Day statement. Are you in a position now to sort of reassess the addressable market opportunity, your 5,000-ship and EUR5 billion market. And also to the question earlier with regards to the adoption profile, Obviously, it feels much more front loaded in '19 and '20 versus what you suggested at the Capital Markets Day last year. I just wonder whether -- to the question earlier around what we see out of the IMO meeting this week and particularly with the Trump administration pushing for an ease of the rollout of these rules, is there any sense among your customers that we might be holding back at that pending what happens as far as IMO and the U.S. administration is concerned?

Tom Erixon: In regard -- regarding that situation, I think we reached, unfortunately, a late turning point but a turning point in '17. I think I would peg that to Q4 '17, something like that, when it was generally accepted in the industry that this is going to go, and that's when the whole activity really picked up for real, obviously putting us and our customers in a very time-squeezed implementation schedule when it comes to this. So that's sort of where we are. With IMO decision, that obviously didn't change. Can it still? It could. Does it really impact the market and the business in a serious way? I'm not so sure. We had that situation, if you'll remember, with ballast water directive that was postponed with one year compared to the regional. The questions from the market then was, was that going to go down to zero as a result of the postponed impact? We didn't see much of an impact. Most shipowners decided to go forward with the plans that they had rather than to complicate the whole supply chain on that period of time. So I think there's an element of stability here, always highlighting to you guys use a higher discount rate on regulatory-driven investments than business-driven investments. So I think that's something to keep in mind. But we don't see it changing in a big way.
And the other part of your question was …

Q: I was just curious on your assessment of the market overall at this point.

Tom Erixon: Yes. Now the -- and very good. And so let me give you some reading advice. Keep track of -- on the Clarksons’ scrubber market analysis because as we have said a number of times, we felt a little bit alone in representing the entire market intelligence for scrubbers since 2016 and even before. We’ve been trying to scope this as well as we could for you and obviously for ourselves in terms of our planning. But now we start to see other studies emerging on this, and I think that's very helpful for all of us that we don't need to be the only estimate on the market. The Clarksons’ base case assumes 6,000 ships as opposed to the one that we put out 2016, which was 5,000 ships. So if their study is right, then we are wrong. Then you should up the market value with approximately 20 percent compared to where we had been. I would also say that if you look at our revenue -- order intake numbers right now on the scrubber side, it's clear that it's a -- the best benefit of implementing scrubbers is for large ship with a high fuel consumption. So obviously, we see, in terms of mix, perhaps a bit of a tilt towards the larger installation, higher order value installations in the beginning of a period as opposed to the later in the period. So that is also something that you should have in mind when you look at the market. And I think that's -- we will obviously touch base on this at the Capital Markets Day, as you indicated.

Q: And just very near term, sorry, your scrubber/ballast, the SEK2 billion order intake in Q3, the slight outlook into Q4, does that see scrubber/ballast up again sequentially from that SEK2 billion as you see it?

Tom Erixon: We're not guiding on the individuals. It's the best estimate of the portfolio. Let’s see what the picture is when we talk a quarter from now.

Q: Understood. See you in a month’s time. Thanks, bye.

Tom Erixon: Thanks.

Q: Good morning. Thank you for taking my questions. Let me start with continuing on the scrubbers. (Inaudible) …
**Alfa Laval Q3 earnings call**  
October 25, 2018  
08:30 CET

**Tom Erixon:** You're actually not audible. Your line is too weak.

**Q:** Hello? Yes, so let me start with the scrubbers. So I understand you do not disclose your capacity. But can you please give us some color on what you think is the realistic market capacity including the yards? So how many ships do you think can realistically be retrofitted in a year?

**Tom Erixon:** You have to turn to a different source for that.

**Q:** OK, fair enough. And what is the income per scrubber for you? I mean, we hear SEK7 million to SEK10 million from the shipowners' point of view. But how much of this actually goes into your pocket?

**Tom Erixon:** I don't know. I mean, unfortunately, you won't get an answer on that either.

**Q:** OK, fine. Let's move then to heat exchangers. Can you please give us a bit more color on the performance of different, say, heat exchanger and the markets in Q3? And then how do you see this developing into Q4?

**Tom Erixon:** Yes. As you see on the chart with the different business unit development, essentially the heat exchanger market has been positive. It's been pretty positive across-the-board. On the brazed side, which goes largely in larger OEM contracts, I would say that's a decent indicator for the business climate at large as it spreads into HVAC, to engines, to a lot of different areas. And that continues to be positive, running at very high capacity. And so as an indicator for where other -- our end customers are in the cycle, that gives us some stability in believing that certainly in the short term, we might continue to see a positive business sentiment.

The larger heat exchanger applications, particularly in process and industry in downstream oil and gas, they are subject to larger orders, especially on the welded side, where we have indicated for two years that we will see a volatility driven by large orders coming in at certain quarters and others not. That remains the case. We were obviously announcing two large orders in Q3. We believe Q4 will be somewhat higher. So we remain relatively positive in our outlook for heat transfer in general.

**Q:** Is the main driver behind this, is it mostly increasing -- so you're again increasing oil, gas and other prices? Or you see products as well?
Tom Erixon: Well, I would say this is -- the way we look at our heat transfer business increasingly is from the perspective of the energy crisis that we have in the world for the next 30 years in the perspective of the climate situation and the CO2 deal. And all of our energy consumption forecasts in the world are growing significantly in the next 20 years, and a prerequisite to handle that without a negative CO2 development part is an emergence of renewables at a certain pace but particularly an increase then of the efficiency going. And that is the lion's share of how the Paris Accord is supposed to happen. Almost all of the energy efficiency measures that are being taken is, one way or another, including thermal efficiency. And that's where we are. So we feel we are well positioned to participate in various ways in both the heat transfer solution linked to new renewable sources and including the energy efficiency initiatives that needs to happen within district heating, within process industries going forward. And I think it's good business sense for our customers to go into those areas, and it -- we believe we will have, even in the long term, a good situation for our heat transfer business.

Q: Well, I understand that the long-term support is current. But then in 2016, 2017, heat exchangers had a bit weaker market both for you and for your competitors. And so what has changed in 2018, where do you see the market getting back on track now? And then what can change it back to the trough?

Tom Erixon: I don't know if I have a more insightful -- you're sort of asking questions that are market analytical, and I'm not -- I'm running my business. We sell more and looks OK for next quarter.

Q: OK, good to know. And just last question on heat exchangers. You mentioned price increases. Do you see -- how do you see the capacity utilization at the moment in heat exchangers? I think on the last -- in the previous call, you commented that you were pretty full on the more standardized equipment, but you were still not full on the larger equipment. So how does the picture look now?

Tom Erixon: I'd say I can't give you, too. I mean, in principle, you're right, we have been clear in (brazed), we -- and some other areas. So obviously, the business is running at a high level. The one level that is unpredictable from a scheduling point of view is those that are driven by the larger orders. And there, we have variations between quarters. But I would be careful to read trends out of that. We see a significant changes in individual
production lines on large heat exchangers between the quarters. So again, let me not be the market researcher here. Overall, it's relatively positive.

Q: But is it fair to say on the margin that on the -- on this most standard equipment, so you are more or less fully booked?

Tom Erixon: No, I think I had made the comments that I wish to make. And so we cut it here. Thank you.

Q: OK. Just moving on to the margin. You mentioned that the margin was higher in Q3 because the metal prices affected you a bit less. Is it because the metal prices were lower in Q3 than you might have budgeted originally? Or that was something else?

Tom Erixon: It’s a -- we will pass on that question. Now I think if there is somebody else on the line that wants to ask a question, we are willing to take that. And otherwise, we’re going to cut it today. Thank you.

Q: All right. Thank you.

Q: Thanks very much. Good morning, gents. Just one quick one actually on Service growth. I wondered if you could just maybe elaborate a little bit on what you’re doing initiative-wise to try and improve that. I know you touched on it briefly in your prepared comments, but I'd appreciate a little bit of an elaboration.

And last one just on regional development. Clearly, an awful lot of the order intake coming from Asia and the growth in Asia. Is that something that when you look regionally at the macroeconomic environment -- I know your comments, you've seen limited impact near term on the effect from tariffs. But you called out potential impact longer term. Just wondering if you could expand a little bit on that for us from a regional standpoint.

Tom Erixon: Yes, let me start with the last question. I mean, we are encouraged by the way our order book looks. I think we are going in line with where we all expect the world to go. The majority of the world's population is in Asia. The majority of the industrial growth will happen in Asia. So I'm -- it's just certain times in this evolution where it actually becomes very clear what is happening. And I think this is one of those quarters where we (had planned only) a little bit the impact on (of a) very slow and long-term underlying change that we've seen in industry. So I'm OK with that.
The tariff situation is -- right now, I don't see -- we don't see, when we look at it, the major impact on it. It does create some challenges for us in our internal supply chain management between Europe, U.S. and China, so it's not a benefit. But we're already dealing with that and the consequences. And so I think it's OK. So I wouldn't escalate the -- it more than that other than, of course, that if this discontinues and escalates as a general happening, eventually it's going to break the neck of the business cycle. I mean, that's clear. So we're not there. Let's hope it's been resolved. But it remains a worry, obviously, for me in terms of how the coming years are going to look. So that was Asia.

Service was -- well, I think we're going to have to get back a bit to you and to the market at large with the key points on what we are doing. And there is a lag effect between what you're -- what we are doing and what is having an impact in the market. So I want to be a bit careful at this point at what conclusions we are -- what we -- that we are throwing on it. It's clear that we have a high focus on it. It's clear that we had some cyclical impact on our Service sales during the downturn in both the energy market and in the profitability of the shipowners, impacting a little bit what we've seen. It's also clear that when we look at our Service portfolio, our underlying spare parts business is developing well, whereas part of the repair market in -- particularly, I would say, in part of the marine industry, the repair market has changed a little bit, causing us to walk out of a few areas and probably resulting in some shipowners turning to more local suppliers for welding jobs and repair jobs not the least on the boiler side. So that -- we are relatively positive on where the underlying situation is, including the margin development in the Service business, for the quarter.

We see -- I would say looking forward -- and again, we will come back with a little bit the main parts of our action plans in Service. It's a bit too early for me to nail it down in the call right now, but we also see a significant increase in our piloting and developing on our connectivity programs, building the future of our Service business as well. And certainly, those actions are not in the numbers yet. I think it's going to take a little bit of time. But I think you will see that down the road, that what we are doing in Service will be clearly laid out to you, and I hope our customers will like it.

Q: OK. Thanks very much. If I could just segue then into a quick question on (in-for-out), which is what -- could you -- have you got any idea what the growth of your (in-for-out) business was in Q3 year-on-year just so we have an idea of the momentum we need for the -- for Q4?
Jan Allde: I don't think that we can give that type of information. I mean, I told you what the (in-for-out) was last year, and I think that should be a good guiding factor for you.

Q: All right. Thanks very much, that's very helpful.

Q: Hi. Thank you for taking my question. Just two left, quick ones. First one on scrubbers. There were some discussions on China banning open-loop scrubbers and also some from -- and some other legislation. And my question, whereas, to my understanding, you primarily sell open-loop scrubbers, how much it would impact you if it's -- if they would be banned? And your earnings contribution or are the sales size of closed-loop or hybrid systems larger compared to open-loop ones?

And final question is on politics or -- particularly this time not on Trump or anything related to this but on Saudi Arabia. Can you elaborate on your exposure to Saudi Arabia, particularly on the Energy side and how particularly sanction would hurt you -- them?

Tom Erixon: Yes, on the scrubber side, let me just say that we sell what the customer order. And to the degree they want to go to closed-loop solutions, we are -- or (with) that, we have an overweight on open loops at this point in time. I think it's related to the type of ships that we primarily deliver to. So I think you will see differences between the scrubber solutions for coast-to-coast traffic versus the Transocean traffic. But I don't see that those decisions are impacting us positively or negatively. I think there will be a difference in the type of products that are required. The one category we've stayed out of so far is the in-line solutions that may be suitable in some instances. We've been having some technical concerns on that and consequently haven't gone there. But I think I would see us as relatively neutral in those scenarios.

On Saudi Arabia, we have less than 1 percent of our order intake in Saudi Arabia, so it's not a make it or break it from the point of view on how our order intake on Energy looks. I would give a prediction that to the degree the world decides to go on the sanction basis against Saudi Arabia, we will see a major impact on the energy prices, and we will see a major investment boom in other geographies. So what the net-net of that will be, I'm not sure. I think that political decisions related to Saudi Arabia needs to be very much thought through. The implications are that (they) destabilize the Middle East with sanctions against the two major oil exporters of Iran and Saudi Arabia in parallel is raising the stakes in the Energy game significantly. So let's see where that goes.
But as to your question on Saudi Arabia specifically when it comes to orders, it is less than 1 percent at this point in time.

**Q:** Thank you. Thank you.

**Tom Erixon:** All right. Should we take last question from here?

**Q:** Good morning. Just coming back to raw materials. Have you had any supply chain bottlenecks at all that have caused any additional costs? And really, by the end of the year, do you think you would have recovered in full all the headwinds from raw material price rises?

**Tom Erixon:** I mean the bottlenecks are not materially related. They are -- we have bottlenecks in our supply chain partly included to our sales and partly including to more complex component suppliers. So there are certain areas that are squeezed for us. And I don’t expect that we have a quick resolution on that. It’s difficult to qualify new suppliers into technically advanced applications. So we are, unfortunately, where we are when it comes to meeting the demand where it escalates very quickly.

I think we commented on metal prices before. I think on the commodity side, that is probably true. I’m not sure that the cost inflation from our general supplier (base) has fully eked out on the back of cost increases in plastics, petrochemicals, oil, energy, to a degree. So we are in a more inflationary environment now than we have been for many years. I think that has implications for our sourcing cost. I think it has implications for our pricing policies. Our ambition has been always to make sure that we work both those ends, so it doesn’t hurt us too much.

**Q:** And then on the Energy business. I mean, it’s clear that sort of big improvements in heat recovery and energy efficiency are needed. Do you think customers going forward again have a tendency to do more upgrades of what they’ve got rather than just throwing away things and putting in newbuild? And in that environment, do you find there’s less competition and you get better margins?

**Tom Erixon:** I think when we look at Service, we could say, I mean, in some of the large installations that are not extremely service intensive per se, we’re actually working with a more -- getting back to the agenda what are we doing differently in Service, we actually are more proactive in some of our installed base not at least in the Middle East related to
large process heat exchanger installations that may not be optimized in the way it's running right now. So I think there is a refurbishment, the retrofit opportunity within the installed base in many places of the world that we are trying to take more care of. And with that said, when we look at some of the older installations not only from us but certainly from our competitors, technology has advanced, and we are doing technical solutions today that are fundamentally better or small in footprint.

And so -- and upselling, if you like, when replacement sale into the model solutions do offer a decent payback as long as you are ready to go in the CapEx arena, or if you're willing to challenge maybe some of your old historical belief in terms of what a heat exchanger should look like in a petrochemical plant. So I think we are a bit in a technology transition still that is not completed. The old shell-and-tube solutions that are large, bulky and operating with high reliability but low efficiency, the technology conversion is by no means completed there. So I think, yes, the opportunity is OK there.

Q: So would expect to get better margins on that than bidding for a new project where they start with a greenfield plan?

Tom Erixon: Well, I think we're often very clear that some of the large projects that are installed together with the -- as a supplier into the large engineering companies in newbuild plants, as we indicated to you, sometimes when we invoice those, it tends to impact the gross margin a bit negative. So to the degree we have an overall mix adjustment into control projects, then yes, if that mix impacts the entire mix of our invoicing in a given quarter, then you're right in your hypothesis, everything else being equal.

Q: Yes. Sure. OK, thank you very much.

Tom Erixon: All right. We have -- I think we are done for the quarterly call. May I say from Jan and myself thanks a lot and wish you a good day. And again, if we didn't answer all your questions, I certainly hope you're showing up at the Capital Markets Day in Copenhagen in November. I can assure you we have a lot of interesting topics to discuss there. Thank you.