Tom Erixon:
Thank you very much, and welcome to our earnings call for the first quarter. Let me, as always, start with a couple of introductory comments.

First, demand in most end markets for Alfa Laval remained firm and positive in Q1. All regions contributed to the record order intake. We continued a stable margin improvement landing at (17) percent for the quarter, mainly driven by volume growth and productivity. And lastly, you may have noted towards the end of our quarterly report, a whole host of new products introductions during the quarter.

Our R&D expenses have increased to a running rate of about SEK 1 billion from a couple of years ago when we were running at about SEK 600 million as a result of a conscious plan to strengthen our technology leadership in our business. In 2019, we will have a record number of product launches and I really encourage you, if you haven't already, to check some very interesting examples of new products in the market pretty much as we speak. We are very much excited about that program.

Now, let me turn to the presentation, go to the key figures. They are, as you've seen, of course, largely positive. One exemption is on the cash flow side where we – driven by higher working capital as a result of growth and increased CapEx, are just about flattish compared to a year ago. And other than that, we have solid growth, sales and EBITA is up 15 percent, respectively, in the quarter.

Order intake is at all-time high at SEK 12.2 billion. And we've been at the running rate at around the SEK 12 billion mark for the last four quarters. You may argue that there are some currency inflated numbers in there, that is to a degree true. But it's a quarter with relatively few large orders announced and, as such, we feel very good about the underlying pace of our business and base business in the first quarter of '19.

As you know, we follow our organic growth also excluding environmental applications and currency for that matter. And here, you see the picture on what share of our growth has been taken by the new environmental applications in Marine and our organic growth of the rest of our business. Earlier in ‘17, when we started our growth journey, the base business, excluding the environmental and currency, was at around the 10 percent mark. The last quarters, including this one, we've been more around – hovering around the 5 percent mark in terms of organic growth of our existing business.
You may also make the reflection that if we compare to our run rate of order intake in the mid-2016 when we changed our strategy, we were at about SEK 32 billion LTM on order intake. If you take the last four quarters, we are more towards the SEK 48 billion, a difference of about SEK 16 billion in two-, three-year period. And if you look at the composition of those two, approximately half is related to the launch of our new Marine environmental applications and about half, around SEK 8 billion, is the organic growth of our traditional product portfolio. I think that is a reasonable achievement over the years from the point of view of growth.

The margin developed well in Q1 and we had a reasonably clean quarter overall. We had, as always, various one-offs, negatives and positive, affecting the group margin. This quarter, it was rather on the negative side as opposed to the first quarter last year. Even so, volume, purchasing, pricing initiatives more than compensated that effect on the group margin and overall, we went up 0.1 percent to 17 percent for the quarter.

Looking at the divisional level, the Energy Division had a very strong demand in the quarter. In fact, the first quarter order intake was the highest since the last peak in the energy sector in 2014. Demand was strong both inside and outside of the hydrocarbon chain. Also, the margin improved despite, I should point out, that invoicing was relatively low in the quarter despite the high backlog. The margin improvement was partly a result of the improving situation from the supply imbalances that troubled us in Q4 last year, and that situation has been largely addressed as we are coming out of Q1 in this year.

Food and water had another strong quarter overall with firm demand across many of the end user segments. To a degree, we even saw some strengthening of demand trends in certain areas of the business compared to the end of last year. Specifically, the large wastewater order we announced in the quarter in the U.S. reflects a very positive momentum in the U.S. specifically and in wastewater certainly where the investments into wastewater treatment are increasing and is reflecting on our order intake in Q1. Margins continue to perform well, improving by volume, a good mix in capital sales and a continuation on the trend of lower cost of quality that we had for the last two years in products execution.

Finally, moving onto the Marine Division. We had a sharp increase in orders compared to last year and certainly also on the invoicing side. In terms of invoicing,
we’re having a good drop through with stable gross margin in the Marine business and limited growth in the admin and sales cost. And consequently, a very positive development on the earnings and the division in the quarter. The orders that were booked in Q1 reflected a fairly good ship mix in the yard contracting in 2018, which started to convert into equipment orders for Alfa Laval in Q1.

At this point, let me make a few comments regarding the Marine environmental applications also looking into Q2 this year. The environmental applications accounted for approximately SEK 2 billion in order intake in Q1 and PureSOx continued on a high level in the quarter as we expected. With the current long lead times for deliveries and the market awaiting the development of fuel deltas towards the end of 2019, we expect a lower demand in Q2 compared to Q1 specifically on the PureSOx products. Let me remind you that we have indicated since 2016 that we will see some volatilities in order intake on the PureSOx business between quarters. So, this is not a deviation compared to how we have originally stated the outlook for the market back in 2016. It's also so that, at this point in time, as you know, there are no order slots available in 2019 nor in the beginning of 2020 for new orders, which is obviously affecting customer activity in the short term.

Let me move on to Service. We had a slightly mix picture in Service in Q1. The most positive aspect in the Service was a clear rebound in the Marine spare parts sales after a weak Q4, which was sharply up. Energy Division had a great 2018 in Service. Q1 in '19 started weaker, especially in spares. However, the reconditioning services reached an all-time high in terms of volume in our service centers around the world. So, the underlying service activity, as such, has been good in the Energy Division despite slightly weaker numbers. In food and water, it was weakly positive compared to Q1 last year. Finally, on Service, you may notice that we traditionally have been in the area of 30 percent of orders and invoicing in terms of Service. At this point in time, with the large expansion of capital sales over the last two years, you’ll find that our share of Service in terms of invoicing and order intake has decreased and will do so in a period of elevated capital sales also in the future.

So, let me make just a brief summary on the divisional of performance then. It’s better across the three divisions for different reasons. In the Marine Division, as I indicated, solid invoicing growth and a good drop through resulted in a good increase in both margins and earnings overall. In the Energy Division, we have successfully addressed the imbalance issues in the supply chain and largely improved from that
situation in Q4, in addition to a good mix in the invoicing. And finally, food and water continued on a stable volume growth and lower cost of quality trend that we’ve been on for the last two years. So, all in all, for the three divisions, a fairly solid quarter.

Rounding off then with the regional perspective of our order intake and, as we should expected, it’s, of course, they’re largely positive across the global arena. We are very positive about the business sentiments in North America. Certainly, in the U.S. It continues on a high level and we had a very strong year-on-year growth in the North America market, not only related to the energy sector.

Latin America despite the minus 37 percent in the order intake is actually, largely moving forward in a good way including Brazil. The negative number is more than explained by the fact that we booked a SEK 300 million brewery order in Mexico last year which was not repeated in Latin America, but the underlying base business development is very positive in Latin America as well.

Most of Asia, and that includes certainly China, continued on a good growth path and we remain positive to the market conditions in Asia going into Q2.

And Europe, finally, including Germany, showed a stable and solid situation, pretty much across-the-board with some regional variations in the European market.

So, all in all, as I said, we felt we were off to a good start in 2019. And with that, I'll hand over to Jan Allde, our CFO, for some further financial comments on the quarterly report. Jan?

Jan Allde:
Thank you, Tom. So, overall reflections on the Q1 results from my side. We continue to see good organic growth in Q1. Orders was up 16 percent and sales were up 10 percent on a comparable basis, meaning we continue to build backlog. Our order backlog is now at a record high level.

The reported EBITA margin shows slight increase at 17 percent in Q1 driven by stable gross margin, despite the negative capital sales of the sales mix, and good cost control considering the overall high activity level in the company. The improved operating profit, in combination with the lower tax rate, contributed to an EPS growth of 16 percent in the quarter.

So, as Tom covered order intake, I will move back into sales. The guidance for sales was, we believe, that invoicing in Q1 should be somewhat higher than in Q1 last year and sequentially, somewhat down. We realized sales of SEK 10.2 billion in Q1,
which, as you can see from this slide, means we ended up in line with our expectation even as the Energy Division came in a bit on the low side.

Before I give you the sales guidance for Q2, I would like to ask you to please note that from now on, I will be based on – it will be based on a year-on-year performance rather than sequential, in line with how we present our performance in the new quarterly report. So, regard to our Q2 sales, my outlook is as follows. Considering our strong order backlog, we believe that invoicing in Q2 2019 should be somewhat higher than in Q2 last year.

Now looking at the gross margin. The gross margin came in higher than Q4 2018 and about the same level as Q1 2018, a normal seasonal pattern and as we had guided. So, let me give some sequential comments here. The Service share of sales were unchanged in the quarter providing no positive mix effects. However, we started to see a positive impact from the pricing updates made in Q4 2018, providing a total – totally positive mix price impact.

The impact from load ended up being neutral whilst we had guided for a negative effect. The reason was that despite the lower sales volumes, especially in the Energy Division, we successfully addressed some of the imbalances in the supply chain that affected margin in that division at the end of last year. We saw a positive mix from a net of PPVs and metal prices, as expected. And finally, also as expected, we saw a tailwind from FX in the quarter.

Now over to my outlook. Please note that also for gross profit, my guidance will – from now on, will be on a year-to-year basis. The starting point is the 35.4 percent gross margin reported in Q2 of last year. We expect a negative capital after-sales mix in Q2 as a consequence of a large increase in capital sales order intake we experienced during 2018.

As stated earlier, we expect invoicing to be higher in Q2 versus last year. However, as we have built up capacity in the last 12 months, we expect the loading impact to be neutral to slightly positive versus last year. We expect a neutral net PPV metals impact. And finally, we expect to see a positive FX impact.

Then looking at some of key figures in the P&L. The development of sales and gross profit was covered in the previous slides. Excluding FX and divestments positions, S&A expenses were up 3.7 percent in the quarter. (This) increase is mainly explained by investment made in the Marine environmental business and this shows that we have good cost control in the quarter.
We have continued to invest in product portfolio and R&D increased by 18 percent on a comparable basis equal to 2.6 percent of sales.

Moving over to other cost and income, the difference this year compared to last is explained by the following items. Other costs increased by SEK 98 million versus last year due to an increase in royalties paid to our ballast water joint venture partner following the recent quarter’s uptick in volumes as well as higher footprint costs – related costs, and a loss related to a settlement of an old legal case in the U.S.

Other income was SEK 59 million lower since Q1 of last year included a SEK 65 million gain from the sale of real estate.

Tom has already covered the positive impact from the new divisions, so I will talk about the development in operations and other. So, operations and other came in lower than last year, explained by higher footprint cost and a loss from the litigation I just mentioned. But in addition, in Q1 of last year, included a gain from another legal settlement making the swing of nonrecurring items between the two quarters unusually large. Also, regarding operating income, the impact from the implementation of IFRS 16 was very small. Our estimated impact for the full year is approximately SEK 40 million, positive, as stated in our latest annual report.

The tax rate was 24.5 percent compared to 28.6 percent last year. The tax rate in Q1 last year included a one-time negative impact on the deferred tax provision of SEK 30 million due to the reduced tax rate primarily in the U.S. We maintain our tax guidance on 26 – of 26 percent going forward.

And as I said before, EPS increased by 16 percent in Q1 due to the stronger EBITDA performance and the lower tax expense.

So, then looking at cash flow. So, cash flow from operating activities increased versus last year due to the strong operating results. Working capital increased by SEK 379 million in the quarter. This increase was primarily due to buildup of inventories in the preparation of executing their record high order backlog. It is important to point out that the increase was to, a large extent, offset by an increase in customer advances. Investing activities including CapEx investment of SEK 434 million, which followed the execution of our footprint program as (earlier) communicated as well as SEK 61 million payment for the acquisition of the Airec business in Energy Division.

Financial net paid, excluding FX impact, was zero. This means that our free cash flow came in higher in Q1 versus last year.
You should be aware that similar to last year, we will have a negative cash flow impact of approximately SEK 200 million in 2019 from the regulatory changes in Sweden requiring us to release the risk provisions related to our captive insurance over a three-year period ending in 2020.

Finally, regarding IFRS 16. Since now that we have decided to show our net debt position including the leasing liabilities, this increases the net debt by approximately SEK 2.8 billion and consequently impacts the net debt-to-EBITDA ratio. Excluding this accounting change, we have reduced our net debt by SEK 0.5 billion in Q1.

So, when it comes to FX impact on EBITA in the quarter, it was positive SEK 95 million. The transaction effect was positive at SEK 20 million primarily due to the stronger euro versus SEK. The FX revaluation impact in the quarter was a positive SEK 20 million due to a slighter weakening of the U.S. dollar versus NOK in Q1, positively impacting the Marine business. The translation effect in Q1 was a positive impact of SEK 55 million again, primarily due to the stronger euro versus SEK.

Looking at projection for full year 2019, we expect a positive FX transaction impact of SEK 225 million and a positive FX translation impact of SEK 160 million, i.e., a total FX impact, positive of SEK 385 million.

Then, looking at our backlog at the end of March. We have a total order backlog of SEK 25.7 billion, a record high level, and an increase due to positive book to bill of 1.2 in the quarter. This means that our order backlog has increased by almost 9 percent since end of 2018 at constant exchange rates and now represents 7.3 months of LTM sales. For shipments, in 2019, the backlog amounted to SEK 16.6 billion, an increase compared to the same period of last year with SEK 3.2 billion.

And then, let's move over to the bridge for the 2019 sales. Please note that also here, we have changed the slide a little bit. From now on, we will stick to providing input on the parameters that are known. The other items, we'll leave for you to consider even if we will provide some input to help you move on.

So, starting with Q1 sales of SEK 10.2 billion. The backlog for shipment for the remaining part of ’19 is SEK 16.6 billion, the divestiture of the Greenhouse business for take out sales SEK 0.7 billion in the rest of 2019, and this adds up then to SEK 26.1 billion. On top of that, you will need to make (your estimates) on prices and in-for-out orders and for translations impact for the rest of ’19. For your reference, the level of in-
for-out orders in Q2 through Q4 2018 was SEK 18.4 billion. And with regards to FX translation, this impact is, of course, very difficult to estimate but our best estimate is approximately SEK 1 billion positive impact based on the closing rate at the end of March.

And by that, I hand back to you, Tom.

Tom Erixon:
Thank you, Jan. Let me then give you some comments and context to our forward-looking statement.

You're well aware of, let's call it, the base case scenario that we are following in management, which has assumed that the macroeconomic environment will be largely stable in 2019, and we expect that we will see softer macroeconomic and slowing GDP growth rates coming into 2020. Based on that, we are putting our operational plans into action, knowing very well that we might be wrong in both directions.

Now 2019 started as expected. It was an OK quarter with strong economic activity and we remain with the same macroeconomic scenario that we have worked with for several years as a based plan.

So, for Alfa Laval and our sectors, in general, we expect demand for our end markets to largely continue on about the same level in Q2 as it did in Q1. We see a positive activity and positive indicators in most of our end markets.

As indicated earlier in our presentation, we do expect a lower demand in the scrubber market, specifically due to the long delivery times and ship owners monitoring fuel data towards the year-end. And given the elevation of the order intake on that side for a period of time, that has some impact on our outlook statement as to what we expect for Q2 and it leads to the following summary.

For the group, we expect somewhat lower order intake in Q2 compared to Q1 this year. For the Marine Division, we expect a lower demand. And for the Food & Water and Energy Division, we expect the demand situation to remain on about the same level as in Q1.

So, with that, we finish the presentation and we open for questions.

Q: A few questions, please. The first on the Energy side. Obviously, good to see that the downstream business is still surprising positively from a high level thinking about refining and petrochem and it could mean that we still, obviously, have further upside in the midstream. You're at a high-level near the previous peak in oil and gas, around SEK
7 billion but the mix, it looks different this time. So, it could be more upside in my view in up and midstream. We're not seeing this in the quarter though. The oil price is up sharply but upstream orders are still at a low level. Could you, Tom, please talk a little bit about the quotation activity on the equipment side in oil and gas and then also on in-for-out services where you had that weakness on the spare parts?

**Tom Erixon:** Yes, the – I mean, first, I think sometimes we get to be overexcited on whether the oil prices 50 or 60 or 70 any given month, any given quarter, the investment programs in the sector are much more long-term than that and we felt that the investment programs have been out running fairly – advancing in a fairly steady and stable pace.

So, we're, at least, last year, 1.5 years, we haven't changed our view on that. We certainly see good activity well in line with previously announced plans on the offshore sector. And I will say the structural difference we see this time compared to four, five years ago is on land-based projects, especially on the shale gas, the efficiency measures and technology development has created better leverage on the existing equipment than it was there in the past. So, let's see where the demand side goes.

I think in terms of the offshore, you should expect volatility between quarters. It is largely driven by the large orders. So, you tend to see at least some of them in the process as we progress in a quarter. But all in all, we feel good about where we are in terms on the market on energy at the moment.

**Tom Erixon:** I don't have a specific comment on the Service side as relates to the oil sectors, specifically. No.

**Q:** All right. My second one is on Marine. Solid margin here despite what I think was high deliveries of environmental, which is lower margin versus the overall Marine margin. And, I guess, the previous strong deliveries of Pumping Systems should start to comp out. And that sounds to me like a mix kind of where is Marine from – obviously, your Pumping System is a high margin or do you expect the higher volumes in environmental improving the operation gearing and that will be more than an offset versus the mix also into the next quarter?

**Tom Erixon:** Well, what we've said about Pumping Systems since sometime back was that we did have a strong order bookings situation for a period of time toward the beginning last year, if I remember the time, specifically. And we also said clearly that
the invoicing effect on those orders should not be expected before end 2018 and then into 2019. So, I think our order book, when it comes to Pumping Systems is based on the order intake from – certainly, from last year, even to a degree in 2017. So, that effect is there and it's not a Q1 effect, to put it that way.

When it comes (to) environmental applications, we've said all along that you should not expect – you should not expect the environmental applications to have a negative effect on the group margins. And I think, so far, the statement holds true. 

Q: I was thinking just this year on my numbers, environmental, within Marine, will become quite a big part. But then obviously, the volume effect is quite material as well, as an offset I guess, yes.

Then my final one is on Energy and thinking about the – you had some projects, slippages on the delivery. So, just want to understand, was that from a customer point of view or did you have any issues delivering out of the backlog? And should we see that sales slippage in energy coming back already in the second quarter?

Tom Erixon: I would not express it as slippage as such. Our delivery service out on the energy is largely well on track. The deliveries of all the – into large projects is affected when customers have receiving dates and is, in some instances, depending on having a final payments before final shipments and these types of things. So, I think what you see is some variations between amounts and quarters. We are not alarmed. There's no, as we see it, underlying issue related to the invoicing side nor do I want to express too much of the pent-up floodgates. I mean, we had a solid order book. It has – it's a solid and very valid order book and order stock is there and you see what we had in terms to delivery this year which is a higher number, certainly, than last year. So, we are comfortable where we are.

Q: Thanks very much. Good morning, Tom, Jan or good afternoon ...

Hi, Tom, good afternoon. I wondered, could you talk a little bit about the Marine business underneath – (or the) ex-scrubbers and ballast and talk just a little bit about the prognosis for demand? You've mentioned, obviously, the benefit of contracting from last year. I just wondered if you could talk a little bit about what we've seen developing so far, this year, on Marine?
And then on Energy, I think we touched a little bit on the mix benefits that you've seen there in the first quarter. I wondered if you could just talk a little bit about how that looks like or help us think about how that looks like the rest of the year?

**Tom Erixon:** I’ll start with Energy. As you know, we’re not very fond of giving yearly predictions as to where certain parts of our business is going. I think – but the one aspect that I will provide you is that we did invoice some megaprojects on the energy side last year, during the first half, during Q1 and Q2 and that had some margin effect at that point in time. I think our order book therefore for Q2 is good and I leave it at that.

In terms of the Marine side, we saw a fairly healthy mix and contracting level in various areas of the business, excluding the environmental as you rightly point out. So, we had, I think, a pretty solid Q1 order booking, also outside of the environmental applications. And as you could hear from our forward-looking statements, our view is that we see continued stable market conditions for our Marine business, including ballast water, let me put it like that so that we are clear what we are talking about here. There are some ordering patterns or demand patterns on the scrubbers’ side specifically and it has no bearing on areas outside of scrubbers. We're OK with that. And certainly, to the degree where we do book offshore business into the Marine Division, that remains also a market situation which looks positive for now.

**Q:** Thank you. Just – my first question's on the scrubber orders that you are taking. I think there have been kind of a few capacity increases from competitors. I think your other large competitor sort of previously talked about perhaps many in the industry not making money. So, I just want to understand given the capacity on the scrubber side may have increased, how do you feel about pricing of the orders that you've taken? And have you started see it may be shift from a seller's market maybe into more of a buyer's market?

**Tom Erixon:** I think my pretty clear answer to that is in, no, we haven't seen any big changes in the market dynamics. I think, to a degree, maybe this question on sellers’ market has been overemphasized in the past. It's been true that it's been a sellers’ market in a sense that we had opportunity to decide what orders we would want to go into and where we would not want to go. And consequently, we have put big priorities to our existing long-term customer relationships, and we have taken great caution to
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apply our capacities on orders where the ship series is way beyond one or two ships. So, we didn't want to engineer systems specifically for a single ship.

So, that's (inaudible) how we have deployed our capacity. So, you could say that is a selectivity tool that has not – to the degree that we've chosen certain larger ship series, that is supportive to the cost pictures and, to a degree, to support the margin in the business. But I have also reminded the market a number of times that we've been selling scrubbers for the last five years, there is an understanding of where the market prices are. And while it's nice to have a high demand for your products, you cannot take undue advantage of your existing customer relationships in a situation where they're put on the spot and then we – a couple of years from now, they're going to stick with the cost, right, then memories along in this business. So, we've been acting long-term, responsible. We developed a product strategy that we believe is right. And as you've seen from the results in Q1 where the environmental invoicing is starting to come through, what we've communicated to you as our best estimate for the business is holding, and I don't see any change on that. I think the change is related – the issue that you need to consider and certainly that we need to consider is the question of where our fuel price is going in terms of those low sulphur, high sulphur towards the end of the year. That's going to drive the next wave of investments. And it doesn't come to a black-and-white scenario. As you well know, the more the larger ships are consuming high volumes of fuel, the delta needs to be less than on smaller ships with a low fuel consumption. So, the uncertainties about the (final) market size once the retrofit is over is going to depend a little bit on how this market plays out.

Q: OK. So, maybe just to, I guess, to clarify a point within the sequential declining scrubber guidance. Is that primarily a comment on effectively you being booked out and others having capacity? Or is that also a reflection that you think the overall market size may be starting to slow from the very high levels that we've seen in Q3, Q4 and Q1? Just to get a sense whether you're sort of ...

Tom Erixon: Our market outlook statement is fundamentally describing an underlying market demand. We tend to put equal signs between that and order intake, which may or may not be fully true, but our estimate is that the market demand for scrubber solutions will be lower in Q2. And we based that part on the fact that a number of our existing customers have already placed the first batch of their fleet into a scrubber implementation and those customers are awaiting the development a little bit now for implementation of that and also the actual development in the fuel market before they
are committing the next batch. So, I don't see that this (as a game) between various competitors. But I leave that to you to judge and analyze but this is our view.

Q: OK. And maybe if you could just – I don't know if you’d be willing to give within Marine just to understand is, is the only reason you’ve guided that division down purely because of scrubbers or is that ...

Tom Erixon: The answer is yes.

Q: The answer is yes. OK. And then just the final question on M&A and the pipeline. I think – my impression at least was that you talked a little bit more about this may be moving back into focus now that a lot of the restructuring measures have been taken. Maybe if you could just sort of comment on priorities by division, how you're seeing valuations, where the pipeline is today versus six months ago? Just to give us a sense of where that is in terms of sort of your priorities and whether we may see something sort of this year or valuations thus again prohibitive perhaps. Just any comments on that would be helpful. Thank you.

Tom Erixon: Thank you. I think it's a well formulated question. It describes a little bit the situation we are in, I think, in effect. I think we are more externally oriented in our work now after the org. change and restructuring change and strategy change in the group. So, in that sense, the scouting and the pipeline, I think is somewhat more extensive and somewhat firmer than it was a year ago and certainly two years ago. I've been around long enough to realize that the acquisitions are partly about taking opportunities when they arise. So, if you go overly strategic in terms of what you want to do and not want to do, chances are you're going to do very little. So, I do have an open mind given that the targets are right, and the evaluations are reasonable. And so, if I were you, I'd keep an open mind as to where we see – where we find those opportunities in the end.

I think there's been a pricing issues on a lot of those companies. In some instances, you can do a strategic pricing if it's a small acquisition with a real long-term growth. But for many of the larger industrial entities that we may be looking at, that needs to be a way to earn back shareholders’ money. So, we tend to work with (the DCF). We are not doing multiple arbitrage as a way to drive M&A. We are doing property (DCF) calculations and we want to have the shareholders’ money back over a
certain period of time in order to make it worthwhile. So, it may be a strain. I think valuations are still a bit hot but let's see where we're going.

Q: OK. Just my take was that – from that is that your – there was a range of kind of larger deals and smaller ones in the pipeline and – but you weren't sort of particularly minded towards bolt-ons or larger. It's just much more about shareholder returns, is that fair?

Tom Erixon: Well, it is true. But at the same time, and I would say this, that if I look at all of the M&A that we've done over the last 10 years, our experience just from managing integration and managing those acquisitions is, to a degree, that the larger have been the better we've been handling it. And so if I look at the mix in terms of the number of M&As that we've done historically, I think I would be inclined, if it's not a technology player, which we did with Airec which was just last quarter, we were just a USD 2 million turnover company but with a product technology that was excellent and we had started to ramp up that product in the – in front of our supply chain as of April 1. So, it was a way to cut our R&D times and development times and getting something onto market, that is one thing. But other than that, I think we would rather look at somewhat larger entities as opposed to very small companies at this point in time.

Q: OK, great. Thank you very much.

Q: Yes, hi. Just coming back to this Marine margin, sorry for that. But you said your – there's no reason to expect the environmental margins to be negative for group average margins. Does that include PureSOx also, post the royalty payment?

Tom Erixon: The royalty payments are in the PureBallast and yes, it includes that. So, half the margin in PureBallast and full margin on the PureSOx, that's going to give minimum group average. That's our commitment to you, guys.

Q: Yes. Good. And then I was curious about this (tech) you said about the scrubber service agreement. So, I think, to my understanding and previously, we haven't talked much about the market opportunity for these scrubbers. Now you seem to have a service agreement. How important do you think that sort of business will be?

Tom Erixon: Well, what is happening in both the PureSOx, and the announcement was on the PureSOx specifically, but it's also true for PureBallast is that the functionality of
the system is linked to significant fines for the ship-owners if they get an inspection in one of the harbors. And they need to be able to prove that the system has been working while (they’ve been on) the territorial waters of the receiving harbor. And so it's not enough to inspect the system. You need to have a log and you need to have a way to show compliance. And our connectivity solutions in both of these product areas provides the ship-owner with the full certainty that a, there will be a proper log; b, they will be able to demonstrate compliance given all the different national rules that exist.

It's not global rules only. There are different caps and different regulations in various jurisdictions and our systems are able to handle that so they will know that they have been in compliance whether you’re a captain on board or if you’re a ship-owner on shore. And I think this aspect is a very important one in order to commit to a service contract that, that way, we would take responsibility for that is working.

And I think with that said, of course, we will not, in terms of share of revenue anywhere short, see the same sort of consumption norms spare parts that we see on rotary equipment but we think it can be a meaningful business for us going forward with a reasonable installed base. Yes.

Q: This installed base, you can also offer this for your own equipment then I assume, I guess. There's a lot of new entrants having sold scrubbers all over the space that doesn't really have a service organization in place, but will you be able to take some opportunity there with some small technical solution rather than having your feet in the street and doing the aftermarket service if that is done correctly?

Tom Erixon: It's a good question. I'm not sure what the – there's no black and white answer to that. But what we have seen – what I can tell you is we have been retrofitting customers already that installed a ballast water cleaning system that was not functional at all. I think the rush towards getting solutions in place has put some ship-owners into a troublesome situation when it comes to ensuring the compliance and functionality of their equipment on both PureBallast and on PureSOx. And to what degree we are able to be part of a solution to that or not, I think I (would) leave that question open.

But I have all the time said that these 50 PureBallast companies that argue that they can do an installation on a ship is pure nonsense. I think it's proven that the consolidation of the number of suppliers on, for example, the PureBallast has gone very, very quickly. We are – not that many companies around who is actually handling this market. And I think the reason is exactly what you say, you need to be able to have
a global service organization, ensure compliance, you need to be around 10 years from now and that's how the ship-owners are selecting suppliers (when they have) time.

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

**Q:** Thank you very much. Hi, Tom. Hi, Jan. A couple of smaller questions for Jan perhaps on group cost and (distortion) items and also Greenhouse. But just to clarify, Tom, on Marine margins, and I'm sorry to belabor the point, I know you don't want to open up too much. But I hear from you that PureSOx and PureBallast, combined, on a net basis, for PureBallast, is not dilutive to group margins, so call it about 15 percent EBIT margin at the group level. Obviously, PureBallast is presumably, dilutive on a net basis. So, I presume that means PureSOx is well above group margins. Is it dilutive to division margins in Marine PureSOx?

**Tom Erixon:** As you know, now you start ask on percentage term, to narrow in this guidance perhaps a little bit too much. I mean, we are in the beginning of a ramp up. We see with it with a lot of a pre-calc. And during the short period of time, we're invoicing a relative limited post-calc. So, I don't want to go too far in proclaiming margins on the detail. I think we – but I think the comment that we're making already should at least give you an indication that our original statement that the net of those two is not diluting group margin that we feel increasingly comfortable with. I think that's the statement.

**Q:** Understood. So, obviously, a big part of your backlog and a big swing factor for this year. But anyway, I understand.

Jan, if I can just clarify that there is a SEK 67 million of distortion items in the quarter. I mean, in table four – sorry, in table – on page four on your report, I think you've got zero comparison distortion items for the quarter but in the text, you talk about a SEK 67 million. Is that right? And if so, am I right in saying that the group cost or operations and other is sitting on an underlying basis, about SEK 140 million? I mean, you talk about higher footprint across still going into 2019. I think we had about SEK 150 million or so last year adding to group cost. I wonder how maybe at a slightly higher level how we should think about modeling out your group item line for the year?

**Jan Alldén:** Yes. I mean, the only comparison distortion items, so we have (inaudible) in Q1 '19. The only comparison the distortion item we have was in Q1 2018 and that
was the sale of a real estate in Peru there that I mentioned. When it comes to operations and other – I mean, there is no comparison distortion items in operations and other. So, the reason for the increase are, I would say, lower results in Q1 ’19 versus ’18, I would say, it's – let's say, about 1/3 of that is higher footprint cost. It doesn't necessarily change our outlook overall for the footprint cost in '19 versus '18. So, we said that for '19, the overall footprint cost should be about the same level in '18. Then, the rest of the difference for operations and other is related to these legal case systems that I was mentioning. So, we had a positive outcome in Q1 last year and we have a negative item in Q1 ‘19. So, it's a swing of – between those two that explains the remaining difference. Yes. Is that clear?

Q: Yes. It is clear. Sorry, I think I misread your statement. I think you're talking about maybe a (separate charge). But anyway, I understand that starting in the first quarter.

Separately and finally, if I could just ask Greenhouse, Tom. Where are you now in completing the sale of your commercial, industrial air heat exchanger business? And until that's out, how should we think about a normalized margins for the next couple of quarters in Greenhouse? I was a bit surprised to see that dropped back to negative margins in Q1.

**Tom Erixon:** Well, I mean, when it comes to part that we are looking at the – well, let's put it like this. There are some distorting issues. Obviously, when we have a small unit, which is loaded with transactional costs and there are some other things in there, so we (inaudible) troubled by the margin situation for the quarter, although it doesn't look fantastic as such. But there is a good integrity in the business that we are looking to sell. The agreement has been signed and we do, as before, expect the closing in certainly, the first half of this year. So, for every day that goes by we should be coming a day closer, but we'll prefer to have closing before we announce it but then our expectation is that we are on track.

Q: Thanks.

Q: Yes, hi there. Three questions from my side, please. The first one is on your product content in the engine room. I was just wondering – obviously, the majority of ships are going to use low sulphur fuel and was just wondering, if your content for the engine room is actually the same for ships that burns low sulphur fuel given that (the heavy) fuel oil, obviously, (needs) some pretreatment. Is it the same or less?
Tom Erixon: I think – as a guiding comment, I would hesitate to come out too strongly. I'm not sure I can overlook all of the implications for the changes. What has happened and what we believe, in many cases, will remain for new build is the fact that a lot of ships want to maintain multiple fuel options. So, in reality, you will have equipment on board to be able to handle the eventualities. The entire fleet of 60,000 ships for now sits on the fuel systems that they have and they will most likely opt to use them. For the new build, we see scrubber installations on the new build orders as well as for retrofit. And that has been well in line with our expectations as to what will happen. So, our big customers, as you know, are two-stroke engines which takes you to large oceangoing, high fuel consuming ships and we expect the scrubber installations and consequently ability to treat the fuel line and also for heavy fuel oil on the new builds side more or less in line with our scenarios. So, my instant reaction to your question is we don't see a big short-term shift on this. But there may be some shifts going towards gas and other changes, which has other implications for us down the road. But for the short term, I wouldn't factor it in as a major issue.

Q: So, theoretically, it would be different content but practically people keep the flexibility, that's what we see right now?

Tom Erixon: That's what we're seeing right now.

Q: You kind of took the second question because obviously, the next big thing after 2020 is going to more LNG propulsion to comply with the CO2 rules. I guess, at the moment, you're still a bit short in terms of LNG propulsion content. I mean, is that something you've worked in your product pipeline to increase that substantially or is that one area, because you spoke about the M&A pipeline, that you could be covering with a larger deal or both?

Tom Erixon: I think in a sense you're spot on. I think we see the conversion to gas, it's happening. It's happening relatively slowly but, nevertheless, so far, the announcement you see tend to be ships that have known port destination during the lifetime as opposed to ships that are perhaps owned and then leased out or operated by somebody else where you need full flexibility. But I (think) (inaudible), we expect that we see an increase of gas and obviously, that put some question to us in terms of how we will develop our pipeline. With that said, just want to remind you that handling gas
offshore and onshore is also part of our core business so it doesn't take us from 100 to 0. But in any case, but I think in a more gas-driven Marine world, we may want to see our product portfolio slightly different or complemented to a degree going forward. So, that is within the scope of what we're working with, yes.

Q: OK. And then just lastly, I was wondering if you could give us some indication because you mentioned scrubber sales were already quite up in Q1. I would have probably expected a bit more back-end loaded. Could you give us an indication of how big the sale share of environmental Q1 in Marine?

Tom Erixon: In Marine, it was SEK 2 billion in the quarter.

Q: That was in the order intake, right, but on the revenues?

Tom Erixon: Hold a second. So, we should be around – about half of that in terms of (the invoice booking out).

Q: OK, that's all. Thank you, Tom.

Q: Thank you very much. Hi, Tom. Hi, Jan. Could I start with the profitability in food and water? I remember when you reported Q4 2018 numbers, and a very good margin in the food and water business, you said that it was excellent execution, that we shouldn't really extrapolate that kind of EBIT margin. Now, in Q1, you are almost delivering the same kind of EBIT margin supported by a favorable mix, of course. But do you feel more confident now that food and water margin has taken a step back due to better execution or how do you feel about that?

Tom Erixon: Yes, I mean, we come from a situation where we have, sort of – when we look at our food applications going back in history, we struggled to get above the 15 percent level. So, I think we've been addressing the profitability challenge with food and water with various things and we want to see things turn out. I think, of course, with every quarter that goes it gives us some confidence. I mean, the Q4 was a very clean quarter for them. Q1, we had a very good invoicing situation and that translated in a nice way into the bottom line. So, we have been in a sense, good two quarters in a row for good reasons and that should maybe give some concern for extrapolating too much. But, of course, compared to where we came from, I think we start to feel pretty good on where we are on the food earnings. Jan?
Jan Allde:  We provide in our bridge, on the operating income for divisions, and you see there is some tailwind from FX in the quarter.

Q: Yes. Absolutely. When you mentioned the bridge – can I just confirm with you that the current impact that you provide in the EBIT bridges, that is only the translation impact or the transaction impact that lies within – because when I summarize the currency impact from the three or four divisions, I come to 55, which is in line with the translation impact. So?

Jan Allde: We made a comment in our quarterly report and I – maybe it looks like we've been hitting it. But on page 26, in the report, we actually have an explanation where – and what we mean that by currency effects in those bridges is only the translation effect.

Q: OK. So, the transaction effect is part of volume or mix or cost or something else?

Jan Allde: Yes. It's difficult to isolate that on that level. That's why we measure the – on the division level, we measure the translation effect and it's only on the group level that we look at the whole FX impact.

Q: I see. I see. Because the translation impact – and the transaction, that should at least remain as long as the Swedish krona is weak or is weak as it is. Yes, I get that you had support from FX as well. And in the Energy Division. In Q4, you had some productivity issues. Now you're talking about (inaudible) or you're saying that you have addressed those issues. So, in the Energy Division's EBIT, you do not have any negative impact in this quarter or do you?

Tom Erixon: There are a lot of effects every month. I would say that we had a very good progress for various reasons in the sites that were – or the business that was affected by this in Q4. So, I think our comment is that was largely resolved, (let's put it) like that. I don't think it's – it's not a big factor moving – we will have other problems I'm sure this year but this is not a big factor going into Q2, Q3.

Q: Yes, OK, great. And then, on scrubbers, I guess, I have to ask (you a) question on scrubbers as well. Could you give us some indication how much of the SEK 2 billion
that's related to scrubbers, was it (part) about SEK 1 billion or around SEK 1 billion or – just to get the better indication or a better feeling.

**Tom Erixon:** It is approximately 2/3 or something like that, in the …

**Q:** Thank you very much. Yes. And then could I just ...

**Tom Erixon:** No. I think we’ve got to move on because we can only take one more question. We got an AGM coming up here so (inaudible) I leave one more question on the table for somebody else.

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

**Q:** Hello, and thank you for taking my question. (This has already been addressed it) one point I would like a clarification on and particularly if you already mentioned it, the scrubber order (now it will) decrease a little bit over the next quarters and normalize and (inaudible) question is related to M&A properly in or – sorry organic. And what do you think is the next thing you’re working on which (then) kind of mitigates the lower order levels we will see likely over the next couple of quarters? Is there already kind of replacement and next (thing) after ballast water and scrubbers?

**Tom Erixon:** No, I don't think – I have to say, I spent 20 years in the industry and I never seen a situation where we have 10 to 15 years of development launched two businesses and then suddenly that we're running at SEK 8 billion running rate two years later with a profit. I think this has been a bit exceptional. I'm sure, many of you would agree. The reason why – and we've been very clear to point out that (be aware that) we’re moving into a retrofit period. There will come a day when the retrofit is over where part of these elevated installations are completed and we will be left with a new build and Service business on the environmental applications, which will normalize. So, for that reason, our growth strategy, including the product launch strategies that you see coming into effect, that is the big thing. I mean, obviously, as you indicate, we have balance sheet capacity, interest - strategic intent, to continue to drive our growth also on an M&A side. So, I would expect that we will see some progress on that in the coming years. But let's see when that happens. But other than that, I think our commitment to drive organic growth will remain very strong. And product pipeline launch this year is certainly a platform of envy in the industry, I would say. We're very proud of what we're doing on that.
Q: OK, thank you.

Tom Erixon: All right. And with that, I think – we're sorry but we have – our shareholders waiting for us at the AGM on a different location, so we're going to have to pack up and hopefully have a good AGM meeting following this. So, thank you very much for joining us and we'll speak next quarter. Thank you.

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

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