Tom Erixon:
So good afternoon, everybody. Welcome to the second quarter earnings call. Let me, as always, start with a few introductory comments and then Jan Allde and myself will go through the presentation material for the call.

So, in most aspects, we felt we had a solid and a good quarter in the second one. We recorded both invoicing and earnings on a record level for the quarter based on a strong order backlog. We had specifically a good growth in the Service orders, which grew approximately 11%, which is an unusually high number for us in the Service area.

In terms of the order intake, obviously we were considerably impacted by the low orders for business unit Pumping Systems and the business for scrubbers, which declined approximately SEK 2 billion, reflecting a somewhat unusually high order volatility between the high quarter back last year and the rather low one in this quarter.

You should note that the remaining part of the business portfolio grew with approximately SEK 500 million organically, which compensated for the divestment effect of the Greenhouse, which impacted order intake numbers with approximately the same number, SEK 500 million.

Finally, despite macroeconomic uncertainties in many areas of the world, the business climate remained positive in the vast majority of Alfa Laval's end markets with organic growth in capital sales in 8 out of the remaining 11 business units in the quarter.

And in fact, we do expect a continued positive market situation in the short term and a somewhat higher demand in the third quarter specifically for the Marine Division. I will come back to [outline] comments later on.

Let me then move to the key figures. The quarter overall developed well. Profit continued to grow faster than sales, which is a positive sign, and the margin remained stable and somewhat higher than in 2018. While costs remained high for both the Footprint program and for the elevated R&D activities we had, sales and admin costs grew with 2% in the quarter only, which was reflecting a good quarter in terms of cost control.

The order intake was clearly lower year-on-year and sequentially. Note that the successful divestment of the Greenhouse has impacted order intake with approximately SEK 500 million. Large orders were also low, reflecting, of course, normal volatility between quarters. But nevertheless, the bookings of the large orders were low in the quarter. Consequently, you saw a more positive development on the base business as such. Most importantly, the decline in business unit pumping and for the exhaust gas amounted to about SEK 2 billion year-on-year.

The margin development, well earnings continued to grow with higher invoicing and is well in line with the trend from 2016 and onwards, the operating EBITA is now on an all-time high level.
And moving to the divisional side, on the Energy Division, business conditions were favorable despite few large orders in the quarter. Order intake is at an all-time high level, reflecting good demand in almost all of the end segments of the Energy Division. Margins continued to strengthen, reflecting a full recovery after the operational issues that impacted our results negatively in Q4 and has since been fully recovered. In addition, we clearly had a positive mix in capital sales, which was a significant factor in the margin improvement for the Energy Division in the quarter.

The Food & Water Division had an order intake which remained on a high level where we've been for a period of time, although in the quarter there was a mixed trend between different end markets in the Food & Water Division, all in all evening out the order intake on a high level. The margin did decline after a strong first quarter and a couple of quarters where we had relatively good margin development in Food & Water. There were two main factors impacting the margin development in the quarter.

One was that invoicing lagged somewhat behind expectations in certain areas, affecting utilization and absorption rates somewhat in parts of the business. The second issue was that costs associated to the Footprint program in parts of the Food & Water business was relatively high specifically on the Food & Water Division in the quarter. Other than that, the business was running pretty much as usual.

Moving on to the Marine Division. Both invoicing and margin continued to develop well or even very well, I may say. Despite the low order intake in Q2, the order book remains on historic high level for the Marine business. In several areas in fact, the division continued to grow. Service grew, as I indicated before, with double digit for the first time that I've seen at least in my history in Alfa Laval. Boilers grew based on strong yard contracting for tankers in the second half of '18, which was materializing for orders in the boiler business at this point in time. And as expected, of course, the ballast water environmental application continued to grow in the quarter as a part of the ramp-up that is expected.

Let's move to the two areas of weakness then. Regarding the Pumping Systems, yard contracting has been weak in the first half of '19 for product tankers. And the decline in the tankers was already, as you know, included in our comments already half-year ago after a strong contracting cycle in the second half of '18. So largely, this is an effect of normal fluctuations between quarters and is not any fundamental change in the business per se.
Regarding scrubbers, as we have indicated before, we did expect a slowdown in orders for scrubbers in the second quarter of '19, and this follows a period of very strong demand with a long order book for Alfa Laval resulting in long lead times for new orders. Although there certainly has been a market for scrubber contracting also in quarter two, the orders in the market has favored clearly a short delivery time based on the fact that the payback cycles right now for scrubber implementations look favorable for the shipowners. And consequently, they have favored to get it installed as quickly as possible. Let me now say that compared to the scenario from the Capital Markets Day in 2016, which we have made public to you now for a couple of years, the ramp-up of orders has been somewhat quicker than we assumed back in 2016 with a strong focus on the implementation deadline of January 1, 2020. Looking forward, we have not changed our view of the scrubber market during the retrofit period other perhaps than what we already started to indicate last year. If anything, our original assumption of a retrofit period covering about 5,000 vessels will possibly be exceeded as a result of the very strong beginning of the ramp-up period up until today.

Moving to Service. It was a record strong quarter and in fact growth in all 3 divisions. Both Energy Division and the Marine Division grew double digit, not so usual in our business. Partly, internal efforts are paying off. But partly, we also had tailwinds from reconditioning demand in certain sectors and some large orders that were further driving the growth of the Service business orders in the quarter. You may want to notice that we also had a slight change in composition, especially in the Marine side, as capital sales decreased in the quarter and the Service grew in the quarter. In fact, of the order intake in the Marine Division, 38% came from Service. There was some time since we were there, but it's also show a little bit of the resilience of the business model that we had.

So, moving to the divisional summary. We had a sound financial development in the Marine Division and in the Energy Division, with good invoicing and a good margin development. For Food & Water, we had some negative margin effects from certain costs in the Footprint program, some elevation in R&D cost and in parts of the business a bit of a temporary shortfall in the invoicing. Although order intake came in low in parts of the Marine Division, we feel it was overall a good quarter, reflecting a good business condition in most part of our business.

Let me now round off with a couple of the geographical comments. And let me start on the positive sides. We had two regions that stood out in terms of strong demand growth. It was Latin America and Eastern Europe. And specifically, both Russia and Brazil is now trending very favorably in terms of our order trends. In the three large regions of U.S., China and Western
Europe, they were all affected by partly the Marine contraction that we already discussed and, to a degree also, the low level of large orders that were affecting parts of their base markets in the quarter. So even with that said, the underlying business conditions in all three regions for us showed positive indications in Q2. And with that, I'd like to hand over to Jan for some further comments on the financial performance of the quarter.

Jan Allde:

Thank you, Tom. So this time, I will go straight into the presentation and then make some final comments at the end.

Starting with sales. So we expected invoicing to be up in Q2 over Q2 last year. We realized sales of SEK 11.3 billion in Q2, which is an all-time high for the group. And as you can see from this slide, we ended up in line with our expectations even as Food & Water came in a bit on the low side. With regards to Q3 sales, my outlook based on year-on-year performance is as follows: We expect the strong order backlog to support an invoicing level higher than the same quarter of last year and about the same as -- level as in Q2.

Looking at the gross profit margin, it came in 50 basis points above Q2 of 2018. If you look at the reason for this, the net mix impact ended up being neutral year-on-year. While we did see a negative mix effect coming between our capital sales and after sales, this was compensated by positive impact from pricing updates made in late 2018. The impact from load ended up somewhat negative after a built-up capacity in the last 12 months, and we had some productivity losses associated with ramping up the factory in Krakow. This negative impact was, however, fully offset by a positive impact from the net of PPV and metal prices. Finally, we did see a tailwind from FX in the quarter.

Now to my outlook statement for Q3. Again, this is what I do year-on-year. The starting point is the gross margin of 36.6%, as reported in Q3 last year. We do expect a negative capital sales/after sales mix in Q3 as a consequence of a large increase in order intake we have experienced over the last -- over the past year. We expect the load and the PPV/metals, as a total impact, to be neutral to slightly negative in Q3 considering recent metal price development. And finally, we expect to see a positive FX impact or effect in the quarter.

Then looking at the key figures. The development of sales and gross profit recovered in previous slides. Then looking at S&A, excluding FX and divestment/acquisitions, S&A expenses were up 2% in the quarter and also year-to-date. This means that S&A in percent of sales have
decreased from 16.6% to 16% year-to-date, and this shows that we had a good cost control year-to-date and also in the quarter. We continued to invest in product portfolio, and R&D increased by 4% on a comparable basis.

Moving then over to other cost and income. Other income included a realized gain of SEK 196 million from the divestment of our air heat exchanger business in Greenhouse, while other income in Q2 last year included a gain of SEK 31 million from the sale of the shell and tube and heat exchanger system business.

Excluding these two nonrecurring items, other cost and income showed a net cost increase of SEK 40 million. The main reason for this is the increased royalties paid to our ballast water joint venture partner following recent quarter of volume uptick.

Regarding the operating income, please note that we had a loss of about SEK 15 million in Q2 2019 versus a profit of SEK 22 million in Q2 last year (in Greenhouse). And this loss in Q2 is related to cost for the sale of the air business.

Financial net, excluding FX impact, was minus SEK 53 million. And the tax rate was at 22.9% in the quarter. It was favorably impacted by low tax expense on the capital gain from the sale of the air business. But we maintain our tax guidance of 26% going forward. EPS increased by 27% in Q2 partly due to the stronger EBITA performance and partly due to the capital gain from the sale of our air business.

Then looking at the cash flow statement. The cash flow from operating activities decreased versus last year as the strong operating result could not offset a buildup in working capital of approximately SEK 1 billion in the quarter. This increase in working capital was primarily due to buildup of inventories in the preparation of executing the very large order backlog. A big portion of the inventory buildup is related to the marine environmental business. Normally, such an inventory buildup is, to a large extent, offset by increasing customer advances. However, as the order intake for Pumping Systems and PureSOx, where we normally receive large customer advances, showed a significant decline in Q2, we had a temporary negative cash flow impact. We believe our working capital levels will normalize over the next quarters.

Investing activities included Capex investment of SEK 172 million, which follows the execution of our Footprint program, as well as receiving a SEK 374 million payment from the sale of our air business in Greenhouse.

The financial net paid, excluding FX impact, was a minus SEK 37 million. This means our free cash flow in Q2 came in at SEK 479 million.
On a separate note, we -- Alfa Laval returned to the bond market this summer and issued a EUR 300 million bond in the quarter. This was a 5-year bond to refinance a bond of similar size maturing in September this year. The bond was oversubscribed close to 3x.

Our net debt-to-EBITDA ratio stands now at 1.3. But excluding the lease liabilities, that came in with the IFRS 16 implementation, it stands at 0.96.

Then looking at the FX impact in the quarter. It was a positive SEK 95 million. Both the transaction and the translation effects were positive, SEK 45 million each, primarily due to the stronger euro versus SEK. The FX revaluation impact in the quarter was very small, and our projection for the full year of 2019 expect a total FX impact of positive SEK 395 million.

Then looking at the order backlog in -- at the end of June, we had a total backlog of SEK 24.6 billion, a decrease due to a negative book-to-bill of 0.88 in the quarter. Still, our order backlog has increased by close to 4% since end of 2018 at constant exchange rates and now represents 6.9 months of LTM sales. For shipment in 2019, the backlog amounts to SEK 13.5 billion.

So, looking at the sales bridge for the full year '19. Starting with the sales in the first half of '19, it was SEK 21.5 billion. And then you have to add the backlog for shipment for the remaining part of '19, which is SEK 13.5 billion. And this adds up to SEK 35 billion. On top of that, you, of course, have to estimate impact on prices, in-for-out orders and FX effects. And for your reference, the level of in-for-out orders in Q3, Q4 of 2018 was SEK 8.7 billion, excluding the business divested out of the Greenhouse division.

So that leaves me to some final remarks from my side before I hand back to Tom. We had a record-high invoicing quarter, which means we are executing well from our order backlog.

We had started -- we started to slow down our S&A towards the end of last year, which is now visible in our reported numbers. And we have now more or less concluded on the divestment from our Greenhouse division with capital gains that supported our EPS growth of 27% in the quarter.

Our return on capital employed has improved and was 22.2% in the first half. And finally, we have a strong order backlog to support our sales growth going forward. And we have a strong balance sheet, which gives us possibilities to act on from a strategic point of view. And now back to Tom.
Tom Erixon:
Okay. Thanks, Jan. And just rounding off with the forward-looking statement for the group and let me then first reiterate that we saw a firm and -- firm demand situation in the second quarter other than specifically for the two areas in the Marine Division that we discussed earlier.
And we do not see a trend shift in our end markets moving into the short term and moving into Q3. So overall, we expect a somewhat higher demand for the group in Q3 compared to the Q2 numbers. Specifically on the divisional level, we expect demand to be on about the same level for the Energy Division and for the Food & Water Division. And we expect demand for the Marine Division to be somewhat higher. And with that, we have concluded our presentation, and we open for questions.

Q: Yes. Tom and Jan. The first one is on Food & Water. And I guess several questions in one here. The lower project invoicing, was that demand related with customers delaying projects? How much sales was it? And should we expect invoicing here to pick up already in the third quarter? And finally, if that doesn't happen, is the 14% margin roughly what we should expect also into the second half? You said that you had costs for the Footprint program, but I thought those costs were largely in Operations and Other and not in the divisions. So the first question is really talked -- on sales and margin and how we can move in Food & Water into the second half.

Jan Allde: Yes. Let me comment on your questions there. I would say the lower invoicing we saw in Food & Water in Q2 was really because of some lower revenue recognition of large projects. Hence, I think you should expect that this will come through in the coming quarters.
So no fundamental, let's say, reasons or problems that's causing this. It's more of a timing issue. When it comes to the Footprint cost, that -- it's -- so to say, through that, if there are specific Footprint projects, they are sort of sitting in operations.
But of course, the -- as we are, so to say, implementing changes in the supply chain, as we are doing a -- you will have -- you could have, let's say, productivity situations that temporarily impacts also the business divisions.

Q: Okay. And then on your guidance, Tom, you're guiding flat in Energy and Food & Water and then somewhat higher at the group level. And -- but that -- when I do the numbers, so you have a pretty big pickup there in Marine. If two divisions are flat, somewhat higher group level. Could you comment on what should pick up? Is it Pumping Systems? Scrubbers? I would guess
scrubbers then as the weakness in Pumping Systems have started. Or will it be more boilers? Just to understand a little bit your thinking there on Marine.

**Tom Erixon:** I understand your question, and the only thing I'm sure of is the more detail we go on, on guidance going forward, the more wrong we're going to be. So taking it to the divisional level, I think, is already as detailed as we would like to be.

The comment I would make is that we will have difficulties to achieve our forward-looking statement unless we see a certain pickup in the areas that showed the biggest decline in the past quarters. So I think from our comments on the quarterly volatility, all in all the quarterly volatility is, to a degree, a little bit difficult to nail down on the decimal, but we haven't changed our fundamental belief that we are in two attractive businesses. And how the orders will come, let's see. But for the quarter in our outlook statement, certainly they play a role for us to be able to get there.

**Q:** Okay. And then my final one is on Services. When we look at some other machinery companies out there and those that have a lot of moving parts in their product portfolio, it's possible to grow Services high single digit in good times. I mean this is a very solid quarter. But when you look at the heat exchanger, for example, it doesn't have that many moving parts.

So here's my question really. What is a likely growth level for Alfa Laval in Services when you look at an annual basis? Can it grow to high single digit organic, thinking about what you're doing on the Marine side, better sales coverage, et cetera? Or shall we live with sort of mid-single digit also on an annual level?

**Tom Erixon:** Well, I think what we've communicated in the past is the mid level. That's how we expressed ourselves. And given that for quite a few quarters we've been below that, sure.

But to a degree, we had some more challenging environment from 2016 onwards, changes in hydrocarbon drilling and other things that impacted us. So we can look for all kinds of reasons for why our Service growth was negatively impacted over a period of time and that it's, to a degree, changing. But I'd be happy to see -- let us establish us on a new level now. I think per se that, and we had indicated that in our business plans and our strategy work in the group, that we may have chances to take steps beyond the traditional nitty-gritty in the Service business.

We've been working on that for a couple of years now. We see some indications coming through in the quarterly order intake, but we should also recognize that there's a few larger orders, reflecting a better, higher carbon chain, by the way, that are coming back now after a couple of years of absence. And there is also some effects from a more complicated fuel systems onboard from the result on the January -- the IMO, January 1, 2020. It means that
many ships will carry a more complex fuel composition onboard. And in the Marine Division, we see the impact on Service reconditioning work specifically. And that will stay with us for a period of time, but there will be a date when that will go back to normal as well.

Q: My first one is just on the environmental applications for Marine. I think you -- if my notes set me correct, fitted about SEK 4 billion of scrubber orders in 2018 and SEK 1.6 billion for ballast. And obviously, 2019 got off to a very good start in 1Q. What was the sort of proportion of environmental orders within Marine for 2Q? And what are your latest expectations for the full year, please?

Tom Erixon: Our expectation for full year is -- we don't give that forecast. We are in a -- at least, the trend -- for Q2 alone, environmental amounts to about SEK 700 million, and that reflects an okay development from the ballast side and obviously a big decline on the PureSOx side. I think our outlook statement gives you some indication. We -- I don't think it's just that you should see -- to draw clear trend curves on the PureSOx. Because of the implementation schedule, it's been difficult to assess how orders will come, whereas, as you know, the ballast side is a 5-year implementation program for the shipowners. So it's a much more consistent performance if we look quarter-to-quarter on the ramp-up process that we see. So the way we feel around the ballast water right now is that we are in a ramping period still, and that may continue if things go well, whereas the scrubber I think we will -- we would partly live with the volatility between quarters. And at the end of the day on the scrubber side, we will have to see what the final retrofit market will be.

We have indicated before and continue to do so that our original market scenario for scrubbers, which was around 5,000 vessels, that we've been working with in -- since the Capital Markets 2016, for those of you who have been with us, we have indicated already 6 months ago that there is a possibility due to the big ramp-up of scrubber implementations that we will see a higher penetration of scrubbers than the original 5,000. Let's see where it goes, but that will obviously determine a lot not only how the scrubber order intake looks next quarter but, let's say, over the next 2 years.

Q: Okay. And just switching tack to Energy. You mentioned one of the drivers behind your improving EBIT margin was positive mix from capital sales. Can you just help me there if that's sort of end market related or product related? How should I think about that?

Tom Erixon: I would say it's mainly is a product-related side. We don't give full transparency down on product levels when it come to margin, but you could look at it this way. Last year, and
I think we actually made that comment to you when we looked at the energy market -- Energy margin, sorry, we were invoicing some large petrochemical refinery orders in China, and they were large orders booked. We were very pleased that we had them. We have a very strong position in that market in China, but they were taken at a very competitive situation. And so we had a certain margin dilution then. Now we've been executing a lot on base business, smaller orders that typically provide a better margin. And so this was not an effect of Service versus capital sales, it was really pure capital sales mix. And we have a number of capital sales product lines that provide margins well into our group margin targets. So that was what was happening.

Q: Okay. And just one brief question to finish. You highlighted the Greenhouse divestments that completed. Should we be expecting any further divestments through the second half? Or do you think we're done for now?

Tom Erixon: Well, I -- there is a very, very small unit left in the U.S. We -- for technical reasons, we will maintain the reporting on the Greenhouse up until year-end because it's the most practical thing to do. But in reality, there is only a few million U.S. dollars of sales in the remaining company, and we will find a way to divest it or at least -- so it doesn't merit any attention from the capital markets at this point in time. It is...

Q: And at a group level? Sorry, I meant more at a group level. Should we be expecting anything from the other divisions?

Tom Erixon: Oh. Oh, yes, sorry. Well, that is a good question. I obviously don't have a straight answer to you, but the -- I think the fair answer is that the Greenhouse has given us both some experience tools for how we deal with turnaround situations within our own company because in a broad-based industrial company, you'll always have individual business that are not performing according to levels. So I think step number one for us is that there are some weakness areas in our group, of course, that we have under the loop, and we will work with appropriate tools and a little bit of self-confidence in how we deal with it. But it is also -- at the end of the day, there is a task of portfolio management for us on a group level to make sure that we are spending our efforts on businesses that has the potential to perform over time.

What we will not do is to create new Greenhouses. That's not going to happen. But I will not exclude that we will not get into a situation here occasionally over the years to come where we'll find that there are assets that simply need a better parent than Alfa Laval. So, it's not a big restructuring job in the group, but it's a prudent work on making sure our capital allocation and our management efforts are spent on those things that has a potential in the future.
Q: I was just coming back to the scrubber thing. Again, looking at your presentation from the Capital Markets Day in 2016, you talked about this total 5,000 vessels. But that included both retrofits and newbuilds. And now you mentioned it seems that the retrofit market alone seems to be bigger than 5,000. Is this correct? Or is...

Tom Erixon: Sorry, though. It's a good analysis. I was maybe not specific enough. My comment was relating to the retrofit period. And of course, you're totally right, there is an element of scrubber installation also on the newbuild. For us, we always assume that the retrofit market -- both in ballast water and in scrubber, the retrofit market would be the more attractive one because it is based on retrofitting ships where we already are where -- with shipowners that we already have a tight collaboration with. I think in hindsight, a couple of years in, we have realized that we certainly have a market potential and a market opportunity also in the newbuilds, so the variation hasn't perhaps been as big in terms of market share in the 2 sectors as we originally expected. But you're right. And we see a high degree on scrubber installations. And I'm not talking about our market share now. We'll not move into that. But in general terms, in terms of large newbuild ships, we see a high degree of scrubber installation on those as well. Yes, you're correct.

Q: That's what I thought. So -- and then just talking about this SEK 2 million drop in orders, pumping and the environmental, this seems to be a segment with above divisional margin. I mean (inaudible) worry about the margin in those in a year's time or so?

Tom Erixon: Well, we -- let me just remind everybody about the comment we made way back then. It is correct that the Pumping Systems has a higher-than-average group margin, and that is supporting our margin development in the Marine Division this year based on their order book from 2018. And we've already made the comment that, that order book is -- has a duration beyond end of 2019. So there is no impact on invoicing and margin for the Marine business during 2019 when it comes to quarterly volatility in the Pumping Systems business.

With that, I have to add that we always had a -- back then, we had a bit of a hesitant attitude in the Pumping Systems business towards the offshore business because it is a large order-type business which -- and in different applications, by the way, also.

So the offshore business as such doesn't necessarily hold the same margins as the cargo pumping, which is a critically important factor in a shipowner's profitability. So there are some variations also within Pumping Systems. So depending on how the mix develops, there may be some variations on that. But largely, your comment and your reflection is correct: Pumping Systems provides above-average margins. Where -- what the implications would be in 2020, I
think that is too early to say. We may have relatively short cycles on the product tanker side, so
I think it's too early to speculate in terms of how will that play out in 2020.

For the scrubber side, it is a similar situation. What we've said in terms of comments -- and of
course, you will appreciate that, that business started almost from scratch a year ago in terms of
actually starting to invoicing and order backlog. And we want to see where this thing goes in
terms of cost and implementation and commissioning and a whole host of challenges in order to
handle a very quick growing business which is starting from a very low level. So that ramp-up is
a big challenge for our organization as it is. The comment we made and we stand by is that the
scrubber business and the ballast water business combined will not deteriorate the group
margins, which is on, well, between a 15% and 17% or whatever you want to call it then. And
that is including the fact that we pay half of the profits for the ballast water through our JV
partner. So that gives you some indication on where you should expect to be. I would like to
emphasize, too, that the order backlog for scrubbers is complete for 2019, so we're not affected
this year by any order intake volatility in both of those areas.

And it's a bit too early, I think, for anybody, including yourself, to be overly aggressive in
one way or another when it comes to the order intake implications for the invoicing in 2020. I
would leave that a quarter or two if I were you before moving into
large conclusions.

Q: Excellent. Then just on the delivery schedule for your scrubbers. I understand you
started invoicing significantly already this quarter. Will it be higher in Q3 over Q2 and Q4 over
Q3? Or how does the delivery schedule look for you?

Tom Erixon: I'm hesitating a bit because I'm not 100% sure what the answer is. We did have a
fairly significant invoicing in Q2 already, so -- Jan, do you have a...

Jan Allde: I mean you have to recognize that this is primarily something where we
recognize revenue on a project basis, meaning -- so the revenue pieces are fairly smooth, let's
say, development. And remember, we are ramping ourselves, so to say, ramping up that
business during this year, executing on that backlog. So my point is from a revenue point of
view, it is a much smoother development to be expected.

Q: Just a quick question on scrubbers. So I just wanted to understand. We've seen quite a
lot of competitors bringing on some new capacity in the scrubber space, and you've obviously
been quite focused on maintaining margins, only taking profitable contracts. So I just wanted to
understand whether from -- you also have a team in that business -- whether you've been more
selective perhaps and that had, had an impact on orders or you recognize this as more of a
broader slowdown in the market and your share remains fairly constant. Just any color on that would be helpful.

**Tom Erixon:** Well, yes. I mean I think it is a good question. And in our minds, we've been having a product strategy, a pricing strategy and a capacity strategy which we have stood by. I think this last quarter, there has been orders in the market that has not gone our way. I think with relatively long order lead times for us compared to what's been requested in the market, I think any change in commercial strategy would maybe have had limited impact. But as we move into Q3, Q4, the -- we already are past for any supply in the market, the 2020 deadline, and I feel our lead times are back into a competitive territory almost automatically. I think maybe that we've seen a tendency that with a 2- year, 2-plus-year payback for a large vessel to implement the scrubber, perhaps the lifetime guarantee of Alfa Laval global service and Alfa Laval product quality with long lead times has been rather to put the bet of getting something installed and get it to work and get the payback for the period that they were looking at. So the risk perhaps, technical risk, has been assessed as not so big for certain shipowners during this quarter. So my assumption is that our market share in, generally speaking, a relatively weak quarter when it comes to new order is probably lower than it has been. That's a fair assumption.

**Q:** Okay. And just -- I mean, on broader pricing in scrubbers, I mean, why would we not start seeing prices coming down when kind of it looks like even if you look at your kind of 5,000 forecast and you look at what that implies to annual additions, it is a decrease versus the kind of 1,500 additions we had in the market in 2018. At the same time, kind of more capacity is coming on. So I can't really see any possible reason for why pricing wouldn't start coming under pressure in this business.

**Tom Erixon:** It is -- you may be right, you may be wrong. I think our proposition when it comes to the -- you can look at it two ways. You can look at a welded product that, from a pure manufacturing point of view, is not all that complex. That's true. You can also look at the lifetime performance guarantee with a global service organization. You have a significant issue when it comes to compliance in different jurisdiction, which will require advanced technical solutions, system solutions and, to a degree, connectivity solutions. So hence, my comment is for somebody who is looking for a two-year payback, get something onboard in order to hustle through in order to avoid the price delta which make them uncompetitive in the market for a couple of years in terms of freight rates, the low-cost option may provide an attractive solution.
But I'm not so sure as a shipowner with a lot of complex installations onboard they want to hassle too much with the individual parts of your equipment without serviceability and without a track record in Marine. So we moved into this for very strategic reasons as part of the broad part offering when it comes to exhaust lines and fuel conditioning lines. And what we see on the Service side right now is a complex environment for the operators in terms of managing multi fuels on board, and the growth in the Marine Service business is, to a reasonable degree, driven by reconditioning in the engine rooms to be able to handle a complex fuel composition. And I think any complexity for a shipowner when it comes to managing compliance on the other end of it, on the exhaust, is a significant challenge. And therefore, I think our belief is that there is a market for the Alfa Laval product offering and value offering in this business which is distinct from providing a piece of welded metal on board. We'll see in the quarters down the road who's right, you or me.

Q: Okay. That was a question, not a view. But anyway. So -- just the final question is on acquisitions. I mean is there any sort of update on how the pipeline is evolving and how you're thinking about M&A in the current environment? So are you seeing opportunities out there? Do you feel this is the right time in the cycle to pursue larger M&A?

Tom Erixon: Well, we certainly set ourselves up for being able to take advantage. My feeling around the M&A market is not that valuations from a structural point of view has changed dramatically. But I think at least Alfa Laval is well set out to take advantage of it. And in that case, should we hit a somewhat tougher macroeconomic environment down the road, I think from that point of view it would only be beneficial for our opportunities.

I think it's also fair to say that as we move into the new organization and our line managers has got comfortable and got their arms around their own operations, we are in the process of developing a stronger pipeline. As always, it's difficult to predict the outcome of it, but my own feeling is that we are getting a slightly more broad-based pipeline both on the smaller, complementary areas as well as perhaps some of the more structural opportunities we may see.

Q: First one is on scrubber. How much of your 2020 pipeline is already filled out? I think by this time of last year, you had already filled 2019. And maybe also, when you look at regions, China sales were down a little bit. Do you see the general more cautious ordering or -- sales environment? Or any general, I mean, macro concerns also beyond China where you see that some clients are delaying orders particularly or a little bit more hesitant to sign as before?
And the last one maybe on oil and gas. Well, we've seen relatively stronger client (inaudible) over the past, let's say, weeks. Is -- also, what is like shared by your clients? Do they overthink some investments in this area? Or is it as planned, as you have seen, not as big as last year?

**Tom Erixon:** I think let's be a bit short on scrubbers now because we've spend a lot of time on it. But we are reasonably well contracted into it in Q1. And after Q1, more and more opportunities are opening up. So something like that. I think by the end of this year, we will have a clearer picture on the 2020 pipeline. And given that we have revenue recognition, as Jan says, on percentage of completion, this may be a more or less smooth transition depending on where things go.

In terms of China, we'll say we don't really see any -- is somebody here who should be on mute? You have a lot of noise from the trading room or something? Okay. So China, not a lot of uncertainties there when it comes to our business. If anything, we have seen a somewhat strengthening of tendencies in certain areas of our Energy business. So, we don't feel -- we are well aware, of course, and very attentive to the fact that we may see implications on trade wars and others on our Chinese business. That's not what we experienced so far.

In fact, I would say that in certain areas like the oil and gas sector, we may see a drive towards more Chinese independents when it comes to the hydrocarbon chain going forward, which may actually drive some regional investments in Asia and China specifically compared to where we've been historically. So, it may change, but we haven't seen that in Q2.

And then finally, oil and gas, no. Overall no. We saw relatively few offshore orders in the quarter. We think that's a pacing more than a change of sentiments. And I think overall hydrocarbon, we're good. We were -- we're weak on drilling and relatively good downstream. It wasn't the large order quarter. But all in all, we feel positive around the Energy as a whole and oil and gas specifically. All right. Are we good for one more or...

**Operator:** No further questions at this time. Please continue.

**Tom Erixon:** Okay. Very good. In that case, thank you very much for your attention and have a good summer to all of you. Thank you. Thank you.

**Jan Allde:** Thank you.

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