Tom Erixon:
Welcome to the earnings call for Q2, and I'll start with a couple of intro comments before going through the presentation in some further detail.

Let me start by saying with some perspective that we saw a turn in the business cycle for Alfa Laval towards the end of 2016. It carried through with improved order intake during ’17, and we had that momentum with us in Q1 and certainly in Q2 2018.

It is a recovery that has been, broadly speaking, affecting most of our geographical markets and most of our end user segments. And if I look at the Q2 quarter specifically, I think at management, we are particularly appreciative of the order intake in Food & Water division that -- given that we had a large nonrepeat from Q1, certainly came in, in terms of base business, way stronger than we thought. And of course, it's hard to ignore the numbers for the Marine division at the same time.

So order intake wise, good. Second, I think for the first time, we are actually at the corporate profitability target for all 3 divisions. We are reaching the 15 percent in all 3 of them. And although on a group level there are some plus and minuses when it comes to our margin development, and we'll come back to that, we feel that the divisions from an operating perspective have made a good progress and hit the corporate target.

And in terms of the financial highlights, perhaps as a last point, I'd like to highlight the fact that while we've been comfortable in reaching our growth target and our profit margin target for some period of time, we've been lagging behind on the return on capital. We've indicated to you before that we think it's a matter of time until we're there. And well, it feels good in Q2 that we actually get that return on capital at the 20 percent plus percentage points where we should be and we'll be going forward. So that's summarized perhaps a few reflections on the quarter. Let me then go to the key figures for the quarter year-to-date.

It's basically a growth across-the-board. In fact, you could say the further down in the P&L you go, the better it gets. But all in all, it's a good evolution in the quarter and with profits of SEK 1.7 billion in Q2, it came in well for us.

Going to the order development. Generally speaking, it was a very strong quarter with contributions from all of our division. Energy came in strong, stronger than last quarter as indicated and as expected, supported by a couple of large orders but generally good.
Food & Water, as I said initially, a very good number for them in Q1 and certainly in Q2. And Marine came in strong, supported both by a good tanker market for cargo pumping and certainly with good support from PureSOx and environmental applications.

So all in all, it's a record quarter for us at just above SEK 12 billion. And it should be noted in that context that actually while we did have a couple of large orders to the tune of SEK 510 million that was announced in the quarter, that is pretty much unchanged from last year. And so it's not -- our total order intake is not particularly driven by the large orders. It's more base business-driven type of order book that we had in the second quarter.

In terms of the large orders that were spread across the divisions, perhaps the one thing you would like to notice is the fact that also in Q2, we saw a continued booking of larger offshore orders, indicating that, that market that started recovery in Q1, to a degree in Q4 last year, it keeps its CapEx spending as we thought.

Moving on to the profitability. It is a profit level that we haven't seen since the peak in 2015, so we are approaching back into our record numbers in Q2 and Q4 in 2015. So it's a good recovery. The margin in Q2 and for the first 6 months is stable, just above 16 percent. We certainly have some positive volume effects. We had a good S&A cost development in the second quarter, but we also had some headwinds in terms of mix, in terms of currency and also for the planned costs for footprint and R&D. And those are affecting the margin overall in the quarter.

Going into the 3 divisions on a -- with a couple of sequential comments. The Energy division was especially strong in the petrochemicals and refinery part of the business. Downstream was a very strong quarter for the Energy division. We remained on a good level on the upstream and drilling part; and although Q1 was a bit stronger than Q2, all in all, we are on a good level compared to when we bottomed out in 2016. With that, I would still say that we are not back into the territory of the last peak. It's a good business and as we come into some sense of normality, but it's not to the level of where we were at the last peak at this point in time. The OEM demand, you are used to see plus numbers for brazed and fusion-bonded heat exchangers. We've been growing that business for a number of years now quarter-over-quarter, and it remains a very strong and a very firm business. But we do some variations between quarters also
approaching our capacity peak, so we have a small minus in this quarter in a situation where overall demand remains very strong.

The Food & Water division, we do have a product business and a unit called Food Systems and that has naturally variations between quarters as we book projects with some irregularity. So the minus number in the Food System part and where we come to where we felt the numbers were really good were compensated fully by pluses in essentially all of the other units. So we were essentially on all-time high on all of the other areas when it came to steady base business development in the Food & Water division. Essentially, all of the end markets were positive in the Food & Water division, and that includes biotech; it includes brewery, except for the large order; it includes wastewater; and it includes the dairy segment. So good underlying demand situation for the division as a whole.

That takes us to the Marine division, which saw, as I indicated, a very strong demand for cargo pumping systems, above our expectation, perhaps, and I think also, to a degree, above the latest numbers from the Clarkson forecast because I would say what we’ve seen on the cargo systems indicates a better contracting level in the pipeline than perhaps we’ve seen so far from the public available data. The environmental products continue to grow, and that’s especially true for PureSOx that had a very strong quarter. We have given you, as you know, pretty clear scenarios since 2 years back in terms of how we see the retrofit and ramp-up period for environmental products. And while it is a little bit difficult to forecast the booking of those on an individual quarterly basis, we feel the growth we are seeing now is well in line and even perhaps a little bit stronger than we have indicated historically when it comes to the scenarios that we have been providing as a guidance to the capital markets. So I would say from our point of view, the bookings reflects well the amount of commercial activity we’ve seen in the market for some time. Maybe the short-term ordering has been a little bit higher than we thought, where we perhaps have expected a tilt rather towards larger frame contracts over a period of time. So the quarter, in terms of its booking and firm down payments, a bit above our expectations and, otherwise, I’d say we follow the scenario that we have outlined before.

Greenhouse continues according to plan. We have closed the two agreements that we announced earlier. So the divestments of those two units, including the U.S. unit last year, makes now our air heat exchanger business the main asset that is
remaining in the Greenhouse. It is performing according to our expectations with a good situation on order and an improving profitability. So we are where we want to be when it comes to the performance of that unit, and we will probably have a final decision on how we go with that unit before the year is over, either as a way of reintegrating or as a possible divestment.

Then when it comes to the Service business, we did have a very strong order intake in Service with good growth in Q1. That was not repeated in Q2. We saw a weaker order booking pretty much across-the-board in our Service business. So it was sort of flattish compared to last year and it was not a repeat of the strong situation we had in Q1. So sequentially, a bit down. All in all, year-to-date, we stand with organic growth of about 3 percent of the Service side. Again, that's not exactly the number I would like to see and it's perhaps the weaker order intake number that we have in this quarter. But with that said, we are still making progress in the year so far, year-to-date.

So let's go to a couple of summary words on the business on a year-on-year comparison level. We see, as I've said, a pretty solid growth across most of our businesses. And generally, the base business is particularly strong, providing for a rather solid order book in terms of what we've achieved in Q2. As you can see, the one area with the minus sign is the Food Systems, and as I indicated before, that is a project-related business, which has its ups and downs on individual quarters. But apart from that, we are essentially growing the whole portfolio. So it's been a good development in that perspective.

And if we then go to the regional geographical perspective, it's a bit of the same thing. We have a slightly weaker situation in Latin America, although base business in most markets there were also good in the quarter. And of course, if you look at the other areas, it's basically positive.

We have a stable and a positive situation in North America. The U.S. number was slightly higher than the North American one because the strong Canadian Q1 was not repeated fully. So the numbers are a bit better for the U.S. We feel good about that.

We had a positive situation in Europe, especially in Southern Europe. And then, of course, the big numbers are in Asia which, in the quarter, amounts to 43 percent of our order intake, which is a record high in terms of share, especially in a quarter that was strong overall.
And I think it is a telling development of what is happening in the world economic growth generally speaking and the slow-but-steady migration towards Asia as the main commercial center in the world.

Speaking about strong Asia, let me round off with our top 10 markets. They grow generally. Perhaps the most interesting part is the top of the chart, where China has been chasing United States as our largest market. We've been, as you know, very, very large and important in the United States since 100 years back and China has been playing catch-up especially over the last 10 years.

The rolling 12 months doesn't take China to the leadership position yet, but they are closing in, and we may see a historic trend shift in Alfa Laval order books happening over the next quarter. We will see where we go from there.

I think our U.S. team will be happy to respond in terms of an increased selling activity, so we will have a good internal competition on the topic going on in the quarters to come. With that, I would like to hand over to Jan for some further details on the financial results.

**Jan Allde:**

Thank you, Tom. So I'm going to start off with some overall reflections on the Q2. We continue to see good volume growth, driven by high demand in all our key end markets and particularly in the Marine and Food & Water divisions, as commented by Tom.

So the -- the higher order volumes during the last 12, 18 months are now coming through our books, resulting in high double-digit sales and profit growth. And it's great to see all our three divisions reporting operating margin above 15 percent.

And the stronger operating profit, in combination with the reduction of tax rate, contribute to the strong net income and EPS growth, about 30 percent in Q2 and in year-to-date.

Finally, although, we continue to invest in product and manufacturing footprint as well as our working capital to support growth, we could report a good cash flow in Q2 and increase our return on capital employed to 20.8 percent at our targeted level.

So as Tom has covered order intake, I will make some comments on the sales figures. The guidance for sales was: we believe that invoicing should be somewhat higher in Q2 compared to Q1, and we realized sales of SEK 10.5 billion in Q2, which is
up 14 percent sequentially and compared to last year at constant exchange rates. This was a bit higher than we had expected and mainly explained by Marine that reported sequential sales growth of 20 percent. Let me then give you my view on what to expect in Q3 sales, and we said that we believe that invoicing in Q3 should be on about the same level as in Q2.

Then looking at the gross profit margin. As expected, gross margin came in lower in Q2 compared to the previous quarter. This reduction was partly due to a negative FX impact in the quarter and partly due to a lower Service share. This is in line with our guidance after Q1. And please remember that Q1 was a tough comparison as it was a very clean quarter in general. So let me move to the next slide for some further comments on the gross margin.

So year-on-year, we benefited from higher volumes and a better load in many of our factories and positive PPVs. However, the extra shift we are adding in some of our factories to increase capacity are temporarily impacting our cost of margins. We are addressing that capacity issue with selected CapEx investment but this will, of course, take some time to finalize. We saw a rather high negative mix effect between service and capital sales as well as a negative FX impact in total.

Sequentially, the comparison is more challenging considering the very strong gross margin in Q1. Again, both the mix and FX were negative in comparison, but besides that Q was, as I said, a very clean quarter.

We did not see an adverse impact from higher material prices due to good supply management actions and savings. The volume and load was strong but as discussed earlier, we saw a negative impact from the added shift in our factories.

Now to the second forward-looking statement. We expect a continued good load in our factories and the share of Service sales to be on the same level as in Q2. We expect some tailwind from FX, however, we expect to see an adverse effect from somewhat higher metal prices in the quarter.

Please note that the strong growth we're enjoying comes primarily from capital sales, which will give a negative mix effect going forward as the relative share -- Service share continues to decrease.

Then some highlights in 2018. So we continue to invest in our product portfolio and R&D increased by 12.4 percent year-on-year. S&A expenses were up 6.9 percent
in the quarter, admin costs were flat. And the increase in sales cost is explained by the increased activity level. One example of that is to support the growth in environmental products. If you look at S&A in percent of sales, it came down from 17.2 percent to 15.7 percent, meaning a reduction of 1.5 percent impacting, of course, the margin. Other cost and income came out with a negative net of SEK 86 million in Q2, which is on the same level as last year. However, that SEK 86 million includes a gain of SEK 29 million from the divestment of parts of the Greenhouse division and also costs related to footprint program of SEK 45 million out of the SEK 150 million forecasted for the full year.

The tax rate in Q2 was at 25.5 percent and year-to-date, at 27 percent. And we maintain our tax guidance on 26 percent going forward. Earnings per share increased from SEK 1.14 to SEK 2.65 due to the stronger operational performance and lower tax expenses.

We’re also pleased to see that our return on capital employed were up at 20.8 percent, hence, above -- back above target.

Some comments on the divisions. So again, as I said in the beginning, I’m pleased to see that all divisions are reporting operating margin above our group target of 15 percent. Energy came in higher than last year, thanks to higher sales volumes and good product execution.

Marine, also stronger than last year due to significantly higher sales volumes. But the stronger volume impact was partly offset by smaller Service share and a negative FX impact.

The margin in Food & Water came in also higher than last year, again, thanks to higher sales volumes, partly offset by smaller Service share.

Let me talk about the cash flow. And first of all, I'd like to say that I'm pleased with the cash flow performance in this quarter. Cash flow from operating activities increased by SEK 355 million in Q2 versus last year, primarily due to the higher EBITA level. As our working capital was relatively flat in the quarter and taxes paid was about the same level as last year.

CapEx in Q2 was SEK 334 million, which is an increase of SEK 194 million versus last year and this increase is well in line with our plans for the year and reflects both the initiative in our footprint program and also the ramp-up in capacity that we're making in some selected factories. This increase in CapEx has partly been financed through a divestment in our Greenhouse divisions and also some other fixed asset
disposals. So our cash flow from investing activities only increased by SEK 44 million in the quarter and SEK 34 million year-to-date. Financial net paid, excluding FX impact, was SEK 7 million, which is the same as last year.

And free cash flow increased by SEK 291 million in Q2 due to the higher cash flow from operations, and this brought us -- brought the net debt-to-EBITDA ratio to 1.3 at the end of June, which is the same level as we had at the end of 2017 despite that we -- the fact that we have paid SEK 1.8 billion in dividend during spring.

So to round off cash flow, you should expect CapEx somewhat above SEK 1 billion this year, which we have communicated earlier. And also as we grow volumes, we will continue to build working capital in line with our sales growth.

Then on the foreign exchange impact on profit and in total in the quarter, it was negative SEK 40 million. The transaction effect was a negative SEK 25 million due to the weaker U.S. dollar and could partly be offset by favorable hedges. Regarding the revaluation FX impact, so according to accounting standards, we have to revalue our customer advances denominated in foreign currencies at each closing period and this can create a temporary FX impact on the results. In Q2, we had a negative effect of SEK 55 million. Please note that this is only a temporary impact and will be eliminated once the underlying projects are invoiced.

The translation effect in Q2 was a positive SEK 40 million. And if looking at the projections for full year 2018, we expect a negative transaction effect from the weakening dollars impacting our open exposure of approximately SEK 40 million.

On the other hand, we expect a larger positive translation effect of some SEK 190 million for the full year, which means our net total estimated FX impact on EBITA of some SEK 150 million. And please remember, this estimate is highly uncertain given the volatility of currencies.

Then looking at the backlog at the end of June. So it was SEK 21.4 billion, which is 15 percent -- an increase of 15 percent, representing some 8.6 million months of LTM sales, and it's increased due to the positive book-to-bill of 1.15 in the quarter. For shipment in 2018, the backlog amounted to SEK 12.3 billion, which is an increase compared to the same period of '17 with SEK 1.2 billion. Then let's move over to the sales bridge for the full year.

So starting with the sales that we have recorded so far this year, which is at SEK 19.3 billion, then we have the backlog for shipment for the remainder of the year -- this
year, which does amount to SEK 12.3 billion and as I said, an increase of SEK 1.2 billion compared to the same period last year. Regards to the FX translation, this impact, of course, very difficult to estimate considering the volatile FX situation. If we would use the average FX rate during Q2, we would see a very limited impact. However, if we use the closing rate at the end of June, we see a larger impact up to SEK 1 billion. In this analysis, we have taken the midpoint of SEK 500 million. As you know, we have closed 2 divestitures within Greenhouse division during Q2, which will take out sales for the full year of approximately SEK 200 million. So if you add that all together, you come to SEK 31.9 billion then, of course, we need to make an estimate on the in-for-outs. But just to give a guidance that for 2017, we recorded SEK 7.3 billion in the second half of that year. So that brings my part to the conclusion, and I hand back to Tom.

**Tom Erixon:**

All right, so let me make some comments to outlook for the third quarter, and let me start by reflecting a bit on the escalating trade wars and the political tensions that people seem to be concerned with at the moment. Let me say this, that at this stage, we don't have any significant impact from the geopolitical issues on Alfa Laval's business performance nor on its outlook.

At the moment, we do not see commercial activities or customer decisions being delayed based on concerns regarding trade disputes and things like that. So we still believe that we have favorable business conditions moving into Q3, and we have not altered our view on the economic development over the next quarters based on the trade disputes.

Now with that said, we have significant flows going between U.S., China, Europe in all directions and if the full implementation of the tariffs, so step 1, step 2, step 3, moves forward, there will be some impact on our profitability.

However, we also work with assumption that we have opportunities both in terms of how we direct our internal flows of goods within the company and our opportunities for pricing towards end market.

But certainly, should some effects come from the tariffs in the future, we will have opportunities to mitigate that. At this point in time, we don't judge the tariff to be a major issue for how our margins will develop in the coming quarters.
So we remain concerned, of course, that the escalation, as such, will continue. But at the moment, it hasn't caused us any major harm that we can estimate in terms of our business performance going forward.

And that is the basis also then for our outlook. After a very strong quarter, we do expect that demand in the third quarter will be somewhat lower in the second quarter for Food & Water, which again was very, very strong in the quarter, we estimate that it will be lower. For Energy, unchanged. And for the Marine division, we estimate it to be somewhat lower. And with that, we finished our presentation, and we open for questions. Thank you.

Q: I have a couple of questions please. Firstly, on the guidance in Marine of somewhat lower demand, obviously, off a very strong base. But how should we think about the different segments: environmental, Pumping Systems, Heat Transfer and the Boilers? It feels like scrubber demand tripled versus the first quarter. Was that a big contract that should have (paid) into the second half or could we maintain that momentum? And is then the quarter-on-quarter weakness really in the Pumping Systems, a little bit like we saw last quarter? So I will start there.

Tom Erixon: Well, let me say like this: we -- when it comes to our bookings in environmental products, we do not book frame agreements. We do book orders as downpayment comes in. And it doesn't mean that there are not any frame discussions ongoing. But those do not hit the order book and consequently, what you see in our Q2 numbers are the down paid orders booked by customers. And that means, typically, that you will primarily look at orders booked for delivery during 2019, but that's sort of the structure of what we're doing.

We think we will have -- without reading any trends into it, because of that way of dealing with the bookings, we think we will have some ups and some downs that are a little bit difficult to predict when we give you the guidance on Marine. So difficult to give you a Marine guidance, an increase just because we expect -- we might be wrong, but we expect that we will see a slightly bigger volatility in those orders between quarters in both directions. So that's a general comment and perhaps an expression of a certain uncertainty as to where the Marine numbers will come in, in Q3. When it comes to the general Marine guidance, I don't want to go into a product-specific guidance. That's not what we do. We speak to the divisional part of it, but I would still remind you of the fact
that the final contracting last year came in at about 1,000 vessels, not a doubling but not so far away compared to '16. And with some delays in the contract, it's a different part of our products, we do expect to see and are seeing some pickup coming from there.

And while the award and contracting trend has been on about the same level as it was last year in the first half of '18, with the reservation that we may see some delays in terms of updating those numbers as we actually suspect that there are some non-- the tanker side seem to be a bit stronger than the current Clarksons data suggests. So I think there will be some back updating on those numbers.

But we think the market is moving ahead at or slightly better pace than it was last year as the Clarkson data suggests; that from that point of view, I think we are in an okay spot in most of our product groups within the Marine division.

Q:
My second one is on services. So why do we see this weakness in Marine? You said that the business overall, Tom, is not impacted by the trade war narrative. So what is the reason for customers pushing services to the right? Is it linked to the fleet renewals? Probably renewing the fleet, and that is weighing on the business? So how should we think about the growth in services, especially given your new strategy with global service hubs?

Tom Erixon:
Yes. The -- if you look at the Marine service over a period of time, it's been throughout the marine crisis, if you like, a relatively stable business. We certainly haven't seen the growth that we were hoping to achieve, but it's been stable and in some quarter now in the last couple of quarters, we're also seeing some ticks going forward and upward.

I think our quarter number for Marine was reasonable when it came to spare parts, and we had some repair works on Service that didn't materialize as well. And that was actually the main deviation versus Q1. So I don't put it into context of some increased wariness or anything like that. But of course, as I mentioned to you several times before, the Service is not quite growing at the pace that we wanted to see.

We are ahead this year. I'd like to see a better number. We are doing a lot of things, including the Marine hubs. It's been well appreciated by customers. We know that from direct feedback, so I think we are doing the right things, but we haven't seen the (pipe) numbers yet, so let's see.
Q: My final one is on the phasing of the backlog in Energy and in Marine. First, on Energy, how much of the larger orders that you took last year is now in the P&L, the SEK 1 billion? If it's possible to give us a rough number to see how the mix going forward can impact the margin given that there is quite a lot of large orders on the critical side of applications. And on Marine, lots of orders for Pumping Systems on the offshore side in the last couple of quarters.

I guess this is lower margin than Pumping Systems on the merchant side. Will the offshore orders be invoiced this year and those emergent in '19? So I just want to understand roughly the phasing of energy in Marine here going forward?

Tom Erixon:
It's a big question. I don't think we're in a position to guide you too well. What I can say is we are certainly invoicing a lot of the larger Energy orders as we speak. They are in percentage of completion process, so I wouldn't -- I'm looking at my CFO, but I -- I'm afraid to give a comment that we can't stand for, but I don't see that we have major changes from where we are today. Do we?

Jan Allde: No, I wouldn't say so. No.

Tom Erixon:
No. And for Marine, there are lots of variations in it. It's true that offshore is lower margin. It's certainly -- but I mean, what we've said about Pumping System already is that we are in relatively low delivery mode on the cargo pumping systems, up until, let's say, Q4 or something like that. And so let's stay by that and say that the improved order intake that we started to see Q4, we expect that invoicing is mainly '19 but probably would pick up towards the end of '18. That's what we've been saying. I think that's a number for you to keep in mind.

Q:
Tom, Jan, can I just follow up on the scrubber question? Can you help us, Tom, just put some numbers around scrubber orders in Q2. I think I heard 3x. I just want to confirm that, that was roughly the order level in the quarter versus prior quarters. That's my starting question.
Tom Erixon:
Well, and my starting answer is that we stopped guiding in exact order intake and numbers. So you have to look at it as the overall Boiler & Gas Systems. We think for various reasons, including competitive, that it's not a good idea for us to be totally transparent with the revenue side. But it's clear that the PureSOx business has strengthened significantly in the quarter. That's clear.

Q:
And is this predominant, the retrofit market starting to now broaden out beyond some of the early adopters. Are you seeing -- I obviously read your report, but is there anything that you can point to as a catalyst for change if, indeed, the retrofit market is coming through stronger now?

Tom Erixon:
For sure that the retrofit orders are in the market now and the decisions -- and so I would say from our point of view, the situation is not dramatically different from what it was a quarter ago. The conversion, the activity and negotiations with fleet owners has been very active over the last 6 months. And so we see it coming through in order book in Q3 and it's very clear that fleet owners are making decisions and financial commitments to go through with the retrofits.

And we also see on behalf of repair yards that there are strong programs being set up in order to be able to handle and implement retrofit programs in various parts of the world right now.

Q:
And secondly, and related to that, can you help us understand how does this change in customer behavior from, should we say, long-term framework agreements towards more immediate deliveries?

How does that impact your cost base? How is it currently and how do you expect that as you ramp up engineering capabilities on the scrubber side? And separately, and related to that, what are lead times currently in scrubbers? And how has that moved over the last couple of quarters?

Tom Erixon:
I think lead times are -- well, I would express it like this. We are getting relatively sold out for 2019, to put it that way. So that gives you an indication of where we are. We've
been, since some time, selective as to what order we take on into our order books and what we don't take in. It needs to fit with our solutions and our capabilities in a good way.

I don't think the -- I think that the customer focus on getting something done now versus scheduling a larger frame is -- doesn't really affect us. I would say it has given us at least the security that our ramping now will be utilized now and the next quarter too. So I would -- from my point of view, I think our general commercial risk for ramping too aggressively has been reduced. And the challenge is to make sure that we are in -- rightly dimensioned for high-quality delivery has if anything somewhat increased.

I don't think the transparency of saying where is this market going overall compared to the scenarios we've been working is fully clarified right now. But certainly, it's been ramping at or slightly better than pace so far than perhaps we put in our scenarios from 2016.

Q:
Understood. Finally, maybe just to Jan, can you help us understand, Jan, your gross margin bridge and maybe scope for us the impact from the key components in your bridge on Page 19?

You're down 100 basis points year-over-year in gross margins. Can you help me a little bit with what price and mix is? And specifically mix, which presumably is offsetting quite a nice price recovery for you?

Jan Allde:
Yes, I think that this is -- it really comes back to mainly two things. I mean, the fact that we are running mix -- the Service portion in the second quarter was around 28 percent. And if you compare that to Q1, which was around 30 percent; and Q2 last year, which was around 31 percent, I mean, that drop you see there in the Service mix does impact the margin quite a lot.

And second thing on the FX side, so as we said, we had a negative SEK 40 million in the quarter. We had about the same but as a positive impact in Q1 and even a bigger share in Q2 of last year. So I would say those two impacts, those two factors are explaining what you see there.

Q:
Sure, that's clear in the bridge. I just wondered whether you could give a number around that.
Jan Allde:
No, I don't think that would be correct. I mean, I do said -- we also commented on the fact that the additional shift that we have added on some of the factories here in the capacity situation, that is adding some extra costs, so maybe that would be the third element I could add. But I think that, that should be enough.

Q: Two questions, if I may. Start with the ramp-up. I mean, we have seen this demand now, you talked about the bottoming out in 2016 and sales is now growing with close to 20 percent. If I look at the employees, they're only up 4 percent. Could you please help us understand how -- if that (color) will be different on the second half or if that (inaudible) could be capped?

Or maybe elaborate a bit about -- you talked about investments in R&D, we talked about footprint, we talked about CapEx. And then I'm a bit puzzled about the -- at the low employee growth number. Secondly, I would like to try another way to get SOx numbers out.

You helped us with the combined ballast and SOx sort of orders, around SEK 500 million in Q4, around SEK 500 million in Q1, slightly a different composition about the two. But maybe you could help us to give us a number for the 2 order streams for the second quarter. That's it.

Tom Erixon:
Yes, you can forget about the second question. So the first one, though, I will try to give you a good answer. We worked very hard to get our efficiency up in ’16, and we are very committed to try to lock in as much of the structural progress that we did in the headcount program that our shareholder graciously allowed us to spend money on. So we are trying to combine a strong sense of hanging onto what we achieved in the program. But at the same time, obviously, we are faced with needs to grow capacities, both on the A&S side and on the operational side.

And we are, right now, running -- training crews from Poland and Denmark. We're keeping double capacities in various areas. So if I look forward, I see opportunities for further streamlining and personnel reductions in the perspective of over 6 to 9 months.
On the other hand, obviously, the ramp-up also had some consequences. I mean, we are hiring significantly in a number of areas to make sure that we can build our capacities in a good way.

So I think the numbers will go both ways. I would perhaps be a bit surprised if we couldn't stick to the current one. But the increase that you will see I think, primarily, will be as temps are being recognized as full-time employees in the company. And there is a little bit -- and I think we should say that we had a little bit of delay in terms of when does a temp become a full-time employee. So there is a small set of number, I think, that you don't see in our personnel statistics right now that is helping out. So while the productivity development is good, the number is perhaps not exactly as good as it looks like. But let's not take away from it. I think we had a pretty good development on people side in -- and we are working hard to try to keep it tight.

Jan Allde:
But also remember, you have two businesses that came out of the Greenhouse divisions with some 150 people also there.

Q:
A couple of questions from my side. First one, also following up on the scrubbers, if I may. I think I’d take it that you had no individual order exceeding EUR 5 million because otherwise, I guess, you would have needed to announce it. Is that fair?

Tom Erixon:
Yes, that’s fair. All our orders are booked per ship. That’s the structure of the business. And the individual scrubber orders for individual ships never go above 5.

Q:
So you could still have a ship owner that ordered more than one ship. You had to -- because we had, obviously, big ticket for Wärtsilä in the quarter, which was quite, quite big. And I just wondered if you had an order from one owner for several ships then?

Tom Erixon:
I actually -- well, the answer is yes, we do. And it’s frequent. And we typically don’t want to have a single ship with a single engineering drawing. So that happens. Now with reference to Wärtsilä, I actually don’t want to comment on theirs, but my -- I am not sure whether in our language. The way we book orders in Alfa Laval, whether that
would be an order or whether that would be considered a frame agreement with the future commitment without down payment. And we don't bill -- book orders based on frame agreements, so that -- just so we position where we are in -- with respect to that issue.

Q:
But given what you've said, I mean, I guess you said you are almost sold out for next year delivery already. And now, we had this order for Wärtsilä. I mean, do you sense a little bit of a rush to the exit now in the industry and that's -- given all the panicking?

Tom Erixon:
I would call it a rush to the entry. I think the entry for the future is a good PureSox solution. And I -- I mean, it's clear. I think somewhere around when the oil price started to move from $40 to $70. And without looking at the Energy market right now, they are very small -- there are very few people who come to the conclusion that the price spread between low sulfur fuel and bunker fuel will not be a problem unless you can actually quit with a fewer SOx solution. There isn't an oil consumption need to produce low-sulfur fuel. And consequently, the oil -- the absolute oil price will almost ensure a price spread that favors sulfur reduction equipment on board.

And as we are only one year away, I think for a lot of people, that starts to become a very likely scenario. So to bet your whole fleet on a low price spread right now seems to be a bit of a gamble.

Q:
Maybe we've been speaking about the negative development on Marine services and the trade war, but isn't it more the oil prices that hurt you on that end? Because we had some warnings in the sector already. And so I could imagine that there's probably a bit tighter spending than because of that. Is that maybe impacting the service spending of your clients?

Tom Erixon:
It's possible. I mean, the business has been in a -- our customers' business had been on the financial pressure for many years now. And it's -- we have come to the conclusion that, obviously, it affects the Service programs and external OpEx cost that you want to run on, on a ship. That's clear. I feel we've been living with that for a
period of time. And at some point in time, we need to stop looking at the external world problem and look at what we can do to improve.

Q:
That's fair. Then the other question I had was just on the metal price impact. I mean, we've now been waiting for that to have a negative impact on your results, but it just doesn't happen. Now it's supposed to happen in Q3. So can you just add some more color on the metal price side? And how that pans out during Q2?

Tom Erixon:
Well, I think we have to kind of go back and see how do we manage that. And we do manage it several ways in a sense that when we build our cost structure for the following year, we would take hikes for what we believe will be, let's say, the reasonable prices for that coming year, and that is then reflected in how we do our pricing. So that's the first thing. The second thing, what we do is that we hedge metal prices for the rolling 12 months. And that gives us then the opportunity to go back, and it gives us some time to manage then to our prices.

Now so if you look on the longer term, of course, you have to first see that these prices stay there and how we then manage it properly. But it is a general concern, I would say, if they stay at this level. But so far, we manage it well through supply management actions and savings coming through in a good way. So yes. So far, so good, and I did raise it a little bit now for Q3. But again, it's not a major concern for us.

Q:
Last question from my side is on your foreign exchange guidance, which is still based on a euro-dollar of ($1.225), and -- which is obviously quite above the current one. I was just wondering what the impact would be if you would use the current spot exchange rate of $1.17?

Jan Allde:
Yes. I think -- in the past, we haven't kind of recalculated this every day. I mean, we do it on a -- as we prepare these statements. And yes, it would have a favorable impact, of course. But the volatility that goes here from day and day, from week-to-week, I think this is at least a good estimate for the year.
Q:
Coming back to the popular subject of these scrubbers and the environmental technologies. How far into your -- I think you estimated that it would be some 5,000 scrubbers sold over the coming years. How far into that do you think we are? Or have there been a sort of order spread for the 1,000 or more of those -- of that opportunity? Or how do you see the market?

Tom Erixon:
I think I will be refraining from further comments to the scrubber market. I think we've given a fair amount of transparency from where we are, and I think I'm going to leave it at that, and then the market research companies have to do their part of the job.

Q: And is that also in terms of what you believe your market share is?

Tom Erixon: Yes.

Q: OK. Then on services then. You talked about this 3 percent growth. What can you do now to make that take off a bit more? I understand it should at this part of the cycle grow with a strong U.S. Equipment side, but 3 percent looks overall pretty weak still. Are there things that you can do to accelerate it?

Tom Erixon: Yes, it's -- that's a good question. And I think -- I will say like this, part -- certain things take a bit of time. And we have done a lot of things over the last 12 months, and that includes for the Marine side but not exclusively that. The -- our global Marine Service concept is up and working now, but it's only, I would say, in some sense, for a customer point of view, it's only a couple of months old, so I wouldn't argue that. That has an instantaneous impact on our position in the Service market but it is a very good step taken. If I look at the way we prepare our Service and maintenance program from a business unit and product perspective, we're doing a way better job now than we did in the past. And the sentiment out in our sales company is around the instructions and guidance and Service guidance there, and spare parts availability work that we're doing on our individual product side is also progressing well.

So we're quite happy in a couple of areas in terms of where we develop. The third one, which also doesn't have really any service revenue point of view, but might, is the whole work of connectivity. And you have one of our connectivity solutions included
in -- you should take a look at the pages on new product introductions. We included a fair amount of them because we spend a lot of money and efforts and focus on trying to bring up our product program in a different way. And there is also an example of our connectivity solutions, which I would argue mainly are related to the way our Service business will go in the future when it comes to condition monitoring in other parts. So there is a lot of tools for us to work with. We've done a lot. We haven't seen the results, I would argue, yet. And until we do, we remain concerned. But I fully subscribe to your view, and now with an installed base installation and big capital sales growth, of course, we're building an installed base of new advance equipment that should provide platforms for growth going forward. So I remain positive to our business opportunity, a little bit frustrated in terms of how far and how fast we've come. I feel good about part of the things we are doing. I'm leaving out some topics that we're still debating in terms of how to address. So I don't we are fully there, but operationally, I feel a bit better than I do financially when it comes to the Service side.

Q:
Yes. Sorry, mentioning scrubbers again, but I understand, for example, this frame agreement that was talking about actually includes that they are performing the installation services as well. Now that can't be a very high margin part of the deal, but could that be something that you would be interested in doing? Or are you already doing that for some of your scrubber or ballast offering retrofits?

Tom Erixon:
No. Our position has clearly been not to be driving the installation work. And we think there are -- as I indicated before, the repair yards are catching up when it comes to making sure they have installation capabilities.

Q:
I would also like to ask a question about scrubbers on the profitability side actually. So we will see a quite significant increase in revenues coming from scrubbers in 2019 and 2020. I think you mentioned earlier that most of your orders that you're taking now will be delivered in 2019. So how should we think about the impact on the profitability in the Marine division? Will it dilute the margins in -- during the ramp-up phase, but then you will improve your margins to be in line more or less with the Marine division? Or how to think about this?
Tom Erixon:
Yes. We -- we'll -- let's start with -- we've been giving a very, I think, concise comment on the environmental products as a group. And our comment to that has been that we expect that it will not deteriorate the group margins on an EBITA level, and we stick to that. With -- obviously, even for us, there is a bit of challenge to predefine exactly how will profitability develop in two businesses that didn't exist a year ago, kind of, right, at least not on an absolute scale.

Of course, I'm looking at precalc. I'm not looking at postcalc, really, determining the way. So obviously, we are doing this and going through with this and driving it because we think it will contribute. So I'm positive to the businesses. With the caveat that, as you know, we are sharing the profitability of the ballast water with our joint venture partner. But even with that taken into account, put those two together, and we think it is not going to do harm to group margins.

And then we'll see -- we're going to have to prove to ourselves and to you where it takes us. But that -- that's our starting point, and we feel strongly about that. And we haven't changed our opinion on it. And I count the fact that we are right.

Q:
Yes. Very helpful. And then there's not been so much focus on your oil and gas business on this conference call. But could you please elaborate a bit what you're currently seeing in oil and gas, up midstream and the tendering activity there?

Tom Erixon:
Yes. It's -- I would say, maybe to -- if you look at our oil and gas business as a whole, which was at the peak of SEK 8.2 billion or something, yes, let's call it, SEK 8 billion. I think we are somewhere just north of the SEK 6 billion right now. So as a whole, we are not back, but we are not that far behind where we were. We see a bit of volatility on the downstream based on the large order side. But right now, the large orders in petrochemical refinery has been quite favorable. The upstream clawed back a fair amount in -- at the end of last year and coming into this year, so Q1 was strong. It's supported by offshore business also coming back in with CapEx earnings. So all in all, I would say it's a pretty good situation in oil and gas.

But as I indicated before, it is not the goal digging rush that the industry experienced in the last peak. I think the industry remains a little bit more savvy, a little bit more of remembering the crash that wasn't so long ago. And so the risk appetite in industry, I think, is a bit less. It provides for a healthier environment. Hopefully, a little
bit more stable environment, but it doesn't bring quite the last upswing when it comes to the business environment, especially on the upstream that we had.

Q:
Looking at the -- back to the previous peak, which was in 2014 I guess. The Energy division did an EBIT margin of 18.3 percent. I know that it's not only oil and gas in the Energy division. But is there something structurally that have taken place since then that put a cap on the margin in the Energy division going forward? Or is it just lower volumes and maybe a change of mix that is behind the lower margin that we are seeing today?

Tom Erixon:
Yes. I -- you would have to go and reevaluate what was the margin difference for Energy division. Well, we didn't have the Energy division quite at that point either. So that -- the bridge is not that clear cut when you look at it that way. I would make 2 comments to what's same and what's different. We really took the pain to make sure that we had the capabilities to ramp up our oil and gas business that was coming back upstream. There were certainly units that had a couple of tough years, not the least in the U.S. And I think we have preserved the structural capability to go with the upcycle. That's why we went into this business to begin with, and we didn't put it in the Greenhouse under some special care -- treatment. We felt it was a cyclical issue, and we're going to go through with it. I think we are reasonably okay when it comes to following the market and capturing the upside that is there.

But I do think the sentiments in the market, the drive in the market, the fight for getting every last drop out of the soil is not quite there. It's more savvy, more conservative attitude among drillers and investors in the sector. And I think there is a difference there compared to, still, compared to '14, '15.

Q:
Could I then also ask on your outlook? You're now guiding or having an outlook of somewhat lower demand in the third quarter. If we look at somewhat lower compared to lower demand, of course, I understand that lower demand means that you expect it to go down more than if you guided for somewhat lower demand. But would you say that both of them are within the single digit range or area or -- could you elaborate a bit for us to understand what the difference could be between a somewhat lower and a lower-demand situation?
Tom Erixon:
Yes. I'm looking at my colleagues to whether we have -- we provided anything. Actually, no. We don't try to go -- let's leave it. I think we are just asking you to consider that probably our feeling is it's going to be somewhat lower as opposed to lower. That depends really…

Q:
Yes. But this somewhat lower, it's 5 percent to 10 percent -- 15 percent down and lower is 15 percent to 25 percent, or it's a bit 5 percent to 8 percent and 8 percent relevance makes it -- it's a big difference.

Tom Erixon: (Inaudible).

Q:
Yes, I'll stop then. I'm sorry. Got it. No worries. And then the last one is on your sales bridge for 2018, the in-for-out number that you gave for 2017, that is not FX-adjusted or is it, the SEK 7.3 billion I think it was?

Jan Allde: Yes. We said SEK 7.3 billion, is it FX adjusted?

Q:
I think not. But that would add another SEK 300 million or so if we take today's currency rates.

Jan Allde: No. I don't think it would. But I actually don't have a precise answer to you. I mean, it was SEK 7.2 billion, I think, as reported in -- at that time.

Q: So it is currency-adjusted?

Tom Erixon: We may come back on…

Jan Allde: Yes.

Tom Erixon: Should we assume then in (inaudible), there's a…

Jan Allde: Yes. No. I think we have to come back to you on that one.
Q:
Just on the cost of the extra shift. How long will it be before you've mitigated the implementation cost there? Does that happen during Q3? Or does it take longer?

Tom Erixon:
It takes longer.

Q:
Takes longer. And on raw materials, you've cleared that there's a slight headwind in Q3. If raw material prices don't change from where we are today, have you done enough internally so beyond Q3, that there's no further drag? Whether that's raising prices, productivity, reducing waste, procurement, is Q3, on today's raw material prices, the end of the drag?

Tom Erixon:
Well, I -- you're asking us to predict scrap rates and productivity rates and all of that. I think let's not do that into detail. I think Jan was quite clear in saying that everything else being equal, we'll probably do experience some headwinds from raw materials. And we're going to have to see when we sum up the quarter when everything is done and said whether we compensate or not. I think that's where we have to leave it.

Q:
OK. Finally, for the oil and gas division, are inquiry levels rising still quite significantly? And is it taking customers longer to make a commitment to any quotes that you give? Or are those times now falling as well?

Tom Erixon:
I don't think we'll see, I mean, a big -- we had a clear uptick in commercial activity towards end last year, and I think we've seen a good situation on that. If you go to drilling and the contracting side that is always a very short lead time. We even sell some stuff out of stock, frankly, and if you don't, they go somewhere else. So there is -- when it comes to the upstream business, there are not a lot of respect for lead times generally. And I don't see that they are changing dramatically at the moment.
Q:
Maybe starting with the guidance again, when you are guiding to somewhat lower demand in the second half, is that somewhat lower comparing to the first half or somewhat lower compared to second half 2017?

Tom Erixon:
It's somewhat lower sequential quarterly so compared to second quarter.

Q:
OK. But comparing to the -- to 2017, should we continue to expect it to grow but slower than we have seen in H1 or it would be flat or decline?

Tom Erixon:
Well, our guidance is sequential, so let's not go into that. But obviously, when you look at the numbers, and we go from a 12.1 record level and guide somewhat down, you shouldn't assume that we're going to -- ending up at 6, right? So you sort of have it. I see what you're asking, but you already have it.

Q:
Understood. And to confirm, you are saying that this is going to mostly be driven -- this somewhat weaker demand would be mostly in Food & Water, and Marine and Energy would expect to be unchanged versus the first half?

Tom Erixon: That was our comment, yes.

Q:
OK, perfect. So moving on the competition side and capacity utilization. I think that for a number of years, especially on the energy and heat exchanger side, the market has been suffering from low-capacity utilization. So is this still the case or -- for yourself and for the broader industry? Or now the -- you see capacity is being filled up?

Tom Erixon:
Well, there are fairly big variations in the product areas of heat exchangers. As you know, some of them are 50 centimeters long, and some of them are 30 meters long. So I would say like this, for the smaller-sized heat exchanger, both on the brazed and on the GPHE, we've been seeing a very good and solid demand development. And we are working with high-capacity utilization and quite acceptable profitability on that part of
the business. The one areas where you see variations that are a bit more dramatic is in
the project-related business, and that's typically the large heat exchanger installation
that rather frequently end up being, let's say, a chemical process, refinery-type of
business. There's -- when you book those orders, you are utilized. When you don't
book them, you are suddenly sort of looking at the more problematic utilization. So I
would say from an industry point of view, we still see its use in part of the heat
exchanger business that is more prone to large projects. And I would add to that in the
area of air heat exchangers, where you also see some of these problems, our
conclusion was that we needed to take it into some special consideration, how we can
make sure to make adequate money and things in that business, which also tends to
suffer a bit from some capacity situation. So it's a mixed picture.

Q:
Perfect. Overall, if you compare the current situation, both on the smaller size and the
larger size with 2017, do you have a sense or do your customers have a sense that the
market is tightening? Is it a little bit more difficult to secure capacity today than in 2017
or it's probably unchanged?

Tom Erixon:
I don't know. You have to ask our customers about that. But I mean, the -- we sit
relatively tight when it comes to our capacity for the high-utilization areas. So with us,
that's probably the case, maybe they have other options.

Q:
Understood. And moving on to more general competition, how do you see your market
share developing in the last two quarters?

Tom Erixon:
We don't make specific comments on market share. But as you know, we started a
strategic review, and an implementation process that was driving towards better
customer service, technology upgrade. We are launching a lot of new products, which
we feel are competitive in the market. You see four, five of them in the quarterly report
if you go to that page. So we feel pretty good where we are in terms of our
implementation program. Obviously, we are in good market condition, so let us assume
that the big part of what we see is a favorable market compared to '16 and '17. And
maybe on balance, we do a few good things as well and get some rewards for that but…

Q:
Right. I'm just trying to understand that -- the structure. Because for a long time, I mean, it's really been between you and the likes of SPX, Kelvion and maybe Danfoss I'm just trying to understand whether there's anything changing in this -- in the structure of the largest players. Obviously, you have a lot of like fragmented competitors as well, but looking at the larger players, is there anything reshuffling?

Tom Erixon: I remain from commenting our competitors.

Q:
OK. Understood. And moving on to raw materials, we have seen quite a bit of weakening mostly on the trade or retentions in the past couple of weeks. So again, I'm not asking you to speculate whether your raw materials go and how your productivity develops, but you said that the raw materials prices increasing is going to have a negative impact whether in Q2 or in Q3. Assuming that we have a -- that the drop that we have seen in the last few weeks in aluminum and copper mostly continues, should we expect this to translate into positive impact on the margins that is directionally towards the end of the year?

Jan Allde:
I mean, the alloy that has the biggest of the impact on the metal prices for us is the nickel prices, which has been going closer to that $15,000 per ton level. So that's one piece to look for in this equation, and that's also we made our guidance on. As I said before, I mean, we -- when you do hedges of these metal contracts, you do have a gradual impact of them as prices goes up. So it does protect us from a time, and we're trying to use that time to handle it through our -- through price increases. But if they stay high, they eventually will have an impact. Copper, yes, it's come down. But as -- in context, I would say the nickel price is more, more important to watch.

Q:
It was just -- if you could elaborate perhaps a little bit on the comment that you have seen unexpectedly strong base business across most of your end markets in Food &
Water. I'm just wondering if you could comment a little bit on -- just elaborate a little bit on that comment. That would be very helpful.

Tom Erixon:
The reason why we talk about base business sometimes is that the projects, they come in, and they go without any necessarily linked to individual cycles or changes in the market. So in order to get some sense of the underlying pace and underlying demand development, we think the base business helps us a little bit to judge where things are heading. And that's why we talk about it. So in this quarter, we saw it develop well. And it basically drives us to the conclusion that the business cycle, at least at this quarter, has been a good one. And we thought it was particularly interesting given the non-repeat situation in Food & Water. So as some business indicator for us, it was positive.

Q:
OK. And maybe could you frame how much of that SEK 3.6 billion of orders you would consider to be base? Is there a better way of looking at it? Just -- I'm just trying to get a feel for if the business -- strong base business implies that, that should reach -- keep reasonably -- reasonable strength over the next couple of quarters, I'm just trying to get a feel for.

Tom Erixon:
Well, I don't know what it's going to be in the next couple of quarters. Our business consists of the service business, which is about 1/3. It consists of large orders, which we announce, and then in between those two, we have larger orders and base business with orders that are projects but not above EUR 5 million and won't be announced, right? So we are not terribly transparent about the exact numbers. But -- sorry for that, we may, in the future, consider whether we should change in terms of our transparency policy on those issues.

But the underlying pace was solid in the quarter. That was what we wanted to communicate. All right. Then with that, thank you very much for your attention. And if not before then, we will speak to you again after the third quarter. Thank you very much.

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