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Moderator: Tom Erixon
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Tom Erixon: Thank you. Good morning to everybody, and welcome to the call. We are going to follow the normal procedures, so I'll start with a couple of intro comments and then Jan and myself will go through the presentation briefly.

First, let me back off from the call/report a little bit and just observe that we are now at the end of a three-year program that was launched in the beginning of 2017. And it included a significant effort related to renewal of the product programs, rebuilding of our manufacturing infrastructure, and a host of other activities; with a main objective to drive the organic growth in the company.

And I think this quarterly report was a testimony to the fact that we are on the path to achieve that objective in a good way. And let me at this point then also say that we have the Capital Markets Day coming up 5 of December. I hope you have a chance to join us. We will then start to outline a little bit how we will continue this path and how the next year plan will look. So I welcome you to that already now.

Secondly, the Service side was an important part of our 3 year plan and has been for this year. And we have worked a lot with various ways of strengthening our service offer to customers and we still have a lot of work to do. It was still very good for us to see that the organic growth excluding currency reached almost 10 percent in the quarter, which is a high level. And I will be back to that later.

Finally, let then say also that in terms of the guidance, going forward, the next quarter, we expect somewhat higher demand across all 3 divisions. And that means that our expectations is that we will enter 2020 with a strong order book. And even so our readiness and focus to be ready for a possible negative effects and downturn later on in 2020 will remain high and the focus on efficiency activity will increase no matter what.

So with those comments let me go to the key figures. As you well know when you follow us, you will notice that our invoicing has lagged behind the strong order intake during a rather long period of time. And in Q3 finally we saw the order book being translated down into the profit and loss statement with very strong invoicing and a good growth in earnings. In fact in the quarter earnings per share increased to 34 percent, so we got a good drop through from a good order book coming into Q3.

In terms of order intake we guided last quarter for a sequential somewhat higher demand, and in fact that's what we saw in the quarter, excluding the PureSOx business our organic growth year-on-year was approximately 10 percent, excluding currency.

And I'd like to highlight for you that if you look on the Q2 order intake as well as the Q3 order intake the underlying strength of the order intake has been a little bit obscured by the exceptional order intake on the PureSOx business 12 months back. There is not a huge difference in the order intake patterns between Q2 and Q3 other than the specific volatility in part of the Marine order intake.

We noticed some negative effects from the political uncertainties around the globe but we have to conclude that it has not been a major factor in how our order intake has developed during the quarter.

In terms of the profitability, Q3 was operationally a good quarter with a fair amount of tailwinds in a number of aspects. we had favorable outcome in metal prices. We certainly have a favorable currency and it was all in all a good load in factories that brought us to a good margin development.

The main factor obviously in terms of our earnings level and our margin has been a good invoicing growth that drove the margin improvement including a good leverage in the sales and admin costs for the quarter.

You should also note that we had a relatively positive mix in the capital sales. So despite the fact that service sales was relatively low, the gross margin stayed up reasonably well in the quarter.

Going to the divisional level, the Energy division had a strong quarter with a very high order intake for the third quarter and invoicing at record levels. The steady demand growth is related to the need for energy efficiency solutions and to a degree with newer refrigerants in the number of the applications.

We can notice that the sustainability related applications is increasingly the dominant factor in the short- and long-term growth perspective for the division. The margin stayed stable year-on-year. Sequentially, we had a negative effect entirely driven by changes in the product mix for the quarter.

The Food and Water division had a good invoicing and margin in the quarter. It was largely a stable demand situation for the division. We've always have some fluctuations in the various end markets of the division. I wouldn't put too much emphasis on it. The only thing I would like to highlight in this context is that we have for a period of time seen a structural growth in the wastewater applications and we expect those to continue also going forward.

The Marine division is still working in the market scenario where the yard contracting for new ships remains weak. And that is obviously still a factor in terms of the development of the division. Still most product groups showed solid growth both sequentially and year-on-year when it came to the order intake in the quarter.

Last quarter we had a short fall in orders both in the pumping systems business and in the PureSOx business. This quarter, as expected, we saw an improvement in the pumping system returning to a more normalized level of order intake, whereas the PureSOx remained on a low level for the quarter.

Here I would like to add that we see the project pipeline for PureSOx orders getting stronger and the market activity is higher. We have indicated to you already a year ago that we were expecting a weaker market ahead of the year end 2019 and the IMO regulations in January and that is in fact what we've seen. And with those comments we think that we will have some return on the PureSOx business maybe not to the extreme levels but into some sort of – sense some new normality level going forward.

Service, overall as I indicated, it was a good Service quarter. And 10 percent organic growth is not very frequent in our business. The Service business was especially strong in the marine business, which is the main driver of the growth for the quarter. And it's a number of factors that came together in the quarter the traditional service business that we've always had was OK in the quarter.

We see the start of a service business growing on the back of the new environmental applications that we didn't used to have in the order book. And on top of that we see a strong reconditioning service business growing on the back of increased multi fuel solutions on board partly as a result of the IMO regulations coming into effect. So those factors combined gave us a strong quarter and the structural tailwind that we have is expected to a degree remain also going forward.

Then finally to the regions, a couple of overview reflections on that. China and Asia remain strong. Although you see a big minus on the order intake those are entirely related to some aspects of the Marine business. But leaving that aside the underlying business conditions in China has remained favorable in the quarter.

North America continued on the good level but I would still say that the third quarter last year in U.S. was not exceptionally good. And so we are on a positive number there. The business sentiment in the U.S. is maybe not at the same level as it was about a year ago. But with the said we continue to have a positive development in the U.S. and certainly in Canada, for now.

Eastern Europe was perhaps the best area for us. It includes a good level of business in Russia and a very strong development in the rest of Eastern Europe, whereas Western Europe was generally OK.

I might add the geographical excursion anecdotally by indicating that taking Europe, both Turkey and the U.K. were examples of two markets with relatively high political volatility and still a very strong order intake in this quarter as well as in the previous quarter. So some of this political turmoil,

although it remains a worry, does not immediately translate itself into negative effects in the order book.

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

Jan Allde: Thank you, Tom. So as Tom has covered order intake, I will move directly to sales. So we expected the invoicing to be up in Q3 over last year and about the same level as Q2. Now we realized sales of SEK 12.1 billion in Q3, which is an all-time high for the group.

And as you can see from the slide, we ended up stronger than we expected but especially due to a very strong invoicing in the Marine division. Regards to Q4 sales, my outlook is as follows. We expect invoicing to be somewhat higher than the same quarter of last year.

And looking at the gross profit margin. So the gross profit margin came in about 100 basis points below Q3 of 2018. What are the reasons for that? Well, the Service share of total invoicing was lower in Q3 at 25.4 percent versus 27.6 percent last year hence quite a large negative service capital sales mix impact.

This was partly offset though by a favorable product mix within our capital sales, as Tom mentioned. The load volume impact ended up somewhat negative year-on-year, as we have slightly lower productivity in Q3 versus last year as we have ramped up new manufacturing capacity to meet the higher deliveries.

This negative impact was however fully offset by positive impacts from PPV metals, partly due to successful cost reduction actions by our sourcing organization, and partly because we have not seen the impact from the increased metal prices in recent months. We do however expect to see the impact from these increased metal prices coming through in Q4 of '19. Finally, we saw a tailwind from FX in the quarter as expected.

Now over to my outlook for Q4. So the starting point is the 35.4 percent gross profit margin that we reported in Q4 of last year. We anticipate a negative product mix in the quarter, as we expect to recognize a larger share of projects versus components and spare parts sales in the quarter.

As stated earlier, we expect the load and PPV/metals impact to be negative in Q4 versus last year considering the metal price developments after the summer. And finally, we do expect to see a continuous positive FX effects in the quarter.

Now moving over to the key figures. The development of sales and gross profit was covered in previous slides. So let's go to sales and admin, which increased by 4.5 percent in Q3 versus last year, excluding FX and structural changes. So S&A in percent of sales a decrease from 15.5 percent in Q3 '18 to 13.9 percent in Q3 2019. R&D expenses increased by 17 percent in the quarter on a comparable basis connected to our product innovation program.

Moving then over to other costs and income. Excluding the nonrecurring income booked in Q3 of 2018 of SEK 39 million, other cost and income showed a net cost increase of SEK 36 million in Q3 '19 versus last year. This increase is fully explained by the increase in royalties paid to our ballast water joint venture partner following recent quarter's strong increase in volumes. The Footprint cost was about the same level as last year, but is expected to be higher in Q4 as we are finishing the first wave of the Footprint program.

Regarding operating income, just please note that we have a loss of SEK 15 million in Q3 '19 versus a profit of SEK 20 million last year in the Greenhouse division. This is due to residual costs related to the sale of the air heat exchanger business.

Financial net, excluding FX impact, was minus SEK 46 million. And the tax rate came in at 24.1 percent in the quarter and 23.8 percent year-to-date. And as Tom mentioned, EPS increased by 34 percent in the quarter, primarily due to the strong operational performance and also due to the reduction in the company tax rate.

Now looking at cash flow. The cash flow from operating activities decreased versus last year as the strong operating results could not offset the buildup in working capital of approximately SEK 800 million in the quarter. This increase in working capital is primarily due to buildup of inventories to execute the 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 PureSOx, where we normally receive customer advances were low in Q3, we had a negative cash flow impact. We believe our net working capital levels will normalize over the next quarters.

Investing activities included CapEx investment of SEK 228 million, and which follows the execution of our Footprint program. Financial net paid, excluding FX impact, was minus SEK 96 million. This means our free cash flow in Q3 came in at SEK 995 million, slightly higher than the same quarter last year.

And finally, our net debt-to-EBITDA ratio now stands at 1.13, and excluding the lease liabilities at 0.82.

Then looking at the FX impact on EBITA in the quarter. It was a positive SEK 85 million. Both transaction and a translation effects were positive around SEK 60 million to SEK 70 million each, primarily due to the stronger euro versus SEK. The FX revaluation impact in the quarter was a negative SEK 45 million due to the strengthening of the U.S. dollar versus NOK in Q3 negatively impacting the Marine business.

Looking at the projection for full year 2019. We expect a total positive FX impact of close to SEK 500 million. Now this estimate is based on the FX rate at the end of Q3 '19, and hence include quite a lot of uncertainty considering the volatility in the FX rates.

Then looking at the order backlog. At the end of September, we had a total order backlog of SEK 23.3 billion, a decrease of approximately 2 percent since year-end, as we have successfully executing from a large order backlog.

That means that our order backlog now represents 6.2 months of LTM sales. For shipment in Q4 '19, the backlog amounts to SEK 8.1 billion, which then leads us to the sales bridge for our full year '19.

Starting with the year-to-date sales of SEK 33.6 billion, then we have the backlog for shipments in Q4, which is SEK 8.1 billion. And this adds up to SEK 41.7 billion. On top of that, you will need to make your estimate on in-for-out orders and FX translation impact. And for your reference, the level of in-for-out orders in Q3 of '18 was SEK 3.3 billion, excluding the business divested out of the Greenhouse division.

So by that, I will hand back to Tom.

Tom Erixon: Thank you, Jan. And I already indicated how we were looking at the Q4. As I've said, the business sentiments in the coming quarter in most part of our business still remains favorable. And our guidings for the group as well as for all 3 divisions individually, is that we expect a somewhat higher demand in the fourth quarter compared to the third.

So with that, we are done with the presentation, and we are open for questions. Thank you.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you wish to ask a question, please press "star," "1" on your telephone and wait for your name to be announced. That is "star," "1" if you wish to ask a question. Your first question comes from the line of Max Yates.

Max Yates: Just my first question was around the comments you made on PureSOx and the outlook for scrubbers. So they're modestly improving. I just wanted to understand kind of – with your kind of best estimates, how we should think about demand for this market, sort of settling next year and maybe over the coming years after that?

And maybe referencing that versus I think around the sort of SEK 4.5 billion peak of orders in 2018? So that was my first question, just how should we think about that business settling into next year in terms of demand?

Tom Erixon: Now, it is a bit of a speculation and I don't feel I want to go into forecasting for the coming years. So what I would say is that I think we have to consider the demand peak that we saw a year ago was somewhat exceptional. Also when we will look back a couple of years from now but **discover** this business would disappear, because of whatever reasons, we don't believe that's going to be the case either. So we're going to be at some point here in between those two extremes.

I think you will find other sources who may give the market estimates for where things are going to be. I don't want to be responsible for that one. But I think the other aspect that you could look at this is that when we estimated the penetration of scrubbers some years ago, we had gradually upgraded that forecast somewhat in terms of the number of ships that would implement the scrubber solutions.

We took a conservative view initially back in 2016. It's been a fairly large part on that volume was already – is already under contract. So based on that our assumption has been that we will exceed that to a higher number and I think that is in line with a lot of the external market forecasts at this point as well.

Max Yates: And just a second question would be on the strong Service growth in the quarter. So I just wanted to understand kind of whether there was anything, any kind of longer-term contracts in that 14 percent gross number or whether that was effectively all underlying?

And maybe when we think about the sustainability of that number, could you talk a little bit about how sustainable that number is? And also, kind of what initiatives specifically that are really getting traction with customers driving that?

Tom Erixon: Well, I'm very hesitant to express sustainability on any number. I'd be happy to express my view on the coming quarter, but over time, we have to win the business every day so I will leave that open. There is some tailwinds coming specifically.

There's no long-term contract in this. But I would say that when you start to grow a business like the reconditioning business, it is different from in terms of its in for out effects, in terms of the compared to spare parts deliveries, which are on the spot and immediate, right.

So there are maybe some difference in mix, some difference in timing, and some difference in margin when it comes to that type of work versus the traditional spare parts delivery work. So there are some mix changes in that, but I don't want to put too much drama around it.

The question on how long multi fuel work and for that matter the implication from the IMO will affect order intake positively. Difficult to say, it is not a 1 quarter phenomena. I think you may want – we often in these earnings calls have discussions about the risks related to heavy fuel oil decreasing as the main fuel over time in shipping.

I think from – this quarter shows to a degree that we are less dependent on a particularly – a fuel type in our business. We have significant business related to a fuel conditioning onboard. And as the complexity grows with the multi fuels that is obviously in the short-to-medium term a positive factor for how the Marine division looks.

Max Yates: And maybe just finally would you just tell us what the PureBallast order size was in the quarter out to the full ...

Tom Erixon: I don't have a special number for it, but that is ramping as we have planned and it's certainly to a degree compensating the weakness in the PureSOx.

Operator: Next question comes from the line of Johan Eliason.

Johan Eliason: This is Johan Eliason with Kepler Cheuvreux. Now I was also asking the mix in your scrubber versus ballast. I understand the good margin in the Marine business was due to the good scrubber volumes, but obviously the order for the Marine was driven a lot by the good orders for the ballast water.

So how should we sort of look at the margin projection here for Marine, will there be a negative mix? So this margin is some sort of a peak, when you have the very good scrubber margins coming through in sales?

Tom Erixon: I will not guide you on the margin development, going forward. I also would appreciate if a question is coming will go beyond the scrubber because as I indicated to you a couple of times, the market cap for Alfa Laval relating to the scrubber market is not that big. So I would advise you to think about the rest of our business as well.

Johan Eliason: Good. Let's move to the rest of the business then.

Tom Erixon: Thank you.

Johan Eliason: In the Energy division order intake was still pretty good. We have seen energy prices coming off. Is that sort of the reason why you are expecting a weaker market some time during 2020 or do you see any specifics out there in the demand as well that makes you feel more cautious on the general demand?

Tom Erixon: Yes, not really. If you look at the pace right now the investment pace downstream is quite good. And I think it's driven by a couple of long-term aspects. One is the need for China to gain and increase energy independence, so we see investment activities there downstream relatively high. And we have a bit of the same phenomenon related to Saudi Arabia and Middle East.

And even on the refinery side in the U.S., we do see some investments going on. So I don't see an immediate shift to that. And in fact those investments do not tend to be very much affected by the oil price as such there is not a – they may actually be favored by slightly lower oil price.

What is clear is that the drilling in upstream part of the businesses is a bit weaker. But with that said, I mean we are running at around, a yearly pace of around SEK 7 billion on the energy side right now compared to about SEK 8 billion at the previous peak. So it is – it's still a good market situation there. But I think what's more important for the Energy division is the fact that the energy efficiency – and of course we sell energy efficiency solutions also into the refinery segment.

So let me scope this correctly, but the importance of the energy applications growing outside of the hydrocarbon chain is for every quarter more and more important. And there we certainly have a long-term view that, that will continue in a good way.

Even an application that may seem relatively narrow like data centers is today a reasonably important part in certain product segments for our energy business. So we are not particularly negatively biased on the Energy division compared to the rest at this moment.

Johan Eliason: And then I was also wondering in the Food and Water you talk about this wastewater continued with a positive trend. Is that something you think will sort of also continue in potentially weaker macro scenario going forward? Or is there some sort of legislative sort of drive here or is the World Bank pushing something in the emerging markets or what's driving this? The mining ...

Tom Erixon: It's – when it comes to public sector tendering, it is normally not the main profit pool for a company. So when it comes to World Banks and these types of projects, they seem to be – sometimes from a tendering perspective and profitability perspective less attractive for us. So we tend to go private sector wastewater and to a degree municipal where the need still remains very big around the world, but rather on the local financing.

The resilience in the Food and Water division as a whole tend to be reasonably good. We – I don't want to single out a particularly – a business segment as immune, but I think we have to expect that if you see a significant deterioration into 2020 at some point in time, it will have an across the board effect of delayed projects and such for the moment. The pace as you can notice in the Food and Water division has, I would characterize it as fairly stable. Whereas '16, '17 into '18, we had a fairly solid growth path.

Part of that is related to larger projects. So in fact, the business unit food system is behind this year compared to last year. Whereas, our components business and machine equipment business remains on a good level and in the

many instances continue to grow on a reasonable level. So, that's about what it looks like as a spot observation on the Food and Water.

Operator: Your next question comes from the line of Sven Weier.

Sven Weier: There is the two and more maybe long-term questions. The first one is just what you mentioned on your fuel independence in Marine. I was just wondering, if you include LNG into the equation, how you feel positioned on LNG, you think that transition would be also neutral for you in the long-term, or do you still feel you need to cover some gaps on the LNG side to be ready for that? That's the first question, please.

Tom Erixon: It's a fair question. I would say we as markets evolves we also need to look and address our product offering. So I don't want to give the picture here that we are fully invested and up to speed on any development that's going to go on. But generally speaking, LNG on-board has implications in positive terms, also for our existing product program, you need to handle cooling applications and other things on board. It drives infrastructure investments and other things.

So I think the – and it's not going to be a pure LNG solution here, it's just going to be a range of options that the ship owners are requiring. So let's say that, to your question. Yes, there are still some add-ons that may be relevant. But all-in-all it is in the short-medium-term a positive development for us.

Sven Weier: And the second question is just more with regards to the plastic debate that we're currently having and obviously increasing number of regulation here. Also probably more longer-term question, but of course, I would probably see you more benefiting on the Food side with the (carton) packaging and so forth. But do you see already starting of a mind shift among your chemical clients, are you seeing increasing hesitance on maybe PET projects and things like that or is this way too early to talk about?

Tom Erixon: Yes. I don't have a super answer to you on it. What I would say is that, we do see increased activities from our point of view in what we typically would call green chemicals. So when I talk about the importance of sustainability applications driving us forward.

They're – they haven't taken over as the Big Bang, but we certainly see a host of small applications that are starting to grow and that is also related to green chemicals, which is then the – at the end of the day, the alternative to the petrochemical process.

So I cannot give you a fair answer I'm saying is that – is the mix of that useful to us in terms of business? I'm not sure. But I find that when we see process changes in industry, our technical capabilities allows us to take a forward position on those markets as opposed to the well established 50 to 100 year old applications where everybody has been around for a long period of time.

So, I see the trend shift relatively positive. If you think on the petrochemicals as such, the part of the petrochemical production that goes into plastics for, let's say, food and beverage type of application, it's relatively small.

The large volumes of petrochemical products are going into industrial use to car manufacturing and other places and we don't really see any change process going on there. So at this point in time, it's – there is not a dramatic shift in the petrochemical side, the way I see it. But I think it's a good question.

Operator: Your next question comes from the line of Matthias Holmberg.

Matthias Holmberg: I have a question on the balance sheet. And I guess ultimately, it's a matter for the Board to decide. But I assume that you have some thoughts, at least on how you best could utilize the strong position that you have. And I'm thinking most in particular, what your thoughts are on M&A and how you view that landscape. And if there's anything that you think is particularly interesting at this point.

Tom Erixon: Yes and you're asking a speculative question. We – a couple of our reflections on it is, we will never feel that we should be obliged to do a bad M&A deal in order to activate our balance sheet. So we've been very disciplined in the projects we've been working on there will certainly be a host of more projects than you have seen materializing for sure.

We have found the M&A market over the last three years to be – to a degree overpriced and we have opted for not creating major goodwill positions on M&A in those areas. So we have opted for walking away for those areas being of relevance.

We continue to have a pipeline and if we see that market expectations and our ability to generate a positive return for our shareholders meet then there are a number of interesting options for us. If we are not coming to any major M&A deals in the next 24 months, then obviously we will have a balance sheet which begs the question.

And I think we will leave it to the Board and to the AGM to make the final decisions on how we're going to go with that. But from management's point of view, we don't have any particular interest to be over capitalized in the long-term. There may be a reason to tactically sit on a stronger balance sheet temporarily in order to take advantage of market situations.

But as a general principle, we are a cash generating company. We have no need for surplus liquidity over longer periods of time.

Operator: Next question comes from the line of Robert Davies.

Robert Davies: Just a question on your Energy division. I guess within your HVAC exposure, could you give us some sort of regional trends in terms of what's going on within HVAC will be helpful? Will be my first question.

Tom Erixon: We're struggling a little bit with the answer here. I'm not sure I have a clear view on the regional differences to the HVAC specifically. We've been going in depending on sort of how we want to scope the HVAC business. The one regional points that we've been seeing over a period of time is growth of heat pump solutions in China. That has, in certain quarters, been a fairly strong factor. You tend to have a little bit of volatility in it.

The data center business and the semiconductor business tends to be relatively globally spread. So it's not a given. So, I don't think I have a lot of color on – Jan, do you have any wisdom on ...

Jan Alde: I think, if we go generally about Food and Water division. I think what we say is that we see a pretty good growth in North America and also Asia. I would say, Europe, let's say a little bit slow. Yes, this is and it's in general for the Food and Water division.

Robert Davies: And then I just wanted to pick up on something you'd mentioned about the sort of downstream refinery investments in Asia as China sort of looks for greater energy independence.

What are the customers telling you in terms of timeline there and when they're sort of planning to execute on some of those things? Is that a 2020 or sort of beyond it? Are people starting to kind of tender for some of those projects yet? Is it just a sort of strong pipeline and then looking for interest, where are they in their investment cycle on that region specifically?

Tom Erixon: No, I think it started a couple of years ago, and we were a big part of the biggest refinery project in China (inaudible) and just that was pretty much concluded during the beginning of this year. So there are – and they are the large projects that are in the pipeline and is following.

So I think this is, as we speak, a process, if anything, over the last year, I think geopolitically that is accelerating, so I think I would sort of just sketch it to say it's already in the pace of our order book and I don't think it's going away short-term.

Robert Davies: And then maybe just the final one on the Marine business. Could you just flesh out some of the trends that you're seeing within the different vessel types? I mean obviously the Clarkson data has been quite weak recently and you have, as I mentioned in the past sort of disconnect sometimes between what you're seeing and what Clarkson data is telling everyone ...

Tom Erixon: Yes.

Robert Davies: I guess I'd be quite interested in just kind of your (view) across the different vessel types in terms of current trends, will be helpful?

Tom Erixon: Yes, when we say that sometimes we have a bit of a mismatch, it can be interesting for you to go back and look at the contracting levels in 2017 and 2018, once they had been updated, back updated, the numbers actually sits on around 1,200, 1,300 ships.

Whereas during those years the running rate had seemed to be significantly below. So there has been some surprises in our order intake and I think they come from – in a positive way – and they come from the fact that the – the actually registration data is lagging behind the actual pace.

So what we saw in '17, '18 was somewhat better order intake than what was indicated during those years. The beginning of 2019 has been weak, that's for sure. I think the sentiment was weak.

And I think there has been a hesitance in the market. In fact, it's also related to the LNG question and the fuel options and what's the right way to design a new ship and engine room when it comes to all of the uncertainties in the market.

So '19 is relatively speaking a weak year. We see – and you noticed that on the pumping system last quarter and to a degree this quarter as expected compared to the year before. So 2019 is likely not a great year for contracting; whereas if we look at the forecasting for 2020 the mix expectations for container, for product tankers, certainly for crude remains relatively strong.

The color I would like to add to that is if there's any area right now where there's reason for optimism is probably on the large crude vessels. The freight rates are exceptionally high at the moment and it tends to drive short-term market behavior as well.

So in terms of money-making segments in – from a ship-owner point of view for various reasons like now the crude rates are very, very attractive and it may change also for short-term a little bit the order pattern here. That's it.

Operator: Your next question comes from the line of Klas Bergelind.

Klas Bergelind: My first question is on Energy. I was late on the call, sorry for this. So maybe you talked about it. Could we talk about the margin mix impact? How much was project deliveries versus service growth that was basically flat in the quarter? And how should we think about this mix impact going forward?

And Tom, if you could comment more on upstream outside of North America and you're talking about the total oil and gas business running at SEK 7 billion versus SEK 8 billion peak. But that number is obviously boosted by a weaker SEK. If you give this in dollar like for like it stood well below, so there could be some upside on the upstream side outside of shale I would have thought. So that's my first question.

Tom Erixon: Yes, it was a number of topics that you touched on. Let me start with the service side. It's correct, as you say the development on the service order intake for the Energy division was on the low side in the quarter. With that said we've seen a very good underlying growth trend in service over quite a period of time. It has actually been the strongest part of our service business for at least a year.

So the running rates are still pretty decent in service. So yes, it was a weaker quarter but not a big alarm and I don't think any – there was any structural thing happening there. So we look favorably to what's going on, on the service side of Energy going forward.

It's true, currencies' volatility has been so big that it actually is becoming a factor. So it's a prudent question. And you are right. I mean we – outside of shale and outside of land-based, probably the offshore side will remain fairly committed to their CapEx plan and their plans and they look positive right now.

The offshore order side for us has remained pretty good and I think that's still where we are mentally in the years to come. The – but I mean if you go back to compare it to the previous peak it was a strong contribution of on land investments and today we just don't see that level of activity at all partly because the efficiency on the land-based side has increased substantially so

utilization of equipment and CapEx per produced per unit is much, much better than it was 5, 6 years ago.

So they've done their homework for a good reason and made it comparative but with the slowdown of the oil price as well I think it's – we see that it's holding back investments on that side.

We still see on the gas side a fair amount of activity. On the distribution side a fair amount of activity. But right now, it's downstream that holds it up.

Klas Bergelind: My second one is coming back to the previous one on Marine. And promise I won't to ask anything on scrubbers, Tom, but I was wondering on the pumping system side ex-offshore, i.e. from or on the conventional side. What – you have seen some positives already on the tanker side.

I mean this market they are like, as you say, I mean tanker rates are up strongly but you also have that potential boost from IMO with ships now shifting over to low sulfur from October onwards that could drive rates also on the product side. Have we seen any sort of green shoots from the troughs on Framo?

Tom Erixon: Well, it – the order intake comes with some volatility without necessarily it being an expression of being investment cycles, back and forth, so I don't want to over interpret individual quarters here when it comes – it's a little bit like large orders sometimes. Sometimes they come around and sometimes – not sometimes.

They shift between quarters and based on down payments and all of that. So we cautioned a bit when the order intake was very high a year ago on Framo obviously providing us with a great order book for this year. And now we've been seeing a slow activity at the moment not filling the order book for next year in the same way. Let's see where we're coming.

We have seen the occasional rush order coming in, which is not so frequent for the Framo business but – so that's my honest answer but I – but on the other side I don't want to over interpret that, that's true, that we are heading

into a new heavy investment cycle, that is not the basis of our forward-looking comment for Q4 in any case.

Klas Bergelind: My final one is on service in Marine and you changed the service organization here a couple of years ago, you're now more global following Aalborg, Framo et cetera and there was this service push. How much of that push, Tom, is driving that better service growth this quarter?

Tom Erixon: I am very tempted to say thanks to a good decision so we are now driving our service – I feel honestly I have to say that a lot of the things that we have been doing over the last few years, I think, is putting a foundation for the next 3 years rather than effecting last quarter's order intake.

We have very positive feedback from customers in certain parts of our business like the boiler business, for example, the value of this service is very big. So the feedback is good. We have a very good global monitoring on in terms of number ship visits, number – our visibility on how we deal with the service in terms of first harbor service availability rates and things like that, it's really fantastic.

So I think we are very much on the right track on this. But I still have to say that probably for the quarter it's been a minor factor. Let's give it a little bit of a cred but not more than that.

Operator: Your next question comes from the line of Andreas Koski.

Andreas Koski: I have a couple of questions as well. Maybe I can start with the outlook of somewhat higher demand. It is not surprising to me that your guide for somewhat higher demand, because if we look at the past 6 years, we have seen the Q4 order intake being on average 10 percent above the third quarter order intake.

So I just want to understand here, if it is mainly because of the seasonality that you normally reach higher order intake in the fourth quarter, or if you're seeing strong underlying trends and that is the main reason for your guidance?

Tom Erixon: That's a good question. I think your observation on seasonality carries some weight. The Q3, if anything, tends to be seasonally lower and affected by summer holidays and other things. Whereas we tend to get some orders before year-end and consequently the Q4 is often reasonably good.

I'd say there's probably – we haven't made that clear a distinction as management in terms of saying that these are the components going in. We look at our pipeline and our view of where it's going to take us and that's where we came down. I still think, we – our assumption and your assumption should probably be that that the underlying pace of the business, call it base business or whatever.

We still look at most of those areas as remaining in the positive development phase. So, and that is reflected by the fact that this is – this is not one division or two division guidance, it's actually unusually for all 3 divisions expected to go forward in a decent way in the quarter.

And I would still say that there's probably an effect of what we expect on the larger orders that this is a bit seasonal. Call it seasonal or just call it that, it's good for the moment. But our forward looking guidance commonly – is obviously related to what we see in the pipeline and we tend to see the larger orders clearer than the small orders. So that's ...

Andreas Koski: May I just follow up on that, because I think maybe on every call this year you have pointed out that you expect 2020 to be a weaker year, I guess. Are you surprised that the underlying trends are still so stronger as they are or?

Tom Erixon: Well, maybe a little bit, yes. I've been hoping, but not planning for order intake to remain, but you can say the scenario that we've been working on in terms of our – let's say outcome. Those decisions that we are taking that, that has long lead times like CapEx decisions that you make in 2017, 2018 and we are paying for it right now, in order to get it online.

When you have lead times of 2, 3 years you need to have some view on where is the macroeconomics going. So we were hoping and working for a scenario in terms of our investments and our CapEx profiles and a number of other initiatives that if the market stay reasonably favorable into 2019, then we will

go into 2020 with a decent order book and that will give us in case we see a weaker market, about a 6 months leeway until we have invoiced our order book and all of that, so.

And that has been our planning. So, we will come down in CapEx and we will come down in some of the initiatives as we move into 2020. And that is a good fit, should we see a weakened economy. But as I said, we – I don't want to predict it other than saying that we are ready and we have planned a lot of the initiatives around the possibility that we will come into that market situation allowing us to bring down cost levels and improved cash flow situations in the tougher times. But I'm happy for every quarter where we keep steaming.

Andreas Koski: And then you have been focused quite a lot on R&D. Could you just give us a sense of maybe some qualitative numbers of how many products you will launch next year, compared to how many products you launched 3, 4 years ago or something like this to get the feeling for us to understand what kind of benefit you get from this?

Tom Erixon: You're going to get a sketchy answer, because we – 1 answer is please join us at the Capital Markets Day December 5, because you will see a lot of the fireworks going on, on the product side right then. Otherwise, it's just a quick answer.

We – in terms of the number of product launches, not qualifying them as important or less important or major or whatever but in terms of the just pure numerics we are at 2x, 3x our historic product launch rates, and that takes us up to around 100 a year, which means two a week.

And if anything, I would say from the launch perspective, we are actually on the high side. It's – if you really want to launch your product and go-to-market and do it properly, this pace is, if anything, maybe a little bit too high. But that's where we are, and we're going to take the maximum benefit of it.

What you see on the cost increase, now it's not actually driven by increased design engineers in the lab. It is actually the running in new products into the

operational systems and industrializing the new product side. So that's why actually we see a bit of a higher spending increase right now, because taking them to market at the final stage is what drives the cost at the moment not feeding in new ideas into the lab.

So, I think this is a reflection exactly on where we are on the launch side that you see the financial consequences, short-term of a somewhat increased R&D level, when we industrialize these projects. But I really recommend all of you join us at the Capital Markets Day, it's going to be great.

Andreas Koski: And lastly, may I just follow up with you, Jan. Did you say that invoicing in Q4 is expected to be in line or so with the Q3 level?

Jan Allde: Yes, we – what we said was that – or what I said was the invoicing to be somewhat higher than the same quarter of last year.

Andreas Koski: And before that, you didn't say that this would be in line with Q3?

Jan Allde: No that was the commentary regarding the outlook that he gave for Q3.

Operator: Our next question comes from the line of Malte Schulz.

Malte Schulz: Also most questions have been already answered. But I would like to maybe to first that – did you see any impacts from the recent political developments particularly going forward on the tariff side or on the trade deal? Anything where you're particularly exposed to some new regulations or some flows in your production chain, which gives you some worry. Or will you see more opportunities, maybe next year also on easing tensions particularly, for example, Turkey or so?

Tom Erixon: Well we had our highest quarter order intake in Turkey in our history. So it is a bit odd sometimes how these things play out in the short-term. Similarly, I think part of the Chinese energy independence is driven by the trade war and all of that. So there are positive sides. There are, of course, negative sides as well.

So when you look at the overall portfolio, I would say right now, the trade war situations is – there's not any specificity in that issue that worries me. What worries me is that we will see a general economic decline globally as a result of increased tensions and increased uncertainties in the world. And that has certainly been one factor in our macroeconomic thinking for 2020.

If you would pinpoint and particularly areas that, if there are some positives on the trade war side, there are certainly some observations on the other direction too. The one, I think we have indicated previously as well, is that biofuels and ethanols not least in the U.S. is badly hit by the trade wars. It is both on the capital sales and on the service side a business that has declined compared to previously and – but with that said, we always have ups and down in our product portfolio without that necessarily being – it escalates to something that would be visible to you guys.

So we are fairly neutral to what's going on that, other than as I said, the fact that we may be seeing a tougher economic condition. Whether the sentiments in the U.S. are affected by that specifically, maybe.

It's been a heated situation in the U.S., economically for long period of time, it still is obviously a very good economic situation in the U.S., but I think I indicated to you that although the order intake was clearly better this year than last year in the U.S. the sentiment and underlying driving the U.S. seems to be a bit cooler now than it was 12 months ago.

Malte Schulz: And maybe also, as you mentioned the fuel mix quite often also. Do you have already a view on how the fuel ability at medium sized ports will look like in the next year when IMO 2020 is active?

Tom Erixon: Well, no. Well, yes and no. I – if you look – let the market tell the story, the price spread between the low and high sulfur fuel have increased back to some sort of expected level recently. The price spreads for oil were relatively low during a period of time they are on the increase. We are not sure what's going to happen globally. The total we do notice that there is a lot of preparation ongoing.

I don't think there is a lot of alarm signals. So that's positive for our customers and we certainly don't want to see too much turmoil around the new legislation. But I think we feel that the way the market is coming down on this, we will see the expected price spread between heavy fuel and low sulfur fuel. And that tells you that the demand/supply situation will be a little bit tight on the low sulfur side, that's where we're right now.

Operator: Your next question comes from the line of Lars Brorson.

Lars Brorson: Just 2 quick ones from me, Tom, if I can. Just on Marine, sorry to come back to the service growth. But I've got that in the high 20s, low 30s a real uptick in service growth. And you were obviously talking about that being partly supported by IMO 2020 regulation. Can you help me, look it goes back a little bit to the earlier question, I think around sustainability of the service growth in Marine specifically, what drove that? And what is the nature of that service business that's coming through for you there?

Tom Erixon: Well, as – my comments were that in general, the service business has been good for the historical part, we suddenly start to see an impact on the environmental applications, which didn't really have an installed base 2 years ago, where we see an increase both in terms of the service, but it's also an area where we are starting to do a condition monitoring, it's not a big factor in the big numbers.

But still, we see a growth of the subscription revenue for condition monitoring of equipment that we didn't do before. And then we have a good level of reconditioning work, which is related to the IMO and multi fuel side.

And I think, if you disregard the other 2 areas, which I think we are working with to have just a continuous slow and steady growth, certainly not on the level that of 10 percent, 15 percent, but still as a reasonable underlying growth pace, the 1 area where we may have some volatility over the coming years is related to the multi fuel side.

Now, I don't think that the multi fuel will go away. I think the answer to how ship owners will decide to go in the future is very much related to multi fuel

options. So I think in that sense, there is a reasonable expectations that we will see reconditioning work on the existing fleet as well as business opportunities on new built related to multi fuel trends.

And – so but I certainly don't want to predict that our service business has entered into a new phase where we'll know over the coming years we'll see growth rates like this. But it wasn't a 1 quarter phenomenon this would like that, that's not what we believe. We believe we have some level of sustainability on this going forward in the next quarter.

Lars Brorson: Just a quick one, maybe more to Jan, on footprint cost. Can you remind me what the guidance is, Jan, for footprint cost? And you're saying I think they were ramping somewhat in Q4. I presume they were somewhat low in (Q2). Can you give me some specific numbers around that, that'll be helpful, please?

Jan Allde: Yes, sure. So footprint cost in Q3 was similar size of last year meaning around the SEK 30 million. They will be higher in Q4 or probably towards, let's say, (inaudible) maybe around 5 – yes, 50, 60, which would bring then the total impact to let's say around SEK 170 million for the full year.

Lars Brorson: Sorry, just quickly, are they all booking operations in other or is there anything coming through in the divisions?

Jan Allde: They are mostly booked in operations and other.

Lars Brorson: And for 2020?

Jan Allde: We will probably touch on that when they – on the Capital Markets Day on December 5th.

Operator: Your next question comes from ...

Tom Erixon: All right. We go for a last question, and then it's time to break.

Operator: OK. Your last question comes from the line of Johan Eliason again.

Johan Eliason: This is Johan again for a follow up here. Just on the comment you said on the Marine business, services where you mentioned that the new environmental

technologies are driving service business as well, was this simply this SEK 200 million plus service agreement you got for the ballast order that you announced or are there more service contracts like that, that you expect to see coming – going forward as well?

Is that valid for both ballast and sorry for saying this, but the scrubbers and for the ballast business will that improve the profitability picture for you, because I guess on services, you might not have to pay license fees or?

Tom Erixon: Let's take the last point of it. I think the – our joint venture includes the full scope of the business. So I don't see that we will put the money in that pocket on our own, we will diligently share it with our joint venture partner for sure. So I don't think we have any impact on that.

Now I don't see that any, we have frameworks in the Marine business, frame agreements both on service and capital phase occasionally. But when it comes to the order booking they don't flow through in the order book until we have the normal commercial routines there.

So I don't think, there was a similar question, similar, I think earlier, I didn't catch the – that aspect of it. But there I don't see that we have taken in a long order book of future service revenues coming in here. Jan, I don't know if you have any color on it on top.

Jan Allde: No, I know, if I understand your question you said, it's the – the split of the service growth an environmental thing but I would rather say it's both coming in both environmental product.

Tom Erixon: Yes, but the frame agreement does not – are not recorded as service or anything in the quarter.

Jan Allde: No.

Tom Erixon: So there's nothing of launch frame agreement that's flowing in at this point in time. It is – it's not even throughout necessarily because the reconditioning

takes a little bit of time, but I don't think you've seen anything going in that will not be invoiced over the next 6 months. That's my guess.

Jan Allde: I mean ...

Tom Erixon: Most of it in 3.

Jan Allde: We're building it, for the very large install based on the – on both environmental product and that's of course the – that we see the effect of.

Tom Erixon: With that thank you very much, and hope to see you all in just close to Copenhagen this time, on the other side of the strait, on December 5. And we will be talking about new products and a whole host of other things. So you are very welcome to that. Thank you very much.

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