

# Seco Tools Interim report January – March 2010



## SECO TOOLS AB

### Interim report for the three months ended 31 March 2010

- \* Revenue for the quarter rose by 10 per cent at fixed exchange rates and by 1 per cent in Swedish kronor (SEK), and amounted to SEK 1,370 M (1,351).
- \* Operating profit was SEK 220 M (95), equal to an operating margin of 16.1 per cent (7.0).
- \* The cost-cutting programme contributed to a significantly improved operating profit.
- \* Continued high rate of new product launches.
- \* Profit after tax was SEK 145 M (54).
- \* Earnings per share for the three-month period were SEK 1.00 (0.37).

#### Comments from the CEO

“Demand improved successively in virtually all of Seco Tools’ markets during the quarter compared to the end of 2009. Especially keen demand was noted in the emerging markets of Asia and South America. Among the large mature markets, the strongest performance was seen in the USA.

All in all, the outlook for continued growth in demand is deemed favourable, among other things as an effect of inventory increases among our customers.

Last year’s ambitious cost-cutting programmes continued to make a positive contribution to the Group’s earnings during the quarter. Overall, these programmes have reduced Seco Tools’ annual cost level by more than SEK 620 M.

Operating margin for the first quarter strengthened considerably over the year-earlier period and reached 16.1 per cent (7.0). The improvement was attributable to high sales, better capacity utilisation and the effects of the cost-cutting programmes. However, foreign exchange losses had a dampening effect on earnings growth.

The continued high level of ambition and activity in R&D during 2009 has enabled Seco Tools to sustain a fast pace of new product launches. At the beginning of the year we launched several important products that offer significant improvements for our customers in terms of performance, precision and tool life,” says Kai Wörn, President and CEO.

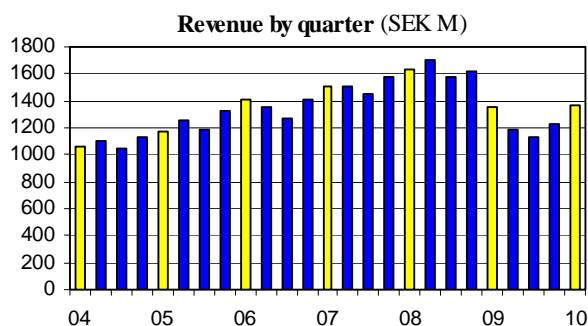


## First quarter revenue

Revenue for the first quarter rose by 1 per cent compared to the same period of last year and amounted to SEK 1,370 M (1,351). At fixed exchange rates, revenue was up by 10 per cent.

All major market regions reported an increase in revenue during the first quarter compared to the end of last year, and revenue also improved successively over the quarter.

The strongest development was noted in the emerging markets of Asia and in South America. For example, revenue in the key markets of China, India and Brazil by was up by 63, 96 and 59 per cent, respectively. Among the major mature markets, the most positive development was seen in the USA, while the recovery in Europe was somewhat weaker.



## Revenue – market regions

	2010	2009	Change 10/09	
	Jan-Mar SEK M	Jan-Mar SEK M	Jan-Mar %	Jan-Mar % <sup>1)</sup>
EU	723	792	-9	-1
Rest of Europe	95	97	-2	0
Total Europe	818	889	-8	-1
NAFTA	211	220	-4	12
South America	75	45	67	58
Africa, Middle East	25	22	14	2
Asia, Australia	241	175	38	49
Total Group	1,370	1,351	1	10

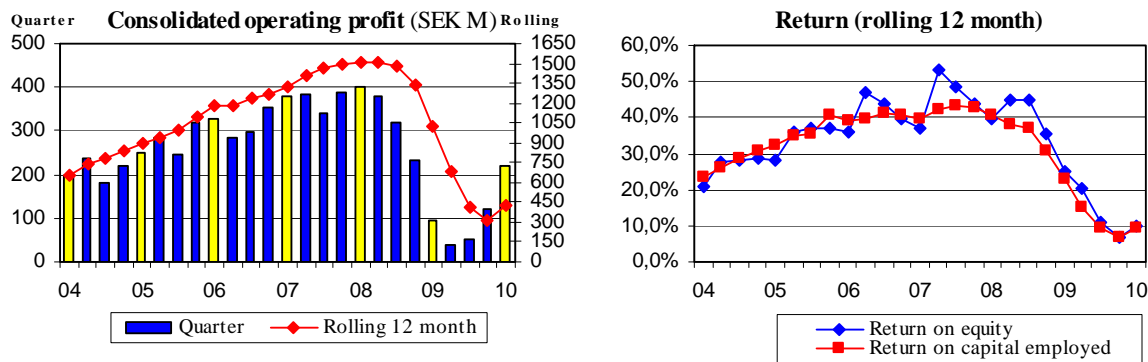
<sup>1)</sup> The change compared to the preceding year is shown at fixed exchange rates.

## Earnings and return

Consolidated operating profit rose significantly during the quarter and reached SEK 220 M (95), equal to an operating margin of 16.1 per cent (7.0). The improvement is attributable to increased revenue at fixed exchange rates, higher production volumes and continued positive effects from the cost-cutting programmes.

The total effects of the cost-cutting programmes are estimated at more than SEK 620 M. Due to stronger market development, the Group's structural cost adaptations will now be concluded.

Total foreign exchange losses of SEK 69 M dampened the period's earnings growth. No further restructuring charges were reported during the quarter.



In the above diagrams, return and profit have been calculated in compliance with IFRS.

The profit margin for the first quarter was 14.4 per cent (5.5). Earnings per share for the past 12-month period were SEK 1.73 (4.61). For the same period, return on capital employed was 9.4 per cent (22.9) and return on equity was 10.0 per cent (25.2).

### Liquidity, cash flow and net debt/equity ratio

The Group's cash and cash equivalents in the form of short-term investments and bank balances have decreased by SEK 4 M since the beginning of the year and totalled SEK 182 M at the end of the period (SEK 186 M at 31 December 2009).

Cash flow from operating activities rose somewhat compared to previous year despite a growth-related increase in working capital.

Due to a strong cash flow and low investments during the quarter, interest-bearing liabilities decreased by SEK 189 M and amounted to SEK 1,918 M at the end of the three-month period. The Group's net debt/equity ratio fell from 0.85 at 31 December 2009 to 0.72 (0.71) at 31 March 2010.

**GROUP****Consolidated income statement (SEK M)**

	<b>2010</b>	<b>2009</b>
	<b>Jan-Mar</b>	<b>Jan-Mar</b>
Revenue	1,370	1,351
Cost of goods sold	-609	-621
Gross profit	761	730
Selling, administrative and R&D expenses	-530	-601
Other income and expenses	-11	-34
<b>Operating profit</b>	<b>220</b>	<b>95</b>
Financial items	-23	-21
Profit after financial items	197	74
Taxes	-52	-20
<b>Profit for the period</b>	<b>145</b>	<b>54</b>

**Consolidated statement of comprehensive income (SEK M)**

(Specifying items recognised directly in equity resulting from transactions with non-owners)

	<b>2010</b>	<b>2009</b>
	<b>Jan-Mar</b>	<b>Jan-Mar</b>
Profit for the period	145	54
Other comprehensive income		
Foreign exchange difference in Equity	-22	18
Comprehensive income for the period	123	72

Gross margin strengthened during the quarter, largely due to higher volumes and better capacity utilisation, although the improvement in gross margin was somewhat undermined by foreign exchange losses.

Selling, administrative and R&D expenses were lower than in the year-earlier quarter, mainly owing to the completed cost-cutting measures but also as a result of foreign exchange gains.

Other income and expenses during the quarter consisted mainly of foreign exchange losses.

The Group's planned depreciation and amortisation for the quarter totalled SEK 96 M (91).

**Consolidated key figures**

	<b>2010</b>	<b>2009</b>
	<b>Jan-Mar</b>	<b>Jan-Mar</b>
Operating margin, %	16.1	7.0
Profit margin, %	14.4	5.5
Earnings per share, SEK	1.00	0.37
Return on capital employed before tax, % <sup>1)</sup>	9.4	22.9
Return on equity after tax, % <sup>1)</sup>	10.0	25.2
Equity per share, SEK <sup>1)</sup>	16.17	18.39

<sup>1)</sup> The key figures are calculated on a rolling 12-month basis.

**Consolidated balance sheet (SEK M)**

	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>
Intangible assets	304	309
Tangible assets	2,221	2,313
Financial assets	217	220
Inventories	1,257	1,275
Current receivables	1,230	1,086
Cash and cash equivalents	182	186
<b>Total assets</b>	<b>5,411</b>	<b>5,389</b>
Equity	2,353	2,230
Long-term liabilities	562	589
<b>Current liabilities</b>	<b>2,496</b>	<b>2,570</b>
<b>Total equity and liabilities</b>	<b>5,411</b>	<b>5,389</b>

Interest-bearing liabilities and provisions at the end of the quarter amounted to SEK 1,918 M (2,259), while the non interest-bearing portion was SEK 1,140 M (1,344).

**Consolidated statement of changes in equity (SEK M)**

	<b>31 Mar 2010</b>	<b>31 Mar 2009</b>
Equity at the beginning of the period	2,230	2,603
Comprehensive income for the period	123	72
Equity at the end of the period	2,353	2,675

**Consolidated cash flow statement (SEK M)**

	<b>2010</b>	<b>2009</b>
	<b>Jan-Mar</b>	<b>Jan-Mar</b>
Profit for the period	145	54
Add-back tax expense	52	20
Add-back amortisation/depreciation	96	91
Other non-cash items	-11	7
Taxes paid	-22	-77
Cash flow from operating activities before changes in working capital	260	95
Changes in working capital	-60	101
Cash flow from operating activities	200	196
Cash flow from investing activities	-34	-118
Cash flow from financing activities	-169	-40
Cash flow for the period	-3	38

**PARENT COMPANY****Parent Company income statement (SEK M)**

	<b>2010</b>	<b>2009</b>
	<b>Jan-Mar</b>	<b>Jan-Mar</b>
Net sales	874	804
Cost of goods sold	-544	-489
Gross profit	330	315
Selling, administrative and R&D expenses	-181	-197
Other income and expenses	-15	18
Operating profit	134	136
Financial items	-1	0
Profit after financial items	133	136
Appropriations	-27	34
Taxes	-28	-45
Profit for the period	78	125

The Parent Company's planned depreciation and amortisation for the quarter totalled SEK 40 M (34).

**Parent Company balance sheet (SEK M)**

	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>
Tangible assets	1,067	1,096
Financial assets	745	745
Inventories	791	824
Current receivables	1,209	935
Cash and cash equivalents	3	2
Total assets	3,815	3,602
Equity	1,150	1,072
Untaxed reserves	600	573
Provisions	1	1
Long-term liabilities	78	78
Current liabilities	1,986	1,878
Total equity and liabilities	3,815	3,602

The level of cash and cash equivalents remains low. The Parent Company's interest-bearing liabilities at 31 March 2010 totalled SEK 1,495 M (1,753).

**Number of shares**

The total number of shares at the end of the first quarters of both 2010 and 2009 was 145,467,690. The average weighted number of shares for the corresponding periods was 145,467,690.

**Accounting policies**

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. Seco Tools presents its consolidated financial statements in compliance with International Financial Reporting Standards (IFRS), which are described in the 2009 annual report. For a description of the applied accounting policies, see the most recently published annual report.

As of 1 January 2010, a number of new standards, amendments to existing standards (IFRS) and interpretations (IFRIC) have gone into effect. Overall, the management's assessment on the basis of current information is that these new or revised standards and interpretations will not have any significant impact on the Group's profit or financial position. For a description of these standards, see the most recently published annual report.

**Segment reporting**

The various units and companies in the Seco Tools Group conduct integrated business activities that constitute only one business segment, metal cutting machining. As a result, Seco Tools' management and ongoing monitoring of operating results are based on the Group as a whole.

**Significant risks and uncertainties**

It is vital that all financial and business risks are effectively and systematically assessed. Seco Tools' risk management model for business risks does not entail avoidance of risks, but is instead aimed at identifying, managing and limiting the effects of these risks.

Significant risks and uncertainties in the Parent Company and the Group include financial risks, primarily foreign exchange risk, interest risk, credit risk and liquidity risk. The finance policy established by the Board of Directors defines the guidelines, objectives and limits for financial management and the management of financial risks. The finance policy governs the division of responsibility between Seco Tools' Board of Directors, Group Executive Management and Finance Department. Other factors of significance for the operations and financial position of the Group and the Parent Company from a general risk perspective consist mainly of raw material supply, continuous renewal of the product portfolio, good delivery service and a high level of security in the Group's facilities and IT operations with regard to fire, flooding, etc.

The ongoing volcanic eruption on Iceland has affected the Group through certain minor disruptions in transports and invoicing, above all to North America.

Estimates and assumptions about the future are regularly made for accounting purposes. The estimates and assumptions that can lead to significant adjustments in the carrying values of assets and liabilities in the financial statements of later years consist mainly of tax matters and other ongoing or possible disputes.

The above risks and uncertainties are described in more detail in the annual report for the fiscal year 2009. The assessments of significant risks described in the above-mentioned annual report were unchanged at the end of the period.

### **Related party transactions**

Seco Tools' transactions with related parties refer primarily to the Sandvik Group, Seco Tools' associated companies, a pension foundation in Sweden and Seco Tools' senior executives. Significant transactions with related parties refer only with the Sandvik Group.

A description of related party transactions is provided on page 74 of the annual report for the fiscal year 2009. The scope of the above-mentioned transactions has not changed significantly during the period.

### **Personnel**

To meet the need for higher production rates, the number of employees in production was increased during the quarter. The increase has been carried out primarily through the recruitment of temporary staff and termination of the reduced working hours programme.

The number of employees in the Group at 31 March 2010 was 4,561 (4,412 at 31 December 2009). The remaining working hours reductions at the end of the quarter corresponded to 53 full-time positions.

### **Capital expenditure**

The Group's capital expenditure on tangible and intangible assets during the quarter amounted to SEK 34 M (118), of which SEK 9 M (4) referred to capitalisation of IT/R&D costs.

The rate of investment will increase during 2010 and for the full year is expected to reach a level on par with depreciation/amortisation.

### **New products**

Seco Tools continued its high pace of product launches during the quarter. One of the most notable was the new TP0500 turning grade, which is an extension of the product range featuring the successful Duratomic technology. The TP0500 is designed for turning in steel and stainless steel and has been specially developed for long tool life in applications with high heat conditions.

Other successful launches during the quarter were the new pre-hardened and surface coated Turbo mills with accompanying cutting inserts for better accuracy and wear resistance and the new Double Octo face milling cutter for machining in steel.



*Turbo mills with pre-hardened and coated cutting bodies*

**Financial information**

This report has not been subject to review by the company's auditors. The next report will be published on 20 July 2010 and refers to the first half of 2010.

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Fagersta, 4 May 2010

SECO TOOLS AB (publ)

*THE BOARD OF DIRECTORS*

The information contained herein is subject to the disclosure requirements of Seco Tools AB under the Swedish Securities Exchange and Clearing Operations Act and/or the Financial Instruments Trading Act. This information was submitted for publication on 4 May 2010, 10:00 a.m. CET.

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Previously published financial information can be found under "About Seco/Investor Relations" on the Seco Tools website ([www.secotools.com](http://www.secotools.com)). Seco Tools AB's corporate identification number is 556071-1060 and the company's address is Seco Tools AB, SE-737 82 Fagersta, Sweden. The telephone number to the Group's head office is +46 223-400 00.