

# Seco Tools Year-end Report 2009



*The new generation of the Double Octomill face milling cutter  
with 16 cutting edges for both roughing and finishing*

## SECO TOOLS AB

### Year-end report 2009 and interim report for the fourth quarter

- \* Fourth quarter revenue fell by 22 per cent at fixed exchange rates and 24 per cent in Swedish kronor to SEK 1,231 M (1,625). Operating profit was SEK 121 M (233), equal to an operating margin of 9.8 per cent (14.3).
- \* The cost-cutting programmes had a positive effect on earnings.
- \* Revenue for the full year declined by 31 per cent at fixed exchange rates and amounted to SEK 4,889 M (6,536). Operating profit was SEK 307 M (1,332), equal to an operating margin of 6.3 per cent (20.4).
- \* Profit after tax for the full year was SEK 161 M (890). Earnings per share for the full year were SEK 1.11 (6.12).
- \* Strong cash flow of SEK 861 M (851) for the full year.
- \* Decision to invest 130 MSEK in the production of cemented carbide powder.
- \* The Board proposes that no dividend be paid (SEK 3.20 per share).

#### Comments from the CEO

“Demand in virtually all of Seco Tools’ markets improved slightly in the fourth quarter compared to the sales rate at the end of the third quarter. It is particularly notable that several emerging economies in Asia, such as China and India, are also showing growth relative to the previous year.

“The cost-cutting programmes continued to have a very positive impact during the quarter and have strengthened earnings for the full year by approximately SEK 560 M. The cost-cutting programmes will reduce the Group’s annual cost level by a total of around SEK 600 M. At most, these measures included some 850 positions including the working hours reduction programme equal to a total of 200 full-time positions. However, in the final quarter a large share of the employees with reduced working hours returned to full time work in order to enable faster production rates.



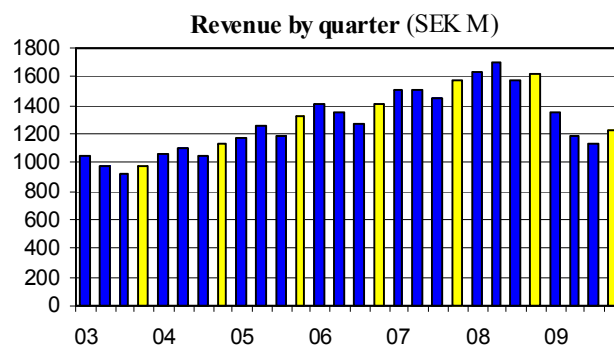
“Operating margin for the fourth quarter was stronger than in the earlier quarters of the year, at 9.8 per cent (14.3). The decrease compared to last year is attributable to lower volumes and somewhat less favourable exchange rates. The period’s negative earnings growth has been partly offset by the gains realised through the implemented cost-cutting programmes. Continued reductions in working capital during the quarter, together with a lower level of investment, contributed to a sustained strong cash flow of SEK 861 M (851) for the year.

“Despite turbulent market conditions, 2009 was a successful year for Seco Tools when the company increased its market shares and made a number of important product launches,” says Kai Wärn, President and CEO of Seco Tools.

### Fourth quarter revenue

Consolidated revenue for the fourth quarter was down by 24 per cent compared to the same period of last year and reached SEK 1,231 M. At fixed exchange rates, revenue fell by 22 per cent.

Revenue for the fourth quarter was stable at a level somewhat higher than at the end of the third quarter. In the largest regions, Western Europe and NAFTA, revenue declined by 29 and 22 per cent, respectively. The emerging markets as a whole noted negative development at fixed exchange rates for the quarter, although a few countries, particularly India and China, showed robust growth compared to the previous year.



### Revenue for the full year

Consolidated revenue for the full year was SEK 4,889 M (6,536), a decrease of 25 per cent compared to the preceding year. At fixed exchange rates, the decrease was 31 per cent. Foreign exchange gains for the year amounted to 6 percentage points.

All major market regions recorded negative growth at fixed exchange rates for the full year. Western Europe showed somewhat weaker development than the other regions, while Asia accounted for the strongest performance in relative terms.

### Revenue – market regions

	2009 Oct-Dec SEK M	2008 Oct-Dec SEK M	2009 Jan-Dec SEK M	2008 Jan-Dec SEK M	Change 09/08 Oct-Dec % <sup>1)</sup>	Change 09/08 Jan-Dec % <sup>1)</sup>
EU	673	935	2,719	3,941	-27	-36
Rest of Europe	89	116	351	427	-21	-20
Total Europe	762	1,051	3,070	4,368	-27	-34
NAFTA	178	258	733	942	-22	-33
South America	58	63	208	285	-14	-31
Africa, Middle East	31	35	117	101	-19	6
Asia, Australia	202	218	761	840	-2	-20
Total Group	1,231	1,625	4,889	6,536	-22	-31

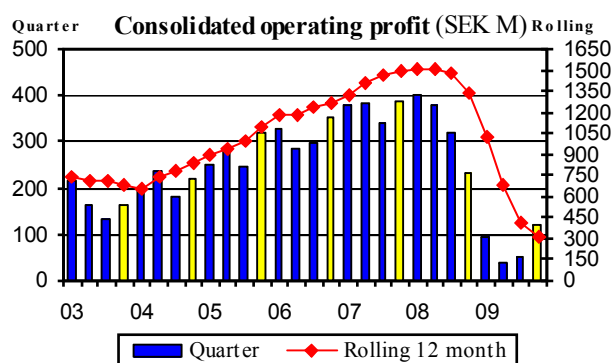
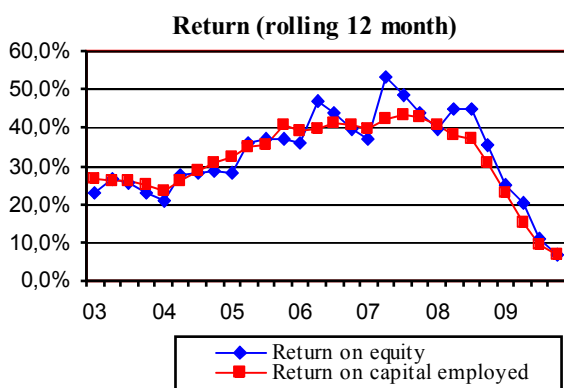
<sup>1)</sup> The change from the preceding year is shown at fixed exchange rates.

### Earnings and return

Consolidated operating profit for the fourth quarter was stronger than in the earlier quarters of the year and amounted to SEK 121 M (233), equal to an operating margin of 9.8 per cent (14.3). The year-on-year decrease in operating profit for the quarter is explained by lower volumes and foreign exchange losses of SEK 27 M. However, the drop in earnings was somewhat offset by the positive effects of the implemented cost-cutting programmes which totalled approximately SEK 170 M for the quarter. No additional restructuring charges were recognised in the quarter.

Consolidated operating profit for the full year fell to SEK 307 M (1,332), equal to an operating margin of 6.3 per cent (20.4). The decrease is attributable to lower volumes, which were partly offset by the effects of the cost-cutting programmes. For the full year these effects amounted to approximately SEK 560 M, which is better than the previously communicated SEK 500 M. Added to this were foreign exchange gains of SEK 50 M (35).

Earnings per share were SEK 1.11 (6.12). Return on capital employed was 6.7 per cent (30.8) and return on equity was 6.7 per cent (35.6).



In the above diagrams, the figures for return and operating profit through the end of 2003 have been calculated according to the recommendations of the Swedish Financial Accounting Standards Council and from 2004 onwards in compliance with IFRS.

### 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 98 M since the beginning of the year and amounted to SEK 186 M (284) at 31 December 2009. As a result of reduced working capital and a lower investment level, cash flow showed significantly better development than operating profit for the year. Cash flow from operating activities for the full year was SEK 861 M (851).

The Group's interest-bearing liabilities decreased by SEK 192 M in the fourth quarter and amounted to SEK 2,107 M (2,291) at 31 December 2009. The Group's net debt/equity ratio at 31 December 2009 was 0.85 (0.76).

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

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>Oct-Dec</b>	<b>Oct-Dec</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>
Revenue	1,231	1,625	4,889	6,536
Cost of goods sold	-613	-742	-2,330	-2,790
Gross profit	618	883	2,559	3,746
Selling, administrative and R&D expenses	-507	-645	-2,169	-2,428
Other income and expenses	10	-5	-83	14
<b>Operating profit</b>	<b>121</b>	<b>233</b>	<b>307</b>	<b>1,332</b>
Financial items	-15	-27	-84	-86
Profit after financial items	106	206	223	1,246
Taxes	-28	-49	-62	-356
<b>Profit for the period</b>	<b>78</b>	<b>157</b>	<b>161</b>	<b>890</b>

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

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

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>Oct-Dec</b>	<b>Oct-Dec</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>
Profit for the period	78	157	161	890
Other comprehensive income				
Foreign exchange differences in equity	10	148	-69	209
Comprehensive income for the period	88	305	92	1,099

Gross margin weakened for both the quarter and the full year due to the large volume decrease including underabsorption in the Group's workshops. However, the negative impact has been alleviated by cost savings and foreign exchange gains.

Selling, administrative and R&D expenses also decreased as a result of the implemented cost-cutting measures. However, the positive effects on the income statement have been partly undermined by foreign exchange losses of more than SEK 125 M for the full year.

The Group's planned depreciation and amortisation for the full year totalled SEK 369 M (346).

**Consolidated key figures**

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>Oct-Dec</b>	<b>Oct-Dec</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>
Operating margin, %	9.8	14.3	6.3	20.4
Profit margin, %	8.6	12.7	4.6	19.1
Earnings per share, basic and diluted, SEK	0.54	1.08	1.11	6.12
Return on capital employed before tax, % <sup>1)</sup>	6.7	30.8	6.7	30.8
Return on equity after tax, % <sup>1)</sup>	6.7	35.6	6.7	35.6
Equity per share, basic and diluted, SEK <sup>1)</sup>	15.33	17.89	15.33	17.89

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

**Consolidated balance sheet (SEK M)**

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
Intangible assets	309	331
Tangible assets	2,313	2,422
Financial assets	220	234
Inventories	1,275	1,568
Current receivables	1,086	1,573
Cash and cash equivalents	186	284
<b>Total assets</b>	<b>5,389</b>	<b>6,412</b>
Equity	2,230	2,603
Non-current liabilities	589	616
Current liabilities	2,570	3,193
<b>Total equity and liabilities</b>	<b>5,389</b>	<b>6,412</b>

Interest-bearing liabilities and provisions at the end of the quarter amounted to SEK 2,107 M (2,291), while the interest-free portion was SEK 1,052 M (1,518).

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

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
Equity at beginning of period	2,603	2,406
Dividends	-465	-902
Comprehensive income for the period	92	1,099
Equity at end of period	2,230	2,603

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

	<b>2009</b>	<b>2008</b>
	<b>Jan-Dec</b>	<b>Jan-Dec</b>
Profit for the period	161	890
Add-back tax expense	62	356
Add-back amortisation/depreciation	369	346
Other	46	-64
Taxes paid	-51	-429
Cash flow from operating activities before changes in working capital	587	1,099
Changes in working capital	274	-248
Cash flow from operating activities	861	851
Cash flow from investing activities	-305	-781
Cash flow from financing activities, incl. dividends	-652	-107
Cash flow for the year	-96	-37

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

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>Oct-Dec</b>	<b>Oct-Dec</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>
Revenue	685	952	2,851	3,978
Cost of goods sold	-522	-641	-1,909	-2,496
Gross profit	163	311	942	1,482
Selling, administrative and R&D expenses	-186	-197	-706	-800
Other income and expenses	24	58	-23	90
Operating profit	1	172	213	772
Financial items	-4	-4	369	328
Profit after financial items	-3	168	582	1,100
Appropriations	-28	-59	14	-80
Taxes	-19	-28	-84	-182
Profit for the period	-50	81	512	838

The positive net financial items consist primarily of dividends received from subsidiaries. The Parent Company's planned depreciation and amortisation for the full year totalled SEK 146 M (140).

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

	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
Tangible assets	1,096	1,080
Financial assets	745	675
Inventories	824	1,001
Current receivables	935	1,171
Cash and cash equivalents	2	9
Total assets	3,602	3,936
Equity	1,072	1,037
Untaxed reserves	573	587
Provisions	1	1
Non-current liabilities	78	83
Current liabilities	1,878	2,228
Total equity and liabilities	3,602	3,936

The level of cash and cash equivalents remains low. The Parent Company's interest-bearing liabilities decreased during the year and amounted to SEK 1,630 M (1,796) at 31 December 2009.

## **Number of shares**

The total number of shares at the end of the fourth quarters of both 2009 and 2008 was 145,467,690. The average weighted number of shares for the corresponding periods was 145,467,690.

## **Accounting policies**

Seco Tools presents its consolidated financial statements in compliance with IFRS, which are described in the 2008 annual report with the exception of the changes described below. The financial statements of the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2.2, Accounting for Legal Entities.

This year-end report has been prepared in accordance with IAS 34, Interim Financial Reporting. As of 1 January 2009, a number of new standards, amendments to existing standards (IFRS) and interpretations (IFRIC) have gone into effect. Under the revised IAS 1, Presentation of Financial Statements, changes in an entity's equity resulting from transactions with non-owners are now presented separately in a report called the "Consolidated statement of comprehensive income". The statement of changes in equity presents comprehensive income for the period and transactions with owners. The comparative figures have been correspondingly reclassified.

With regard to the revised IFRS 8, Operating Segments, an in-depth analysis and evaluation has been carried out regarding the application of this standard by Seco Tools, which has resulted in no changes in the current reporting. No significant effects on the Group's profit or financial position have otherwise arisen due to the application of these new or revised standards and interpretations.

## **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 regular 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.

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 2008. The assessments of significant risks described in the above-mentioned annual report were unchanged at the end of the period under review.

### **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 70 of the annual report for the fiscal year 2008. The scope of the above-mentioned transactions has not changed significantly during the period under review.

### **Personnel**

Through the global redundancies communicated in November and February, the Group announced a workforce reduction corresponding to 800 employees. The workforce reductions were carried out faster than originally planned and during the year the Group had at the lowest 4,280 employees, equal to a decrease of more than 850 positions including temporary employees compared to the third quarter of 2008. The described workforce reductions include agreed working hours and salary reductions which at the most corresponded to more than 200 full-time positions.

In the fourth quarter the reduced working hours were terminated in a few locations, including Sweden, to meet the need for higher production rates. The number of employees in the Group at 31 December 2009 was 4,412 (5,038).

### **Capital expenditure**

The Group's capital expenditure on tangible and intangible assets during the fourth quarter amounted to SEK 66 M (222), of which SEK 2 M (4) referred to capitalisation of IT/R&D expenses. The corresponding expenditure for the full year was SEK 325 M (796), of which SEK 15 M (20) referred to capitalisation of IT/R&D expenses.

Decision has been taken to invest approximately 130 MSEK during three years in buildings and machinery relating to the manufacturing of cemented carbide powder in Fagersta. The investment will increase the Group's production capacity and facilitate further steps in efficiency and product quality.

### **New products**



*Jabro Solid<sup>2</sup>*

Seco Tools continued its high pace of product launches in the fourth quarter. Two of the most notable were the new Double Octomill family of face milling cutters and the Jabro Solid<sup>2</sup> family of solid carbide milling cutters. Double Octomill offers significant gains in stability and accuracy thanks to insert pockets with two location pins of high speed steel (HSS). Jabro Solid<sup>2</sup> is a versatile tool with an excellent price-performance ratio in all workpiece materials.

## **Dividend**

The Board of Directors proposes to the Annual General Meeting that no dividend be paid (SEK 3.20 per share).

The proposal is motivated by the past year's relatively low profit level. The Board however emphasizes that the financial target to distribute 50 per cent of earnings per share over a business cycle remains. The average dividend payout ratio over the past five years has been 57 per cent excluding extraordinary dividends and 82 per cent including extraordinary dividends.

## **Nominating Committee of Seco Tools AB's proposal for the Board ahead of the 2010 AGM**

The Nominating Committee of Seco Tools AB proposes re-election of Annika Bärems, Stefan Erneholm, Jan-Erik Forsgren, Anders Ilstam, Chairman, Staffan Jufors, Peter Larson, Carl-Erik Ridderstråle and Kai Wärm.

The Nominating Committee has consisted of Lars Pettersson (Sandvik AB), Ramsay J. Brufer (Alecta Pensionsförsäkring), Jan Andersson (Swedbank Robur Fonder), Johan Ståhl (Lannebo Fonder) and Anders Ilstam, Chairman of the Board.

The Nominating Committee's other proposals will be published in the notice to attend the Annual General Meeting.

Further information can be obtained from the Nominating Committee's Chairman Lars Pettersson, tel. +46 26 26 00 00.

## **AGM and annual report**

The Annual General Meeting for the fiscal year 2009 will be held at 11:30 a.m. on 4 May 2010 in Fagersta, Sweden. A notice to attend the Annual General Meeting will be published in due order. Seco Tools' annual report will be available to the public at the company's head office in Fagersta and distributed as from the first week in April.

## **Financial information**

Seco Tools AB will publish the following financial reports for 2010:

First quarter 2010	4 May
Second quarter 2010	20 July
Third quarter 2010	29 October
Fourth quarter and full year 2010	January 2011

**Review**

This report has not been subject to special examination by the company's auditors.

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Fagersta, Sweden, 2 February 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 3 February 2010, 7:45 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 registration number is 556071-1060 and the company's address is Seco Tools AB, SE-737 82 Fagersta, Sweden. The telephone number to the Group head office is +46 223-400 00.