Seco Tools
Interim report
January – June
2010

SECO TOOLS AB

Interim report for the six months ended 30 June

- Revenue for the second quarter rose by 32 per cent at fixed exchange rates, and by 26 per cent in Swedish kronor (SEK), to SEK 1,485 M (1,180).
- Operating profit for the quarter was SEK 311 M (40), equal to an operating margin of 20.9 per cent (3.4).
- Higher sales and better capacity utilisation led to strong growth in operating profit.
- Profit after tax for the six-month period was SEK 358 M (68).
- Earnings per share for the six-month period were SEK 2.46 (0.47).
- Acquisition of French company specialised in diamond tools, among other things for the aircraft industry.

Comments from the CEO

Strong quarter and an operating margin in line with financial target.

"Demand continued to improve successively in virtually all of Seco Tools' markets during the quarter. As earlier, the most significant growth is taking place in South America and the emerging markets of Asia, together with the USA. It is also encouraging to see good development in the large German market.

It can be noted that the level of sales in both Asia and South America during the second quarter was well above the level of 2008. Sales in Central and Eastern have recovered to roughly the same level as in 2008, while sales in Western Europe and the USA remain below this.

With the exception of a normal seasonal downturn in the third quarter, the prospects for continued positive development are deemed favourable.

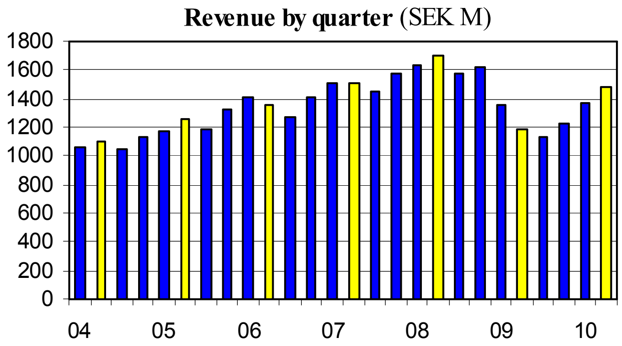
In response to improved demand, Seco Tools further increased its production rates during the quarter, which contributed to lower unit costs and better cost coverage than in the previous year.

Operating margin for the second quarter strengthened considerably to a level on par with the financial target and reached 20.9 per cent (3.4). The improvement is mainly attributable to higher sales and better capacity utilisation.

Seco Tools has advanced its position in the strategically important aircraft industry through the acquisition of the French tool company AOB, with annual revenue of approximately EUR 4 million. AOB has a strong offering of Poly Crystalline Diamond (PCD) cutting tools and in-depth expertise in areas like machining of composite materials (CFRP), which is expected to show very rapid growth. The combination of AOB's product and application knowhow and Seco Tools' customer relationships will create excellent conditions for strong future growth and a closer partnership with the aircraft industry," says Kai Wärn, President and CEO.

Second quarter revenue

Revenue for the second quarter rose by 26 per cent compared to the same period of last year and amounted to SEK 1,485 M (1,180). At fixed exchange rates, revenue was up by 32 per cent.



Sales continued to improve successively during the quarter and all major market regions reported an increase in revenue compared to the first quarter and the year-earlier period.

As earlier, the strongest development took place in the emerging markets of Asia and South America and in the USA. There was also a clear recovery in Europe, albeit with somewhat weaker performance in general. Among the larger European countries, the highest growth was noted in Germany and Sweden.

Revenue – market regions

	2010 Apr-Jun SEK M	2009 Apr-Jun SEK M	2010 Jan-Jun SEK M	2009 Jan-Jun SEK M	Change 10/09 Apr-Jun %[1]	Jan-Jun %[1]
EU	766	660	1,489	1,452	27	12
Rest of Europe	106	88	201	185	22	11
Total Europe	872	748	1,690	1,637	27	12
NAFTA	236	168	447	388	46	27
South America	85	47	160	92	66	62
Africa, Middle East	28	27	53	49	4	3
Asia, Australia	264	190	505	365	38	44
Total Group	1,485	1,180	2,855	2,531	32	21

[1] The change compared to the preceding year is shown at fixed exchange rates.

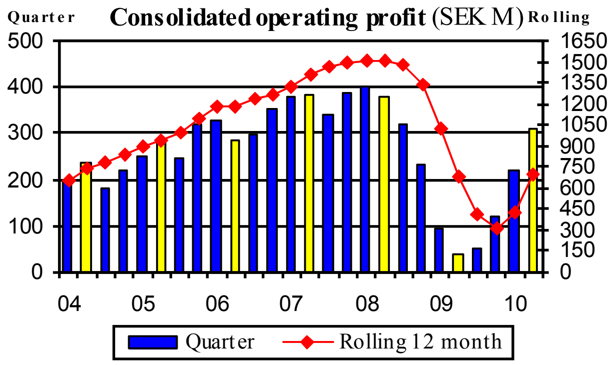
Earnings and return

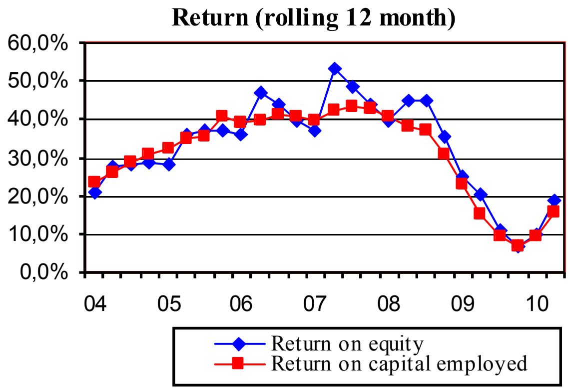
Consolidated operating profit rose significantly during the quarter and reached SEK 311 M (40), equal to an operating margin of 20.9 per cent (3.4). The improvement is mainly attributable to increased volumes and better capacity utilisation.

Earnings growth during the quarter was dampened by a somewhat higher cost level, among other things as an effect of the now ended salary and working hours reductions programmes and the period's increased marketing activities.

Compared to the previous year, operating profit for the second quarter was affected by foreign exchange effects of SEK -3 M. Operating profit for the six-month period included cumulative foreign exchange effects of SEK -72 M.

No restructuring charges are reported for the quarter or the six-month period.





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

Profit margin for the second quarter was 19.8 per cent (1.8). Earnings per share for the past 12-month period were SEK 3.10 (2.94). For the same period, return on capital employed was 15.7 per cent (15.0) and return on equity was 18.9 per cent (20.2).

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 increased by SEK 74 M since the beginning of the year and totalled SEK 260 M at the end of the period (SEK 186 M at 31 December 2009).

Cash flow from operating activities rose sharply and amounted to SEK 558 M (351). The improvement is explained by a stronger operating profit and a low level of investment for the quarter. Capital expenditure totalled SEK 107 M (199). Cash flow development was somewhat inhibited by a growth-related increase of SEK 80 M in working capital.

Due to a strong cash flow in the first half of the year, interest-bearing liabilities decreased by SEK 464 M and amounted to SEK 1,643 M at the end of the six-month period. The Group’s net debt/equity ratio fell from 0.85 at 31 December 2009 to 0.52 (1.04) at 30 June 2010.

GROUP

Consolidated income statement (SEK M)

	2010 Apr-Jun	2009 Apr-Jun	2010 Jan-Jun	2009 Jan-Jun
Revenue	1,485	1,180	2,855	2,531
Cost of goods sold	-620	-593	-1,229	-1,214
Gross profit	865	587	1,626	1,317
Selling, administrative and R&D expenses	-584	-546	-1,114	-1,147
Other income and expenses	30	-1	19	-35
Operating profit	311	40	531	135
Financial items	-17	-18	-40	-39
Profit after financial items	294	22	491	96
Taxes	-81	-8	-133	-28
Profit for the period	213	14	358	68

Consolidated statement of comprehensive income (SEK M)
(Specifying items recognised directly in equity resulting from transactions with non-owners)

	2010 Apr-Jun	2009 Apr-Jun	2010 Jan-Jun	2009 Jan-Jun
Profit for the period	213	14	358	68
Other comprehensive income				
Foreign exchange difference in Equity	11	-13	-11	4
Comprehensive income for the period	224	1	347	72

Gross margin strengthened during the quarter and the six-month period, mainly due to higher volumes and better capacity utilisation, although the improvement was somewhat undermined by foreign exchange losses of around SEK 123 M during the six-month period.

Selling, administrative and R&D expenses for the six-month period rose by SEK 22 M at fixed exchange rates. However, the impact on the income statement was offset among other things by foreign exchange gains of approximately SEK 48 M.

The Group’s planned depreciation and amortisation for the six-month period totalled SEK 190 M (183).

Consolidated key figures

	2010 Apr-Jun	2009 Apr-Jun	2010 Jan-Jun	2009 Jan-Jun
Operating margin, %	20.9	3.4	18.6	5.3
Profit margin, %	19.8	1.8	17.2	3.8
Earnings per share, SEK	1.46	0.10	2.46	0.47
Return on capital employed before tax, % [1)]	15.7	15.0	15.7	15.0
Return on equity after tax, % [1)]	18.9	20.2	18.9	20.2
Equity per share, SEK [1)])	17.71	15.20	17.71	15.20

[1)] The key figures are calculated on a rolling 12-month basis.

Consolidated balance sheet (SEK M)

	30 June 2010	31 Dec 2009
Intangible assets	312	309
Tangible assets	2,187	2,313
Financial assets	222	220
Inventories	1,334	1,275
Current receivables	1,284	1,086
Cash and cash equivalents	260	186
Total assets	5,599	5,389
Equity	2,577	2,230
Non-current liabilities	581	589
Current liabilities	2,441	2,570
Total equity and liabilities	5,599	5,389

Interest-bearing liabilities and provisions at the end of the quarter amounted to SEK 1,643 M (2,541), while the non interest-bearing portion was SEK 1,379 M (1,145).

Consolidated statement of changes in equity (SEK M)

	30 June 2010	30 June 2009
Equity at the beginning of the period	2,230	2,603
Dividends	–	-465
Comprehensive income for the period	347	72
Equity at the end of the period	2,577	2,210

Consolidated cash flow statement (SEK M)

	2010 Jan-Jun	2009 Jan-Jun
Profit for the period	358	68
Add-back tax expense	133	28
Add-back amortisation/depreciation	190	183
Other	13	-9
Taxes paid	-56	-97
Cash flow from operating activities before changes in working capital	638	173
Changes in working capital	-80	178
Cash flow from operating activities	558	351
Cash flow from investing activities	-105	-204
Cash flow from financing activities, incl. dividends	-385	-228
Cash flow for the year	68	-81

[1)] Investing activities include investments in and sales of non-current assets, as well as acquisitions and divestitures of subsidiaries.

PARENT COMPANY

Parent Company income statement (SEK M)

	2010 Apr-Jun	2009 Apr-Jun	2010 Jan-Jun	2009 Jan-Jun
Revenue	938	705	1,812	1,509
Cost of goods sold	-572	-477	-1,116	-966
Gross profit	366	228	696	543
Selling, administrative and R&D expenses	-199	-181	-380	-378
Other income and expenses	23	-9	8	9
Operating profit	190	38	324	174
Financial items	97	390	96	390
Profit after financial items	287	428	420	564
Appropriations	0	32	-27	66
Taxes	-47	-18	-75	-63
Profit for the period	240	442	318	567

The Parent Company's planned depreciation and amortisation for the six-month period totalled SEK 80 M (71).

Parent Company balance sheet (SEK M)

	30 June 2010	31 Dec 2009
Tangible assets	1,056	1,096
Financial assets	767	745
Inventories	819	824
Current receivables	1,290	935
Cash and cash equivalents	5	2
Total assets	3,937	3,602
Equity	1,390	1,072
Untaxed reserves	600	573
Provisions	1	1
Non-current liabilities	81	78
Current liabilities	1,865	1,878
Total equity and liabilities	3,937	3,602

The level of cash and cash equivalents remains low. The Parent Company's interest-bearing liabilities at 30 June 2010 amounted to SEK 1,270 M (1,909).

Number of shares

The total number of shares at the end of the second 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.

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 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 to the Sandvik Group.

A more detailed 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 under review.

Personnel

To meet the need for higher production rates, the number of employees in the Group's manufacturing units was increased during the six-month period. The increase has been carried out primarily through the recruitment of temporary staff and termination of the reduced working hours programme. Certain increases have also taken place in the white-collar staff, mainly through termination of the reduced working hours programme and recruitment of new staff in emerging markets.

The number of employees in the Group at 30 June 2010 was 4,777 (4,412 at 31 December 2009). The Group's various salary and working hours reduction programmes have now been essentially terminated.

Capital expenditure

The Group's capital expenditure on tangible and intangible assets during the quarter amounted to SEK 73 M (81), of which SEK 16 M (5) referred to capitalisation of IT/R&D costs. The increase in capitalisation is attributable to specific charges for a global project for improved product data information. Cumulative capital expenditure for the six-month period was SEK 107 M (199).

The rate of investment will increase during 2010 and is expected to exceed depreciation/amortisation for the full year.

Acquisitions

At the beginning of July Seco Tools signed an agreement to acquire 100 per cent of the shares in AOB, a French manufacturer of PCD (Poly Crystalline Diamond) cutting tools.

AOB, based in Mortagne-sur-Sevre, near Nantes, is one of the leading suppliers of PCD tools to the aircraft, automotive and woodworking industries. AOB has special expertise and experience in machining of composite materials (CFRP), for which Seco Tools' carbide tools are not suitable. CFRP is already the dominant material in the military aircraft industry and is also expected to grow dramatically in the civil aircraft industry over the next few years.

AOB has annual revenue of around EUR 4 M and some 50 employees.

AOB's factory in France

Products from AOB's range

New products

Xfix – the Group's new reamer programme

Seco Tools continued its high pace of product launches during the quarter. One such example is a newly developed reamer programme called X-fix. The programme is designed for large diameters and features adjustable inserts with eight cutting edges for high precision in holemaking.

Financial information

This report has not been subject to review by the company's auditors. The next report will be published on 29 October 2010 and refers to the first nine months of 2010.

The Board of Directors and the CEO give their assurance that this interim report provides a true and fair picture of the business activities, financial position and results of operations of the Parent Company and the Group, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Fagersta, 20 July 2010

SECO TOOLS AB (publ)

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Peter Larson
Board member

Staffan Jufors
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Board member

Kai Wärn
President & CEO and
Board member

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 20 July 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). 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.