Seco Tools
Interim report
January – September
2010

Power 4, a copy milling cutter with round inserts for outstanding stability in areas like applications for the power generation sector

SECO TOOLS AB

Interim report for the nine months ended 30 September 2010

- Revenue for the third quarter rose by 32 per cent at fixed exchange rates, and by 27 per cent in Swedish kronor (SEK), to SEK 1,426 M (1,126).
- Higher sales and better capacity utilisation led to strong growth in operating profit.
- Operating profit for the quarter was SEK 245 M (51), equal to an operating margin of 17.2 per cent (4.5).
- Profit after tax for the nine-month period was SEK 522 M (83).
- Earnings per share for the nine-month period were SEK 3.59 (0.57).
- Acquisition of AOB in France completed.

Comments from the CEO

Sustained revenue growth and strong result improvement

"Demand continued to improve during the quarter and all market regions reported higher revenue growth than in the previous quarter with the exception of the seasonal downturn during the summer.

The most significant growth is still being seen in South America. Of the mature markets, the USA is showing particularly strong development. All in all, the prospects for continued rising demand are deemed favourable.

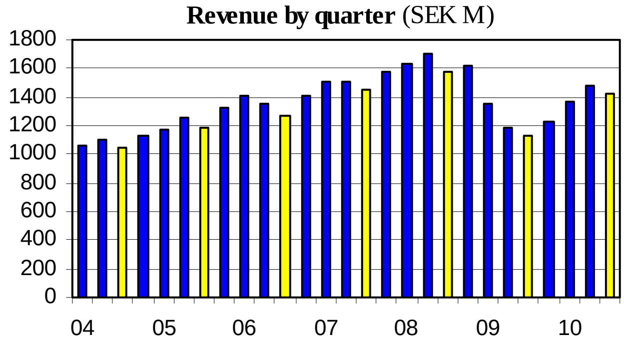
Operating result for the third quarter strengthened considerably compared to the previous year and reached SEK 245 M (51). The improvement is primarily attributable to higher sales and better capacity utilisation.

The weaker operating margin compared to quarter two is explained mainly by negative foreign exchange effects and a seasonally lower volume.

Growth initiatives within the "Positioning for Growth" programme are continuing and are now focused primarily on market penetration in growth regions and increased capability for a solution-oriented approach. With regard to new product launches, we introduced an important upgrade of Seco Tools' Turbo family of square shoulder mills and a further addition to the Duratomic family, now in the grooving and parting-off area.

The acquisition of the French tool manufacturer AOB was completed according to plan during the quarter. AOB has a strong offering of Poly Crystalline Diamond (PCD) cutting tools and in-depth expertise in areas like machining of composite materials (CFRP) in the aircraft industry. Use of these materials is expected to increase significantly in the future," says Kai Wärn, President and CEO.

Third quarter revenue



Revenue for the third quarter rose by 27 per cent compared to the same period of last year and amounted to SEK 1,426 M (1,126). At fixed exchange rates, revenue was up by 32 per cent.

Sales continued to rise successively during the quarter and all major market regions reported a sharp increase in revenue relative to the year-earlier period. The most significant growth is still being seen in South America and the USA. In the largest region, Europe, improved development is now being noted in Germany and other large countries like France and Italy.

Revenue – market regions

	2010 Jul-Sep SEK M	2009 Jul-Sep SEK M	2010 Jan-Sep SEK M	2009 Jan-Sep SEK M	Change 10/09 Jul-Sep %[1]	Change 10/09 Jan-Sep %[1]
EU	759	594	2,248	2,046	39	19
Rest of Europe	49	77	250	262	-36	-3
Total Europe	808	671	2,498	2,308	29	17
NAFTA	236	167	683	555	41	32
South America	94	58	254	150	59	61
Africa, Middle East	23	37	76	86	-38	-14
Asia, Australia	265	194	770	559	34	40
Total Group	1,426	1,127	4,281	3,658	32	24

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

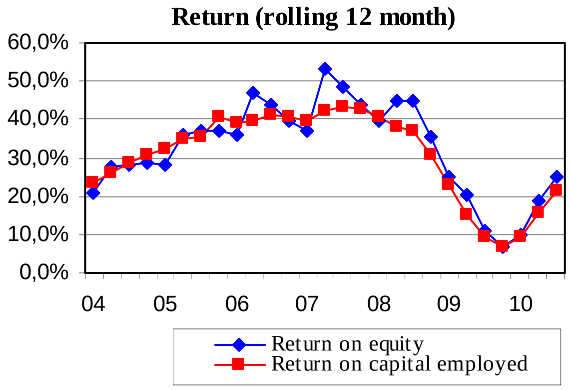
Earnings and return

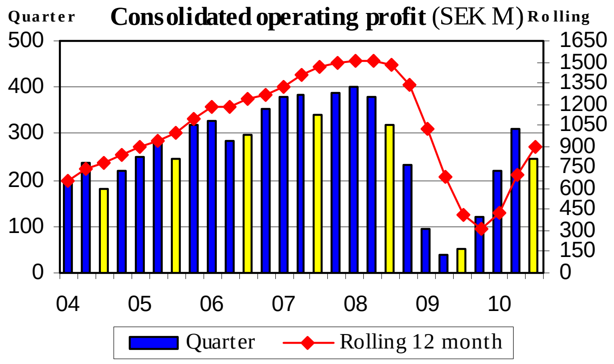
Consolidated operating profit rose significantly during the quarter compared to the previous year and reached SEK 245 M (51), equal to an operating margin of 17.2 per cent (4.5). The improvement is mainly attributable to increased volumes and better capacity utilisation.

Compared to the previous year, operating profit for the quarter was affected by foreign exchange effects of SEK –30 M. Operating profit for the nine-month period included cumulative foreign exchange effects of SEK –102 M.

The weaker operating margin compared to quarter two is explained mainly by negative foreign exchange effects and a seasonally lower volume.

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





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

Profit margin for the third quarter was 15.7 per cent (1.9). Earnings per share for the past 12-month period were SEK 4.12 (1.65). For the same period, return on capital employed was 21.4 per cent (9.3) and return on equity was 25.1 per cent (10.8).

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 12 M since the beginning of the year and totalled SEK 198 M at the end of the period (SEK 186 M at 31 December 2009).

Cash flow from operating activities was strong and amounted to SEK 891 M (574). The improvement is explained mainly by a stronger operating profit and a low level of investment. As a result of ongoing investments and inventory build-up, cash flow development will be somewhat inhibited in the next few months.

Due to a strong cash flow in the first nine months of the year, interest-bearing liabilities decreased by SEK 778 M and amounted to SEK 1,329 M at the end of the nine-month period. The Group's net debt/equity ratio fell from 0.85 at 31 December 2009 to 0.41 (0.98) at 30 September 2010.

Group

Consolidated income statement (SEK M)

	2010 Jul-Sep	2009 Jul-Sep	2010 Jan-Sep	2009 Jan-Sep
Revenue	1,426	1,127	4,281	3,658
Cost of goods sold	-565	-503	-1,794	-1,717
Gross profit	-861	624	2,487	1,941
Selling, administrative and R&D expenses	-546	-515	-1,660	-1,662
Other income and expenses	-70	-58	-51	-93
Operating profit	245	51	776	186
Financial items	-21	-30	-61	-69
Profit after financial items	224	21	715	117
Taxes	-60	-6	-193	-34
Profit for the period	164	15	522	83

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

	2010 Jul-Sep	2009 Jul-Sep	2010 Jan-Sep	2009 Jan-Sep
Profit for the period	164	15	522	83
Other comprehensive income				
Foreign exchange differences	-100	-84	-111	-80
Comprehensive income for the period	64	-69	411	3

Gross margin strengthened for both the quarter and the nine-month period, mainly due to higher volumes and better capacity utilisation, although the improvement was somewhat undermined by foreign exchange losses of around SEK 151 during the nine-month period.

Selling, administrative and R&D expenses for the nine-month period rose by SEK 107 at fixed exchange rates. However, the impact on the income statement was offset among other things by foreign exchange gains of approximately SEK 63 M.

Other income and expenses consist during the nine-month period mainly of exchange differences, and during the previous year also of restructuring charges.

The Group’s planned depreciation and amortisation for the nine-month period totalled SEK 284 M (275).

Consolidated key figures

	2010 Jul-Sep	2009 Jul-Sep	2010 Jan-Sep	2009 Jan-Sep
Operating margin, %	17.2	4.5	18.1	5.1
Profit margin, %	15.7	1.9	16.7	3.2
Earnings per share, basic and diluted, SEK	1.13	0.10	3.59	0.57
Return on capital employed before tax, % [1)]	21.4	9.3	21.4	9.3
Return on equity after tax, % [1)]	25.1	10.8	25.1	10.8
Equity per share, basic and diluted, SEK [1)]	18.16	14.72	18.16	14.72

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

Consolidated balance sheet (SEK M)

	30 Sep 2010	31 Dec 2009
Intangible assets	314	309
Tangible assets	2,142	2,313
Financial assets	210	220
Inventories	1,306	1,275
Current receivables	1,184	1,086
Cash and cash equivalents	198	186
Total assets	5,354	5,389
Equity	2,641	2,230
Non-current liabilities	564	589
Current liabilities	2,149	2,570
Total equity and liabilities	5,354	5,389

Interest-bearing liabilities and provisions at the end of the quarter amounted to SEK 1,329 M (2,299), while the non interest-bearing portion was SEK 1,384 M (1,053).

Consolidated statement of changes in equity (SEK M)

	30 Sep 2010	30 Sep 2009
Equity at the beginning of the period	2,230	2,603
Dividend	–	-465
Comprehensive income for the period	411	3
Equity at the end of the period	2,641	2,141

Consolidated cash flow statement (SEK M)

	2010 Jan-Sep	2009 Jan-Sep
Profit for the period	522	83
Add-back tax expense	193	34
Add-back amortisation/depreciation	284	275
Other	7	6
Taxes paid	-99	-104
Cash flow from operating activities before changes in working capital	907	294
Changes in working capital	-16	280
Cash flow from operating activities	891	574
Cash flow from investing activities [1)]	-184	-242
Cash flow from financing activities incl. dividends	-684	-453
Cash flow for the period	23	-121

[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 Jul-Sep	2009 Jul-Sep	2010 Jan-Sep	2009 Jan-Sep
Revenue	880	657	2,692	2,166
Cost of goods sold	-533	-421	-1,649	-1,387
Gross profit	347	236	1,043	779
Selling, administrative and R&D expenses	-166	-142	-546	-520
Other income and expenses	-69	-56	-61	-47
Operating profit	112	38	436	212
Financial items	-11	-17	85	373
Profit after financial items	101	21	521	585
Appropriations	-32	-24	-59	42
Taxes	-19	-2	-94	-65
Profit for the period	50	-5	368	562

The Parent Company's planned depreciation and amortisation for the nine-month period totalled SEK 119 M (107).

Parent Company balance sheet (SEK M)

	30 Sep 2010	31 Dec 2009
Tangible assets	1,066	1,096
Financial assets	767	745
Inventories	834	824
Current receivables	1,104	935
Cash and cash equivalents	5	2
Total assets	3,776	3,602
Equity	1,440	1,072
Untaxed reserves	632	573
Provisions	1	1
Non-current liabilities	81	78
Current liabilities	1,622	1,878
Total equity and liabilities	3,776	3,602

The level of cash and cash equivalents remains low. The Parent Company's interest-bearing liabilities at 30 September 2010 amounted to SEK 1,049 M (1,730).

Number of shares

The total number of shares at the end of the third 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' management of 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 responsibilities 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 nine-month period. The increase has been essentially carried out through the recruitment of temporary workers 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 September 2010 was 4,962 (4,412 at 31 December 2009), including 37 employees from the acquired French company AOB. The Group's various salary and working hours reduction programmes have now been essentially terminated.

CEO succession

The Board of Directors' efforts to find a replacement for the outgoing CEO Kai Wärn are proceeding according to plan and the goal is to appoint and announce a successor in the near future. Kai Wärn will remain at his post until the end of the year.

Capital expenditure

The Group's capital expenditure on tangible and intangible assets during the quarter amounted to SEK 92 M (60), of which SEK 10 M (4) 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 nine-month period was SEK 199 M (259).

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

Acquisitions

Seco Tools' acquisition of AOB, a French manufacturer of PCD (Poly Crystalline Diamond) cutting tools, was completed during the quarter.

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' solid 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 37 employees. The acquisition affected Seco Tools' revenue for the quarter by just under 1 per cent. The preliminary purchase price allocation (PPA) indicates goodwill of approximately SEK 13 M.

2011 Annual General Meeting

The Annual General Meeting for the 2010 fiscal year will be held at 11:30 a.m. on 3 May 2011 in Fagersta, Sweden. A notice to attend the AGM will be sent in due course.

Financial information

The next report will be published on 2 February 2011 and refers to the fourth quarter and full year 2010.

Fagersta, 29 October 2010

SECO TOOLS AB (publ)

Kai Wärn
President & CEO

Review report

Introduction

We have reviewed the interim report of Seco Tools AB (publ) at 30 September 2010 and for the nine-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the Standard on Review Engagements (SÖG) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden (RS) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act for the group and in accordance with the Annual Accounts Act for the parent company.

Fagersta, 29 October 2010

Öhrlings PricewaterhouseCoopers AB	KPMG AB
Mikael Eriksson Authorised Public Accountant	Åsa Wirén Linder Authorised Public Accountant

----

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 29 October 2010, 7:45 a.m. CET.

For additional information contact Kai Wärn, President and CEO (Tel: +46 223-401 10), or Patrik Johnson, CFO (Tel +46 223-401 20). E-mail can be sent to investor.relations@secotools.com

Previously published financial information can be found under “About Seco Group/Investor Relations” on the Seco Tools website (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.