SECO TOOLS INTERIM REPORT JANUARY - SEPTEMBER 2011

SECO TOOLS AB

Interim report January – September 2011

Improved sales and higher earnings

* Revenue for the quarter increased 24 per cent at fixed exchange rates and 19 per cent in SEK amounting to SEK 1,696 M (1,426).
* Operating profit for the third quarter rose 21 per cent to SEK 297 M (245), corresponding to an operating margin of 17.5 per cent (17.2).
* The interim period's profit after tax was SEK 718 M (522).
* Earnings per share for the interim period amounted to SEK 4.94 (3.59).
* Record-large product launches in conjunction with EMO trade fair in Germany, including the unveiling of the new milling tool Minimaster® Plus.

Comments from the CEO

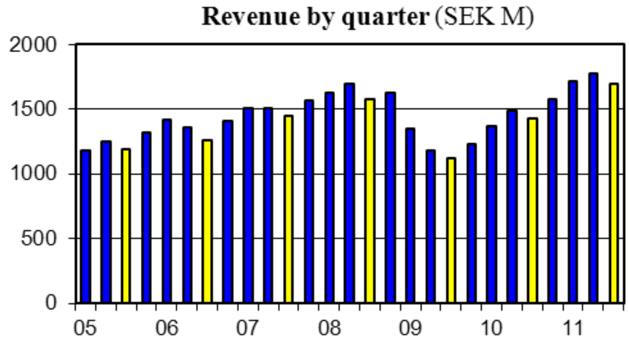
"In seasonal terms, demand was lower in the third quarter but was otherwise on a par with the second quarter. All market regions continued to report growth during the quarter compared with the year-earlier period. The most positive trend was noted in Central and Eastern Europe as well as NAFTA. Growth in Asian markets during the quarter was lower than previously; a development that was primarily driven by the weaker performance of the Chinese market. Overall, the sales trend has levelled-off and the uncertainty regarding the future demand scenario has increased. As a result of these developments and escalating uncertainty in the market, activities aimed at reducing production rates and staffing levels were initiated during the quarter.

Operating profit improved compared with the year-earlier period and amounted to SEK 297 M (245) for the quarter, corresponding to a margin of 17.5 per cent (17.2). This improvement was largely attributable to higher volumes and a favourable price trend. Higher costs for sales and marketing activities within the framework of the Group's expansion programme were the main reasons for the dampening effect on earnings. Earnings for the quarter were also impacted by adjusted cost accruals relating to the first six months of the year and temporarily by slightly higher production costs, primarily due to the historically large number of product launches. Overall, this meant that the underlying operating margin for the quarter was closer to 20 per cent.

Cash flow from operating activities before changes in working capital and investments remained strong and amounted to SEK 307 M (269) for the quarter. However, the continued build-up of inventory – primarily driven by high raw material prices – and a raised level of investment had a dampening effect on the cash flow trend during the quarter. As a consequence of the favourable cash flow, the net debt/equity ratio declined during the quarter from 0.66 to 0.56 (0.41 preceding year).

For Seco Tools, the EMO trade fair in Germany in September, which in global terms is the largest of its kind for the industry, was a real success. We launched a raft of new exciting products at the fair as part of the largest-ever update of our product portfolio. The commitment and energy shown by all employees in meetings with customers during this launch was hugely impressive!" says Lars Bergström, President and CEO.

Third-quarter revenue



Although revenue for the third quarter was seasonally lower, it rose 19 per cent compared with the year-earlier period and amounted to SEK 1,696 M (1,426). At fixed exchange rates, revenue increased 24 per cent, of which 6 per cent arose from acquisition effects. Apart from the seasonal decline, revenue was stable and largely on a par with the second quarter.

During the quarter, all market regions reported increased sales compared with the corresponding period in the preceding year. The strongest performance in the quarter was noted in Central and Eastern Europe as well as NAFTA, with growth of 34 per cent and 32 per cent, respectively. Growth in the largest region, Western Europe, was 15 per cent. Sales in emerging markets in South America and Asia remained high but due to increasingly strong benchmark months and a general levelling out of the sales trend, the year-on-year increase was somewhat weaker and amounted to 11 per cent and 7 per cent, respectively. In Asia, weaker development was noted in China.

Revenue – market regions

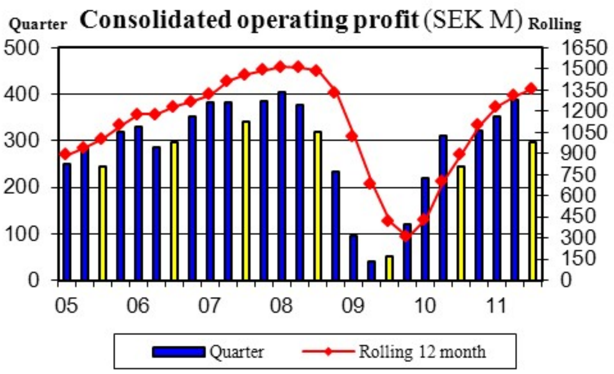
	2011 Jul-Sep SEK M	2010 Jul-Sep SEK M	2011 Jan-Sep SEK M	2010 Jan-Sep SEK M	Change 2011/2010 Jul-Sep %[1)]	Jan-Sep %[1)]
EU	818	714	2,582	2,203	17	23
Rest of Europe	130	94	396	295	41	41
Total Europe	948	808	2,978	2,498	19	26
NAFTA	354	236	1,006	683	32	31
South America	98	94	279	254	11	17
Africa, Middle East	25	23	76	76	10	4
Asia, Australia	271	265	853	770	7	19
Total Group	1,696	1,426	5,192	4,281	18	24

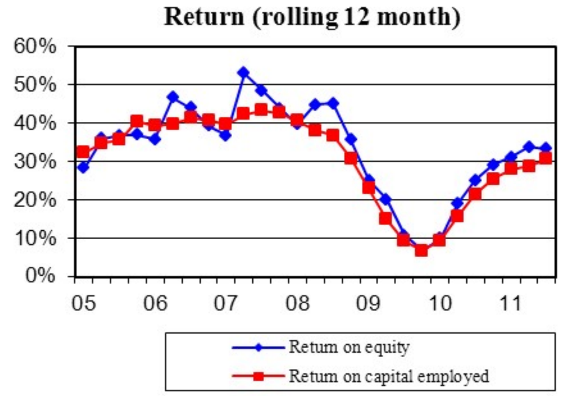
[1)] The change compared with the year-earlier period is shown at fixed exchange rates for comparable units.

Earnings and return

Consolidated operating profit during the third quarter was seasonally lower but increased compared with the year-earlier period and amounted to SEK 297 M (245), corresponding to an operating margin of 17.5 per cent (17.2). The increase was mainly attributable to higher revenue and favourable price trends. In addition, currency effects had a positive impact of SEK 46 M on earnings for the quarter compared with the corresponding period in 2010. Accumulated over the nine-month period, currency effects had a negative impact of SEK 96 M on operating profit.

The Group's cost level increased for the quarter and interim period compared with the year-earlier periods. The increase was due to a return to a more normal activity level after the savings made during the crisis, the strong volume increase and the future-oriented growth initiatives, including recruitment to the sales force, marketing and R&D. In addition, earnings for the quarter were charged with approximately SEK 20 M related to a temporary increase in production costs largely attributable to the historically large number of new product launches. Adjustments to cost accruals related to the first six months of the year had a negative impact of about SEK 30 M on earnings for the quarter.





The profit margin for the third quarter was 16.3 per cent (15.7). Earnings per share for the third quarter increased 21 per cent and amounted to SEK 1.37 (1.13). For the most recent 12-month period, earnings per share were SEK 6.45 (4.13). For the same period, return on capital employed was 30.6 per cent (21.4) and return on equity was 33.3 per cent (25.1).

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 increased SEK 74 M since the beginning of the year and totalled SEK 240 M (198) at the end of the period.

Cash flow from operating activities before changes in working capital remained strong during the quarter and amounted to SEK 307 M (269). The continued build-up of inventory – driven primarily by high raw material prices and a raised level of investment – dampened the cash flow trend. Cash flow after changes in working capital and investments totalled SEK 169 M (254) for the quarter. Accumulated over the nine-month period, cash flow from operating activities was SEK 226 M (707) after changes in working capital and investments. The decrease is mainly from the growth-related increase in working capital and a higher level of investment.

During the quarter, interest-bearing liabilities and provisions declined SEK 130 M and amounted to SEK 1,941 M (1,329) at 30 September 2011. Compared with the year-earlier period, the increase in interest-bearing liabilities and provisions was primarily required to finance the dividend paid in the preceding quarter. Non interest-bearing liabilities and provisions totalled SEK 1,600 M (1,384) at the end of the quarter.

The Group's net debt/equity ratio declined during the quarter from 0.66 to 0.56 (0.41 preceding year).

FINANCIAL REPORTS IN SUMMARY

GROUP

Income statement (SEK M)

	2011 Jul-Sep	2010 Jul-Sep	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Revenue	1,696	1,426	5,192	4,281	5,858
Cost of goods sold	-771	-565	-2,251	-1,794	-2,459
Gross profit	925	861	2,941	-2,487	3,399
Selling, administrative and R&D expenses	-643	-546	-1,904	-1,660	-2,261
Other income and expenses	15	-70	1	-51	-40
Operating profit	**297**	**245**	**1,038**	**776**	**1,098**
Financial items	-21	-21	-52	-61	-74
Profit after financial items	276	224	986	715	1,024
Taxes	-78	-60	-268	-193	-282
Profit for the period	**198**	**164**	**718**	**522**	**742**

Earnings per share for the quarter amounted to SEK 1.37 (1.13). For the nine-month period, earnings per share were 4.94 (3.59).

Statement of comprehensive income (SEK M)

	2011 Jul-Sep	2010 Jul-Sep	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Profit for the period	198	164	718	522	742
Other comprehensive income					
Translation differences	33	-100	21	-111	-109
Comprehensive income for the period	**231**	**64**	**739**	**411**	**633**

Despite a rise in net sales and a favourable price trend, the gross margin declined during the quarter mainly due to negative exchange rate effects and temporary cost increases in production. Selling, administrative and R&D expenses were higher year-on-year, primarily due to an increase of marketing activities and expansion of the sales force. The increases were dampened by positive currency translation effects.

Other income and expenses during the quarter mainly comprised positive exchange rate differences. The Group's planned depreciation and amortisation for the quarter totalled SEK 308 M (284).

Key figures

	2011 Jul-Sep	2010 Jul-Sep	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Operating margin, %	17.5	17.2	20.0	18.1	18.7
Profit margin, %	16.3	15.7	19.0	16.7	17.5
Earnings per share, SEK	1.37	1.13	4.94	3.59	5.10
Return on capital employed before tax, % [1)]	30.6	21.4	30.6	21.4	25.5
Return on equity after tax, % [1)]	33.3	25.1	33.3	25.1	29.1
Equity per share, SEK	20.56	18.16	20.56	18.16	19.68
Net debt/equity ratio at the end of the period	0.56	0.41	0.56	0.41	0.42

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

Balance sheet (SEK M)

	30 Sep 2011	30 Sep 2010	31 Dec 2010
Intangible assets	417	314	388
Tangible assets	2,443	2,142	2,354
Financial assets	158	210	214
Inventories	1,827	1,306	1,394
Current receivables	1,448	1,184	1,286
Cash and cash equivalents	240	198	166
Total assets	6,533	5,354	5,802
Equity	2,991	2,641	2,863
Long-term liabilities	530	564	568
Current liabilities	3,012	2,149	2,371
Total equity and liabilities	6,533	5,354	5,802

Statement of changes in equity (SEK M)

	30 Sep 2011	30 Sep 2010	31 Dec 2010
Equity at beginning of the period	2,863	2,230	2,230
Profit for the period	718	522	742
Other comprehensive income	21	-111	-109
Comprehensive income for the period	739	411	633
Dividend to shareholders	-611	–	–
Equity at end of the period	2,991	2,641	2,863

Cash flow statement (SEK M)

	2011 Jul-Sep	2010 Jul-Sep	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Profit for the period	198	164	718	522	742
Add-back tax expense	78	60	268	193	282
Add-back amortisation/depreciation	108	94	308	284	378
Other non-cash items	5	-6	6	7	-49
Taxes paid	-82	-43	-253	-99	-149
Cash flow from operating activities before changes in working capital	307	269	1,047	907	1,204
Changes in working capital	-15	64	-387	-16	48
Cash flow from operating activities	292	333	660	891	1,252
Cash flow from investing activities [1)]	-123	-79	-434	-184	-591
Cash flow from financing activities incl. Dividend	-140	-299	-154	-684	-673
Cash flow for the period	29	-45	72	23	-12

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

PARENT COMPANY

Income statement (SEK M)

	2011 Jul-Sep	2010 Jul-Sep	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Net sales	977	880	3,096	2,692	3,681
Cost of goods sold	-680	-533	-1,925	-1,649	-2,240
Gross profit	297	347	1,171	1,043	1,441
Selling, administrative and R&D expenses	-139	-166	-635	-546	-744
Other income and expenses	12	-69	-8	-61	-64
Operating profit	170	112	528	436	633
Financial items	-13	-11	96	85	81
Profit after financial items	157	101	624	521	714
Appropriations	-2	-32	-18	-59	-38
Taxes	-40	-19	-125	-94	-151
Profit for the period[1)]	115	50	481	368	525

[1)] Profit for the period matches comprehensive income for the period.

The Parent Company's planned depreciation and amortisation for the quarter totalled SEK 124 M (119).

Balance sheet (SEK M)

	30 Sep 2011	30 Sep 2010	31 Dec 2010
Tangible assets	1,184	1,066	1,117
Financial assets	677	767	766
Inventories	1,176	834	854
Current receivables	1,545	1,104	1,166
Cash and cash equivalents	1	5	1
Total assets	4,583	3,776	3,904
Equity	1,458	1,440	1,589
Untaxed reserves	629	632	611
Provisions	12	1	1
Long-term liabilities	-	81	81
Current liabilities	2,484	1,622	1,622
Total equity and liabilities	4,583	3,776	3,904

The level of cash and cash equivalents remains low. The Parent Company's interest-bearing liabilities at 30 September 2011 totalled SEK 1,740 M (1,049).

Number of shares

The total number of shares at the end of the third quarters of both 2011 and 2010 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 2010 Annual Report. For a description of the applied accounting policies, see the most recently published annual report.

As of 1 January 2011, a number of new standards, amendments to existing standards (IFRS) and interpretations (IFRIC) have become effective. Overall, the management's assessment is that these new or revised standards and interpretations have not had any significant impact on the Group's profit or financial position. For a description of these standards, see the most recently published annual report.

The interim report of the Parent Company is presented in accordance with the Swedish Annual Accounts Act and the Securities Markets Act which complies with the regulations of RFR 2.

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 made regularly for accounting purposes. The estimates and assumptions that could lead to significant adjustments in the carrying amounts of assets and liabilities in the financial statements of subsequent 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 2010. 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 to the Sandvik Group.

A description of related party transactions is provided on page 86 of the annual report for the fiscal year 2010. The scope of the above-mentioned transactions has not changed significantly during the quarter.

Personnel

To meet the need for higher production rates, the number of employees in production was increased during the nine-month period. The increase was carried out primarily through the recruitment of temporary staff. In line with the Group's growth strategy, recruitment of salaried employees was performed during the quarter, primarily for the sales force and the global R&D organisation.

The number of employees in the Group at 30 September 2011 was 5,563 (5,306 at 31 December 2010).

Capital expenditure

The Group's capital expenditure on tangible and intangible assets during the third quarter amounted to SEK 141 M (92), of which SEK 7 M (10) referred to capitalisation of IT/R&D costs. Accumulated for the nine-month period, capital expenditure amounted to SEK 421 M (199).

The increased investment in tangible assets was mainly attributable to the modernisation and expansion of the facility for cemented carbide powder at Fagersta. The new plant in Fagersta is scheduled to be completed and in production by the end of the year.

Acquisitions

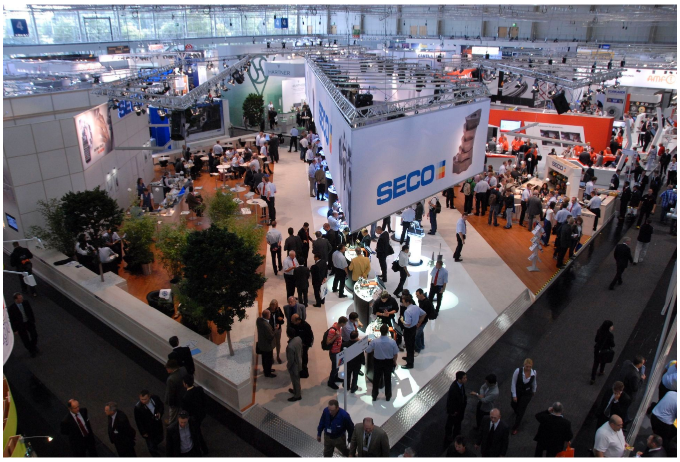
The companies acquired in the US and France in the preceding year reported revenue of SEK 241 M for the nine-month period, representing a structural effect on consolidated revenue of 6 per cent. The total operating profit for these companies amounted to SEK 17 M for the nine-month period, corresponding to an operating margin of about 7 per cent.

New products and marketing activities

In mid-October, Seco News 2 was launched – one of the largest updates of the Group's product portfolio in the history of the company. In the milling area, the offering was expanded through the addition of new solutions, one of which was the new milling tool Minimaster® Plus with replaceable fluted inserts, displaying tolerances close to those of solid end mills.

Seco Tools is also introducing a number of e-solutions to facilitate operations for customers. In mid-October, Seco Tools launched Customer Zone on its website, consisting of a number of programmes to help customers access information about products and cutting data. It is also possible to place orders online.

In September, Seco Tools participated in the international EMO trade fair for the machine tool industry, which is the industry's largest meeting with just over 2,000 exhibitors sharing a space of 175,000 square metres. The fair attracted about 140,000 visitors and Seco Tools established about 7,000 new contacts, which will be followed up by local sales representatives. Seco Tools launched a significant number of new products at the trade fair, of which the global launch of the Minimaster® Plus received most attention.



Annual General Meeting 2012

The Annual General Meeting for the 2011 fiscal year will be held at 2:00 p.m. on 27 April 2012 in Fagersta, Sweden. A notice to attend the AGM will be sent in due course.

Financial information

The next report will be published on 1 February 2012 and refers to the fourth quarter and full-year 2011.

Fagersta, 31 October 2011

SECO TOOLS AB (publ)

Lars Bergström
President and CEO

Review report

Introduction

We have reviewed the interim report of Seco Tools AB as of September 30, 2011 and the nine-month period then ended. The board of directors and the president are responsible for the preparation and presentation of this interim report 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 International Standards on Auditing and other generally accepted auditing practices and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Fagersta, October 31, 2011

KPMG AB

Åsa Wirén Linder
Authorized 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 1 November 2011, 7:45 a.m. CET.

For additional information, please contact Per-Lennart Berg, Director Group Communication, (tel +46 223-403 20), Lars Bergström, 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/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's head office is +46 223-400 00.