Seco Tools
Interim report
January – September
2009

Seco Tools new vibration damping shell mill holder Steadyline™ offers increased productivity, improved surface finish, longer tool life and extended spindle life

SECO TOOLS AB

Interim report for the nine months ended 30 September 2009

* Revenue for the quarter fell by 34 per cent at fixed exchange rates and by 29 per cent in Swedish kronor (SEK), and amounted to SEK 1,127 M (1,582).
* The cost saving measures are proceeding according to plan.
* Despite continued low volumes, the Group posted a positive operating result of SEK 51 M (318) for the quarter. Operating margin for the quarter was 4.5 per cent (20.1).
* Revenue for the nine-month period fell by 34 per cent at fixed exchange rates and amounted to SEK 3,658 M (4,911).
* Profit after tax for the nine-month period was SEK 83 M (733).
* Capital reductions contributed to a strong cash flow of SEK 574 M for the nine-month period.
* Earnings per share for the nine-month period were SEK 0.57 (5.04).

Comments from the CEO

"Demand in virtually all of Seco Tools' markets remained very weak in the third quarter. Aside from the traditional seasonal decrease, however, the sales rate was somewhat higher than before the summer. This is most likely an effect of the now completed inventory reductions among our end-customers and distributors.

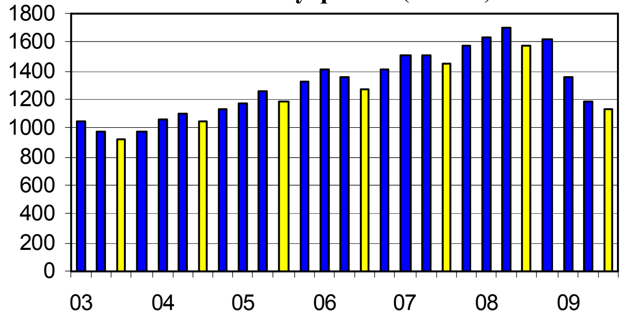
All cost adaptations proceeded with satisfactory results during the quarter and are expected to lower the Group's annual cost level by around SEK 600 M, of which SEK 500 M will affect profit for the current year. Including the decrease in temporary employees, our global workforce has been reduced by the equivalent of more than 850 positions since the end of the third quarter last year.

Despite weak demand, Seco Tools succeeded in delivering a continued operating profit. Operating margin for the third quarter was somewhat stronger than for the second quarter and amounted to 4.5 per cent (20.1). The decrease compared to the previous year is mainly attributable to the drop in both sales and production volumes. The period's negative earnings growth has been somewhat offset by the effects of the cost-cutting programmes. Continued reductions in working capital during the quarter contributed to a sustained strong cash flow of SEK 574 M (632) for the nine-month period.

In spite of a stabilised market during the period, future development remains uncertain. On the whole, we are currently seeing no signs of a near-term change in the demand scenario," says Kai Wärn, President and CEO of Seco Tools.

Third quarter revenue

Revenue by quarter (SEK M)



Compared to the same period of 2008, third quarter revenue declined by 29 per cent and amounted to SEK 1,127 M. At fixed exchange rates, revenue was down by 34 per cent.

Aside from the traditional seasonal decrease, third quarter revenue was stable at a low level. All major market regions reported continued negative growth in fixed currency. Western Europe noted somewhat weaker development than the other regions due to long summer closures among many customers. The strongest development in relative terms was shown by Asia.

Revenue – market regions

	2009 Jul-Sep SEK M	2008 Jul-Sep SEK M	2009 Jan-Sep SEK M	2008 Jan-Sep SEK M	Change 09/08 Jul-Sep %[1]	Change 09/08 Jan-Sep %[1]
EU	594	947	2,046	3,006	-41	-38
Rest of Europe	77	98	262	311	-22	-20
Total Europe	671	1,045	2,308	3,317	-39	-36
NAFTA	167	226	555	684	-36	-36
South America	58	82	150	222	-33	-35
Africa, Middle East	37	22	86	66	53	20
Asia, Australia	194	207	559	622	-19	-26
Total Group	1,127	1,582	3,658	4,911	-34	-34

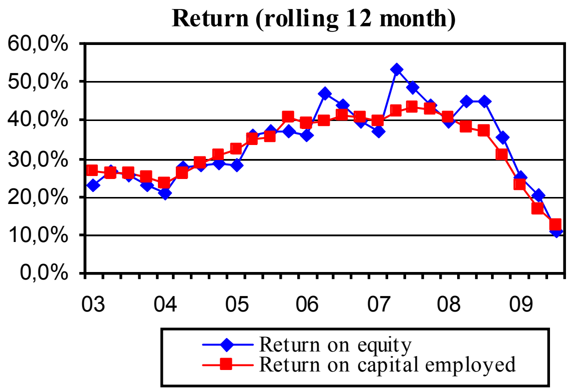
[1] The change from the preceding year is shown at fixed exchange rates.

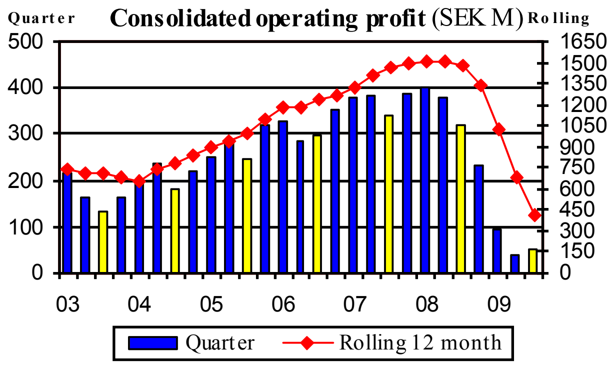
Earnings and return

Consolidated operating profit for the third quarter was SEK 51 M (318), equal to an operating margin of 4.5 per cent (20.1). The weaker operating profit is explained by lower production volumes and declining revenue at fixed exchange rates. Workforce reductions and other cost reductions contributed to reduced costs of around SEK 170 M in the third quarter. All in all, the cost-cutting activities are expected to reduce the Group's annual cost level by around SEK 600 M, of which SEK 500 M will affect profit for the current year.

One-time costs for the completed workforce reductions totalled SEK 2 M for the quarter and SEK 55 M accumulated. In light of the stabilised demand situation, no additional one-time costs are anticipated in the fourth quarter.

Due to recent strengthening of the Swedish krona, foreign exchange effects had a negative effect of SEK 42 M during the quarter.





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.

The profit margin for the third quarter was 1.9 per cent (18.6). Earnings per share for the past 12-month period were SEK 1.65 (6.83). For the same period, return on capital employed was 12.6 per cent (36.8) and return on equity was 10.8 per cent (45.1).

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 have decreased by SEK 125 M since the beginning of the year and amounted to SEK 159 M at the end of the period (SEK 284 at 31 December 2008). As a result of reduced working capital, cash flow showed significantly better development than operating profit during the year. Cash flow from operating activities for the nine-month period was SEK 574 M (632).

The Group's interest-bearing liabilities fell by SEK 242 M during the quarter and totalled SEK 2,299 M at the end of the nine-month period (2,291 at 31 December 2008). The Group's net debt/equity ratio at 30 September 2009 was 0.98 (0.82).

GROUP

Consolidated income statement (SEK M)

	2009 Jul-Sep	2008 Jul-Sep	2009 Jan-Sep	2008 Jan-Sep
Revenue	1,127	1,582	3,658	4,911
Cost of goods sold	-503	-700	-1,717	-2,049
Gross profit	624	882	1,941	2,862
Selling, administrative and R&D expenses	-515	-598	-1,662	-1,783
Other income and expenses	-58	34	-93	20
Operating profit	**51**	**318**	**186**	**1,099**
Financial items	-30	-23	-69	-59
Profit after financial items	21	295	117	1,040
Taxes	-6	-93	-34	-307
Profit for the period	**15**	**202**	**83**	**733**

Consolidated statement of comprehensive income (SEK M)

(Specifies non-owner related transactions which have been posted directly to Equity)

	2009 Jul-Sep	2008 Jul-Sep	2009 Jan-Sep	2008 Jan-Sep
Profit for the period	15	202	83	733
Other comprehensive income				
Foreign exchange difference in Equity	-84	78	-80	61
Comprehensive income for the period	-69	280	3	794

Gross margin weakened for both the quarter and the nine-month period 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 decreased as a result of realized cost-cutting measures. However, the positive effects on the income statement have been partly undermined by foreign exchange losses of more than SEK 130 M for the nine-month period.

The Group's planned depreciation and amortisation for the nine-month period totalled SEK 275 M (257).

Consolidated key figures

	2009 Jul-Sep	2008 Jul-Sep	2009 Jan-Sep	2008 Jan-Sep
Operating margin, %	4.5	20.1	5.1	22.4
Profit margin, %	1.9	18.6	3.2	21.2
Earnings per share, SEK	0.10	1.39	0.57	5.04
Return on capital employed before tax, % [1)]	12.6	36.8	12.6	36.8
Return on equity after tax, % [1)]	10.8	45.1	10.8	45.1
Equity per share, SEK [1)]	14.72	15.80	14.72	15.80

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

Consolidated balance sheet (SEK M)

	30 Sep 2009	31 Dec 2008
Intangible assets	310	331
Tangible assets	2,360	2,422
Financial assets	198	234
Inventories	1,340	1,568
Current receivables	1,126	1,573
Cash and cash equivalents	159	284
Total assets	5,493	6,412
Equity	2,141	2,603
Long-term liabilities	575	616
Current liabilities	2,777	3,193
Total equity and liabilities	5,493	6,412

Interest-bearing liabilities and provisions at the end of the quarter amounted to SEK 2,299 M (2,252), while the interest-free portion was SEK 1,053 M (1,482).

Consolidated statement of changes in equity (SEK M)

	2009 Jul-Sep	2008 Jul-Sep	2009 Jan-Sep	2008 Jan-Sep
Profit for the period	15	202	83	733
Other comprehensive income				
Foreign exchange difference in Equity	-84	78	-80	61
Comprehensive income for the period	-69	280	3	794

Consolidated cash flow statement (SEK M)

	2009 Jan-Sep	2008 Jan-Sep
Profit for the period	83	733
Add-back tax expense	34	307
Add-back amortisation/depreciation	275	257
Other	6	-52
Taxes paid	-104	-336
Cash flow from operating activities before changes in working capital	294	909
Changes in working capital	280	-277
Cash flow from operating activities	574	632
Cash flow from investing activities	-242	-530
Cash flow from financing activities incl. dividends	-453	-87
Cash flow for the year	-121	15

PARENT COMPANY

Parent Company income statement (SEK M)

	2009 Jul-Sep	2008 Jul-Sep	2009 Jan-Sep	2008 Jan-Sep
Net sales	657	936	2,166	3,026
Cost of goods sold	-421	-592	-1,387	-1,855
Gross profit	236	344	779	1,171
Selling, administrative and R&D expenses	-142	-185	-520	-603
Other income and expenses	-56	38	-47	32
Operating profit	38	197	212	600
Financial items	-17	14	373	332
Profit after financial items	21	211	585	932
Appropriations	-24	-7	42	-21
Taxes	-2	-50	-65	-154
Profit for the period	-5	154	562	757

The Parent Company's planned depreciation and amortisation for the period totalled SEK 107 M (104).

Parent Company balance sheet (SEK M)

	30 Sep 2009	31 Dec 2008
Tangible assets	1,098	1,080
Financial assets	745	675
Inventories	897	1,001
Current receivables	1,161	1,171
Cash and cash equivalents	3	9
Total assets	3,904	3,936
Equity	1,133	1,037
Untaxed reserves	545	587
Provisions	1	1
Long-term liabilities	84	83
Current liabilities	2,141	2,228
Total equity and liabilities	3,904	3,936

The level of cash and cash equivalents remains low. The Parent Company's interest-bearing liabilities at 30 September 2009 amounted to SEK 1,730 M (1,847).

Number of shares

The total number of shares at the end of the third 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 International Financial Reporting Standards (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 interim 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.

The current instability and changes in the global financial sector are not assessed to affect the company's opportunities for financing. 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 nine-month 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 70 of the annual report for the fiscal year 2008. The scope of the above-mentioned transactions has not changed significantly during the nine-month period.

Personnel

The number of employees in the Group has fallen by a total of 758 during the year and amounted 4,280 at the end of September (5,038 at 31 December 2008). Since the end of September last year, the total workforce has decreased by 808. In addition, some 50 temporary employment contracts have been terminated.

The described workforce reductions are attributable to the global redundancies announced by the Group in November and February, and include agreed working hours and salary reductions equal to approximately 200 full-time positions.

Capital expenditure

The Group's capital expenditure on tangible and intangible assets during the quarter amounted to SEK 60 M (178), of which SEK 4 M (4) referred to capitalisation of IT/R&D expenses. Cumulative expenditure for the nine-month period amounted to SEK 259 M (468).

Investment plans for the current year have been significantly curtailed relative to the high levels of recent years.

The expanded insert production unit in Fagersta will on 10 November be inaugurated and put into operation. The new facilities constitute an important part of the long-term Group strategy and facilitate further steps relating to product quality and production technology. The total investment including building and machinery amounts to SEK 150 M over the years 2008 and 2009.

Seco Tools existing and expanded production facility in Fagersta

2010 Annual General Meeting

The Annual General Meeting for fiscal 2009 will be held on 4 May 2010, at 11:30 a.m. in Fagersta. The notice to convene the Meeting will be made in the usual manner.

Financial information

The next report, for the fourth quarter and full year 2009, will be published on 3 February 2010.

Fagersta, 29 October 2009

SECO TOOLS AB (publ)

Kai Wärn
President and CEO

Review report

Introduction

We have reviewed the interim report of Seco Tools AB (publ) at 30 September 2009 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 2009

Öhrlings PricewaterhouseCoopers AB	KPMG AB
Mikael Eriksson Authorised Public Accountant	George Pettersson Authorised Public Accountant

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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 30 October 2009, 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/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.