Seco Tools
Interim report
January – June
2009

SECO

SECO TOOLS AB

Interim report for the six months ended 30 June 2009

* Revenue for the quarter fell by 40 per cent at fixed exchange rates and 30 per cent in Swedish kronor (SEK), and amounted to SEK 1,180 M (1,697).
* The cost adaptations have been increased and are proceeding more quickly than planned.
* Due to significantly lower volumes, operating profit for the quarter declined to SEK 40 M (378). Operating margin for the quarter was 3.4 per cent (22.3).
* Revenue for the six-month period fell by 34 per cent at fixed exchange rates and amounted to SEK 2,531 M (3,329).
* Profit after tax for the six-month period was SEK 68 M (531).
* Earnings per share for the six-month period were SEK 0.47 (3.65).

Comments from the CEO

"The weak demand situation in virtually all of Seco Tools' markets persisted throughout the second quarter. Revenue for the quarter was weak compared to the previous year, but the dramatic drop in demand appears to have passed and sales levelled off at a low level during the quarter.

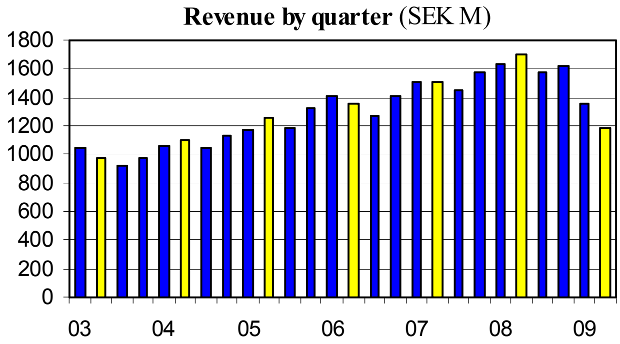
On the whole, however, Seco Tools' development relative to the market average remains positive. A major product launch in the important area of square shoulder milling was carried out during the quarter with the new Square 6 family, which offers highly attractive cutting economy for our customers.

The cost adaptations have been increased and the implementation is proceeding more quickly than the plan we presented after the first quarter. All in all, the ongoing actvities are expected to reduce Seco Tools' annual cost level by nearly SEK 600 M, whereof SEK 500 M will impact this years' result. The cost-cutting programmes include a reduction in our global workforce by around 900 positions including temporary employees.

Operating margin for the second quarter was 3.4 per cent (22.3) including additional one-time costs of SEK 24 M for the cost adaptations. The decrease compared to the previous year is mainly attributable to the drop in both sales and production volumes. The period's lower earnings have been somewhat offset by the effects of the cost-cutting programmes and positive foreign exchange effects.

The present weak demand situation is being further aggravated by inventory reduction among our end-customers and distributors, a trend that is expected to continue until after the vacation period. On the whole, we are currently seeing no signs of a near-term improvement in the demand scenario" says Kai Wärn, President and CEO of Seco Tools.

Second quarter revenue



Revenue for the second quarter fell by 30 per cent compared to the same period of 2008 and amounted to SEK 1,180 M. At fixed exchange rates, revenue was down by 40 per cent.

All major market regions reporteed continued negative growth in fixed currency for the second quarter. Aside from the negative effects of many customers' Easter closures, the general trend during the quarter was for sales to stabilise at a low level. Furthermore, it has been noted that the weak demand scenario is highly similar across virtually all of Seco Tools' markets. However, sales levels in some emerging markets, such as China, appear to have more clearly stabilised or even improved.

Revenue – market regions

	2009 Apr-Jun SEK M	2008 Apr-Jun SEK M	2009 Jan-Jun SEK M	2008 Jan-Jun SEK M	Change 09/08 Apr-Jun %[1]	Change 09/08 Jan-Jun %[1]
EU	660	1,029	1,452	2,059	-43	-37
Rest of Europe	88	122	185	213	-30	-19
Total Europe	748	1,151	1,637	2,272	-41	-35
NAFTA	168	228	388	458	-44	-36
South America	47	74	92	140	-40	-37
Africa, Middle East	27	23	49	44	1	4
Asia, Australia	190	221	365	415	-31	-29
Total Group	1,180	1,697	2,531	3,329	-40	-34

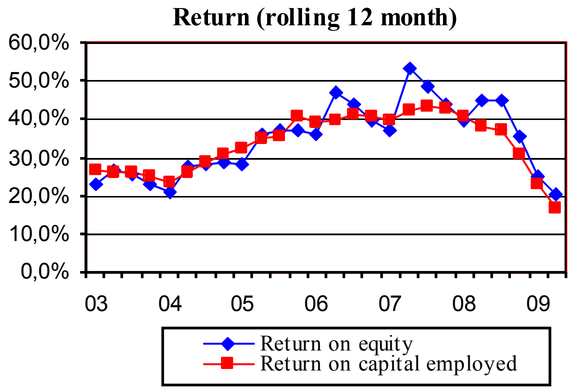
[1] The change from the preceding year is shown at fixed exchange rates.

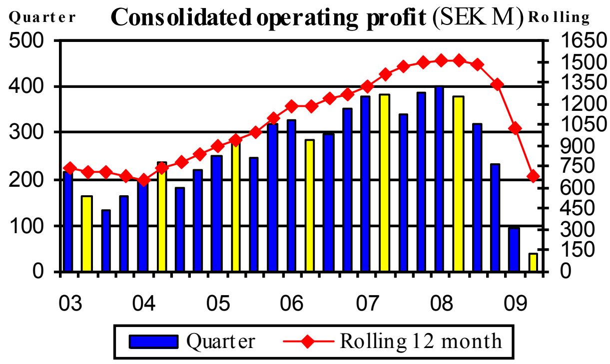
Earnings and return

Consolidated operating profit for the second quarter was SEK 40 M (378), equal to an operating margin of 3.4 per cent (22.3). Second quarter operating profit was charged with one-time costs of SEK 24 M for workforce reductions. Excluding these one-time costs, operating margin was 5.4 per cent.

The weaker operating profit is otherwise explained by lower production volumes and declining revenue at fixed exchange rates. The cost-cutting activities are proceeding more quickly and smoothly than planned, and contributed to cost reductions of SEK 153 M during the quarter. Foreign exchange effects had a positive earnings impact of SEK 44 M net.

All in all, the ongoing cost-cutting activities are expected to reduce the company's cost level by around SEK 600 M on an annual basis, which is SEK 100 M more than previously communicated. These activities will be essentially completed in the third quarter. Profit for the second half of the year is expected to include additional one-time costs of around SEK 10 M related to the ongoing cost-cutting programmes.





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 quarter was 1.8 per cent (21.0). Earnings per share for the past 12-month period were SEK 2.94 (7.0). For the same period, return on capital employed was 16.9 per cent (38.2) and return on equity was 20.2 per cent (44.9).

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 76 M since the beginning of the year and amounted to SEK 208 M at the end of the period (284 at 31 December 2008). As a result of reduced working capital, cash flow from operating activities was largely unchanged compared to the year-earlier period.

The Group's interest-bearing liabilities rose by SEK 250 M in the first half of the year and totalled SEK 2,541 M at the end of the six-month period (2,374). The increase was mainly attributable to payment of share dividends during the second quarter. The Group's net debt/equity ratio at 30 June 2009 was 1.04 (0.99).

GROUP

Consolidated income statement (SEK M)

	2009 Apr-Jun	2008 Apr-Jun	2009 Jan-Jun	2008 Jan-Jun
Revenue	1,180	1,697	2,531	3,329
Cost of goods sold	-593	-702	-1,214	-1,349
Gross profit	587	995	1,317	1,980
Selling, administrative and R&D expenses	-546	-625	-1,147	-1,185
Other income and expenses	-1	8	-35	-14
Operating profit	40	378	135	781
Financial items	-18	-21	-39	-36
Profit after financial items	22	357	96	745
Taxes	-8	-100	-28	-214
Profit for the period	14	257	68	531
Other comprehensive income				
Foreign exchange differences	-13	17	4	-18
Comprehensive income for the period	1	274	72	513

Gross margin weakened for both the quarter and the six-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 the ongoing cost-cutting programmes. However, the positive effects on the income statement have been partly undermined by foreign exchange losses of more than SEK 100 M for the six-month period.

The Group's planned depreciation and amortisation for the six-month period totalled SEK 183 M (169).

Consolidated key figures

	2009 Apr-Jun	2008 Apr-Jun	2009 Jan-Jun	2008 Jan-Jun
Operating margin, %	3.4	22.3	5.3	23.5
Profit margin, %	1.8	21.0	3.8	22.4
Earnings per share, basic and diluted, SEK	0.10	1.76	0.47	3.65
Return on capital employed before tax, % [1)]	16.9	38.2	16.9	38.2
Return on equity after tax, % [1)]	20.2	44.9	20.2	44.9
Equity per share, basic and diluted, SEK [1)]	15.20	13.87	15.20	13.87

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

Consolidated balance sheet (SEK M)

	30 June 2009	31 Dec 2008
Intangible assets	326	331
Tangible assets	2,469	2,422
Financial assets	204	234
Inventories	1,488	1,568
Current receivables	1,201	1,573
Cash and cash equivalents	208	284
Total assets	5,896	6,412
Equity	2,210	2,603
Non-current liabilities	583	616
Current liabilities	3,103	3,193
Total equity and liabilities	5,896	6,412

Interest-bearing liabilities and provisions at the end of the quarter amounted to SEK 2,541 M (2,374), while the interest-free portion was SEK 1,145 M (1,508).

Consolidated statement of changes in equity (SEK M)

	30 June 2009	30 June 2008
Equity at beginning of period	2,603	2,406
Dividends	-465	-902
Comprehensive income for the period	72	513
Equity at end of period	2,210	2,017

Consolidated cash flow statement (SEK M)

	2009 Jan-Jun	2008 Jan-Jun
Profit for the period	68	531
Add-back tax expense	28	215
Add-back amortisation/depreciation	183	169
Other	-9	-22
Taxes paid	-97	-238
Cash flow from operating activities before changes in working capital	173	655
Changes in working capital	178	-296
Cash flow from operating activities	351	359
Cash flow from investing activities	-200	-378
Cash flow from financing activities incl. dividends	-232	59
Cash flow for the year	-81	40

PARENT COMPANY

Parent Company income statement (SEK M)

	2009 Apr-Jun	2008 Apr-Jun	2009 Jan-Jun	2008 Jan-Jun
Revenue	705	1,052	1,509	2,090
Cost of goods sold	-477	-643	-966	-1,263
Gross profit	228	409	543	827
Selling, administrative and R&D expenses	-181	-206	-378	-418
Other income and expenses	-9	11	9	-6
Operating profit	38	214	174	403
Financial items	390	322	390	318
Profit after financial items	428	536	564	721
Appropriations	32	-7	66	-14
Taxes	-18	-55	-63	-104
Profit for the period	442	474	567	603

The Parent Company's planned depreciation and amortisation for the period totalled SEK 71 M (69).

Parent Company balance sheet (SEK M)

	30 Jun 2009	31 Dec 2008
Tangible assets	1,118	1,080
Financial assets	765	675
Inventories	978	1,001
Current receivables	1,276	1,171
Cash and cash equivalents	15	9
Total assets	4,152	3,936
Equity	1,138	1,037
Untaxed reserves	521	587
Provisions	1	1
Long-term liabilities	84	83
Current liabilities	2,408	2,228
Total equity and liabilities	4,152	3,936

Intra-group receivables increased during the period, partly in order to finance subsidiaries. The level of cash and cash equivalents remains low. The Parent Company's interest-bearing liabilities at 30 June 2009 amounted to SEK 1,909 M (2,188).

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

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. With effect from 1 January 2005, the company prepares its consolidated financial statements in compliance with IFRS, whereby the IFRS transition date was 1 January 2004. For a description of the applied accounting standards, see the most recently published annual report.

As of 1 January 2009, a number of new standards, amendments to existing standards (IFRS) and interpretations (IFRIC) have gone into effect. 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.

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 2.1, Accounting for Legal Entities.

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 six-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 six-month period.

Personnel

The number of employees in the Group has fallen by a total of 749 during the year and amounted to 4,289 at the end of June (5,038 at 31 December). Since the end of September last year, the total workforce has decreased by 799 positions. In addition, some 50 temporary employment contracts have been terminated. The described workforce reductions include agreed working hours and salary reductions equal to approximately 220 full-time positions.

The decrease is attributable to the global redundancies announced by the Group in November and February. The staff reductions will be essentially completed in the third quarter and, including the above-mentioned temporary contracts, will amount to a total of around 900 positions compared to the end of the third quarter of 2008.

Capital expenditure

The Group's capital expenditure on tangible and intangible assets during the quarter amounted to SEK 81 M (147), of which SEK 5 M (7) referred to capitalisation of IT/R&D expenses. Cumulative investments for the six-month period amounted to SEK 199 M (291).

Investment plans for the current year have been significantly curtailed relative to the high levels of recent years. However, total investments for the current year include some sizeable expenditure from projects started already previous year.

Product launches

One key cornerstone of the Group's business strategy is to continuously develop and launch new tools for metal cutting machining with improved performance. In the second quarter Seco Tools launched the new Square 6 family of square shoulder mills as a complement to the already existing Turbo series, and the market reception was highly favourable.

Other notable launches for Seco Tools during the year include additional products with the Duratomic technology.

Acquisitions

On 5 May 2008, Seco Tools acquired 100 per cent of the shares in the Russian tool maker ALG with 175 employees based in Moscow. The acquisition is part of the Group's goal to maintain an active presence in all major industrial markets worldwide. ALG, which caters mainly to customers active in cutting machining and wear parts, is regarded as a strong brand in the Russian market and is one of the country's three leading manufacturers of carbide metalworking tools. The acquired operations posted revenue of SEK 27 M for the period January-April 2009, resulting in a cumulative structural effect on consolidated revenue of 1 per cent.

Financial information

This report has not been subject to special examination by the company's independent auditors. The next report, for the first three quarters of 2009, will be published on 30 October 2009.

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, 17 July 2009

SECO TOOLS AB (publ)

Anders Ilstam Board Chairman	Carl-Erik Ridderstråle Deputy Chairman
Annika Bäremo Board member	Stefan Erneholm Board member
Jan-Erik Forsgren Board member	Peter Larson Board member
Staffan Jufors Board member	Christer Jönsson Board member
Eva Olsson Board member	Kai Wärn President and CEO

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 17 July 2009, 7:45 a.m. CET.

For additional information contact Kai Wärn, President and CEO, (Tel: +46 223-401 10) or Patrik Johnson, CFO, (+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.