Seco Tools
Interim Report
January – September
2008

SECO TOOLS AB

Interim report for the nine months ended 30 September 2008

- Year-on-year revenue for the third quarter rose by 9 per cent both at fixed exchange rates and in Swedish kronor.
- Operating profit for the quarter was SEK 318 M (342) and operating margin was 20.1 per cent (23.7). The weaker operating margin is mainly explained by increased production costs and marketing activities.
- Revenue for the nine-month period was up by 11 per cent at fixed exchange rates and amounted to SEK 4,911 M (4,462).
- Profit after tax for the nine-month period was SEK 733 M (757).
- Earnings per share for the nine-month period fell by 3 per cent to SEK 5.04 (5.20).

Comments from the CEO

“Seco Tools delivered continued growth in revenue for the period. In local currency and excluding acquisition effects, third quarter growth was 8 per cent.

The European region maintained stable growth in the quarter. The NAFTA region had a somewhat weaker quarter in terms of sales but is delivering continued positive growth figures. Growth rates in our Asian business were also lower than earlier in the year due to weaker sales in Japan and China. Development in the emerging economies of Eastern Europe and South America remains buoyant.

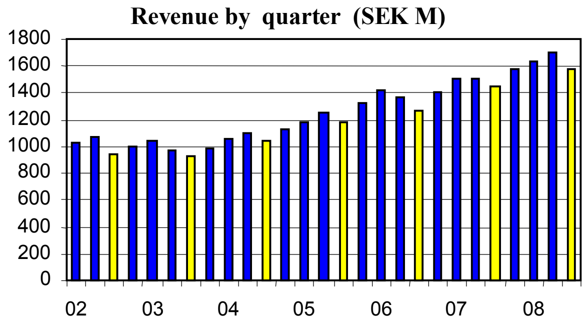
Operating margin for the third quarter showed a seasonal low, where the decrease relative to the previous year mainly reflects increased production costs and market investments. The rise in production costs is attributable to capacity expansion and changes in the global production structure. Restructuring charges in production are expected to persist through the end of the year. Cumulative operating margin through 30 September was 22.4 per cent and return on both total assets and equity was steady and high.

Our planned large market investments, including expansion of the sales force, combined with a strong product portfolio have positioned us for continued growth relative to the market. The present turmoil on the financial markets combined with the business cycle slow down however creates an uncertain demand situation for the future.”

Seco Tools’ stand at the AMB trade show in Germany

Third quarter revenue

Revenue rose by 9 per cent compared to the same quarter of last year and amounted to SEK 1,582 M (1,445). On a like-for-like basis, revenue exchange rates was up by 8 per cent. The foreign exchange effect for the quarter was zero and the structural effect was thus +1 per cent.



All significant market regions delivered solid revenue growth during the quarter. The Group's largest market, Western Europe, showed continued stable and strong development with growth of 8 per cent at fixed exchange rates. Third quarter growth was weaker in Asia due to a negative trend in Japan and China. Growth in South America and Central and Eastern Europe remained high in the third quarter. In the NAFTA region, revenue growth in local currency was somewhat lower but remained positive compared to the previous year.

Revenue – market regions

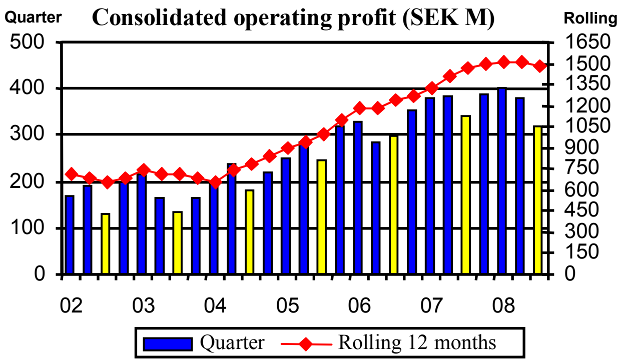
	2008 July-Sept SEK M	**2007 July-Sept SEK M**	**2008 Jan-Sept SEK M**	**2007 Jan-Sept SEK M**	**Change 08/07 July-Sept %[1)]**	**Change 08/07 Jan-Sept %[1)]**
EU	947	838	3,006	2,695	11	10
Rest of Europe	98	75	311	223	-6	12
Total Europe	1,045	913	3,317	2,918	9	10
NAFTA	226	237	684	716	2	6
South America	82	66	222	181	18	17
Africa, Middle East	22	22	66	70	13	4
Asia, Australia	207	207	622	577	3	13
Total Group	1,582	1,445	4,911	4,462	8	10

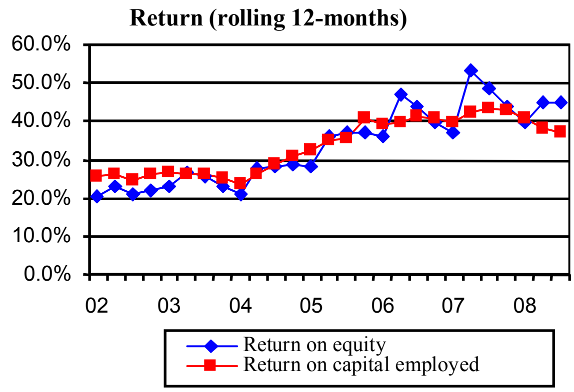
[1)] The change from the preceding year is shown on a like-for-like basis and at fixed exchange rates.

Earnings and return

Consolidated operating profit for the third quarter was SEK 318 M (342), a year-on-year decrease of 7 per cent caused by cost increases that are mainly attributable to completed market activities and the build-up of sales resources. The Group's very high capacity utilisation and ongoing capacity expansion also led to higher unit costs in production. Operating margin for the quarter was 20.1 per cent (23.7).

Consolidated operating profit for the nine-month period fell by nearly 1 per cent compared to the previous year and operating margin was 22.4 per cent (24.8). Foreign exchange losses had a negative impact of SEK 19 M on the Group's operating profit for the period. Earnings per share for the past 12-month period were SEK 6.83 (6.88). Return on capital employed amounted to 36.8 per cent (43.3) and return on equity to 45.1 per cent (48.6).





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.

Liquidity, cash flow and debt/equity ratio

The Group's cash and cash equivalents in the form of short-term investments and bank balances rose by SEK 24 M from the beginning of the year to SEK 318 M at 30 September 2008 (SEK 294 M at year-end 2007). Cash flow from operating activities remained strong, but was inhibited by the growth-related increase in working capital and high level of investment. The Group's interest-bearing liabilities and provisions at 30 September 2008 amounted to SEK 2,252 M (1,435), and the consolidated debt/equity ratio on the same date was 0.82 (0.54).

GROUP

Consolidated income statement (SEK M)

	2008 July-Sept	2007 July-Sept	2008 Jan-Sept	2007 Jan-Sept
Revenue	1,582	1,445	4,911	4,462
Cost of goods sold	-700	-581	-2,049	-1,789
Gross profit	882	864	2,862	2,673
Selling, administrative and R&D expenses	-598	-522	-1,783	-1,562
Other income and expenses	34	0	20	-6
Operating profit	318	342	1,099	1,105
Financial items	-23	-17	-59	-39
Profit after financial items	295	325	1,040	1,066
Taxes	-93	-98	-307	-309
Profit for the period	202	227	733	757

The Group's planned depreciation and amortisation for the period totalled SEK 257 M (232).

Consolidated key figures

	2008 July-Sept	2007 July-Sept	2008 Jan-Sept	2007 Jan-Sept
Operating margin, %	20.1	23.7	22.4	24.8
Profit margin, %	18.6	22.5	21.2	23.9
Earnings per share before/after dilution, SEK	1.39	1.56	5.04	5.20
Return on capital employed before tax, % 1)	36.8	43.3	36.8	43.3
Return on equity after tax, % 1)	45.1	48.6	45.1	48.6
Equity per share before/after dilution, SEK 1)	15.80	14.51	15.80	14.51

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

Consolidated balance sheet (SEK M)

	30 Sept. 2008	31 Dec. 2007
Intangible assets	313	254
Tangible assets	2,177	1,847
Financial assets	152	155
Inventories	1,492	1,299
Current receivables	1,580	1,422
Cash and cash equivalents	318	294
Total assets	6,032	5,271
Equity	2,298	2,406
Long-term liabilities	496	511
Current liabilities	3,238	2,354
Total equity and liabilities	6,032	5,271

Interest-bearing liabilities and provisions at the end of the quarter amounted to SEK 2,252 M (1,435), while the interest-free portion was SEK 1,482 M (1,325).

Consolidated statement of changes in equity (SEK M)

	30 Sept. 2008	30 Sept. 2007
Equity at beginning of period	2,406	2,221
Foreign exchange gains/losses	61	5
Total income/expenses recognised directly in equity	61	5
Profit for the period	733	757
Total income/expenses recognised directly in equity	794	762
Dividends	-902	-873
Equity at end of period	2,298	2,110

Consolidated cash flow statement (SEK M)

	2008 Jan-Sept	2007 Jan-Sept
Profit for the period	733	757
Add-back tax expense	307	309
Add-back amortisation/depreciation	257	232
Other	-52	6
Taxes paid	-336	-300
Cash flow from operating activities before changes in working capital	909	1,004
Changes in working capital	-277	-211
Cash flow from operating activities	632	793
Cash flow from investing activities	-530	-296
Cash flow from financing activities, including dividends	-87	-476
Cash flow for the period	15	21

PARENT COMPANY

Parent Company income statement (SEK M)

	2008 July-Sept	2007 July-Sept	2008 Jan-Sept	2007 Jan-Sept
Net sales	936	857	3,026	2,724
Cost of goods sold	-592	-521	-1,855	-1,626
Gross profit	344	336	1,171	1,098
Selling, administrative and R&D expenses	-185	-164	-603	-506
Other income and expenses	38	-8	32	-20
Operating profit	197	164	600	572
Financial items	14	-9	332	301
Profit after financial items	211	155	932	873
Appropriations	-7	44	-21	26
Taxes	-50	-57	-154	-164
Profit for the period	154	142	757	735

The Parent Company's planned depreciation/amortisation for the period was SEK 104 M (103).

Parent Company balance sheet (SEK M)

	30 Sept. 2008	31 Dec. 2007
Intangible assets	-	2
Tangible assets	990	854
Financial assets	621	557
Inventories	959	875
Current receivables	1,454	922
Cash and cash equivalents	5	4
Total assets	4,029	3,214
Equity	969	1,114
Untaxed reserves	528	507
Provisions	1	1
Long-term liabilities	22	31
Current liabilities	2,509	1,561
Total equity and liabilities	4,029	3,214

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 September amounted to SEK 1,847 M (1,146).

Number of shares

The total number of shares at the end of the third quarters of both 2008 and 2007 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 is 1 January 2004. For a description of the applied accounting standards, see the most recently published annual report. As of 1 January 2008, a number of new standards, amendments to existing standards (IFRS) and interpretations (IFRIC) have gone into effect. No significant effects on the Group's profit or financial position have 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

Seco Tools operates in only one business segment, metal cutting machining, for which reason the consolidated income statement and balance sheet refer entirely to this primary segment.

Acquisitions

On 5 May 2008, Seco Tools acquired 100 per cent of the shares in the Russian tool maker ALG, with 173 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 38 M for the period May-September 2008, resulting in a cumulative structural effect on consolidated revenue of +1 per cent.

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 reducing 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 ongoing or possible disputes.

The above risks and uncertainties are described in more detail in the Annual Report for the fiscal year 2007. The assessments of significant risks described in the above-mentioned annual report were unchanged at the end of the interim 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 detailed description of related-party transactions is provided on page 70 of the Annual Report for the fiscal year 2007. The scope of the above-mentioned transactions has not changed significantly during the interim period.

Personnel

The number of employees in the Group has risen by a total of 426 during the year and amounted to 5,088 at 30 September 2008 (4,662 at year-end 2007). Of the increase, 173 refer to employees taken over from the acquired company ALG. Otherwise, the increase was mainly attributable to the sales force and production staff.

Capital expenditure

The Group's capital expenditure on tangible and intangible assets during the quarter amounted to SEK 178 M (133), of which SEK 4 M (5) referred to capitalisation of IT/R&D expenses. The level of investment will remain high throughout the remainder of the year.

Market investment in NAFTA

The NAFTA region is one of Seco Tools' largest and most important markets. In the third quarter, a new headquarters for the region was opened in Troy, Michigan, USA. Aside from the head office, the property also contains a Tech Center and the NAFTA region's central warehouse.

Senior executives

Nils Edlund, 42 years old, has been appointed Senior Vice President Logistics of the Seco Tools Group as of 1 October 2008 and is also a member of Seco Tools' Group Executive Management. Nils Edlund comes most recently from the position of Vice President Manufacturing for FLIR Systems' Thermography Division in Stockholm.

Nominating Committee ahead of the 2009 AGM

The 2008 AGM of Seco Tools passed a resolution to appoint a Nominating Committee consisting of the Board Chairman and a representative for each of the four largest shareholders. Based on the ownership structure in Seco Tools on 31 August 2008, the Nominating Committee ahead of the 2009 AGM consists of Lars Pettersson (Sandvik AB), Jan Andersson (Swedbank Robur Fonder), Ramsay J. Brufer (Alecta Pensionsförsäkring), Anders Algotsson (AFA Försäkring) and Anders Ilstam, Board Chairman. Lars Pettersson has been appointed chairman of the Nominating Committee.

The procedure for appointment of the Nominating Committee and other related matters, including submission of recommendations to the Committee, was published in a press release dated 17 October 2008. The press release can be viewed on the company's website.

2009 AGM

The Annual General Meeting for fiscal 2008 will be held on 28 April 2009, at 11:30 a.m. in Fagersta.

Financial calendar

The next report will be published on 4 February 2009 and refers to the fourth quarter and full year 2008.

Fagersta, Sweden, 30 October 2008
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 2008 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, Sweden, 30 October 2008

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 2008, 7:45 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 “Investor Relations & Corporate Governance” 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.